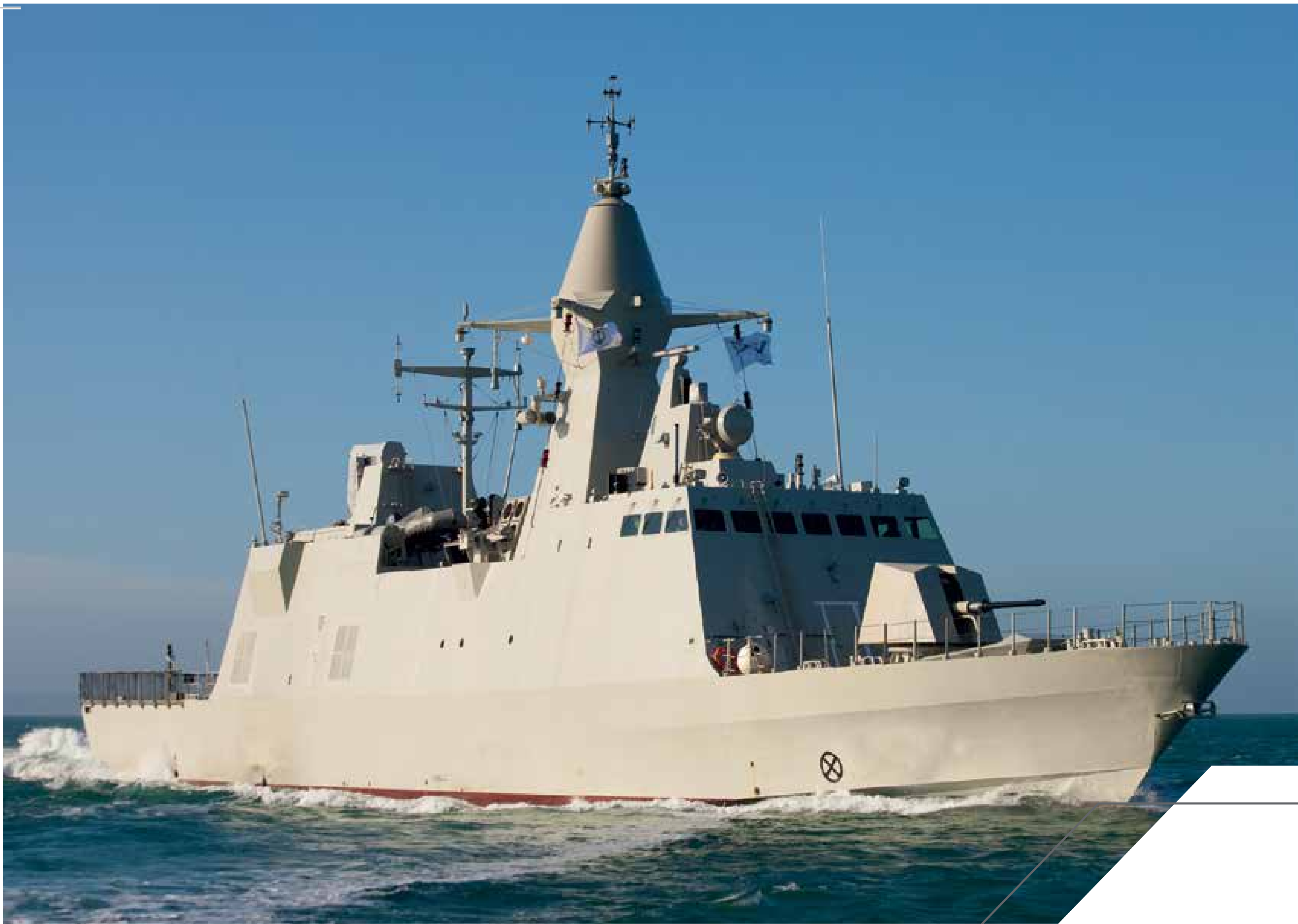


ANNUAL REPORT 2018

BEYOND SHIPBUILDING

عام التسامح
YEAR OF TOLERANCE

BEYOND SHIPBUILDING

Annual Report 2018

ORDER OF CONTENT

MESSAGE FROM THE CHAIRMAN

Dear Valued Shareholders,

First of all, I'd like to convey to you the gratitude of the entire ADSB Board of Directors for entrusting us with serving your interest at Abu Dhabi Ship Building PJSC.

Indeed, the year 2018 was a year of slow market growth for many sectors in the local, regional and international economy. In addition, it was a year of change for many companies including ADSB.

One year ago, we came to a company that has an amazing legacy, a very specific position in the local and regional shipbuilding and servicing marketplace and a great prospective for future growth. Upon our appointment to the Board of Directors of ADSB, we looked into many aspects to develop and enhance value delivered to you, our clients and all other stakeholders.

One of the areas we looked at was the degree of focus on our mission. We examined the degree of focus on delivery against our mandate; the reason Abu Dhabi Ship Building was created. This great company with more than two decades of history, carrying the name of the UAE's beloved capital, was created for a very specific purpose.

The mandate of ADSB as per its establishment document (Emiri Decree #5 of 1995) is to create an industrial base to build various types of vessels and marine components and equipment, perform all associated maintenance and repair works, and develop local caliber to deliver on the company's mandate.

Over the past two decades, ADSB went through three main phases of business focus.

From 1995 to early 2000's, ADSB focused on providing technical maintenance services to naval and commercial client.

In the next phase, the company enhanced its role as a shipbuilder and a shipbuilding services provider capable of handling program management of key programs delivered such as Ghannatha multi-combatant program and the Baynunah corvette class program.

Since then, the company started offering fleet support services.

Today, ADSB is a build-to-print shipbuilding contractor that is capable of building various types of ships.

Valued shareholders, the most important success factor in the long term for ADSB is related to enhancing the company's position in the regional and global shipbuilding industry supply chain to assure providing a sustainable shareholder value add.

With that regards, we are working at the company's Board of Directors to increase the level of collaboration with various network partners and clients to enhance the company's ability to deliver you sustainable shareholder value.

On behalf of my fellow board members and the management and employees of ADSB, I would like to express our sincere appreciation to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE, Supreme Commander of the UAE Armed Forces and His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, Deputy Supreme Commander of the UAE Armed Forces, for their vision, leadership and continued strong support.

In addition, ADSB is grateful to the General Headquarters of the Armed Forces of the UAE, UAE Navy, Critical Infrastructure and Coastal Protection Authority, Presidential Guards, ADNOC Logistics and all of our customers and partners for their continued support and business.

Finally, I'd like to thank you, the management and all employees of ADSB for your confidence and trust in ADSB which shall remain the national shipbuilder of the UAE and a strategic company for the UAE.

OMAR ABDULLAH AL FARESI
CHAIRMAN OF ADSB

BOARD OF DIRECTORS

OMAR ABDULLAH AL FARESI
CHAIRMAN

ALI HUTHAILI AL MANSOURI
BOARD MEMBER & MEMBER OF NOMINATION & REMUNERATION COMMITTEE

FAHAD MOHAMMED AL MUHAIRI
BOARD MEMBER & CHAIRMAN OF AUDIT COMMITTEE

HAMAD ABDULLAH AL-QAYDI
BOARD MEMBER & MEMBER OF AUDIT COMMITTEE & NOMINATION & REMUNERATION COMMITTEE

HASHIM ALI AL AIDAROOS
BOARD MEMBER

MANSOUR SHAMS AL KHOORI
BOARD MEMBER & MEMBER OF AUDIT COMMITTEE

MOHAMMED ABDULLAH AL SHERAIFI
BOARD MEMBER & MEMBER OF NOMINATION & REMUNERATION COMMITTEE

MATAR KHALFAN AL SHAMSI
BOARD MEMBER & MANAGING DIRECTOR

MANAGEMENT DISCUSSION AND ANALYSIS

Our Valued Shareholders,

Below are the highlights on the consolidated audited financial results of Abu Dhabi Ship Building and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2018 as well as the key highlights on its operational segments.

I. FINANCIAL HIGHLIGHTS

The Group recorded a consolidated net loss of AED (125.1) million after gain on foreign exchange of AED 4.6 million for the year ended 31 December 2018 as compared to a consolidated net profit of AED 104.8 million after gain on foreign exchange of AED 15.9 million for the year ended 31 December 2017.

The Management continues to pursue a marketing plan to identify market opportunities in the UAE and the region to increase revenue and profitability. As a result, the Group has successfully landed a major project in 2018. In addition, negotiations with key customers in the UAE, Kingdom of Saudi Arabia and Kuwait are in advance stages for various ship build and refit projects which shall materially contribute to future results of the Group.

Towards the end of 2018, the Company has initiated a process of end-to-end transformation and a review of its strategy, process re-engineering, costing and pricing methodology. As a result of this, at the beginning of 2019, the Board approved a refreshed strategy to strengthen shareholders value in the medium to long-term by focusing on building capability in mission-critical and value-add areas of the shipbuilding value chain. Through partnering, automation, and investment in people, the Company's objective is: to become an acknowledged center of excellence for consulting, contracting, delivering and sustaining naval ships throughout their useful life. The Group will continue to offer these services for local, regional and international clients. Being the strategic partner of the UAE Navy, The Group will always prioritize fulfilling capability and support requirements of the UAE Navy.

ADSB shall drive efficiency through various means including restructuring, centralizing of value-accretive activities and reorganization of operational businesses to better align with the Company's value chain components. These components shall help the Company to focus on Building, Integrating and Sustaining shipbuilding programs. Going forward, ADSB will deliver on various savings opportunities via adopting efficient organization model at both operational and support levels, eliminating redundancies and re-engineering key business processes.

The Group has assessed during the year 2018 the recoverable value of its Floating dock in Mina Zayed Port in accordance with International Financial Reporting Standards (IAS 36). As a result of this assessment, the Group has recorded AED 55.8 million impairment due to lower recoverable value as compared to the carrying amount of these assets.

The Group also has performed an assessment during the year 2018 the estimated useful life of its property, plant and equipment and has adopted a more categorical application of estimated useful life over these assets to reflect a more realistic depreciation. As a result of this assessment, the Group has recorded AED 6.1 million additional depreciation for the year ended 31 December 2018.

Moreover, the Group has identified costs related to certain project nearing completion which were not accounted for as at 31 December 2017 which had an impact on prior periods. This has reduced the Company's retained earnings as of 1 January 2018 by AED 62.4 million and the comparative information presented for 2017 has not been restated as it was not practicable.

Furthermore, the Group has adopted IFRS 15 and IFRS 9 using the cumulative effect method with the effect of initially applying this standard at the date of initial application which is 1 January 2018. Accordingly, the comparative information presented for 2017 has not been restated and cumulative catch up adjustments have reduced 1 January 2018 retained earnings by AED 33.2 million and AED 25.6 million, respectively. Additional impairment of its contract assets for the year 2018 amounting to AED 71.5 million has also been recorded.

Net bank liability position increased by AED 259 million [3.5 times] as of 31 December 2018 from 31 December 2017 as major inflows from key customers remained outstanding. ADSB has put in place a dedicated team and a detailed plan of action for expediting recovery against receivables and contract assets which will result in improvement of its liquidity position going forward. The Group's total overdraft facility with various commercial banks is AED 442 million with AED 104 million available for drawdown as of 31 December 2018. The Group is in advance negotiation stages with major banks for increased borrowing facilities.

II. OPERATIONAL HIGHLIGHTS

ADSB continues to operate and deliver its contracted projects under its three operational segments namely Ship Build, Combat System Integration and Services as follows:

1. SHIP BUILD

Baynunah Program

Baynunah program delivery constituted a major delivery of a flagship program with a very material stature. The program scope of work included the design, construction, testing and commissioning of six state of the art 72-meter corvettes for the UAE Navy. During the year 2018, ADSB continued to provide logistic support, software upgrades, class improvements and fulfillment of warranty commitments under the contract.

Furthermore, under an associated contract to implement capability enhancements on Baynunah class vessels, with respect to the installation and integration of advanced satellite communication capabilities, ADSB carried out the installation on the sixth and last vessel during second quarter of the year 2018.

Recently, the Company has been engaged through an end-user request to provide a study on major upgrade for the Baynunah class which is being finalized in the meantime with the various stakeholders including GHQ.

Arialah Program

In this signed contract in December 2013 with GHQ Armed Forces, ADSB has supplied two highly complex 67-meter Offshore Patrol Vessels (OPVs) to the Critical Infrastructure and Coastal Protection Authority (CICPA). Post-delivery of the second vessel, Hmeem, in the first quarter of 2018, warranty works are currently ongoing.

Kuwait Landing Craft

ADSB successfully completed the delivery of the Kuwait Landing Craft program which comprised the construction, testing and commissioning of two 64-meter Landing Crafts, one 42-meter Landing Craft and five 16-meter Sea Keepers to the Kuwait Navy. Post-delivery of all vessels in 2017, warranty works are currently ongoing.

8.5-Meter Special Mission Boats

One of the most recent developments of ADSB was the award in November 2018 of a contract by Kingdom of Saudi Arabia maritime authorities to ADSB to construct 20 units of 8.5-meter Special Mission Boats. This is one of the latest milestones achieved by ADSB as a result of constant research and development of new designs, new technologies and partnerships with design houses which shall enhance ADSB's footprint in the maritime industry.

10-Meter Interceptor Boats

ADSB signed two contracts with CICPA for the supply of 22 high-speed interceptor boats in the final quarter of 2016. Following a change request by the customer for engine upgrade, ADSB undertook a detailed structural revision and subsequent approval of the modified structure by BV Class. The contract amendment with revised delivery and additional cost was approved in April 2018. All 22 boats have been completed and delivered to the customer during the second and third quarters of 2018.

15.6-Meter Offshore Support Vessels (Etimad)

The order for construction and delivery of four 15.6-meter Offshore Support Vessels was received from Etimad in March 2017. The project is based on exploring new design partners as part of the growth strategy of this segment. With extensive joint efforts between ADSB and its partners, construction, commissioning and acceptance trials of all the 4 boats have been completed, and are accepted by the customer in the third quarter of 2018 with final handover scheduled in 2019.

VIP Limo

The order for construction and delivery of one 16.9meter VIP Limo boat was signed in the second quarter of 2017. Construction, commissioning and acceptance trials of the boat have been completed while additional requirements by the client are currently being addressed.

02x 20-Meter Closed Cabin Boats

Subsequent to successful delivery and performance of ten 20-meter Closed Cabin boats for GHQ with ADSB as prime contractor in October 2017, an order for additional two 20-meter boats has been received from GHQ in February 2018. The full scope of work, excluding the procurement of engines, has been subcontracted to UAE based Boat Builder. The project was completed and handed over to GHQ in June 2018.

2. COMBAT SYSTEM INTEGRATION (CSI)

In the year 2018, ADSB initiated a transition to revamp its CSI operations by managing all its CSI services that were under its subsidiary, Frontiers Industrial Investment LLC into ADSB.

During the year, this segment provided preventive and corrective maintenance services to the UAE Navy under the Follow On Support contract entered into with the UAE Naval Logistics Centre (NLC). Moreover, CSI segment effectively and systematically provided technical expertise on existing ADSB ship-build programs, for all matters related to complex military electronic systems.

With the objective of positioning ADSB as a national market leader in Combat Systems and System Integration, ADSB has consolidated its cooperation with international OEMs in providing comprehensive and competitive offerings relating to CSI. In this context, in May 2018, ADSB has signed an extension contract with the UAE GHQ Armed Forces for installation and integration of 'advanced weapon systems' on future UAE Navy class vessels.

3. SERVICES

Marine Support Services (MSS)

In 2018, ADSB achieved material progress in the performance of capability management under the MSS Contract. The company established a Fleet Coordination Center (FCC) for the UAE Navy to facilitate services rendered to them including the introduction of Tadbeer Data Analytics for facilitating efficient maintenance management of UAE Navy fleet.

Military Repairs and Refits

ADSB maintained robust performance with respect to quality repairs undertaken for military vessels in Musaffah yard, as well as in Floating dock in the Mina Zayed Port. ADSB completed annual dockings and navigation refits for 51 vessels during the year 2018 and planned for another 14 vessels in 2019.
ADSB also has secured contract for major refit of first Baynunah Corvette class which is expected to be performed during a period of 12 months. The major refit includes platform equipment overhaul, combat system obsolescence management in addition to dry docking repairs.

Commercial and Yacht Repairs and Refits

ADSB completed dockings and repairs for about 95 commercial vessels and 2 major yacht during the year 2018. ADSB is proud to be the shipyard of choice for some of the world's most luxurious and unique Mega Yachts. In 2019, ADSB will further grow its footprint in this field. Furthermore, ADSB is active in promoting Abu Dhabi as an attractive destination which yacht owners can visit and enjoy a diverse marine itineraries, destinations and activities amongst the beautiful islands surrounding Abu Dhabi and Al Dhafra area of the western part of the UAE.

III. EMIRITIZATION

ADSB has maintained its focus on on-going Emiratization efforts, in-line with the government's vision to develop a knowledge-based economy. We are committed to attracting and retaining talented UAE nationals and to providing them access to training and career development, as well as to creating a challenging and rewarding work environment that will help them lead Abu Dhabi businesses in the future. ADSB's Emiratization percentage in 2018 stands at 11%.

MATAR KHALFAN AL SHAMSI
MANAGING DIRECTOR

EXECUTIVE MANAGEMENT

MATAR KHALFAN AL SHAMSI
MANAGING DIRECTOR

Throughout his career, Matar worked in multiple executive roles including Commercial Director of Hydra Properties, MTG Telecommunications and Workforce.

Moreover, Mr. Al Shamsi was involved in various successful corporate turnaround and restructuring exercises.

Matar holds a Bachelor in E-Commerce from the University of Toledo in Ohio, United States.

MR. NAJEH AWAD
CHIEF FINANCIAL OFFICER (CFO) - CPA

Najeh Awad is a seasoned executive in finance, investments, operations and risk with 25+ years of global experience in the USA & UAE across financial services, real estate, contracting, construction and project management and education industries. He has an established track record of transforming and restructuring business, slashing costs & process reengineering and financial optimization.

He is an expert in Investment Management, Merger& Acquisitions, Audit and Compliance, Restructuring & Turnaround, Change Management, Strategic and Corporate Finance.

During his career, he worked with Ernst & Young, PWC, JP Morgan, Musanada & other global entities.

His last assignment before joining ADCB was with HCT as Chief Financial Officer.

ENG. ALI MOHAMMED ALI AL SHEHHI
CHIEF OPERATING OFFICER (COO)

Eng. Ali Al Shehhi got retired from UAE Navy after serving different Technical Departments for more than 20 years. During his service with Naval Forces, he served as Head of Several Naval Workshops.

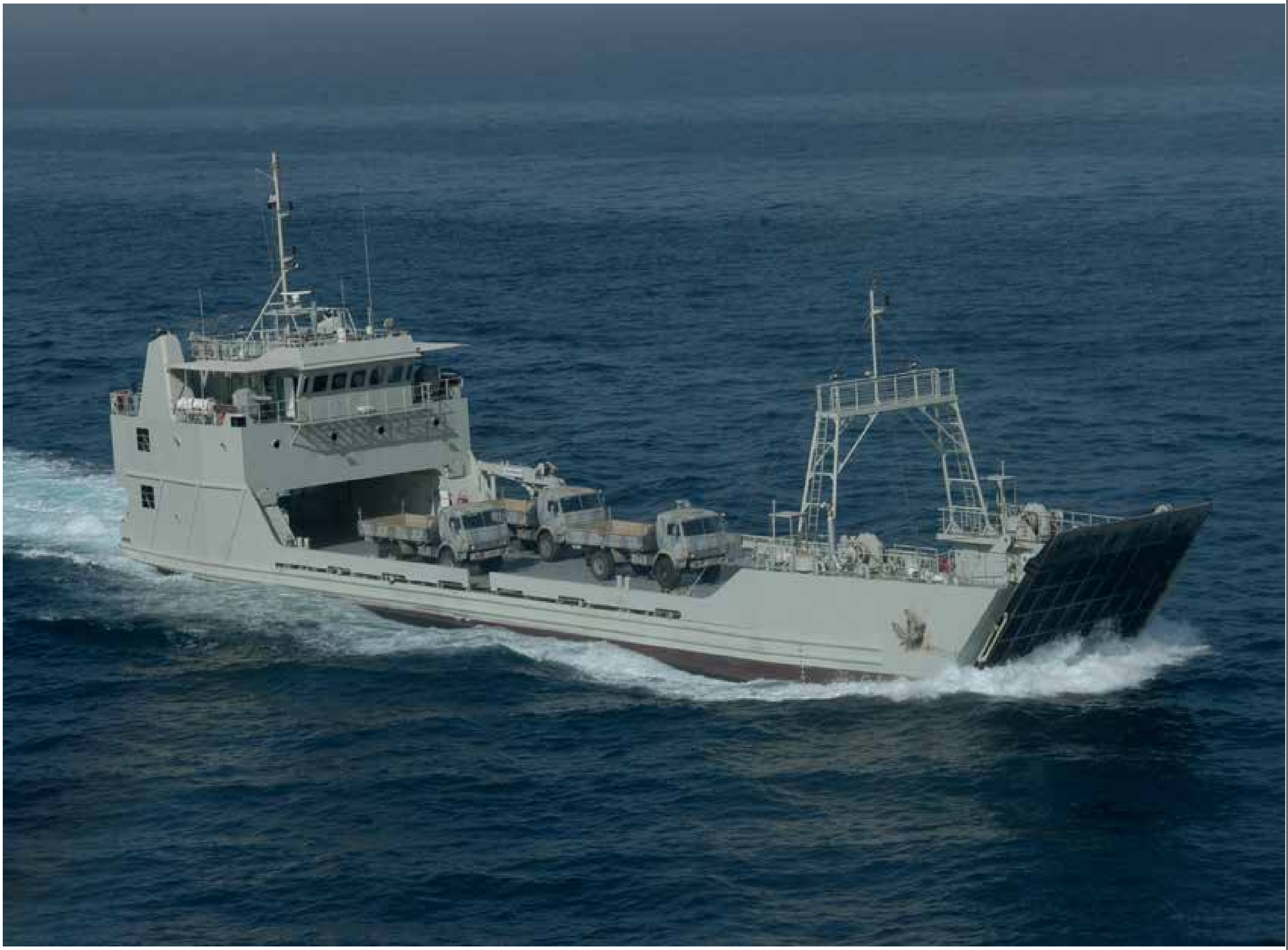
After retirement from UAE Navy, he started his corporate journey with Al Taif Technical Services as Deputy Program manager. He later joined ADSB as director Production and Operations and currently he is Chief Operating Officer.

KHALID M. AL QUBAISI
BUSINESS DEVELOPMENT MANAGER

Khalid began his career in 1999 as a trainee pilot at Al Ain Air Secondary School where he served the armed forces for three years. Since then, he has been involved in many assignments. Prior to joining Abu Dhabi Ship Building, Khalid was employed by Mubadala Investment Company where he served various roles and special project assignments.

Khalid's career evolved around stakeholder management. When he joined Abu Dhabi Ship Building in 2016, Khalid was tasked to Asset Manage a fully owned subsidiary; Safwa Marine LLC, a newly formed Luxury Yacht Service provider. During Khalid's involvement, the company witnessed solid sales growth and materially increased its domestic foot-print in Mega Yacht Maintenance, Repair, Refit and Overhaul. During his Asset Management assignment at ADSB, Khalid reported to Safwa Marine's Board of Directors.

Khalid holds a Bachelor of Business Science in the field of Financial Administration from the University of California; Long Beach – USA. Since then, Khalid had various professional development training programs including the successful completion of CFA Level 1 during his employment at Mubadala.



CONSOLIDATED FINANCIAL STATEMENTS

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 2018, 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 2018, 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
Recognition of revenue and profits on long-term contracts 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. As disclosed in Note 3.7, revenue derived on long term ship building contracts is recognised over time as performance obligations are fulfilled over time. 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: • determine the stage of completion and measurement of progress towards the satisfaction of performance obligations; • forecast the estimated 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. 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 based on discussions between the commercial, technical and finance teams. 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.	As part of our audit work on the recognition of contract revenue and profits for long-term contracts we have: 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. 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: • 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, as applicable; • 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 available 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
Recognition of revenue and profits on long-term contracts (continued) During the current year, following a detailed review of a specific contract which is close to completion, the Group identified that contract costs were understated by AED 62 million in periods prior to 31 December 2017. The Group has concluded that it is not possible to determine the exact amounts relating to each prior period and exactly which periods are affected as the contract commenced in 2003. Management has however concluded that as the amount of the error is material, in terms from an accounting perspective, the opening retained earnings as of 1 January 2018, has been restated. Refer to Note 29 for further details.	The additional audit procedures performed in response to this restatement included the following: • challenged and evaluated management's quantitative and qualitative analysis of amounts relating to previous periods; • performed additional sampling on project costs incurred; • reviewed the list of suppliers for completeness and • on a sample basis, tested the statement of accounts of suppliers and requested a balance confirmation of outstanding dues by the Group, both invoiced and un-invoiced for work performed to date and traced these amounts to the accounting records, cost reports and management's analysis performed.
Recoverability of trade receivables and contract assets As at 31 December 2018, the Group has significant balances of contract assets and trade receivables and the recoverability thereof has been assessed as a key audit matter. As disclosed in Note 10 and 11, an amount of AED 65,720 thousand (2017: AED 23,107 thousand) and AED 46,340 thousand (2017: AED 12,844 thousand) has been recognised as a provision for expected credit losses against trade receivables and contract assets respectively in accordance with IFRS 9. We identified management's assessment of debtor recoverability and the subsequent provisioning levels to be the key judgment areas surrounding these balances. IFRS 9 Financial Instruments was adopted by the Group on 1 January 2018 and has resulted in a change in accounting for impairment from an incurred loss model to a forward looking expected credit loss ("ECL") model. The determination of expected loss involves significant estimates and judgement.	We assessed management's evaluation as to whether the outstanding trade receivables and contract assets remain recoverable at year end. Our audit procedures included the following: • obtained an understanding of the Group's process for estimating ECL and assessed the appropriateness of the ECL methodology and the new accounting policy against the requirements of IFRS 9; • identified and tested key controls over the ECL model; • assessed the reasonableness of management's key assumptions and judgements made in determining the ECL allowances including the segmenting of trade receivables and contract assets, selection of ECL model and macroeconomic factors; • tested key inputs into the model and compared these to historical data; • assessed reasonableness of forward looking factors used by the Group by corroborating with publicly available information; • 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; • we verified billings post year end and ensured that these were in line with contractual terms where applicable as they related to unbilled work in progress at the reporting date; • we tested the receipt of cash after the year end relating to 31 December 2018 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; and • tested the opening balance adjustment due to the application of impairment requirements of IFRS 9 and assessed the adequacy of disclosures.

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Corporate Governance report, Management Discussion and Analysis (which we obtained prior to the date of this auditors' report), Chairman's Message and Annual Report which are 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.

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 Chairman's Message, 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.
- 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- 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;
- the Group has maintained proper books of account;
- the financial information included in the Management Discussion and Analysis and Annual Report is consistent with the Group's books of account;
- note 3.3 to the consolidated financial statements of the Group discloses that the Group has not invested or acquired shares during the financial year ended 31 December 2018;
- note 23 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
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

Deloitte & Touche (M.E.)
Mohammad Khamees Al Tah
Registration No. 717
20 March 2019
Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 AED '000	2017 AED '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**216,331**	286,952
Intangible assets	7	**2,227**	2,663
Advances to suppliers	11	**21,767**	24,107
Total non-current assets		**240,325**	313,722
Current assets			
Inventories	9	**15,743**	65,025
Contract assets	10	**316,991**	410,035
Trade and other receivables	11	**360,317**	342,482
Cash and bank balances	13	**4,909**	28,565
Total current assets		**697,960**	846,107
Total assets		**938,285**	1,159,829
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	**211,992**	211,992
Statutory reserve	15	**88,718**	88,718
(Accumulated losses)/retained earnings		**(77,122)**	201,097
Equity attributable to owners of the Company		**223,588**	501,807
Non-controlling interests		**(138)**	(131)
Total equity		**223,450**	501,676
Non-current liabilities			
Provision for end of service benefits	16	**24,617**	27,421
Advances from customers	17	**25,448**	50,799
Other payables		-	85
Total non-current liabilities		**50,065**	78,305
Current liabilities			
Trade and other payables	18	**220,608**	379,355
Advances from customers	17	**105,666**	97,016
Bank borrowings	19	**338,496**	103,477
Total current liabilities		**664,770**	579,848
Total liabilities		**714,835**	658,153
Total equity and liabilities		**938,285**	1,159,829

Omar Abdullah Al Faresi
Chairman of the Board of Directors

Matar Khalfan Al Shamsi
Managing Director

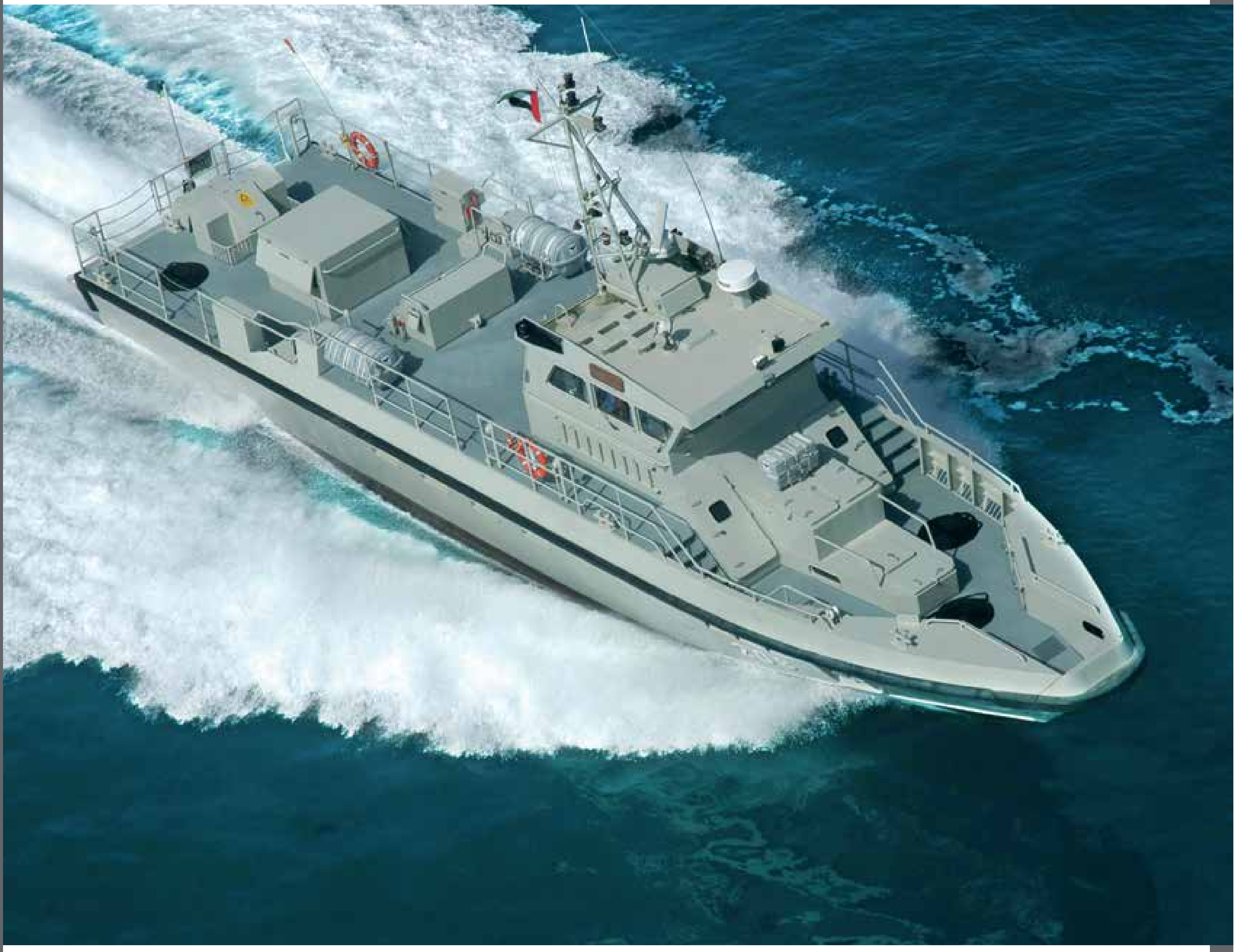
Najeh Awad
Chief Financial Officer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** AED '000	2017 AED '000
Contract revenue	20	**453,507**	712,137
Contract costs	21	**(292,006)**	(435,022)
Gross profit		**161,501**	277,115
General and administrative expenses	21	**(137,179)**	(171,311)
Depreciation and amortisation	6, 7	**(31,505)**	(23,261)
Impairment losses on financial assets	10, 11	**(71,480)**	-
Impairment of property, plant and equipment	6	**(55,806)**	-
Share of loss from a joint venture	8	**-**	(91)
Finance costs		**(7,272)**	(400)
Other income (net)		**11,903**	6,881
(Loss)/profit before gain on exchange		**(129,838)**	88,933
Gain on exchange		**4,690**	15,861
(Loss)/profit for the year		**(125,148)**	104,794
(Loss)/profit attributable to:			
Owners of the Company		**(125,148)**	103,584
Non-controlling interests		**-**	1,210
		(125,148)	104,794
Basic and diluted (loss)/earnings per share (fils)	22	**(59.0)**	48.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018** AED '000	2017 AED '000
(Loss)/profit for the year		**(125,148)**	104,794
Other comprehensive income:			
Hedging losses reclassified to profit or loss	12	-	2,442
Total other comprehensive income		-	2,442
Total comprehensive (loss)/income for the year		**(125,148)**	107,236
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(125,148)**	106,026
Non-controlling interests		-	1,210
		(125,148)	107,236



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital AED '000	Statutory reserve AED '000
Balance at 1 January 2017	211,992	78,360
Profit for the year	-	-
Other comprehensive income	-	-
Acquisition of non-controlling interest (note 5)	-	-
Dividends (note 27)	-	-
Transfer to statutory reserve	-	10,358
Balance at 1 January 2018	211,992	88,718
Prior period error (note 29)	-	-
Adjustment on adoption of IFRS 15 (note 2.1)	-	-
Adjustment on adoption of IFRS 9 (note 2.1)	-	-
Loss for the year	-	-
Dividends (note 27)	-	-
Balance at 31 December 2018	**211,992**	**88,718**

Hedging reserve AED '000	(Accumulated losses)/ retained earnings AED '000	Equity attributable to owners of the Company AED '000	Non-controlling interests AED '000	Total AED '000
(2,442)	124,817	412,727	10,921	423,648
-	103,584	103,584	1,210	104,794
2,442	-	2,442	-	2,442
-	4,253	4,253	(12,262)	(8,009)
-	(21,199)	(21,199)	-	(21,199)
-	(10,358)	-	-	-
-	201,097	501,807	(131)	501,676
-	(62,434)	(62,434)	-	(62,434)
-	(33,236)	(33,236)	(7)	(33,243)
-	(25,602)	(25,602)	-	(25,602)
-	(125,148)	(125,148)	-	(125,148)
-	(31,799)	(31,799)	-	(31,799)
-	**(77,122)**	**223,588**	**(138)**	**223,450**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 AED '000	2017 AED '000
Operating activities		
(Loss)/profit for the year	**(125,148)**	104,794
Adjustments for:		
Depreciation and amortisation	**31,505**	23,261
End of service benefits charge	**5,475**	6,591
Impairment of property, plant and equipment	**55,806**	-
Impairment on contract assets, net	**36,441**	3,152
Impairment on receivables, net	**25,968**	-
Hedging losses transferred to profit or loss	-	2,442
Share of loss from a joint venture	-	91
Impairment for obsolete and slow moving inventories, net	**1,065**	1,435
Finance costs	**7,272**	400
Loss/(gain) on disposal and retirement of property, plant and equipment	**541**	(1,127)
	38,925	141,039
Movements in working capital:		
Inventories	**3,398**	(19,569)
Contract assets	**(37,267)**	29,250
Trade and other receivables and advances to suppliers	**(47,642)**	(1,621)
Trade and other payables	**(135,243)**	(193,580)
Advances from customers	**(16,701)**	(92,066)
Cash used in operating activities	**(194,530)**	(136,547)
End of service benefits paid	**(8,279)**	(2,896)
Net cash used in operating activities	**(202,809)**	(139,443)
Investing activities		
Payments for property, plant and equipment	**(16,353)**	(8,496)
Payments for intangible assets	**(442)**	(1,877)
Payments for non-controlling interest	-	(8,009)
Proceeds from disposal of property, plant and equipment	-	1,127
Net cash used in investing activities	**(16,795)**	(17,255)
Financing activities		
Increase in bank overdrafts	**235,019**	103,477
Finance costs paid	**(7,272)**	(400)
Dividends paid	**(31,799)**	(21,813)
Net cash generated from financing activities	**195,948**	81,264
Net decrease in cash and cash equivalents	**(23,656)**	(75,434)
Cash and cash equivalents at beginning of the year	**28,565**	103,999
Cash and cash equivalents at end of the year (note 13)	**4,909**	28,565

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

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has adopted IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after1 January 2018. The Group has not adopted an earlier version of IFRS 9 and has applied IFRS 9 in accordance with the modified retrospective transitional, with effect of initially applying this standard at the date of initial application, i.e. 1 January 2018. Accordingly, information presented for 31 December 2017 has not been restated.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

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)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(a) Classification and measurement of financial assets (continued)

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

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)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(a) Classification and measurement of financial assets (continued)

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 had no impact on the Group's financial assets as regards their classification and measurement.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also allows a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 January 2018, the Directors of the Group reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised and compared that to the credit risk as at 1 January 2018. The result of the assessment is as follows:

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)

Impact of initial application of IFRS 9 Financial Instruments (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39	Remeasurements	Impairment allowance under IFRS 9
	AED'000	AED'000	AED'000
Contract assets	23,107	16,158	39,265
Trade and other receivables	12,844	9,444	22,288
	35,951	**25,602**	**61,553**

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 had no impact on the classification and measurement of the Group's financial liabilities.

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)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018.

IFRS 9 requires hedging gains and losses to be recognised as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. The Group has not hedged any non-financial item as at 31 December 2018.

The application of the IFRS 9 hedge accounting requirements had no other impact on the results and financial position of the Group for the current year. Please refer to note 25 for detailed disclosures regarding the Group's risk management activities.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Extensive prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e.1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

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)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'contract work in progress' and 'billing in excess of value of work in progress', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. The amount of adjustment for each financial statement line item affected by the application of IFRS 15 is illustrated below.

The following table summarises the impact, of transition to IFRS 15 on retained earnings and NCI at 1 January 2018.

	At 1 January 2018 AED'000
Retained earnings	
Naval Ship Building	(30,330)
Services	(2,906)
	(33,236)
Non-controlling interests	
Naval Ship Building	-
Services	(7)
	(7)

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Group's consolidated statement of cash flows for the year.

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)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without adoption of IFRS 15
	AED '000	AED '000	AED '000
ASSETS			
Total non-current assets	240,325	-	240,325
Current assets			
Inventories	15,743	21,278	37,021
Contract assets	316,991	68,689	385,680
Trade and other receivables	360,317	(3,265)	357,052
Cash and bank balances	4,909	-	4,909
Total current assets	697,960	86,702	784,662
Total assets	938,285	86,702	1,024,987
EQUITY AND LIABILITIES			
Capital and reserves	300,710	-	300,710
(Accumulated losses)/retained earnings	(77,122)	29,972	(47,150)
Equity attributable to owners of the Company			
Non-controlling interests	(138)	4	(134)
Total equity	223,450	29,976	253,426
Total non-current liabilities	50,065	-	50,065
Current liabilities			
Trade and other payables	220,608	56,726	277,334
Advances from customers	105,666	-	105,666
Bank borrowings	338,496	-	338,496
Total current liabilities	664,770	56,726	721,496
Total liabilities	714,835	56,726	771,561
Total equity and liabilities	938,285	86,702	1,024,987

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)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

Impact on the consolidated statement of profit or loss and OCI

	As reported	Adjustments	Amounts without adoption of IFRS 15
	AED '000	AED '000	AED '000
Contract revenue	453,507	(13,599)	439,908
Contract costs	(292,006)	10,332	(281,674)
Gross profit	161,501	(3,267)	158,234
General and administrative expenses	(208,659)	-	(208,659)
Depreciation and amortization	(31,505)	-	(31,505)
Impairment of property, plant and equipment	(55,806)	-	(55,806)
Finance costs, net	(7,272)	-	(7,272)
Other income	11,903	-	11,903
Loss before gain on exchange	(129,838)	(3,267)	(133,105)
Gain on exchange	4,690	-	4,690
Loss for the year	(125,148)	(3,267)	(128,415)
Total other comprehensive loss	(125,148)	(3,267)	(128,415)

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)

In the current period, the Group has also applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards deleting short-term exemptions for first-time adopters
- Amendments to IFRS 2 Amendments to IFRS 2 Share-based Payment Transactions clarifying the classification and measurement of share-based payment transactions
- Amendments to IFRS 4 Insurance Contracts applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9
- Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
- Amendments to IAS 40 Investment Properties clarifying transfers or property to, or from, investment property
- Annual Improvements to IFRSs 2014-2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 28 Investments in Associates and Joint Ventures providing clarification on measuring investees at fair value through profit or loss is an investment-by-investment choice

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

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

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:

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
IFRS 17 Insurance Contracts 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.	1 January 2021
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments: 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.	1 January 2019
Amendments in 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

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

2. 2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendment to IAS 19 Employee Benefits: The Amendments clarify that: – on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and – the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).	1 January 2019
Amendments in IAS 28 Investments 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 References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
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.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods, except as noted below:

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)

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

The Group has chosen the cumulative catch-up approach in the application of IFRS 16 in accordance with IFRS 16:C7 to C13. Consequently, the Group will not restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact on lessee accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

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

2. 2 Standards and Interpretations in issue but not yet effective (continued)

IFRS 16 Leases (continued)

Impact on lessee accounting (continued)

Operating leases (continued)

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of AED 53,104 thousand to the end of the lease terms.

A preliminary assessment indicates that AED 53,104 thousand of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of AED 49,626 thousand and a corresponding lease liability of AED 49,626 thousand in respect of all these leases. The impact on profit or loss for the next annual accounting period is to decrease general and administrative expenses by AED 9,841 thousand, to increase depreciation by AED 9,486 thousand and to increase interest expense by AED 1,508 thousand.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the net cash used in operating activities by AED 1,508 thousand and to increase net cash used in financing activities by the same amount.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Group have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

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. 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.

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.

Name of subsidiary	Ownership interest	Beneficial interest	Country of incorporation	Principal activity
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 equipment 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.

Group has not invested or acquired shares during the financial year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.4 Business combinations

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

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

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

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

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

3.5 Goodwill

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

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.

3 Summary of significant accounting policies (continued)

3.5 Goodwill (continued)

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

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

3.6 Investment in joint venture

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in a joint venture is initially recognised are 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 Summary of significant accounting policies (continued)

3.7 Revenue recognition

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

Construction contracts (applicable before 1 January 2018)

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

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

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

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

Costs of contracts include all direct costs of labour, materials, 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 Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

IFRS 15 Revenue from Contracts with Customers (applicable after 1 January 2018)

Effective 1 January 2018, the Group applies for the first time IFRS 15 Revenue from Contracts with Customers.

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.

The core principle of IFRS 15 Revenue from Contracts with Customers is that the Group 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:

- Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations.
- Identify the performance obligations in the contract: A performance obligation in a contract is a promise to transfer a good or service to the customer.
- Determine the transaction price: Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to a customer, excluding amounts collected on behalf of third parties.
- Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15 Revenue from Contracts with Customers, Group will recognize revenue 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.

Constructions contracts

Management assesses construction contracts and considers 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.

3 Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

IFRS 15 Revenue from Contracts with Customers (applicable after 1 January 2018) (continued)

Constructions contracts (continued)

The Group primarily has two types of construction contracts: (1) naval ship building and (2) small boats construction.

Revenue from the naval ship building construction contracts is recognised over time based on the criteria that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance obligation completed to date. The Group becomes entitled to invoice customers for construction contracts based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will recognise a 'contract asset' for any work performed.

The Group uses the input method used to measure the progress towards complete satisfaction of these performance obligations under IFRS 15 Revenue from Contracts with Customers**.** The complete satisfaction of the performance obligation is determined based on the proportion of contract costs incurred for work performed up to the end of the reporting period relative to the estimated total contract costs. The contract costs recognised at the end of the reporting period is equal to the actual costs incurred to date with the corresponding revenue and margin recognised in proportion to the work completed.

For certain small boat construction contracts, when the Group does not have an enforceable right to receive payment for work done as construction progresses, revenue is recognized when control of the goods has been transferred to the customer, being the point in time of delivery.

Contract modifications are accounted as a separate contract when the scope of the contract increases because of the additions of promised goods or services that are distinct and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling process of the additional promised goods or services and any appropriate adjustments to that price to reflects the circumstances of the particular contract.

Contract liabilities represents the obligation to transfer goods or services to a customer for which consideration has been received from the customer. Contract assets represents the right to consideration in exchange for goods or services that have been transferred to a customer.

An asset is recognised for the costs incurred to fulfil a contract only if those costs are directly related to a contract, the costs generate or enhance resources of the Group that will be used in satisfying a performance obligation in the future and the costs are expected to be recovered. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. The Group assesses contract assets for impairment in accordance with IFRS 9 Financial Instruments.

3 Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

IFRS 15 Revenue from Contracts with Customers (applicable after 1 January 2018) (continued)

Services

Revenues from services are considered as distinct on the basis of below:

The customer benefits from the service on its own or together with other resources that are readily available to the customer;
The Group's promise to transfer the services to the customer is separately identifiable.

Revenue from contracts relating to services is recognised over time since the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group considers the best measure of progress towards complete satisfaction of the performance obligation over time is a cost-based input method and it recognises revenue on this basis. In case of variable efforts or inputs, the performance obligation is measured at the cost plus margin.

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).

3 Summary of significant accounting policies (continued)

3.8 Leasing (continued)

The Group as lessee (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 Foeign currencies

For the purpose of these consolidated financial statements UAE Dirhams (AED) is 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.

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:

	Effective from 1 October 2018	Effective up to 30 September 2018
Buildings and structures	-	4 - 40 years
Concrete	30 - 40 years	-
Steel	20 - 30 years	-
Prefabricated and other structures	10 years	-
Other small structures	5 years	-
Production and other equipment	5 - 25 years	3 - 30 years
Vehicles	4 years	4 years
Furniture and fixtures	3 years	3 years
Office equipment	3 years	3 years
IT infrastructure and hardware	2 – 4 years	2 – 4 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.

During 2018, Management revised the estimated useful lives of property, plant and equipment resulting to an additional depreciation charge of AED 6,146 thousand for the year. As a result of the change in useful lives, depreciation charge for the next annual reporting period would be higher by AED 4,535 thousand.

3 Summary of significant accounting policies (continued)

3.11 Property, plant and equipment (continued)

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3.12 Capital work in progress

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

3.13 Intangible assets

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

Computer software

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

3.14 Inventories

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

3 Summary of significant accounting policies (continued)

3.15 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

3.16 Provisions

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

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

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

<u>Onerous contracts</u>

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 Summary of significant accounting policies (continued)

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

Classification of financial assets (applicable before 1 January 2018)

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

Cash and cash equivalents

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

Loans and receivables

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

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

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Classification of financial assets (applicable before 1 January 2018) (continued)

Financial assets at FVTPL (continued)

- 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.

Classification of financial assets (applicable after 1 January 2018)

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Classification of financial assets (applicable after 1 January 2018) (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Impairment of financial assets (applicable before 1 January 2018)

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

Objective evidence of impairment could include:

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

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

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

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.

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Impairment of financial assets (applicable after 1 January 2018)

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

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

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Definition of default (continued)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 30 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derecognition of financial assets

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

3.19 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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.

3 Summary of significant accounting policies (continued)

3.19 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

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.

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.

3 Summary of significant accounting policies (continued)

3.20 Derivative financial instruments (continued)

Hedge accounting

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

Cash flow hedges

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

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

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

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.

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

Critical judgments in applying the Group's accounting policies (continued)

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:

The following are the critical judgements in applying accounting policies that the Group has made in the process of applying IFRS 15 **Revenue from Contracts with Customers** and that have the most significant effect on the amounts disclosed in the consolidated financial statements:

Identification if group of contracts are linked

A judgement is required when assessing a group of contracts with the same customer to identify linkage between the contracts. The Group is required to understand the relationship between the contracts in the context of the promise made to the customer, the performance obligations under each contract and whether they are distinct within the context of the promise to the customer and dependence on the price of one contract over another. This judgement is mainly required for the naval ship building revenue stream where combined contracts have been identified.

Determination of a performance obligation if distinct in the context of the promise to the customer

The Group is required to form a judgement for each performance obligation as to whether it is distinct from other performance obligations in the context of the promise to the customer. The approach explained in step 2 is required to be followed and nature of the performance obligation needs to be understood along with its transformative relationship with other performance obligations in the context of the contract. The Group is required to exercise this judgement mainly for naval ship building and services revenue streams.

Determination of standalone selling price for distinct performance obligations

In order to determine standalone selling prices for distinct performance obligations that are not readily available, judgement will be required to determine the appropriate method of estimation, i.e. market adjustment, expected cost plus margin or residual. Further, the following judgements are required for each approach determined to be appropriate by the Group:

- Market adjustment approach – available market prices for similar goods or services will have to be adjusted considering the scale and nature of service, degree of customisation for the customer and other relevant factors to determine the standalone price of the service.
- Expected cost plus margin – judgement will be required to determine the appropriate margin for the distinct good or service where that good or service is provided to a customer independently.

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

Critical judgments in applying the Group's accounting policies (continued)

Revenue recognition

Management considers recognizing revenue over time, if one of the following criteria is met, otherwise revenue will be recognized at a point in time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Key sources of estimation uncertainty

Significant estimates 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 (applicable from 1 January 2018)

At the each reporting date, the Group is required to estimate the costs to complete on its construction contracts. This requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include potential claims by subcontractors and cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the period in which the estimates are revised. When the expected contract costs exceeds the total anticipated contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts. The Group uses its projects and commercial team to estimate the cost to complete of these contracts. Factors such as delays in expected completion date, changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on regular basis.

Estimation of total costs of construction contracts (applicable before 1 January 2018)

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.

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

Key sources of estimation uncertainty (continued)

Contract variations

Contract variations are recognised as revenues only to the extent that it is probable that they will not result in a significant reversal of revenue in subsequent periods. Management considers prior experience, application of contract terms and the relationship with the customers in making their judgement.

Contract claims

Contract claims are recognised as revenue only when management believes that only to the extent that it is probable that they will not result in a significant reversal of revenue in subsequent periods. Management reviews the judgment related to these contract claims periodically and adjustments are made in the future periods, if assessments indicate that such adjustments are appropriate.

Impairment of trade receivables and contract assets (applicable before 1 January 2018)

An estimate of the collectible amount of trade receivables and contract assets 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 receivables and contract assets in excess of the amount already provided amounting to AED 12,844 thousand and AED 23,107 thousand, respectively (notes 10 and 11).

Calculation of loss allowance (applicable from 1 January 2018)

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

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.

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

Key sources of estimation uncertainty (continued)

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 revised the estimated useful lives of property, plant and equipment resulting to an additional depreciation charge of AED 6,146 thousand (refer to note 3.11).

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.

Warranty provision

Management has estimated contract warranty costs expected to arise on projects, based on management's best estimates, past experience and expected future maintenance costs.

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.

6 Property, plant and equipment

	Buildings and structures	Production and other equipment	Assets under construction	Total
	AED'000	AED'000	AED'000	AED'000
Cost				
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)
At 1 January 2018	317,755	236,545	3,885	558,185
Additions	-	-	16,353	16,353
Retirement	(1,360)	(43,410)	-	(44,770)
Transfers	3,860	11,286	(15,146)	-
Reclassification	99	(99)	-	-
At 31 December 2018	**320,354**	**204,322**	**5,092**	**529,768**
Accumulated depreciation and impairment				
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)
At 1 January 2018	138,731	132,502	-	271,233
Charge for the year	16,571	14,056	-	30,627
Eliminated on retirement	(1,076)	(43,153)	-	(44,229)
Impairment for the year	3,098	51,079	1,629	55,806
Reclassification	80	(80)	-	-
At 31 December 2018	**157,404**	**154,404**	**1,629**	**313,437**
Carrying amount				
At 31 December 2018	**162,950**	**49,918**	**3,463**	**216,331**
At 31 December 2017	179,024	104,043	3,885	286,952

During the year the Group has performed an impairment assessment of its floating dock and auxiliary assets which belong to the Group's Services segment as these assets are currently generating losses. As a result, the Group recognised an impairment loss of AED 55,806 thousand based on a valuation performed using market comparable approach to determine the recoverable amount. The total fair value less costs of disposal of AED 19,703 thousand was arrived on the basis of valuations performed by an independent valuer based on recent market prices adjusted for the estimated costs of disposal considering industry average. The fair value measurement performed was considered to be Level 3 as the adjustments to the quoted prices of the comparable assets are significant to the measurement. These adjustments include capacity, age and pricing discount.

7 Intangible assets

	Computer software AED'000
Cost	
At 1 January 2017	22,331
Additions	1,877
Reclassification (note 6)	610
At 1 January 2018	24,818
Additions	442
Retirement	(9,010)
At 31 December 2018	**16,250**
Accumulated amortisation and impairment	
At 1 January 2017	20,501
Charge for the year	1,183
Reclassification (note 6)	471
At 1 January 2018	22,155
Charge for the year	878
Eliminated on retirement	(9,010)
At 31 December 2018	**14,023**
Carrying amount	
At 31 December 2018	**2,227**
At 31 December 2017	2,663

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.

8 Investment in a joint venture (continued)

The movement of investment in joint venture is as follows:

	2018	2017
	AED'000	AED'000
At 1 January	-	91
Share in current year's loss	-	(91)
Share in underlying net assets	-	-

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

	2018	2017
	AED'000	AED'000
Total assets	-	-
Total liabilities	-	-
Net assets	-	-
Group's share of net assets of the joint venture	-	-
Loss for the year	-	130

9 Inventories

	2018	2017
	AED'000	AED'000
Goods for sale	3,128	3,128
Work in progress (at cost)	5,898	53,968
Raw materials and consumables	23,373	23,600
	32,399	80,696
Less: provision for obsolete and slow moving items	(16,656)	(15,671)
	15,743	65,025

9 Inventories (continued)

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

	2018	2017
	AED'000	AED'000
At 1 January	15,671	20,049
Additions	1,065	1,629
Reversals	-	(194)
Write-off	(80)	(5,813)
At 31 December	16,656	15,671

10 Contract assets

	2018	2017
	AED'000	AED'000
Value of work executed	8,789,038	8,452,985
Progress billings received and receivable	(8,494,497)	(8,094,544)
At 31 December	294,541	358,441

The contract assets is presented as follows:

	2018	2017
	AED'000	AED'000
Contract assets*	316,991	410,035
Contract liabilities** (note 18)	(22,450)	(51,594)
At 31 December	294,541	358,441

*This balance was described as 'Contract work in progress' in the 2017 consolidated financial statements.

**This balance was described as 'Billings in excess of value of work in progress' in the 2017 consolidated financial statements.

10 Contract assets (continued)

Contract assets as at 31 December 2018 is stated net of provision for impairment of AED 65,720 thousand (2017: AED 23,107 thousand). The movements on the provision are as follows:

	2018	2017
	AED'000	AED'000
At 1 January (as reported)	23,107	37,812
Impact of IFRS 9 implementation	16,158	-
At 1 January (restated)	39,265	37,812
Loss allowance for the year	36,441	3,152
Transfer of provision to trade receivables (note 11)	-	(9,005)
Write off of provision	(9,986)	(8,852)
At 31 December	**65,720**	23,107

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

The management of the Group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the construction industry. None of the amounts due from customers at the end of the reporting period is past due.

11 Trade and other receivables

	2018	2017
	AED'000	AED'000
Trade receivables	385,188	309,049
Less: loss allowance	(46,340)	(12,844)
	338,848	296,205
Advances paid to suppliers	36,597	59,546
Prepayments and other receivables	6,639	10,838
	382,084	366,589
Less: Non-current portion of advances paid to suppliers	(21,767)	(24,107)
	360,317	342,482

11 Trade and other receivables (continued)

The average credit period granted to customers is 60-90 days (2017: 60-90 days).

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Before accepting any new customer, the Group assesses the potential credit quality of the customer. At the end of the reporting period, AED 329,537 thousand (2017: AED 256,047 thousand) is due from the Group's five largest customers. Management believes that the concentration of credit risk is mitigated by high credit worthiness and financial stability of its major trade customers and the fact that the remaining customer base is unrelated. Included in the Group's trade receivable balance are debtors with a carrying amount of AED 326 million (2017: AED 242 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.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

At 31 December 2018, the analysis of trade receivables is as follows:

	Trade receivables	Lifetime ECL	Net trade receivables
	AED'000	AED'000	AED'000
Current	12,934	570	12,364
Less than 90 days	85,664	1,520	84,144
Due for 90 to 180 days	49,691	6,389	43,302
Due for 181 to 270 days	70,979	4,121	66,858
Due for 271 to 360 days	15,462	4,627	10,835
Due for more than 361 days	150,458	29,113	121,345
	385,188	**46,340**	**338,848**

11 Trade and other receivables (continued)

At 31 December 2017, ageing of past due but not impaired is as follows:

	2017
	AED'000
Less than 90 days	61,243
Due for 90 to 180 days	60,973
Due for 181 to 270 days	15,200
Due for 271 to 360 days	10,359
Due for more than 361 days	93,816
	241,591

The movement in the loss allowance during the year is as follows:

	2018	2017
	AED'000	AED'000
At 1 January (as reported)	**12,844**	3,839
Impact of IFRS 9 implementation	**9,444**	-
At 1 January (restated)	**22,288**	3,839
Loss allowance for the year	**35,039**	-
Recoveries	**(9,071)**	-
Transfer of provision from contract assets (note 10)	-	9,005
Write offs	**(188)**	-
Reversal	**(1,728)**	-
At 31 December	**46,340**	12,844

12 Derivative financial instruments

The Group does not have any outstanding foreign exchange contract as of 31 December 2018.

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 nil (2017: AED 2,442 thousand) was recycled from equity to consolidated profit or loss on occurrence of the forecasted transactions.

13 Cash and bank balances

	2018	2017
	AED'000	AED'000
Cash on hand	4	63
Bank balances	4,905	28,502
	4,909	28,565

14 Share capital

	2018	2017
	AED'000	AED'000
Authorised, issued and fully paid		
share capital of AED 1 each	211,992	211,992

15 Statutory reserve

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

16 Provision for end of service benefits

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

	2018	2017
	AED'000	AED'000
At 1 January	27,421	23,726
Charged for the year	5,475	6,591
Payments during the year	(8,279)	(2,896)
At 31 December	24,617	27,421

17 Advances from customers

	2018	2017
	AED'000	AED'000
Advances from customers	131,114	147,815
Less: current portion	(105,666)	(97,016)
	25,448	50,799

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

18 Trade and other payables

	2018	2017
	AED'000	AED'000
Trade payables	7,063	49,373
Project accruals	114,381	131,992
Provision for onerous contract (i)	-	45,501
Other liabilities	76,376	99,813
Contract liability (note 10)	22,450	51,594
Other payables	338	1,082
	220,608	379,355

(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.

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

	2018	2017
	AED'000	AED'000
At 1 January	45,501	58,795
Utilised during the year	-	(13,294)
Reversal*	(45,501)	-
At 31 December	-	45,501

*Reversal relates to the adjustment as a result of IFRS 15 implementation. The contract was identified as a contract with a customer under IFRS 15 and has been accounted for accordingly in line with applicable accounting policies.

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:

	2018	2017
	AED'000	AED'000
Bank overdrafts	338,496	103,477

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

As at 31 December 2018, the Group has AED 104 million (2017: AED 250 million) as available undrawn overdraft facilities.

20 Revenue

The Group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major revenue streams. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments (see note 26).

	2018	2017
	AED'000	AED'000
Disaggregation of revenue		
Revenue from construction contracts	89,667	312,048
Revenue from rendering of services	363,840	400,089
	453,507	712,137
Timing of revenue recognition		
Revenue recognized at a point in time	14,298	23,441
Revenue recognised over the period	439,209	688,696
	453,507	712,137

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2018 are as set out below. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed.

	2018
	AED'000
Construction contracts	175,409
Rendering of services	31,717
	207,126

21 Contract costs and general and administrative expenses

	2018	2017
	AED'000	AED'000
Material and subcontract costs	127,364	232,859
Staff costs	194,822	201,510
Other costs	106,999	171,964
	429,185	606,333

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

	2018	2017
	AED'000	AED'000
Contract costs	292,006	435,022
General and administrative expenses	137,179	171,311
	429,185	606,333

22 Basic and diluted earnings per share

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

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

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

	2018	2017
(Loss)/profit for the year attributable to equity holders of the parent (AED'000)	(125,148)	103,584
Weighted average number of ordinary shares issued ('000)	211,992	211,992
Basic and diluted (loss)/earnings per share (fils)	(59.0)	48.9

As of 31 December 2018, the Group has not issued any instruments which would have a diluted impact on earnings per share when converted or exercised.

23 Related party transactions

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

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

	2018	2017
	AED'000	AED'000
Key management compensation:		
Salaries, bonuses and other benefits	11,050	15,575
Post-employment benefits	233	452
	11,283	16,027
Directors' remuneration	-	2,520

Related party balances:

	2018	2017
	AED'000	AED'000
Due from related party (included in trade and other receivables)	769	-
Due to related party (included in trade and other payables)	1,127	-

These balances resulted from existing secondment agreement of certain employees from both parties in 2018.

24 Commitments and contingencies

24.1 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 1,187 million (2017: AED 1,520 million) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the year end.

24.2 Capital commitments

The authorised capital expenditure contracted at the end of the reporting period but not provided for is AED 6 million (2017: AED 16 million).

24 Commitments and contingencies (continued)

24.3 Operating lease commitments

At reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	AED'000	AED'000
Not later than one year	9,809	9,131
Later than one year and not later than five years	34,204	41,497
Later than five years	9,091	11,607
	53,104	62,235

25 Financial instruments

25.1 Significant accounting policies

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

25.2 Categories of financial instruments

	2018	2017
	AED'000	AED'000
Financial assets		
Loans and receivables (including cash and bank balances)	343,757	324,771
Financial liabilities		
Financial liabilities measured at cost	559,104	437,331

* Financial assets do not include contract assets in relation to work done but not billed amounting to AED 316,991 thousand (2017: AED 410,035 thousand).

25.3 Financial risk management objectives

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

The Group analyses financial risks under the following captions:

25 Financial instruments (continued)

25.4 Capital risk management

The Group's primary objective for capital management is to ensure that the capital is enough to continue as a going concern while maximising the return to the Shareholders. This overall strategy remains unchanged from 2017.

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:

	2018	2017
	AED'000	AED'000
Trade and other payables	220,608	333,854
Bank borrowings	338,496	103,477
Less: cash and cash equivalents	(4,909)	(28,565)
Net debt	554,195	408,766
Total equity	223,588	501,807
Total equity and net debt	777,783	910,573
Gearing ratio	71%	45%

25.5 Market risk management

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

a) Foreign currency risk management

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

As the UAE dirham is pegged to the USD, balances in USD are not considered to represent significant currency risk. Management is therefore of the opinion that the Group's exposure to the currency risk is limited to Euro.

Foreign currency sensitivity analysis

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

	Liabilities		Assets	
	2018	2017	2018	2017
	AED'000	AED'000	AED'000	AED'000
Euro	192,006	166,512	143,757	258,515
US Dollar	46,235	120,392	75,772	127,548
Others	569	3,865	7	8
	238,810	290,769	219,536	386,071

25 Financial instruments (continued)

25.5 Market risk management (continued)

a) Foreign currency risk management (continued)

At 31 December 2018, 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 4.9 million (2017: higher/lower by AED 8.8 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 1.7 million (2017: AED 0.5 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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

25.6 Credit risk management

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

Concentration of credit risk

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

The Group executes contracts mainly for GHQ-UAE Armed Forces and as at 31 December 2018, contract assets, trade receivables and advances received from GHQ-UAE Armed Forces amounted to a net receivable position of AED 465 million (2017: AED 436 million). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

25 Financial instruments (continued)

25.6 Credit risk management (continued)

Concentration of credit risk (continued)

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

At 31 December 2018, 100% (2017: 100%) of the deposits were placed with 3 banks (2017: 4 banks). Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the central bank.

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

25.7 Liquidity risk management

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

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

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2018				
Trade and other payables	**7,063**	**213,545**	-	**220,608**
Bank borrowings	**338,496**	-	-	**338,496**
	345,559	**213,545**	-	**559,104**
2017				
Trade and other payables	49,373	284,481	-	333,854
Bank borrowings	103,477	-	-	103,477
	152,850	284,481	-	437,331

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

25 Financial instruments (continued)

25.8 Fair value of financial instruments

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

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

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

As at 31 December 2018, there are no derivative instruments as they have been settled during the year.

There were no transfers between levels during the year.

26 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
Services includes upgrades, maintenance, repairs and overhaul (MRO) of military and commercial vessels, integrated support services and combat systems integration which includes import and commissioning of integrated systems and computer programs

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

26 Segment information (continued)

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

	Ship Building AED'000	Services AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Year ended 31 December 2018					
Contract revenue	**89,667**	**365,324**	-	**(1,484)**	**453,507**
Contract costs	**(57,565)**	**(235,925)**	-	**1,484**	**(292,006)**
Gross profit	**32,102**	**129,399**	-	-	**161,501**
General and administrative expenses	**(34,916)**	**(117,347)**	**(56,396)**	-	**(208,659)**
Depreciation and amortisation	**(3,494)**	**(6,732)**	**(21,279)**	-	**(31,505)**
Impairment of property, plant and equipment	-	**(55,806)**	-	-	**(55,806)**
Finance costs, net	-	-	**(7,272)**	-	**(7,272)**
Other income	-	**9,071**	**2,832**	-	**11,903**
Loss on exchange	-	-	**4,690**	-	**4,690**
Segment loss	**(6,308)**	**(41,415)**	**(77,425)**	-	**(125,148)**
Year ended 31 December 2017					
Contract revenue	312,048	427,095	-	(27,006)	712,137
Contract costs	(160,754)	(301,274)	-	27,006	(435,022)
Gross profit	151,294	125,821	-	-	277,115
General and administrative expenses	(19,278)	(80,710)	(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)	131,751	39,391	(66,348)	-	104,794

26 Segment information (continued)

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

	Ship Building	Services	Unallocated	Eliminations	Group
	AED'000	AED'000	AED'000	AED'000	AED'000
As at 31 December 2018					
Assets	**269,394**	**569,948**	**179,236**	**(80,293)**	**938,285**
Liabilities	**214,024**	**113,745**	**458,473**	**(71,407)**	**714,835**
Capital expenditure	**1,863**	**3,589**	**11,343**	-	**16,795**
As at 31 December 2017					
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

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.

27 Dividends

On 15 March 2018, the Shareholders approved during the Annual General Meeting the distribution of 15% cash dividends amounting to AED 31.8 million.

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

28 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.

	2018 AED '000
At 1 January	103,477
Financing cash flows (i)	235,019
	338,496

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

29 Prior period error

During the current year, following a detailed review of a specific contract which is close to completion, the Group identified that contract costs were understated by AED 62 million in periods prior to 31 December 2017. The Group has concluded that it is not possible to determine the exact amounts relating to each period and exactly which periods are affected as the contract commenced in 2003.

In accordance with the requirements of IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group is required to correct the prior period error retrospectively by restating the comparative amounts for the prior periods presented in which the error occurred, however, it is impracticable to determine the period-specific effects of the prior period error and accordingly the exemption allowed in IAS 8 has been adopted and the Group has restated the respective accounts for the earliest period for which retrospective restatement is practicable, which is 1 January 2018. As a result, the amounts reflected in the consolidated statement of financial positon and the statement of profit or loss and other comprehensive income are not necessarily comparable to the financial information presented in the previous period.

30 Investment in Abraaj Holding

During 2018, the Group was not involved in any transaction or had any business relationships with Abraaj Group or its affiliates.

31 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 20 March 2019.