ADSB
ABU DHABI SHIP BUILDING

2022 ANNUAL REPORT

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BEYOND SHIPBUILDING


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ASSEMBLY HALL A
Bldg B040
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MESSAGE FROM THE CHAIRMAN

Dear Valued Shareholders,

On behalf of the Board of Directors and Management of Abu Dhabi Ship Building PJSC (ADSB), I would like to share with you our annual results for the year ending 31 December, 2022.

Firstly, we would like to extend our sincere thanks and appreciation to His Highness Sheikh Mohamed bin Zayed Al Nahyan, the President of the United Arab Emirates, for his vision, leadership and continued strong support, and to our loyal customers for their invaluable support and business throughout last year, as we also look forward to another year of continued success.

2022 was a transformational year for ADSB as the company managed to significantly improve its revenues to AED 660 million, compared with AED 254 million in 2021, the highest revenues recorded by ADSB in the last five years. This represented the first full year's contribution from the Falaj3 contract to build four Offshore Patrol Vessels for the UAE Navy. ADSB has now completed four milestones in this project either on or ahead of schedule, including most recently the Keel Laying milestone of the first vessel under the program.

Net profit has also almost doubled year-on-year to AED 20.5 million in 2022 compared with AED 11.0 million in 2021, a trend that is expected to accelerate during the current year.

Net cash position was positive AED 273 million at year's end, which was a much better position compared to previous years. Further receipts are expected in the course of 2023 and the cash position is projected to remain healthy.

ADSB continues to service its domestic customers and was pleased to see the crucial Military Support Services contract extended to December 2024. Commercial business in the year was strong, and post the year's end ADSB announced an order from Critical Infrastructure and Coastal Protection Authority (CICPA) for twenty-four 12-metre and 16-metre Search and Rescue boats. This was a validation of the company's strategy of designing and building its own range of vessels, which were first showcased at NAVDEX 2021. The range of ADSB-owned designs continues to be developed.

The year was also transformational in other respects, as for the first time the company negotiated and announced post the year's end at NAVDEX 2023, the largest export contract in its history, to deliver three BR71 MKII 71 metre corvettes, plus a number of its own designed interceptors and patrol boats, as well as the provision of support services, to the Angolan Navy. This four-year contract is valued at approximately EUR 1 billion (AED 3.94 billion) and will result in significant growth in revenues during this period.

ADSB now has an order book of approximately AED 8 billion and also has a large pipeline of potential domestic and export business opportunities, some of which are expected to be awarded during the current year. This achievement is attributable to the tremendous hard work and collaborative spirit of the company's people over the last few challenging years.

ADSB continues to benefit significantly from being part the EDGE Group, not only from branding and market outreach perspectives, but more so in the areas of products and integrated solutions, which will further enhance our offerings to our customers. The company also continues to benefit from the support of the board and management team, who are implementing a strategy which is expected to see it report sustainable revenues, profits, and dividends at a much more positive trajectory in the future, compared to the last five years.

Established through Emiri Decree No. 5 of 1995 (as amended), ADSB is mandated to create an industrial base to build various types of best-in-class vessels, marine components and equipment, perform all associated maintenance and repair work, and develop local capability to deliver on its scope. I am pleased to report that the company continues to competitively support its primary customers, including the UAE Navy and CICPA, as well as commercial customers – primarily ADNOC.

In closing, I want to extend a heartfelt thank you to all ADSB employees for their outstanding efforts during 2022, and to our shareholders for your confidence and trust in ADSB. We will continue to deliver exceptional quality products and services to our customers, while striving to remain one of the most pioneering and strategically important companies in the UAE.

MANSOUR AL MULLA

Chairman of the Board

BOARD OF DIRECTORS

MANSOUR AL MULLA

*Chairman

ABDULLA AL GHAFLI

Member of Audit Committee & Member of Business Development & Operational Committee

ANAS AL BARGUTHI

Chairman of Executive Committee

ARWA AL KINDI

Member of Nomination and Remuneration Committee

HAMAD ABDULLAH AL QAYDI

**Member of Audit Committee & Nomination & Remuneration Committee

*Appointed in February 2023

** Replaced in February 2023

KHALED OMAR AHMED NAJEEB ALBREIKI
Vice Chairman

KHALIFA ABU SHAHAB
Chairman of Audit Committee &
Member of Executive Committee

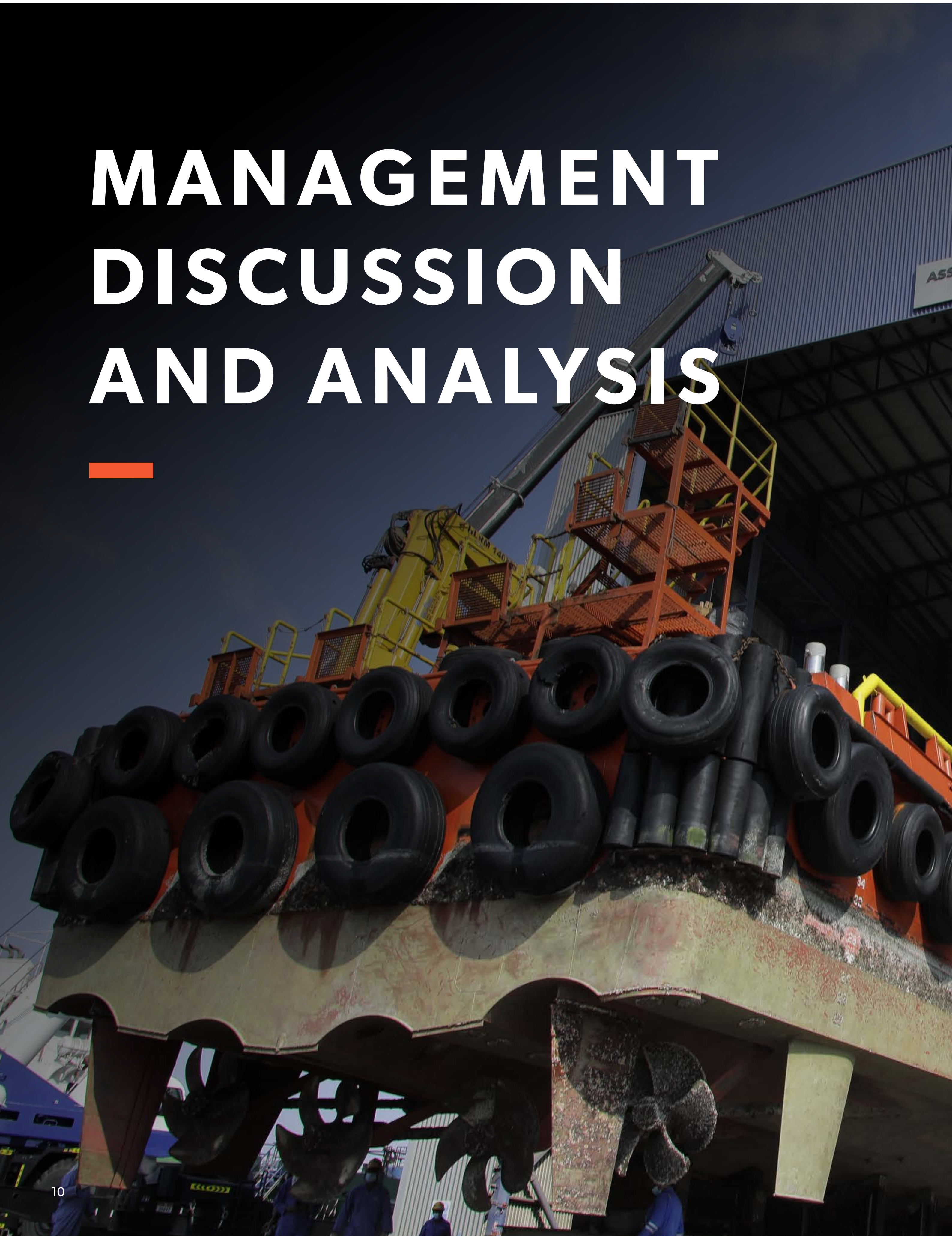
OMAR AL ZAABI
*Member of Nomination &
Remuneration Committee

RASHED AL BLOOSHI
**Chairman of Nomination &
Remuneration Committee

RODRIGO CARNEIRO DA CUNHA TORRES
Member of Audit Committee &
Member of Executive Committee

SAEED SALIM AL SUWAIDI
Chairman of Business Development & Operational
Committee & Member of Executive Committee

MANAGEMENT DISCUSSION AND ANALYSIS

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SEMBLY HALL A
Bldg 5040

HIGHLIGHTS

Revenues in 2022 were significantly higher than the previous year at AED 660 million compared with AED 254 million in 2021. This significant increase reflected a full year's contribution from the prestigious Falaj3 contract to build four new Offshore Patrol Vessels for the UAE Navy which commenced in the fourth quarter of 2021. ADSB successfully completed three milestones of the Falaj3 project during the year either on or ahead of schedule and within budget, and a fourth milestone was completed post year end in the first quarter of 2023.

Net profit for the year of AED 20.5 million demonstrates the improving trend and was almost double the AED 11.0 million net profit reported last year.

During the year to December 2022 the Company continued its activities under both the MSS Military contract and for Commercial customers, and completed a total of 186 dockings. Other contracts included the purchase and refurbishment of a tug, the docking of a large vessel for mid-life refit, and delivery of three VIP Limos. The Company also signed a contract to build two 28-meter tugs which is ADSB's first commercial ship building project and several other smaller projects are ongoing.

After the year end at the NAVDEX exhibition in February 2023, the Company was pleased to announce a contract to build twenty-four Search and Rescue boats for CICPA. This was an order for the ADSB designed and built vessels which were showcased at NAVDEX 2021. The Company has continued with this strategy and in 2023 showcased a new 17-meter autonomous mine counter measure (MCM) vessel which generated significant interest from customers.

We continue to implement the strategy of expanding the design portfolio both with in-house designs and through working with partners to generate designs in the 50-meter to 100-meter range. ADSB also signed a number of MOUs with leading industry players in the course of the year.

ADSB signalled its intention to develop export sales in recent years and was engaged in negotiations throughout the year which led to the announcement at NAVDEX of a very significant contract to build three BR71 MKII 71-meter corvettes along with ADSB designed patrol boats and logistical support for the Angolan Navy. This contract, worth over AED 3.9 billion, is a very significant deal for ADSB and the largest export order in the Company's history.

The order book now stands at over AED 8 billion and further large potential export sales are in the early stages of negotiation, with a potential pipeline of an additional several AED billion. The business will see a very significant increase in activity in the next few years, and a capacity enhancement program with the necessary CAPEX will commence later this year.

After payments made to major Falaj3 sub-contractors during the year, the net cash position as of 31 December 2022 was AED 273 million which continues to show a significant improvement on the substantial overdraft in previous years. The cash position is expected to remain healthy throughout 2023.

While the UAE Navy (UAEN) will always be the Company's main customer, and indeed ADSB was set up to be a strategic national asset for the UAE, ADSB is now demonstrating the results of its expansion strategy which will reduce the dependence on the UAEN and enable the Company to pass the benefits back to the domestic customer in terms of expanded design capability, enhanced production and maintenance capacity, and economies of scale.

I would like to take this opportunity to thank our wise leadership for their patronage, and for their continuous support of ADSB. I also wish to thank our Board of Directors for their invaluable direction and guidance, our esteemed customers and partners for their trust, and finally, our management and staff for their dedication and commitment towards ADSB's success.

We continue to serve our military and commercial customers and look to the future with increased confidence.

DAVID MASSEY
Chief Executive Officer

EXECUTIVE MANAGEMENT

DAVID MASSEY
Chief Executive Officer (CEO)

David Massey is CEO of ADSB, an EDGE entity that specialises in the building, maintenance, repair, refitting, and conversion of naval and commercial vessels. In this role, he is responsible for managing the overall operations of the company, which deploys the latest technologies to extend ship lifetimes and to lower overall lifecycle costs.

Prior to joining ADSB, Massey was Consultant on financial and strategy issues at Velius, a strategic consultancy company that provides programme management, decision-making, and system integration support for complex multi-disciplinary projects in the military, national security, and critical infrastructure protection domains for EDGE.

Previously he served as Consultant for Eden Corporate Finance, which advised smaller companies involved in mergers and acquisitions (M&A) and initial public offering (IPO) transactions on short-term funding and corporate strategy, corporate finance, and turnaround solutions.

He was also a consultant to Falanx Group Limited, a cybersecurity company that specialises in protecting, defending, and informing businesses in the face of growing political and cyber risks.

In earlier roles, he was Managing Editor of the international financial news service AFX News, where he oversaw 120 journalists in 22 bureaux worldwide, and worked in financial markets as analyst, fund manager and corporate financier.

David Massey holds a bachelor's degree in law from Oxford University in the UK.

MARIAM AL MOOSAWI

Chief Financial Officer

Mariam Al Moosawi is Chief Financial Officer at ADSB, an EDGE entity and regional leader in the build, repair, maintenance, refit and conversion of naval and commercial vessels. In this role, she is responsible for managing the finance and for liaising with the CEO and board of directors to implement strategic initiatives towards business transformation.

Mariam brings to her role more than 10 years of experience in project management, budgeting, ERP and process enhancements, and business transformations.

Prior to her current role, she was Acting Head of Budgeting and Projects, where she managed the financial planning and analysis team focusing on business models, budgeting, and forecasting. She was credited with transforming the cost allocation model from a traditional to a performance focused one to reflect accurate business profitability.

Earlier, she was Corporate Governance Manager at ADSB, and oversaw Oracle automation, quantifying risks and opportunities and transformed the payables and payroll processes through the application of LEAN principles to speed up process times.

In a previous role, as Head of Financial Planning and Analysis, she led the reorganisation and development of the function, with a focus on cost optimisation and accurate forecasting to support net profit growth aligned with the budget. She also led the annual budget preparation through generating the group five year business plan, overheads report, and HR plan.

Early in her career, she worked as Senior Project Accountant at Tourism Development and Investment Company. She handled over 15 prestigious projects worth more than AED 3 billion, including The Louvre Abu Dhabi, Zayed National, and Guggenheim museums, improving the capitalisation process for the completed projects through the implementation of LEAN principles, and saving consultancy costs of over AED1 million.

Mariam Al Moosawi holds an MBA in Finance and Strategy from Columbia Business School in New York, USA and London Business School in the UK. She also has to her credit a BA in Business Sciences with a focus on Accounting from Zayed University in the UAE.

ALI MOHAMMED AL SHEHHI

Chief Operating Officer (COO)

Ali Mohammed Ali Al Shehhi is Chief Operating Officer of ADSB, an EDGE entity that specialises in the building, maintenance, repair, refitting, and conversion of naval and commercial vessels. In this role, he is tasked with providing strategic direction and overseeing the administrative and operational functions of the company, as well as maintaining synergies with clients, business partners, and stakeholders.

Prior to his current role, Al Shehhi was the Production and Operations Director at ADSB. Earlier, Al Shehhi was Deputy Programme Manager at EDIC land systems, a renowned UAE-based manufacturer of weapons and other defence products, where he was responsible for managing the scope, cost, and schedule of projects, as well as preparing and updating project plans and status reports. Previously, he served in the UAE Navy in several positions such as technical workshops in various naval bases.

Ali Mohammed Ali Al Shehhi holds a bachelor's degree in Mechanical Engineering from the Military Technical College (MTC) in Egypt. After retiring from the Navy where Al Sehhi worked in technical, engineering and administrative fields, he completed various technical and personal development training courses, including the Lean Six Sigma Green Belt and several courses at DynCorp International, such as Performance Management.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022


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ADSB

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
ABU DHABI SHIP BUILDING PJSC

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 the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of 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.

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 2022, 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 (ISA). 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' International Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 8 and 9, which state that as at 31 December 2022, the Group has gross outstanding balances of contract assets and trade receivables amounting to AED 369,728 thousand and AED 344,397 thousand, respectively (with an allowance for expected credit losses of AED 5,849 thousand and AED 27,587 thousand, respectively) of which AED 56,860 thousand and AED 117,673 thousand, respectively have been outstanding for more than 1 year. Most of the long outstanding balances pertain to contracts and work orders with one key customer and its related entities. Management believes that the high concentration of contract assets and trade receivables with this key customer is mitigated by the high credit worthiness and financial stability of this customer being a UAE government entity. An amendment of another existing contract from this customer is still under discussion.

Our opinion is not qualified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the year ended 31 December 2022. 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.

Key audit matter	How our audit addressed the area of focus
Recognition of revenue from ship building and repair services contracts A significant portion of the Group's revenues is derived from ship building and repair services contracts and revenue on such contracts is recognised over time as performance obligations are fulfilled over time. As disclosed in note 18 to the consolidated financial statements, during the year 2022, the Group has earned AED 660,204 thousand (2021: AED 254,334 thousand) revenue from ship building and repair services contracts. This area was important to our audit due to significant estimates involved in the determination of stage of completion and measurement of progress towards the satisfaction of performance obligations and estimating costs to complete on each contract	We obtained an understanding of and walked through the Group's controls over the revenue and cost recognition process to assess the design of the key controls in place. Our substantive audit procedures included the following, amongst others: • review of the contracts and service orders to evaluate management's assessment of performance obligations in accordance with IFRS 15; • obtaining an understanding of the performance and status of the contracts through discussions with project teams (management's specialists) and the finance team; • obtaining cost estimation schedules approved by project teams and verifying the costs to complete by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date; • evaluated Group's positions through examination of customer and subcontractor correspondences, contract amendments, variation orders and milestone acceptances; and • review of correspondence from legal advisors and minutes of the key meetings to corroborate management's assessment of claims and penalties recorded.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Key audit matter	How our audit addressed the area of focus
Recoverability of contract assets and trade receivables As at 31 December 2022, 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 notes 8 and 9, an amount of AED 5,849 thousand (2021: AED 6,896 thousand) and AED 27,587 thousand (2021: AED 26,919 thousand) has been recognised as a provision for Expected Credit Loss ("ECL") against contract assets and trade receivables respectively in accordance with IFRS 9. This area was important to our audit due to significant estimates involved in the recoverability assessment of long outstanding trade receivables and contract assets. Significant estimates made by management include, amongst others, probability of customers' default, loss given default, exposure at default, expected dates of collection and discount rates.	Our audit procedures included the following, amongst others: • obtaining an understanding of the Group's process for estimating ECL and assessing the appropriateness of the ECL methodology against the requirements of IFRS 9; • assessing the reasonableness of management's key assumptions and judgements made in determining the ECL including the segmenting of trade receivables and contract assets, selection of ECL model and macroeconomic factors; • testing key inputs into the model and comparing these to historical data; • assessing reasonableness of forward-looking factors used by the Group by corroborating with publicly available information; and • verifying billings post year end and ensuring that these were in line with contractual terms where applicable as they related to unbilled work in progress at the reporting date. Refer notes 8 and 9 to the consolidated financial statements which disclose the significant judgements made by the management in relation to recoverability of these balances.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, the Corporate Governance report, the Message from the Chairman and the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon. We obtained the Message from the Chairman and the Management Discussion and Analysis prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2022 Annual Report and Corporate governance report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 obtained prior to the date of the 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (32) of 2021, 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 objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, 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 scepticism 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the Audit of the Consolidated Financial Statements continued

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (32) of 2021, we report that for the year ended 31 December 2022:

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

ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Articles of Association of the Company and the UAE Federal Law No. (32) of 2021;

iii. the Company has maintained proper books of account;

iv. the financial information included in the Message from the Chairman and the Management Discussion and Analysis is consistent with the books of account and records of the Company;

v. based on the information that has been made available to us, the Group has not purchased or invested in any shares or stocks during the year ended 31 December 2022;

vi. note 24 reflects the material related party transactions and the terms under which they were conducted;

vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2022, any of the applicable provisions of its Articles of Association or of the UAE Federal Law No. (32) of 2021, which would have a material impact on its activities or its consolidated financial position as at 31 December 2022; and

viii. there were no social contribution made during the year.

Pursuant to the requirements of Article 5 of Abu Dhabi Accountability Authority ("ADAA") Chairman Resolution No. 88 of 2021 regarding the examination of internal financial controls over financial reporting, we have not been engaged to perform an assurance engagement to provide a reasonable assurance report on the effectiveness of internal financial control over financial reporting on the consolidated financial statements of the Group.

GRANT THORNTON
Farouk Mohamed
Registration No: 86
Abu Dhabi, United Arab Emirates
Date: 17 March 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**31 December 2022 AED '000**	31 December 2021 AED '000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**135,653**	143,617
Intangible assets	6	**3**	123
Right-of-use assets	22	**9,640**	11,357
Advances to suppliers	9	**228,445**	47,429
TOTAL NON-CURRENT ASSETS		**373,741**	202,526
Current assets			
Inventories	7	**25,854**	15,729
Contract assets	8	**363,879**	211,214
Trade and other receivables	9	**420,105**	204,870
Cash and cash equivalents	10	**309,840**	895,923
TOTAL CURRENT ASSETS		**1,119,678**	1,327,736
TOTAL ASSETS		**1,493,419**	1,530,262
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**211,992**	211,992
Statutory reserve	12	**10,445**	8,399
Retained earnings		**24,100**	9,929
Equity attributable to owners of the parent		**246,537**	230,320
Non-controlling interests		**(138)**	(138)
TOTAL EQUITY		**246,399**	230,182
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits	13	**23,436**	21,634
Advances from customers	14	**704,472**	928,698
Lease liabilities	22	**8,067**	9,772
TOTAL NON-CURRENT LIABILITIES		**735,975**	960,104
Current liabilities			
Trade and other payables	15	**269,596**	157,183
Advances from customers	14	**202,952**	72,947
Lease liabilities	22	**2,060**	1,792
Bank overdrafts	16	**13,995**	77,151
Term loans	17	**22,442**	30,903
TOTAL CURRENT LIABILITIES		**511,045**	339,976
TOTAL LIABILITIES		**1,247,020**	1,300,080
TOTAL EQUITY AND LIABILITIES		**1,493,419**	1,530,262

Mansour Al Mulla
Chairman of the Board

David Massey
Chief Executive Officer

Mariam Al Moosawi
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** AED '000	2021 AED '000
Contract revenues	18	**660,204**	254,334
Contract costs	19	**(580,827)**	(225,223)
GROSS PROFIT		**79,377**	29,111
General and administrative expenses	20	**(52,275)**	(43,541)
Allowance for expected credit losses	8,9	**(2,302)**	-
Depreciation and amortization	5,6,22	**(5,546)**	(7,404)
Finance costs		**(2,167)**	(6,108)
Other income, net	21	**3,370**	38,974
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**20,457**	11,032
Attributable to:			
Equity holders of the parent		**20,457**	11,032
Non-controlling interest		**-**	-
BASIC AND DILUTED EARNINGS PER SHARE (AED)	23	**0.10**	0.05

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital	Statutory reserve	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance as at 1 January 2022	**211,992**	**8,399**	**9,929**	**230,320**	**(138)**	**230,182**
Total comprehensive income for the year	-	-	**20,457**	**20,457**	-	**20,457**
Transfer to statutory reserve	-	**2,046**	**(2,046)**	-	-	-
Payment of dividend (Note 29)	-	-	**(4,240)**	**(4,240)**	-	**(4,240)**
Balance as at 31 December 2022	**211,992**	**10,445**	**24,100**	**246,537**	**(138)**	**246,399**
Balance as at 1 January 2021	211,992	88,718	(81,422)	219,288	(138)	219,150
Total comprehensive income for the year	-	-	11,032	11,032	-	11,032
Transfer to statutory reserve	-	1,103	(1,103)	-	-	-
Absorption of accumulated losses (Note 12)	-	(81,422)	81,422	-	-	-
Balance as at 31 December 2021	211,992	8,399	9,929	230,320	(138)	230,182

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**20,457**	11,032
Adjustments for:			
Depreciation and amortization	5,6,22	**16,932**	20,321
Provision for employees' end of service benefits	13	**3,037**	2,871
Reversal of allowance for expected credit losses on contract assets	8	**(494)**	(283)
Allowance / (reversal of allowance) for expected credit losses on receivables, net	9	**2,156**	(27,212)
Reversal of provision of slow-moving inventories	7	**(2,076)**	(54)
Gain on sale of non-current assets held for sale		**-**	(17,593)
Finance income		**(556)**	-
Finance costs		**2,727**	6,759
Operating profit (loss) before working capital changes:		**42,183**	(4,159)
Changes in working capital:			
Change in inventories		**(8,049)**	(4,392)
Change in contract assets		**(152,171)**	(5,024)
Change in trade and other receivables and advances to suppliers		**(397,851)**	175,839
Change in trade and other payables		**112,508**	(43,302)
Change in advances from customers		**(94,221)**	899,500
Cash (used in) / generated from operations		**(497,601)**	1,018,462
Payment of employees' end of service benefits	13	**(1,235)**	(3,421)
Net cash (used in) / generated from operating activities		**(498,836)**	1,015,041
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	**(6,722)**	(1,730)
Purchase of intangible assets	6	**-**	(3)
Proceeds from disposal of non-current asset held for sale		**-**	34,510
Net cash (used in) / generated from investing activities		**(6,722)**	32,777
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from term loans		**62,507**	87,048
Repayment of term loans		**(70,968)**	(115,004)
Finance costs paid		**(2,090)**	(6,035)
Dividends paid		**(4,240)**	-
Payments of lease liabilities	22	**(2,578)**	(2,516)
Net cash used in financing activities		**(17,369)**	(36,507)
Net (decrease) / increase in cash and cash equivalents		**(522,927)**	1,011,311
Cash and cash equivalents, beginning of year		**818,772**	(192,539)
Cash and cash equivalents, end of year	10	**295,845**	818,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1 ACTIVITIES

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 was initially registered in compliance with relevant UAE Federal Law No. (2) of 2015, as amended. As of 2 January 2022, the Company is subject to compliance with UAE Federal Law No. (32) of 2021, which replaces UAE Federal Law No. (2) of 2015, as amended. The consolidated financial statements have been prepared in accordance with the requirements of the applicable laws and regulations, including UAE Federal Law No. (32) of 2021. The shareholders of the Company are currently in the process of amending the statutory documents, to reflect the changes required due to application of the UAE Federal law No. (32) of 2021.

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

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

The principal activities, country of incorporation and operation, and ownership interest of the Company in the subsidiaries are set out below:

Name of subsidiary	Interest (%) 31 December 2022	Interest (%) 31 December 2021	Country of Incorporation	Principal activity
Abu Dhabi Systems Integration LLC ("ADSI")	**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	**99%**	99%	UAE	System integration and technology development and implementation
High Speed Craft Company LLC	**100%**	100%	UAE	Marine machine and equipment repairing and maintenance

2 FUNDAMENTAL ACCOUNTING CONCEPT

The consolidated financial statements of the Group are prepared on the going concern basis.

2.1 Basis of preparation

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the UAE Federal Law No. (32) of 2021.

The consolidated financial statements of the Group have been prepared on an accrual basis and under historical cost convention.

The consolidated financial statements have been presented in United Arab Emirates Dirhams ("AED"), which is the functional and presentation currency of the Group, all values have been rounded to the nearest thousand

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 FUNDAMENTAL ACCOUNTING CONCEPT continued

2.1 Basis of preparation continued

Statement of compliance continued

(AED '000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated financial statements of the Group represent the financial statements of the Company and its subsidiaries mentioned in note 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2 FUNDAMENTAL ACCOUNTING CONCEPT continued

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

Standards, interpretations and amendments to existing standards that are effective in 2022

In the current period, the Group has 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 2022. 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.

- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Amendments to IFRS 3 - References to the Conceptual Framework

These amendments do not have a significant impact on the consolidated financial statements and therefore the disclosures have not been made.

Amendment to standards and interpretations issued but not yet effective

The new standards and revised IFRSs not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- Amendments to IFRS 3 - References to the Conceptual Framework
- Annual Improvements to IFRS Standards 2018-2021 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities from a Single Transaction
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)

Management anticipates that these amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. Management is currently assessing the impact of the above standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES

Revenue from contracts with customers

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Construction contracts

Management assesses construction contracts and considers IFRS 15 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.

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 to measure the progress towards complete satisfaction of these performance obligations under IFRS 15. 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**.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

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.

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; and
- 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.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

Buildings and structures	
- Concrete	30 - 40 years
- Steel	20 - 30 years
- Prefabricated and other structures	10 years
- Other small structures	5 years
Production and other equipment	2-25 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of comprehensive income as the expense is incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the consolidated statement of comprehensive income when the asset is derecognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued

Assets under construction are recorded at cost and represents costs based on contractual payments for the design, development, construction and commissioning of the Group and those other costs incurred during the development stage directly attributable to the construction of the Group. Assets under construction are transferred to the appropriate asset category and depreciated in accordance with the Group's policies when construction of the asset is completed and commissioned.

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 recognized in consolidated statement of comprehensive income in the period in which they are incurred.

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition as financial assets at fair value through profit or loss, fair value through OCI or amortized cost. All financial assets are recognized initially at fair value plus in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

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

Subsequent measurement

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

a) Financial assets at amortised cost;

b) Financial assets at fair value through OCI with recycling of cumulative gains and losses;

c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition; and

d) Financial assets at fair value through profit or loss.

The Group does not have any assets which are classified in categories b, c and d.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks net of bank overdrafts.

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Finncial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired. Financial assets at amortised cost include bank balances, trade and other receivables, advances to suppliers and contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial assets continued

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of financial assets

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities consist of trade and other payables, bank overdrafts, term loans and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification. The category of financial liabilities most relevant to the Group is loans and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instrument continued

Financial liabilities continued

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, and are determined on weighted average basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Provisions continued

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.

Leases

The Group as a lessee

The Group makes the use of leasing arrangements principally for plot of land. The rental contracts for land are typically negotiated for terms of between 3 and 8 years. The Group does not enter into sale and leaseback arrangements.

The Group assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability in its consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Group would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Group's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognised in consolidated statement of comprehensive income.

Payments under leases can also change when there is either a change in the amounts expected to be paid under residual value guarantees or when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued

The Group as a lessee continued

Measurement and recognition of leases as a lessee continued

remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. Except for where the change in lease payments results from a change in floating interest rates, in which case the discount rate is amended to reflect the change in interest rates.

The remeasurement of the lease liability is dealt with by a reduction in the carrying amount of the right-of-use asset to reflect the full or partial termination of the lease for lease modifications that reduce the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in consolidated statement of comprehensive income. The right-of-use asset is adjusted for all other lease modifications.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in consolidated statement of comprehensive income on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets include computer software with an estimated useful life of 4 years.

Employees' end of service benefits

The Group provides for end of service benefits of its non-UAE national employees in accordance with UAE labour law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for UAE citizens are made by the Group in accordance with Federal Law No. (2) of 2000.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant management judgements

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

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy).

Key sources of estimation of uncertainty

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

Useful lives of property, plant and equipment

The management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and the future depreciation charge would be adjusted where management believes that the useful lives differ from previous estimates.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY continued

Key sources of estimation of uncertainty continued

Allowance for obsolete inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventories were AED 39,843 thousand (2021: AED 32,125 thousand), with an allowance for old and obsolete inventories of AED 13,989 thousand (2021: AED 16,396 thousand). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognized in the consolidated statement of comprehensive income.

Allowance for Expected Credit Losses (ECL)

The Group uses a provision matrix to calculate Lifetime ECLs for trade receivables and contract assets. 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.

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.

At the reporting date, gross trade receivables, were AED 344,397 thousand (2021: AED 215,305 thousand) with an allowance for expected credit losses amounting to AED 27,587 thousand (2021: AED 26,919 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

At the reporting date, gross contract assets, were AED 369,728 thousand (2021: AED 218,110 thousand) with an allowance for expected credit losses amounting to AED 5,849 thousand (2021: AED 6,896 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

The Group has determined the expected credit loss on bank balances to be insignificant considering that the counterparty banks are investment grade category and has a low probability of default and loss at given default.

The Group has determined the expected credit loss on due from related party balances to be immaterial considering the fact that these have low probability of default and loss at given default is minimal.

Estimation of total costs of construction contracts

At the 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4 SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY continued

Key sources of estimation of uncertainty continued

Estimation of total costs of construction contracts continued

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 exceed 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.

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures AED'000	Production and other equipment AED'000	Assets under construction AED'000	Total AED'000
Cost				
At 1 January 2021	321,999	145,181	1,628	468,808
Additions	-	-	1,730	1,730
Transfers	922	1,085	(2,007)	-
At 31 December 2021	**322,921**	**146,266**	**1,351**	**470,538**
Additions	**-**	**-**	**6,722**	**6,722**
Transfers	**2,433**	**3,130**	**(5,563)**	**-**
Disposals	**-**	**(1,564)**	**-**	**(1,564)**
At 31 December 2022	**325,354**	**147,832**	**2,510**	**475,696**
Accumulated depreciation				
At 1 January 2021	187,545	121,590	-	309,135
Charge for the year	12,558	5,228	-	17,786
At 31 December 2021	**200,103**	**126,818**	**-**	**326,921**
Charge for the year	**10,106**	**4,580**	**-**	**14,686**
Related to disposals	**-**	**(1,564)**	**-**	**(1,564)**
At 31 December 2022	**210,209**	**129,834**	**-**	**340,043**
Net carrying amount				
As at 31 December 2022	**115,145**	**17,998**	**2,510**	**135,653**
As at 31 December 2021	122,818	19,448	1,351	143,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge has been allocated in the consolidated statement of comprehensive income as follows:

	2022	2021
	AED'000	AED'000
Contract costs (note 19)	**9,565**	11,096
General and administrative expenses	**5,121**	6,690
	14,686	17,786

6 INTANGIBLE ASSETS

	2022 Computer software	2021 Computer Software
	AED'000	AED'000
Cost		
Balance at 1 January	**16,253**	16,250
Additions during the year	**-**	3
Balance at 31 December	**16,253**	16,253
Accumulated amortization		
Balance at 1 January	**16,130**	15,618
Amortization for the year	**120**	512
Balance at 31 December	**16,250**	16,130
Net carrying amount	**3**	123

7 INVENTORIES

	2022	2021
	AED'000	AED'000
Goods available for sale	**3,876**	3,128
Work in progress	**8,775**	6,066
Raw materials and consumables	**27,192**	22,931
	39,843	32,125
Less: Provision for obsolete and slow moving items	**(13,989)**	(16,396)
	25,854	15,729

The movements of the provision for obsolete and slow moving items were as follows:

	2022	2021
	AED'000	AED'000
At 1 January	**16,396**	16,450
Recoveries	**(2,076)**	(54)
Write-offs	**(331)**	-
At 31 December	**13,989**	16,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8 CONTRACT ASSETS

	2022	2021
	AED'000	AED'000
Value of work executed	**10,287,917**	9,627,713
Progress billings received and receivable	**(9,939,069)**	(9,437,473)
	348,848	190,240

The contract work in progress is presented as follows:

	2022	2021
	AED'000	AED'000
Contracts assets, net of ECL	**363,879**	211,214
Contracts liabilities (note 15)	**(15,031)**	(20,974)
	348,848	190,240

Contracts assets as at 31 December 2022 are stated net of allowance for expected credit losses of AED 5,849 thousand (2021: AED 6,896 thousand). The movements on the allowance are as follows:

	2022	2021
	AED'000	AED'000
At 1 January	**6,896**	10,908
Reversals	**(494)**	(283)
Transfer of allowance to trade receivables (note 9) *	**(553)**	(3,729)
At 31 December	**5,849**	6,896

*This represents the allowance related to the amounts billed to customers during the year.

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group becomes entitled to receive payments from customers in line with a series of performance related milestones. The Group will recognise 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. Refer note 4 to the consolidated financial statements where significant estimate and judgement relating to ECLs, and future recovery dates have been disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9 TRADE AND OTHER RECEIVABLES

	2022	2021
	AED'000	AED'000
Trade receivables, gross	**344,397**	215,305
Less: Allowance for expected credit losses	**(27,587)**	(26,919)
Trade receivables, net	**316,810**	188,386
Advances paid to suppliers*	**94,339**	10,720
Prepayments and other receivables	**8,956**	5,764
	420,105	204,870

*Advances paid to suppliers were classified in the consolidated statement of financial position as follows:

	2022	2021
	AED'000	AED'000
Current (included within trade and other receivables)	**94,339**	10,720
Non-current	**228,445**	47,429
Total**	**322,784**	58,149

**This amount is stated net of allowance for expected credit losses amounting to AED nil (2021: AED 1,884 thousand).

Allowance for expected credit losses

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables which is a product of probability of default and loss given default on the carrying amount of trade and other receivables.

At 31 December 2022, the analysis of trade receivables is as follows:

			Past due		
31 December 2022	**Total**	**0-30 days**	**31-90 days**	**91-180 days**	**>180 days**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Trade receivables	**344,397**	**83,836**	**79,249**	**57,151**	**124,161**
Lifetime ECL	**(27,587)**	**(1,897)**	**(1,515)**	**(2,317)**	**(21,858)**
Trade receivables, net	**316,810**	**81,939**	**77,734**	**54,834**	**102,303**

			Past due		
31 December 2021	Total	0-30 days	31-90 days	91-180 days	>180 days
	AED'000	AED'000	AED'000	AED'000	AED'000
Trade receivables	215,305	32,707	44,239	12,913	125,446
Lifetime ECL	(26,919)	(458)	(1,082)	(400)	(24,979)
Trade receivables, net	188,386	32,249	43,157	12,513	100,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9 TRADE AND OTHER RECEIVABLES continued

Allowance for expected credit losses continued

The movement in the allowance for expected credit losses during the year was as follows:

	2022 AED'000	2021 AED'000
At the beginning of the year	**26,919**	59,227
Charged during the year	**4,680**	-
Recoveries*	**(640)**	(26,990)
Write-offs	**(3,925)**	(9,047)
Transfer of allowance from contract assets (note 8)	**553**	3,729
At the end of the year	**27,587**	26,919

* Recoveries mainly pertains to collections during the year.

Refer note 4 to the consolidated financial statements where significant estimate and judgement relating to ECLs, and future recovery dates have been disclosed.

10 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are comprised for the following:

	2022 AED'000	2021 AED'000
Cash on hand	**-**	-
Bank balances	**309,840**	895,923
Cash and bank balances	**309,840**	895,923
Less: Bank overdrafts (note 16)	**(13,995)**	(77,151)
Cash and cash equivalents	**295,845**	818,772

There were no restrictions on bank balances at the time of approval of these consolidated financial statements

11 SHARE CAPITAL

	2022 AED'000	2021 AED'000
Authorised, issued and fully paid	**211,992**	211,992

EDGE Defence Platforms & Systems is the major shareholder of the Group which owns 49.96% of the share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12 STATUTORY RESERVE

In accordance with the UAE Federal Law number (32) of 2021, concerning Commercial Companies and the Company's Articles of Association, 10% of the profit for each year has been transferred to a non-distributable legal reserve. Such transfers are required to be made until the balance of the statutory reserve equals one half of the Company's paid up share capital. Such reserve is not available for distribution as dividends to the Shareholders. An amount of AED 2,046 thousand has been transferred to this reserve during the year (2021: AED 1,103 thousand).

During 2021, the shareholders of the Group, through a special resolution, approved the absorption of accumulated losses of AED 81,422 thousand as of 31 December 2020 against the statutory reserve of the Group.

13 EMPLOYEES' END OF SERVICE BENEFITS

The movements on the provision for employees' end of service benefits are as follows:

	2022	2021
	AED'000	AED'000
At 1 January	**21,634**	22,184
Charge for the year	**3,037**	2,871
Paid during the year	**(1,235)**	(3,421)
At 31 December	**23,436**	21,634

14 ADVANCES FROM CUSTOMERS

Advances from customers mainly represent advances received for projects and are applied against billings when raised. Advances from customers are analysed in the consolidated statement of financial position as follows:

	2022	2021
	AED'000	AED'000
Current	**202,952**	72,947
Non-current	**704,472**	928,698
Total *	**907,424**	1,001,645

* This includes advance received in the amount of AED 823,369 thousand (31 December 2021: AED 903,666 thousand), in relation to a major ship building contract with a key customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15 TRADE AND OTHER PAYABLES

	2022 AED'000	2021 AED'000
Trade payables	**43,508**	32,526
Project accruals	**170,726**	73,853
Other liabilities	**32,107**	27,450
Contract liabilities (note 8)	**15,031**	20,974
Other payables	**8,224**	2,380
	269,596	157,183

All amounts are short term. The carrying value of the trade and other payables is considered to be reasonable approximation of fair value.

The average credit period on purchases of goods and services is 60 days (2021: 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.

16 BANK OVERDRAFTS

	2022 AED'000	2021 AED'000
Bank overdrafts from commercial banks	**13,995**	77,151

The overdraft facilities are short-term, unsecured and bear market rate of interest.

As at 31 December 2022, the Group has AED 261,005 thousand (31 December 2021: AED 197,849 thousand) as available undrawn overdraft facilities.

17 TERM LOANS

The Group is utilizing a short-term unsecured loan facility with a local bank in relation to the payment of its suppliers with a maturity of 6 months or less from the date of drawdown. This loan carries interest at prevailing market rate. The carrying amount of the loan as at 31 December 2022 was AED 22,442 thousand (31 December 2021: AED 30,903 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18 CONTRACT REVENUES

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 (note 26) under IFRS 8 Operating Segments.

	2022	2021
	AED'000	AED'000
Revenue from construction contracts	**465,022**	56,703
Revenue from rendering of services	**195,182**	197,631
	660,204	254,334

18.1 Timing of revenue recognition

	2022	2021
	AED'000	AED'000
Services transferred at the point in time	**9,170**	-
Services transferred over time	**651,034**	254,334
	660,204	254,334

18.2 Geographical markets

During the year, all of the Group's revenue were generated within United Arab Emirates (2021: same).

19 CONTRACT COSTS

	2022	2021
	AED'000	AED'000
Material and subcontract costs	**454,139**	96,090
Staff and manpower contract costs	**99,194**	99,126
Overheads*	**13,104**	15,773
Depreciation of property, plant and equipment	**9,565**	11,096
Depreciation of right-of-use assets	**1,821**	1,821
Other direct costs	**3,004**	1,317
	580,827	225,223

* This includes finance costs in the amount of AED 560 thousand (2021: AED 652 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
	AED'000	AED'000
Staff costs	**24,795**	23,607
IT licences support and maintenance	**12,542**	11,278
Professional and consultancy fees	**2,983**	2,178
Marketing and advertisement	**3,894**	2,045
Repairs and maintenance	**3,444**	2,056
Material	**498**	462
Others	**4,119**	1,915
	52,275	43,541

21 OTHER INCOME, NET

This mainly includes a gain on disposal of the floating dock, the reversals of allowance for expected credit losses on trade receivables and contract assets and foreign exchange gains and losses.

	2022	2021
	AED'000	AED'000
Recoveries of receivables	**4,979**	27,495
Gain on sale of non-current asset held for sale	**-**	17,593
Other expenses, net	**(1,609)**	(6,114)
	3,370	38,974

22 LEASES

Right-of-use assets

	Land	
	2022	2021
	AED'000	AED'000
Cost		
Balance at 1 January	**17,426**	17,426
Additions	**409**	-
Balance at 31 December	**17,835**	17,426
Accumulated amortization		
Balance at 1 January	**6,069**	4,046
Charge for the year	**2,126**	2,023
Balance at 31 December	**8,195**	6,069
Net carrying amount	**9,640**	11,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22 LEASES continued

Lease liabilities

Lease liabilities are presented in the consolidated statement of financial position as follows:

	2022 AED'000	2021 AED'000
Current	**2,060**	1,792
Non-Current	**8,067**	9,772
	10,127	11,564

Future minimum lease payments at 31 December 2022 are as follows:

31 December 2022	Within one year AED'000	Two to five years AED'000	More than five years AED'000	Total AED'000
Lease payments	2,713	9,276	-	11,989
Finance charges	(653)	(1,209)	-	(1,862)
Net present values	**2,060**	**8,067**	**-**	**10,127**

Future minimum lease payments at 31 December 2021 are as follows:

31 December 2021	Within one year AED'000	Two to five years AED'000	More than five years AED'000	Total AED'000
Lease payments	2,516	10,063	1,534	14,113
Finance charges	(724)	(1,725)	(100)	(2,549)
Net present values	1,792	8,338	1,434	11,564

The consolidated statement of comprehensive income shows the following amounts relating to leases for the year ended 31 December 2022:

	2022 AED'000	2021 AED'000
Depreciation	**(2,126)**	(2,023)
Finance costs	**(637)**	(724)
Expense related to short-term leases and leases of low-value assets	**-**	(3,506)
Discontinued lease	**-**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the earnings for the year attributable to the owners of the parent by the weighted average number of shares outstanding during the year as follows:

The calculation of earnings/(loss) per share is as follows:

	2022	2021
	AED'000	AED'000
Profit for the year attributable to the owners of the parent (AED '000)	**20,457**	11,032
Weighted average number of ordinary issued throughout the period ('000)	**211,992**	211,992
Basic and diluted earnings per share (AED)	**0.10**	0.05

During the year, the Group has not issued any instruments that have an impact on earnings per share when exercised (2021: nil).

24 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the Group'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:

	2022	2021
	AED'000	AED'000
Key management compensation:		
Salaries, bonuses and other benefits	**12,164**	8,882
Post-employment benefits	**1,021**	760
	13,185	9,642
Directors' remuneration	1,475	1,000
Board Committee fees	525	550
Related party balances:		
Due from a related party (included in trade and other receivables)	**1,840**	1,840
Due to a related party (included in trade and other payables)	**4,107**	3,894

These balances resulted from unsettled balances from previous secondment agreement of certain employees from both parties, back charges, as well as revenues or costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25 CONTINGENCIES AND CAPITAL COMMITMENTS

The Group's bankers have issued, in the normal course of business, letters of guarantee, performance bond and letters of credit in the amount of AED 2,562,236 thousand (31 December 2021: AED 1,595,345 thousand) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the period end.

Commitments

The capital expenditure contracted at the end of the reporting period but not provided for is AED 4,437 thousand (31 December 2021: AED 16,248 thousand).

26 SEGMENT INFORMATION

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

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

- New Build and Engineering encompasses the design, engineering, research and development, construction, commissioning, test and trials, ILS, upgrades, conversions and consultancy services for military, commercial and leisure vessels in any construction material
- Small Boats, includes in-house design development, research and development, construction of moulds, prototypes and boats with LOA up to 24 meters with capability of large scale production line for military, commercial and luxury boats, commissioning, services and repairs of composite and special material boats.
- Military repairs and maintenance, includes upgrades, maintenance, repairs, and overhaul (MRO) of military vessels, and integrated support services
- Commercial repairs and maintenance include upgrades, maintenance, repairs and overhaul (MRO) of commercial vessels.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26 SEGMENT INFORMATION continued

	New Build and Engineering AED'000	Small Boats AED'000	Military Repairs and Maintenance AED'000	Commercial Repairs and Maintenance AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Year end 31 December 2022								
Contract revenues	**468,040**	**2,223**	**141,829**	**48,112**	**-**	**-**	**-**	**660,204**
Contract costs	**(407,384)**	**(5,741)**	**(118,381)**	**(44,998)**	**(4,323)**	**-**	**-**	**(580,827)**
Gross profit/(loss)	**60,656**	**(3,518)**	**23,448**	**3,114**	**(4,323)**	**-**	**-**	**79,377**
General and administrative expenses	**(8,340)**	**(1,968)**	**(15,352)**	**(6,732)**	**(468)**	**(19,415)**	**-**	**(52,275)**
Reversal of / (allowance for) expected credit losses	**879**	**212**	**(785)**	**(2,131)**	**(414)**	**(63)**	**-**	**(2,302)**
Depreciation and amortization	**(776)**	**(222)**	**(1,386)**	**(666)**	**-**	**(2,496)**	**-**	**(5,546)**
Finance costs	**-**	**-**	**-**	**-**	**-**	**(2,167)**	**-**	**(2,167)**
Other income, net	**2,865**	**-**	**4,661**	**607**	**-**	**(4,763)**	**-**	**3,370**
Segment profit/(loss)	**55,284**	**(5,496)**	**10,586**	**(5,808)**	**(5,205)**	**(28,904)**	**-**	**20,457**

	New Build and Engineering AED'000	Small Boats AED'000	Military Repairs and Maintenance AED'000	Commercial Repairs and Maintenance AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Year ended 31 December 2021		AED'000	Group					
Contract revenues	AED'000	11,153	145,037	50,831	-	-	-	254,334
Contract costs	(48,678)	(9,846)	(115,628)	(47,675)	(3,396)	-	-	(225,223)
Gross profit/(loss)	(1,365)	1,307	29,409	3,156	(3,396)	-	-	29,111
General and administrative expenses	(4,653)	(1,841)	(13,312)	(10,496)	(438)	(12,801)	-	(43,541)
Depreciation and amortization	(301)	(263)	(1,170)	(1,978)	(6)	(3,686)	-	(7,404)
Finance costs	-	-	-	-	-	(6,108)	-	(6,108)
Other income, net	2,331	-	20,394	20,979	1,276	(6,006)	-	38,974
Segment profit / (loss)	(3,988)	(797)	35,321	11,661	(2,564)	(28,601)	-	11,032

	New Build and Engineering AED'000	Small Boats AED'000	Military Repairs and Maintenance AED'000	Commercial Repairs and Maintenance AED'000	Combat System Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
As at 31 December 2022								
Assets	**1,030,740**	**25,638**	**262,761**	**69,079**	**40,515**	**88,855**	**(24,169)**	**1,493,419**
Liabilities	**1,075,820**	**5,232**	**41,031**	**10,061**	**4,801**	**125,358**	**(15,283)**	**1,247,020**
Capital Expenditure	**2,353**	**336**	**1,713**	**639**	**-**	**1,681**	**-**	**6,722**
As at 31 December 2021								
Assets	1,089,858	27,659	216,977	89,359	41,272	93,714	(28,577)	1,530,262
Liabilities	1,068,525	5,897	50,311	11,837	3,431	179,770	(19,691)	1,300,080
Capital Expenditure	106	70	559	591	-	407	-	1,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27 FINANCIAL INSTRUMENTS

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.

Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return on equity. The Group monitors capital using a gearing ratio, which is net debt divided by total equity (excluding non-controlling interests) plus net debt. The calculation of the Group's gearing ratio as follows:

	2022	2021
	AED'000	AED'000
Trade and other payable	**269,596**	157,183
Bank loans	**22,442**	30,903
Bank overdraft	**13,995**	77,151
Total debt	**306,033**	265,237
Total equity attributable to owners of the parent	**246,537**	230,320
Total equity and debt	**552,570**	495,557
Gearing ratio	**54%**	68%

Financial risk management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27 FINANCIAL INSTRUMENTS continued

Foreign currency risk management continued

Foreign currency sensitivity analysis

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

	Liabilities		Assets	
	2022	2021	**2022**	2021
	AED'000	AED'000	**AED'000**	AED'000
Euro	**424,179**	424,740	**411,253**	443,636
US Dollar	**100,641**	47,055	**270,793**	88,372
Others	**540**	580	**290**	341
	525,360	472,375	**682,336**	532,349

At 31 December 2022, if the exchange rate of the currencies other than the USD had increased/decreased by 10% against the AED, with all other variables held constant, the Group's profit for the year would have been higher/lower by AED 1,318 thousand (2021: higher/lower by AED 1,866 thousand) mainly as a result of foreign exchange gain or loss on translation of Euro.

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

	Effect on profit
	AED'000
2022	
+50 increase in basis point	**182**
-50 decrease in basis point	**(182)**
2021	
+50 increase in basis point	540
-50 decrease in basis point	(540)

Credit risk management

Credit risk in relation to the Group refers to the risk that a counter party 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27 FINANCIAL INSTRUMENTS continued
Credit risk management continued

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.

The Group executes contracts mainly for a key customer and as at 31 December 2022, contract assets, trade receivables and advances received from this key customer amounted to a net payable position of AED 288,893 thousand (2021: AED 649,703 thousand net receivable). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

The credit risk on liquid funds 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.

Trade and other receivables and balances with banks 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.

Liquidity risk

Ultimate 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 below tables summarise the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows only as interest cash flows were insignificant. Maturity profile of financial liabilities at the end of the reporting period is as follows:

	Total AED'000	Within one year AED'000	2-5 years AED'000	After 5 years AED'000
31 December 2022				
Trade and other payables	**269,596**	**269,596**	**-**	**-**
Bank overdrafts*	**13,995**	**13,995**	**-**	**-**
Term loans*	**22,442**	**22,442**	**-**	**-**
Lease liabilities*	**10,127**	**2,060**	**8,067**	**-**
	316,160	**308,093**	**8,067**	**-**
31 December 2021				
Trade and other payables	157,183	157,183	-	-
Bank overdrafts*	77,151	77,151	-	-
Term loans*	30,903	30,903	-	-
Lease liabilities*	11,564	1,792	8,338	1,434
	276,801	267,029	8,338	1,434

* The Group's borrowings and lease liabilities are interest bearing financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, trade and other receivables and contract assets. Financial liabilities consist of trade and other payables, bank overdrafts, term loans and lease liabilities.

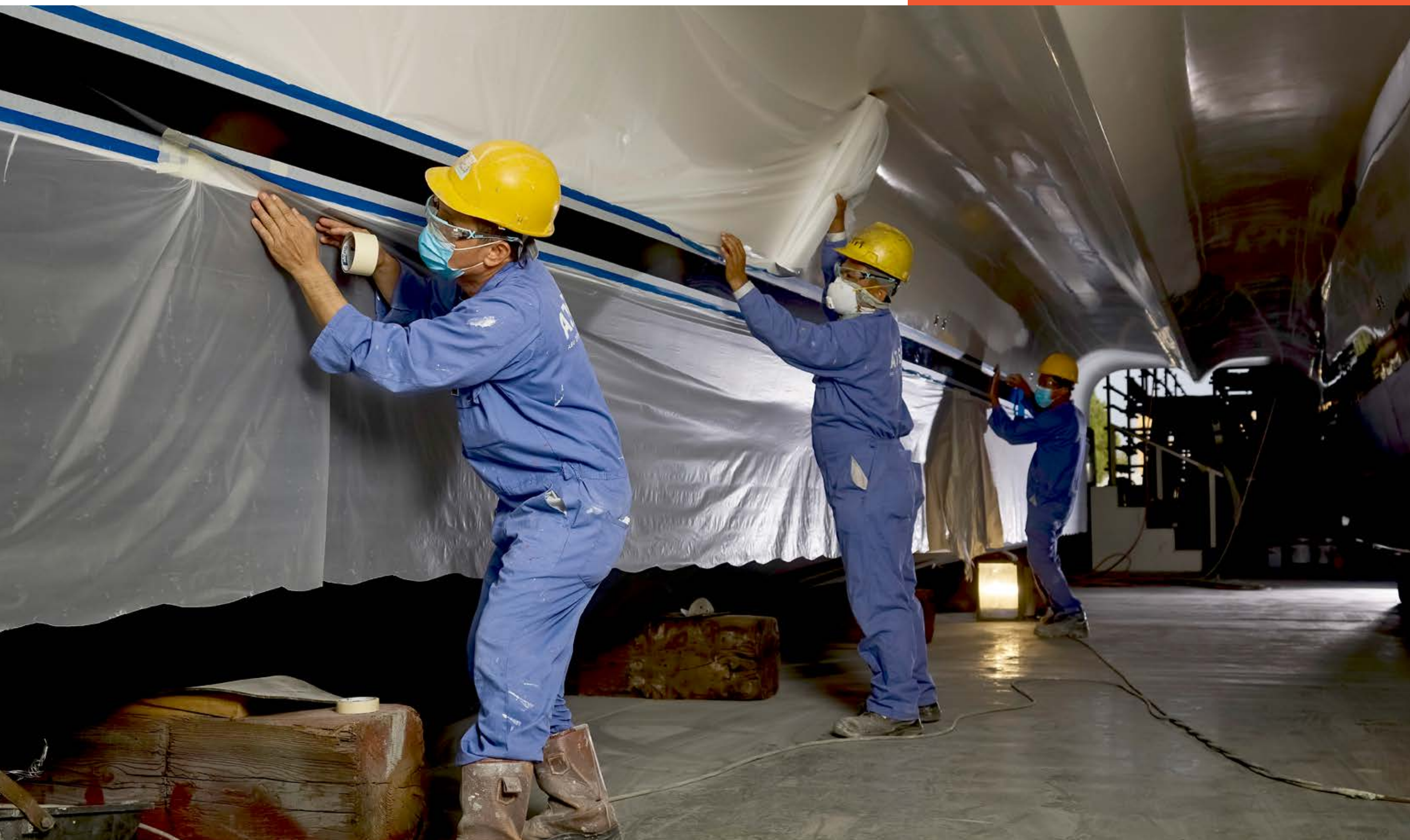
The fair values of financial instruments are not materially different from their carrying value.

29 DIVIDENDS

On 27 April 2022, the Shareholders of the Group approved during the Group's Annual General Meeting the distribution of 2% of its share capital as cash dividends amounting to AED 4,240 thousand. On 26 May 2022 the Group has distributed the approved dividends to the Shareholders.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2022 were authorized for issuance in accordance with a resolution of the Board of Directors on 17 March 2023.



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