

National Marine Dredging Company
(Public Shareholding Company)

Consolidated financial statements

31 December 2012

Registered address:
P O Box 3649
Abu Dhabi
United Arab Emirates

National Marine Dredging Company
(Public Shareholding Company)

Consolidated financial statements

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Independent auditors' report

The Shareholders
National Marine Dredging Company
(Public Shareholding Company)
Abu Dhabi
UAE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Marine Dredging Company (Public Shareholding Company) ("the Company") and its subsidiaries (collectively referred to as "the Group"). These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, the relevant Articles of Association of the Company and the UAE Federal Law No. 8 of 1984 (as amended) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company and the Group; a physical count of inventories was carried out by the management in accordance with established principles; and the contents of the Directors' report and the Chairman's statement which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG
Munther Dajani
Registration No.268
31 MAR 2013

National Marine Dredging Company (Public Shareholding Company)

Consolidated statement of comprehensive income for the year ended 31 December

	<i>Note</i>	2012 AED'000	2011 AED'000
Contract revenue		3,107,297	2,671,904
Contract costs	6	<u>(2,683,389)</u>	<u>(2,127,097)</u>
Gross profit		423,908	544,807
Other income	7	23,400	9,862
Administrative expenses	8	(91,358)	(69,567)
Provision for impairment of receivables	28	-	(15,493)
Results from operating activities		355,950	469,609
Net finance (expense) / income	9	<u>(16,929)</u>	<u>1,986</u>
Profit for the year		339,021	471,595
Other comprehensive income			
Fair value income / (loss) on available-for-sale financial assets	15	<u>206</u>	<u>(299)</u>
Total comprehensive income for the year		<u>339,227</u>	<u>471,296</u>
Earnings per share			
Basic and diluted earnings per share (AED)	10	<u>1.49</u>	<u>2.17</u>

The notes set out on pages 7 to 38 form an integral part of these consolidated financial statements.


The independent auditors' report is set out on pages 1 and 2.

National Marine Dredging Company (Public Shareholding Company)

Consolidated statement of financial position as at 31 December


	Note	2012 AED'000	2011 AED'000
Non-current assets			
Property, plant and equipment	11	1,333,912	1,141,774
Goodwill and other intangible assets	12	54,581	-
Total non-current assets		1,388,493	1,141,774
Current assets			
Inventories	13	252,285	221,249
Trade and other receivables	14	2,937,333	2,474,719
Available-for-sale financial assets	15	8,380	8,174
Financial assets at fair value through profit or loss	16	24,399	20,389
Cash and cash equivalents	17	264,099	83,516
Total current assets		3,486,496	2,808,047
Current liabilities			
Advances from customers	18	216,363	215,402
Finance lease (current portion)	23(b)	26,097	-
Trade and other payables	19	918,623	783,790
Provision for employees' end of service benefits	20	82,756	79,682
Dividends payable	21	40,954	22,819
Loans and borrowings (current portion)	23(a)	350,000	-
Total current liabilities		1,634,793	1,101,693
Net current assets		1,851,703	1,706,354
Non-current liabilities			
Loans and borrowings (non-current portion)	23(a)	108,000	-
Finance lease (non-current portion)	23(b)	58,765	-
Total non-current liabilities		166,765	-
Net assets		3,073,431	2,848,128
Represented by:			
Share capital	24	227,849	227,849
Share premium	25	190,205	190,205
Reserves	26	734,998	734,792
Proposed dividend	27	113,924	113,924
Retained earnings		1,806,455	1,581,358
Total equity		3,073,431	2,848,128

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 MAR 2013 and signed on their behalf by:


Mohamed Thani Murshed
Al Rumaithi
Chairman


Yasser Nasr Zaghloul
Chief Executive Officer




Gautam V. Pradhan
Chief Financial Officer

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The independent auditors' report is set out on pages 1 and 2.

National Marine Dredging Company

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

	Share capital AED'000 (note 24)	Share premium AED'000 (note 25)	Reserves AED'000 (note 26)	Proposed dividend AED'000 (note 27)	Retained earnings AED'000	Total AED'000
At 1 January 2011	216,773	114,558	726,341	108,386	1,229,225	2,395,283
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	471,595	471,595
Transfer to legal reserve	-	-	5,538	-	(5,538)	-
Other comprehensive income						
Change in fair value of available -for-sale financial assets	-	-	(299)	-	-	(299)
Effective portion of changes in fair value of cash flow hedge	-	-	3,212	-	-	3,212
Total comprehensive income for the year	-	-	8,451	-	466,057	474,508
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of shares	11,076	75,647	-	-	-	86,723
Dividends	-	-	-	(108,386)	-	(108,386)
Proposed dividend for 2011	-	-	-	113,924	(113,924)	-
At 31 December 2011	227,849	190,205	734,792	113,924	1,581,358	2,848,128
At 1 January 2012	227,849	190,205	734,792	113,924	1,581,358	2,848,128
Total comprehensive income for the year						
Profit for the year	-	-	-	-	339,021	339,021
Other comprehensive						
Change in fair value of available -for-sale financial assets	-	-	206	-	-	206
Total comprehensive income for the year	-	-	206	-	339,021	339,227
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends	-	-	-	(113,924)	-	(113,924)
Proposed dividend for 2012	-	-	-	113,924	(113,924)	-
At 31 December 2012	227,849	190,205	734,998	113,924	1,806,455	3,073,431

The notes set out on pages 7 to 38 form an integral part of these consolidated financial statements.

National Marine Dredging Company

(Public Shareholding Company)

Consolidated statement of cash flows for the year ended 31 December

	Note	2012 AED'000	2011 AED'000
Cash flows from operating activities:			
Profit for the year		339,021	471,595
<i>Adjustments for:</i>			
Depreciation	11	245,353	219,191
Amortization of intangibles		1,008	
Interest expense / (income) - net	9	21,540	(4,120)
Gain on disposal of property, plant and equipment	7	(2,265)	(8,171)
Fair value loss on financial assets at fair value through profit or loss	9	(4,010)	2,445
Dividend income	9	(601)	(311)
Provision for employees' end of service benefits	20	12,796	11,099
		<u>612,842</u>	<u>691,728</u>
Employees' end of service benefits paid	20	(11,561)	(7,277)
		<u>601,281</u>	<u>684,451</u>
Change in inventories	13	(31,036)	(18,943)
Change in trade and other receivables	14	(462,614)	(1,021,336)
Change in advance from customers	18	960	(49,986)
Change in trade and other payables	19	119,004	251,202
		<u>227,595</u>	<u>(154,612)</u>
Net cash from / (used in) operating activities			
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(299,071)	(330,141)
Proceeds from disposal of property, plant and equipment		6,777	10,888
Cash paid for the acquisition of subsidiary - net	30	(88,875)	-
Dividend received	9	601	311
		<u>(380,568)</u>	<u>(318,942)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of share capital		-	86,723
Dividend paid	21	(95,789)	(107,660)
Proceeds from loan		458,000	-
Term loan repaid		(7,217)	-
Interest (paid) / received – net	9	(21,438)	4,120
		<u>333,556</u>	<u>(16,817)</u>
Net cash from / (used in) financing activities			
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 January	17	83,516	573,887
		<u>264,099</u>	<u>83,516</u>
Cash and cash equivalents at 31 December			

The notes set out on pages 7 to 38 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 and 2.

National Marine Dredging Company

(Public Shareholding Company)

Notes to the consolidated financial statements

1 Legal status and principal activities

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

The Company is primarily engaged in the execution of dredging contracts and associated land reclamation works in the territorial waters of the United Arab Emirates (“UAE”), principally under the directives of the Government of Abu Dhabi (“the Government”), a major shareholder.

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 include the financial performance and position of the Company and its below mentioned subsidiaries (collectively referred to as “the Group”).

Subsidiary	Country of incorporation and operation	Share of equity %		Principal activity
		2012	2011	
Emarat Europe Fast Building Technology System Factory L.L.C (Emarat Europe)	UAE	100	-	Manufacturing and supply of precast concrete
National Marine Dredging Company (Industrial)	UAE	100	-	Manufacturing of steel pipes and steel pipe fittings; holding of investments in the Group’s subsidiaries
ADEC Engineering Consultancy L.L.C	UAE	100	-	Consultancy services in the field of civil, architectural, drilling and marine engineering along with related laboratory services; holding of investments in the Group’s subsidiaries

For more information on the acquisition / formation of subsidiaries, refer to note 30.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and comply where appropriate, with the Articles of Association of the Company and the requirements of the UAE Federal Law No. 8 of 1984 (as amended).

National Marine Dredging Company

(Public Shareholding Company)

Notes to the consolidated financial statements

2 Basis of preparation *(continued)*

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments that are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in UAE Dirhams (“AED”), which is the Group’s functional and reporting currency. All financial information presented in AED is rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are discussed in note 31.

3 Significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Adjustments are made to the figures reported by subsidiaries, when necessary, to align them with the policies adopted by the Group.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset *(see note 3(h(i))* depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

National Marine Dredging Company

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Notes to the consolidated financial statements

3 Significant accounting policies (*continued*)

(b) *Contract revenue*

Contract revenue comprises revenue from execution of contracts relating to dredging activities and associated land reclamation works in the UAE. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, and incentive payments, to the extent that it is probable that they will result in revenue, they can be measured reliably and will be approved by the customers. Claims not agreed with customers are not recognised until such time as they have been accepted.

As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Based on the method that most reliably measures the actual work performed on each contract, the stage of completion is determined either on the basis of surveys of work performed or in the proportion of the contract costs incurred for work performed to date as compared to the estimated total contract costs.

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

Losses on contracts are assessed on an individual contract basis and a provision is recorded for the full amount of any anticipated losses, including losses relating to future work on a contract, in the period in which the loss is first foreseen.

(c) *Foreign currencies*

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

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

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

(d) *Finance income and expenses*

Finance income

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

National Marine Dredging Company

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Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(d) Finance income and expenses (continued)

Finance expenses

Finance costs comprise interest expense on borrowings and changes in fair value of financial assets at fair value through profit or loss.

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

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(e) Property, plant and equipment

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, capitalized borrowing costs and when the Group has obligation to remove the asset, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Any Gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of that item and is recognised net within "other income" in profit or loss.

Subsequent costs

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

Depreciation

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

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3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

Depreciation (continued)

	Years
Building and base facilities	25
Dredgers	4 - 20
Support vessels, boosters and pipelines	1 - 10
Plant, machinery and motor vehicles	2 - 15
Office equipment and furniture	3 - 5

Depreciation methods, useful lives and residual values, are reviewed at each reporting date and adjusted if appropriate. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Capital work in progress

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

(f) Goodwill and other intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

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Notes to the consolidated financial statements

3 Significant accounting policies (*continued*)

(g) *Inventories*

Inventories comprise stores and consumable spares and are measured at the lower of cost and net realisable value. The costs of inventories are based on the weighted average method, and include expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

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

(h) *Financial instruments*

Non-derivative financial instruments comprise trade and other receivables, available for sale financial assets, financial assets at fair value through profit or loss, cash and cash equivalents, loans and borrowings, trade and other payables, employees' end of service benefits and dividend payable.

a) *Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are categorised as financial assets at fair value through profit or loss, loans and receivables and available for sale.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred.

Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes in to account any dividend income, are recognised in profit or loss. Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

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Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(h) Financial instruments (continued)

a) Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Unbilled receivables

Unbilled receivables, included in trade and other receivables, represent amounts relating to work performed which is yet to be billed to customers. Unbilled receivables are measured by applying the contracted or minimum recoverable rates expected, to the actual quantities dredged or the related works performed.

Cash and cash equivalents

Cash and cash equivalents comprise balance in hand and at banks in current and deposit accounts with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available for sale financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

b) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. Other financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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Notes to the consolidated financial statements

3 Significant accounting policies *(continued)*

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after the initial recognition of the asset, and that loss had a negative effect on the estimated future cash flows of that asset.

Financial assets measured at amortised cost

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, excluding inventory, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

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Notes to the consolidated financial statements

3 Significant accounting policies *(continued)*

(i) Impairment *(continued)*

Non-financial assets (continued)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Provision for staff terminal benefits

Provision for staff terminal benefits is made in accordance to the UAE Federal Labour Law and is determined as the liability that would arise if the employment of all staff were to be terminated at the reporting date.

Pension contributions are made in respect of UAE national employees made in accordance with the Abu Dhabi Retirement Pension and Benefit Fund (Law No. 2 of 2000). Such contributions are charged to the profit or loss during the employees' period of service.

(k) Lease

Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

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Notes to the consolidated financial statements

3 Significant accounting policies (*continued*)

(k) *Lease (continued)*

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the assets.

(l) *Dividend expense*

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

(m) *Provisions*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) *New standards and interpretations not adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

i) *IFRS 9 Financial Instruments*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Company is currently assessing the impact on early adoption.

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Notes to the consolidated financial statements

3 Significant accounting policies *(continued)*

(n) New standards and interpretations not adopted (continued)

ii) IFRS 10 Consolidated financial statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for the investees (see Note 3(a)). This standard becomes effective for annual periods beginning on or after 1 January 2013.

iii) IFRS 12 Disclosure of interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interest in joint arrangement and associates in comparison with the exiting disclosures. IFRS 12 requires the disclosure of information about the nature, risk and financial effect of these interests. This standard becomes effective for annual periods beginning on or after 1 January 2013.

iv) IFRS 13 Fair Value Measurements

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. The standard becomes effective for annual periods beginning on or after 1 January 2013.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods disclosed in note 28.

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

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5 Financial risk management (continued)

Overview (continued)

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. During 2012, approximately 82% (2011: 90%) of the Group's revenue was attributable to sales transactions with Government of Abu Dhabi, a major shareholder of the Company (refer note 22). The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is specific loss component that relates to individually significant exposures.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Cash and cash equivalents

The Group held cash and cash equivalents of AED 263,225 thousand at 31 December 2012 (2011: AED 83,366 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the reputable banks.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Currency risk is limited as the Group's transactions are principally denominated in AED and USD. The stability of the rate of exchange of the AED to the US Dollar has been maintained since November 1980.

Interest rate risk

Interest rate risk is the risk that arises from timing difference in the maturity and re-pricing of Group's interest bearing assets and liabilities. The Group's interest rate risk arises primarily from borrowings, bank overdrafts and deposits held as security by the bank. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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5 Financial risk management (continued)

(iii) Market risk (continued)

Other market price risk

Equity price risk arises from available for sale equity securities. Management of the Group monitors the equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

(iv) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders. Other than certain requirements of the UAE Federal Law No. 8 of 1984, (as amended), which the Company is compliant with, the Company is not subject to externally imposed capital requirements.

6 Contract costs

	2012 AED'000	2011 AED'000
Cost of operation of dredgers, support craft and boosters	430,108	384,404
Direct project costs	2,111,475	1,559,850
Cost of floating and reclamation areas	94,118	153,089
Cost of consumable stores	6,482	3,689
Other direct operating costs	41,206	26,065
	<u>2,683,389</u>	<u>2,127,097</u>

7 Other income

	2012 AED'000	2011 AED'000
Gain on disposal of property, plant and equipment	2,265	8,171
Foreign exchange gain	5,587	-
Insurance claim	11,209	-
Miscellaneous income	4,339	1,691
	<u>23,400</u>	<u>9,862</u>

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Notes to the consolidated financial statements

8 Administrative expenses

	2012 AED'000	2011 AED'000
Staff costs	72,716	52,206
Depreciation	1,955	1,800
Others	16,687	15,561
	<u>91,358</u>	<u>69,567</u>

9 Net finance (expense) / income

	2012 AED'000	2011 AED'000
Change in fair value loss on financial assets at fair value through profit or loss (note 16)	4,010	(2,445)
Interest (expense) / income	(21,540)	4,120
Dividend income	601	311
	<u>(16,929)</u>	<u>1,986</u>

10 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding at 31 December 2012 was 227,848,502 shares (2011: 217,045,854) (also refer to note 24). There are no potentially dilutive instruments therefore the basic and diluted earnings per share are the same.

11 Property, plant and equipment

Details of property, plant and equipment are set out in Schedule I on page 38. Depreciation charge amounting to AED 243,398 thousand is allocated to contract costs (2011: AED 217,391 thousand) and AED 1,955 thousand is allocated to administrative expenses (2011: AED 1,800 thousand) (refer note 8).

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Notes to the consolidated financial statements

12 Goodwill and other intangible assets

	Goodwill	Other	Total
	AED'000	intangible	AED'000
		assets*	
		AED'000	AED'000
Cost			
At 1 January 2012	-	-	-
Acquisition(refer note 30)	36,276	19,313	55,589
	<u>36,276</u>	<u>19,313</u>	<u>55,589</u>
At 31 December 2012	36,276	19,313	55,589
Amortisation and impairment			
At 1 January 2012	-	-	-
Amortisation	-	1,008	1,008
	<u>36,276</u>	<u>18,305</u>	<u>54,581</u>
At 31 December 2012	36,276	18,305	54,581
	<u><u>36,276</u></u>	<u><u>18,305</u></u>	<u><u>54,581</u></u>
Carrying amounts at 31 December 2012	36,276	18,305	54,581

*Other intangible assets include fair value of operating lease rights amounting to AED 19,101 thousand and customers' order backlog amounting to AED 212 thousand. During the year amortization of AED 1,008 thousand is charged to contract cost in profit or loss, on these assets (refer note 30).

Impairment testing for cash generating units containing goodwill

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

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

	2012
	%
Discount rate	14%
Terminal value growth rate	2%
Budgeted EBITDA growth rate	3% to 8%

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

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Notes to the consolidated financial statements

13 Inventories

	2012 AED'000	2011 AED'000
Spare parts and consumable stores	271,221	240,933
Raw material	1,686	-
Finished goods	3,253	-
Less: Provision for slow moving and obsolete inventories	(23,875)	(22,974)
	<u>252,285</u>	<u>217,959</u>
Goods in transit	-	3,290
	<u>252,285</u>	<u>221,249</u>

14 Trade and other receivables

	2012 AED'000	2011 AED'000
Trade receivables	430,031	803,995
Less: provision for impairment	(37,341)	(46,817)
	<u>392,690</u>	<u>757,178</u>
Unbilled receivables (net of provisions)	2,300,735	1,560,171
Deposits and prepayments	50,361	57,847
Other receivables	193,547	99,523
	<u>2,937,333</u>	<u>2,474,719</u>

66% (2011: 83%) of the net trade receivables balance above, amounting to AED 282,020 thousand (2011: AED 671,064 thousand) is receivable from the Government of Abu Dhabi, its departments and other related parties (refer to note 22).

Unbilled receivables include AED 742,632 thousand (2011: AED 476,655 thousand), out of which AED 223,818 thousand has been recognised as revenue during the year (2011: AED 241,523 thousand), receivable from Government of Abu Dhabi and its departments wherein contract agreements are currently being finalised. However, based on the status of discussion with the parties, management has assessed that these recorded amounts are fully recoverable.

At 31 December 2012, aggregate costs incurred under open contracts and recognised profits, net of recognised losses, amounted to AED 7,358,738 thousand (2011: AED 6,620,272 thousand).

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Notes to the consolidated financial statements

15 Available for sale financial assets

	2012 AED'000	2011 AED'000
At 1 January	8,174	8,473
Change in fair value (note 26)	206	(299)
At 31 December	8,380	8,174

Available for sale financial assets comprise equity instruments listed in securities markets in the UAE. Such instruments are denominated in AED.

16 Financial assets at fair value through profit or loss

	2012 AED'000	2011 AED'000
At 1 January	20,389	22,834
Change in fair value (note 9)	4,010	(2,445)
At 31 December	24,399	20,389

Financial assets at fair value through profit or loss comprise equity instruments listed on securities markets in the UAE. Such instruments are denominated in AED.

17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2012 AED'000	2011 AED'000
Cash in hand	874	150
Cash at banks		
- Current accounts	262,544	83,366
- Short term deposits*	681	-
	264,099	83,516

*Deposit accounts have an original maturity of less than 3 months and earn interest at prevailing market rates.

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Notes to the consolidated financial statements

18 Advances from customers

Advances from customers represent advances received in respect of dredging contracts from following projects:

	2012 AED'000	2011 AED'000
Zakum project	198,740	181,107
Gasco	14,657	32,115
Al Garnayn Island	2,180	2,180
Yas Island	786	-
	<u>216,363</u>	<u>215,402</u>

19 Trade and other payables

	2012 AED'000	2011 AED'000
Trade payables	482,709	320,437
Accrued liabilities	391,777	423,163
Retentions payable	37,510	37,314
Other payables	6,627	2,876
	<u>918,623</u>	<u>783,790</u>

20 Provision for employees' end of service benefits

Movements in the provision are set out below:

	2012 AED'000	2011 AED'000
At 1 January	79,682	75,860
Acquired from subsidiary (refer note 30)	1,839	-
Charge for the year	12,796	11,099
Payments during the year	(11,561)	(7,277)
At 31 December	<u>82,756</u>	<u>79,682</u>

21 Dividends payable

Dividends payable represent amounts not claimed by shareholders for previous years.

	2012 AED'000	2011 AED'000
At 1 January	22,819	22,093
Additions during the year (note 27)	113,924	108,386
Payments during the year	(95,789)	(107,660)
At 31 December	<u>40,954</u>	<u>22,819</u>

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22 Related party transactions and balances

Identity of related parties

Related parties comprise the Government of Abu Dhabi, Directors, key management personnel and those enterprises over which the Government of Abu Dhabi, Directors, the Group or its affiliates can exercise significant influence or which can exercise significant influence over the Group. In the ordinary course of business the Group provides services to, and receives services from, such enterprises on terms agreed by management. The balances receivable from such parties are disclosed in note 14.

Transactions with key management personnel

Compensation of key management personnel is as follows:

	2012 AED'000	2011 AED'000
Salaries and other short-term employee benefits	7,618	6,889
Employees' end of service benefits	396	348
	<u>8,014</u>	<u>7,237</u>

Director's fee and employee bonus

For the year ended 31 December 2012, an amount of AED 40,000 thousand (2011: AED 40,000 thousand) has been recommended by the Board of Directors at a meeting held on 24 February 2013.

Other related party transactions

The Abu Dhabi Municipality ("the Municipality") had granted the Company the right to use the land at the Company's base facilities in Musaffah free of charge. Subsequently, with effect from the year 2005 the Municipality charges an amount of AED 240 thousand per annum for the use of this land.

The Group's revenue includes an amount of AED 2,546,784 thousand (2011: AED 2,416,210 thousand) earned from the Government of Abu Dhabi and its departments (refer to note 14).

23(a) Loans and borrowings

	31 December 2012 AED'000	31 December 2011 AED'000
Revolving Mudaraba facility ¹	350,000	-
Commodity Murabaha ²	108,000	-
	<u>458,000</u>	<u>-</u>

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Notes to the consolidated financial statements

23(a) Loans and borrowings (continued)

	31 December 2012 AED'000	31 December 2011 AED'000
Current portion	350,000	-
Non-current portion	108,000	-
	458,000	-

¹Revolving Mudaraba Facilities:

Facility 1

In April 2012, the Company obtained a Mudaraba facility from a commercial bank amounting to AED 350 million to finance the working capital requirements for projects executed by the Company. As per the facility agreement the Company was entitled to draw down the amount against invoices raised on certain projects and the bank was entitled to a profit of 3 months EIBOR + margin. The amount was repayable on realization of the invoices against which facility is obtained or two years from the date of first draw down of the underlying tranche. The facility was secured against the assignment of proceeds from projects financed under the facility, in the favour of bank. In November, 2012 the Company settled the facility in full and replaced this facility with another Mudaraba facility with another commercial bank.

Facility 2

The Company obtained a revolving Mudaraba facility amounting to AED 350 million to replace facility 1. As per the facility agreement the bank is entitled to a profit of 1 month EIBOR + margin. The facility is settled and rolled over on a monthly basis. The facility is secured against the irrevocable and unconditional assignment of project receipts in favour of the bank.

²Commodity Murabaha

In April 2012, to facilitate the purchase of shareholding in Emarat Europe Fast Building Technology Factory LLC (*refer note 30*), the Company obtained a commodity murabaha facility from a bank amounting to AED 108 million for a period of three years. The bank is entitled to a profit equal to 3 months EIBOR + margin. The principal amount is to be repaid in four quarterly instalments commencing from two years of the draw down. The first three instalments of AED 6.75 million each are payable quarterly, commencing 2 years from the draw down date. The Company has an option to repay the remaining amount of AED 81 million in one tranche as the fourth instalment, or to enter into a new murabaha agreement for AED 81 million. The facility is secured against a corporate guarantee from Emarat Europe Fast Building Technology Factory LLC covering the facility amount of AED 108 million.

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23(b) Finance lease

During the year the Company acquired rock transport barges and tug boats on finance lease from the supplier. Finance lease liabilities are payable as follows:

	Future minimum lease payments AED'000	Interest AED'000	Present value of minimum lease payments AED'000
Less than one year	31,094	4,095	26,097
Between one and five years	61,396	3,533	58,765
	<u>92,490</u>	<u>7,628</u>	<u>84,862</u>

24 Share capital

	2012 AED'000	2011 AED'000
Authorised, issued and fully paid: 227,848,502 (2011:227,848,502) ordinary shares of AED 1 each (refer note 25)	<u>227,849</u>	<u>227,849</u>

25 Share premium

On 4 February 2010, the Company and Tasameem Real Estate LLC ("Tasameem") entered into an agreement according to which the Company was to issue 50,000,000 convertible bonds to Tasameem to be converted into equity shares of the Company at AED 7.83 per share over a period of four years. The issue and the conversion of these bonds was to take place as per the schedule stated in the agreement and set out below.

In accordance with the above, the Company issued 16,773 and 11,076 thousand convertible bonds to Tasameem in 2010 and 2011, respectively, for a total consideration of AED 218,054 thousand. These bonds were converted to 27,849 thousand equity shares of the Company at the face value of AED 1 per share resulting in an increase in the Company's share capital by AED 16,773 thousand in 2010 and AED 11,076 thousand in 2011. The excess of the consideration over the face value of the equity shares issued, as set out below, has been recorded as share premium:

	AED'000
Par value of shares issued	27,849
Share premium	190,205
	<u>218,054</u>

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25 Share premium (continued)

The table set out below represents schedule for the issue of the bonds and the conversion thereof into equity shares:

Issue No.	Issue Date as Per Agreement	Conversion Date	Issue Value AED	Number of shares to be issued	Settlement method
1	2 February 2010	15 March 2010	131,330,664	16,772,753	Transfer of property, plant and equipment
2	30 January 2011	15 March 2011	86,723,112	11,075,749	Cash
3	30 January 2012*	15 March 2012	86,723,112	11,075,749	Cash
4	30 January 2013	15 March 2013	86,723,112	11,075,749	Cash

*Tasameem has defaulted on its obligation to pay the consideration for issue of bonds in 2012. Accordingly, no convertible bonds have been issued during the year.

26 Reserves

	Legal reserve AED'000	Asset replacement reserve AED'000	Regulatory reserve AED'000	Effective portion of change in fair value of cash flow hedges AED'000	Unrealised gain on available for sale financial assets AED'00	Total AED'000
At 1 January 2011	108,386	595,000	20,000	(3,212)	6,167	726,341
Transfer to legal reserve	5,538	-	-	-	-	5,538
Effective portion of change in fair value of cash flow hedge	-	-	-	3,212	-	3,212
Change in fair value of available for sale financial assets (refer note 14)	-	-	-	-	(299)	(299)
At 31 December 2011	113,924	595,000	20,000	-	5,868	734,792
At 1 January 2012	113,924	595,000	20,000	-	5,868	734,792
Change in fair value of available for sale financial assets (refer note 14)	-	-	-	-	206	206
At 31 December 2012	113,924	595,000	20,000	-	6,074	734,998

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26 Reserves (continued)

Legal reserve

In accordance with Article 255 of the UAE Federal Law No.8 of 1984 (as amended), 10% of the annual profit of the Company is transferred to a non-distributable legal reserve. Transfers to this reserve are required to be made until such time as it equals 50% of the paid up share capital of the Company.

Asset replacement reserve

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

Regulatory reserve

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

27 Proposed dividend

The Board of Directors at a meeting held on 24 February 2013, recommended a final dividend per share of AED 0.50 amounting to AED 113,924 thousand for the year ended 31 December 2012 (2011: AED 0.50 amounting to AED 113,924 thousand) for the Company's shareholders. At the Annual General Meeting held on 20 March 2012, the shareholders approved dividend of AED 0.5 per share amounting to AED 113,924 thousand to all the shareholders whose name is included in the register of members as on 20 March 2012.

28 Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount	
		2012	2011
		AED'000	AED'000
Trade and other receivables	14	2,886,972	2,416,872
Cash and cash equivalents	17	263,225	83,366
		<u> </u>	<u> </u>

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Notes to the consolidated financial statements

28 Financial instruments

(a) Credit risk (continued)

Receivables ageing

	Gross 2012 AED'000	Impairment 2012 AED'000	Gross 2011 AED'000	Impairment 2011 AED'000
Not past due	166,107	-	658,060	-
Past due 0-90 days	188,252	-	19,798	-
Past due 91-180 days	10,179	-	6,560	-
Past due 181-360 days	16,275	-	42,805	-
More than 1 year	49,218	37,341	76,772	46,817
Total	430,031	37,341	803,995	46,817

Based on historical default rates, the Group believes that no impairment provision is necessary in respect of trade receivables past due for more than 1 year but not provided, as the amounts are owed by the Government of Abu Dhabi or other customers that have a good payment record with the Group.

The movement in the provision for impairment in respect of amounts due from customers during current year was as follows:

	2012 AED	2011 AED
At 1 January	46,817	32,060
Provision for impairment	-	15,493
Reversals of provision during the year	(9,476)	(736)
At 31 December	37,341	46,817

(b) Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments:

31 December 2012

	Note	Carrying value AED'000	Contractual cash flows AED'000	1year year or less AED'000	More than 1 year AED'000
Non-derivative financial liabilities					
Trade and other payables	19	526,846	526,846	526,846	-
Provision for employees' end of service benefits	20	82,756	82,756	82,756	-
Loans and borrowings	23	542,862	550,490	381,094	169,396
		1,152,464	1,160,092	990,696	169,396

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28 Financial instruments

(b) *Liquidity risk (continued)*

31 December 2011

	<i>Note</i>	Carrying value AED'000	Contractual cash flows AED'000	1 year or less AED'000
Non-derivative financial liabilities				
Trade and other payables	19	360,627	360,627	360,627
Provision for employees' end of service benefits	20	79,682	79,682	79,682
		<u>440,309</u>	<u>440,309</u>	<u>440,309</u>

(c) *Market risk*

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	<i>Note</i>	2012 AED'000	2011 AED'000
Financial liabilities	23	<u>408,000</u>	<u>-</u>

At 31 December 2012, if interest rates on borrowings had been 100 basis points higher with all other variables held constant, borrowing costs for the year would have been AED 4,580 million higher, mainly as a result of higher interest expense (2011: Nil).

The Group pays interest on financial liabilities at the prevailing market rates.

Other market price risk

Investments of the Group comprise equity instruments listed on securities markets in the UAE. Certain of these equity instruments are classified as financial assets at fair value through profit or loss or are designated as such upon initial recognition. The other investments are classified as available for sale investments. The following table demonstrates the sensitivity of the Group's equity and profit or loss to a 5% increase in the price of its equity holdings, assuming all other variables remain constant:

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28 Financial instruments (continued)

(c) *Market risk (continued)*

Other market price risk (continued)

	Effect on profit or loss AED'000	Effect on equity AED'000
31 December 2012		
Effect of change in fair value of available for sale financial assets	-	419
Effect of change in fair value of financial assets at fair value through profit or loss	<u>1,220</u>	<u>-</u>
31 December 2011		
Effect of change in fair value of available for sale financial assets	-	409
Effect of change in fair value of financial assets at fair value through profit or loss	<u>1,019</u>	<u>-</u>

A 5% decrease in the price of Group's equity holding at reporting date would have had equal but opposite effect assuming all other variables remain constant.

(d) *Fair value hierarchy*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	2012 AED'000 Total
Available for sale financial assets	8,380	-	-	8,380
Financial assets at fair value through profit or loss	<u>24,399</u>	<u>-</u>	<u>-</u>	<u>24,399</u>
	<u>32,779</u>	<u>-</u>	<u>-</u>	<u>32,779</u>

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28 Financial instruments (continued)

(d) Fair value hierarchy (Continued)

	Level 1	Level 2	Level 3	2011 AED'000 Total
Available for sale financial assets	8,174	-	-	8,174
Financial assets at fair value through profit or loss	20,389	-	-	20,389
	<u>28,563</u>	<u>-</u>	<u>-</u>	<u>28,563</u>

(e) Accounting classification and fair values of financial assets and liabilities

Due to short term nature of the Group's financial assets and financial liabilities, the fair values of the Group's financial instruments are not materially different from their carrying amounts.

29 Contingencies and commitments

	2012 AED'000	2011 AED'000
Guarantees	<u>1,209,268</u>	<u>800,500</u>
Letters of credit	<u>3,023</u>	<u>17,863</u>

30 Acquisition / formation of subsidiaries

(a) Acquisition of a subsidiary

In January 2012, the Group completed the acquisition of Emarat Europe Fast Building Technology Factory LLC ("Emarat Europe") by acquiring a 100% of Emarat Europe's shares and voting rights from Investment Holding Establishment and Sehab Al Sayed Ahmed Al Sayed Al Hashmi (collectively referred to as "the Seller"), on a debt and cash free basis, for a consideration of AED 120,000 thousand.

Emarat Europe, a limited liability company registered in the Emirate of Abu Dhabi, is primarily engaged in the manufacturing and erection of pre-stressed and pre-cast concrete products such as hollow core slabs, panels, columns, stairs and other concrete products.

The acquisition of Emarat Europe will enable the Company to take advantage of growth opportunities in local market and in the region and to improve its delivery of turnkey civil marine projects.

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Notes to the consolidated financial statements

30 Acquisition / formation of subsidiaries (continued)

(a) Acquisition of a subsidiary (continued)

The fair value of identifiable assets acquired, as set out below, has been determined based on an independent valuation.

	AED'000
Property, plant and equipment	58,071
Intangible assets*	19,313
Inventories	6,340
	<u>83,724</u>

*Intangible assets include fair value of operating lease rights amounting to AED 19,101 thousand and customers' order backlog amounting to AED 212 thousand. During the year amortization of AED 1,008 thousand has been recognised in profit or loss on these assets (refer note 3).

Goodwill has been recognised as follows:

	AED'000
Purchase price	120,000
Fair value of assets acquired (refer above)	(83,724)
	<u>36,276</u>

The goodwill is attributable mainly to the skills and the technical talent of the acquiree's work force and synergies expected to be achieved from integrating Emarat Europe in the Group's existing business.

As per the sales and purchase agreement ("SPA") the seller is obligated to settle all the liabilities and is entitled to take certain assets as at 31 December 2011, as set out below. However, since the seller had not yet settled the said liabilities and taken over the assets up to the date of approval of these consolidated financial statements, the purchase price has been adjusted as set out below:

	AED'000
Cash and bank	1,125
Trade and other receivables	28,888
Term loan	(10,007)
Due to a related party	(2,122)
Trade and other payables	(29,113)
Bank overdraft	(2,560)
End of service benefits obligation	(1,839)
	<u>(15,628)</u>
Net liabilities	(15,628)
Purchase consideration	120,000
	<u>104,372</u>
Adjusted purchase price	104,372
Payments made	(90,000)
	<u>14,372</u>
Net amount payable to seller (refer note 19)	<u>14,372</u>

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Notes to the consolidated financial statements

30 Acquisition / formation of subsidiaries *(continued)*

(b) Formation of subsidiaries

National Marine Dredging Company (Industrial) is an Establishment registered in the Emirate of Abu Dhabi. National Marine Dredging Company (Industrial) is established with the object of manufacturing of steel pipes and steel pipe fittings and for holding 1% investment in the Group's subsidiaries, to comply with the local regulations.

ADEC Engineering Consultancy L.L.C is a limited liability company registered in the Emirate of Abu Dhabi. ADEC Engineering Consultancy L.L.C is formed for the purpose of holding Group's investments in future.

31 Accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts of assets and liabilities recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that management believe to be reasonable under the circumstances.

(a) Contract revenue

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

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

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

Furthermore, revenue on certain projects (those for which signed contracts are not in place) is recognised by applying minimum recoverable rates expected to the actual quantities dredged or the related works performed. These rates are derived based on the management's best estimates of the amounts expected to be recovered upon final customer approval.

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

(b) Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on an annual basis. The Group's credit risk is primarily attributable to its trade receivables. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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Notes to the consolidated financial statements

31 Accounting estimates and judgements (*continued*)

(c) *Unbilled receivables*

As described in note 3(i), unbilled receivables represent amounts relating to work performed which is yet to be billed to customers. Unbilled receivables are measured by applying the minimum recoverable rates expected, to the actual quantities dredged or the related works performed. Management believes that all unbilled receivables are collectible within twelve months from the reporting date and accordingly the balance is classified under current assets. Significant judgements are involved in management's assessment of the amounts of revenue and unbilled receivables recognised and the recoverability of these amounts. These judgements may need to be revisited as events occur and accordingly any changes thereon will have a significant impact on the amount of revenue recognized and unbilled receivables in these consolidated financial statements. The Group receives lump sum payments from certain clients in settlement of outstanding invoices and as advance for several ongoing projects. The allocation of proceeds against invoices and unbilled receivables is determined based on management's judgement.

(d) *Depreciation on property, plant and equipment*

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

The Group specifically tests annually whether the useful life of dredgers is reasonable. The revision is based on the technical assessment carried by the Group's engineers.

(e) *Impairment in respect of available for sale financial assets*

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. In assessing whether the decrease in the fair value of available for sale financial assets require impairment losses to be recorded in profit or loss, the Group makes judgement as to whether the decline in fair value is significant or prolonged. The Group estimates, that generally under normal conditions, any decline in fair value in excess of a threshold of 20 percent will be considered as significant.

(f) *Provision for slow moving and obsolete items*

The Group tests annually whether the provision for slow moving and obsolete inventories is adequate. If deemed necessary, the provision is revised based on an annual technical study carried out by the Group's engineers and approved by Management.

(g) *Impairment of goodwill*

The Company tests annually whether goodwill has suffered any impairment. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

(h) *Impairment of other intangible assets*

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

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32 Business and geographical segments

The majority of the Group's revenue is generated from marine dredging contracts and associated works carried out for the Government of Abu Dhabi.

All of the Group's projects are carried out in the territorial waters of the UAE.

33 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

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Notes to the consolidated financial statements

Schedule I

Property, plant and equipment

	Building and base facilities AED'000	Dredgers AED'000	Support vessels, boosters and pipelines AED'000	Plant, machinery and motor vehicles AED'000	Office equipment & furniture AED'000	Capital work in progress AED'000	Total AED'000
Cost							
At 1 January 2011	96,164	1,089,574	726,630	187,039	18,583	81,608	2,199,598
Additions	1,495	10,933	23,453	98,774	11,555	183,931	330,141
Transfers	925	13,414	60,640	963	281	(76,223)	-
Write-off/ disposals	-	(33)	(13,628)	(13,170)	(107)	-	(26,938)
At 31 December 2011	98,584	1,113,888	797,095	273,606	30,312	189,316	2,502,801
At 1 January 2012	98,584	1,113,888	797,095	273,606	30,312	189,316	2,502,801
Additions	12,583	16	84,928	157,370	7,861	121,175	383,933
Acquisition of subsidiary	35,585	-	-	21,943	543	-	58,071
Transfers	4,502	2,816	156,647	64,941	-	(228,907)	-
Write-off/ disposals	(945)	(7)	(8,812)	(5,974)	(74)	-	(15,812)
Exchange of assets	-	-	(8,880)	-	-	-	(8,880)
At 31 December 2012	150,309	1,116,713	1,020,978	511,886	38,642	81,584	2,920,112
Depreciation							
At 1 January 2011	32,573	620,477	414,290	86,632	12,085	-	1,166,057
Charge for the year	4,087	66,434	105,966	39,633	3,071	-	219,191
Write-off/ disposals	-	-	(12,350)	(11,762)	(109)	-	(24,221)
At 31 December 2011	36,660	686,911	507,906	114,503	15,047	-	1,361,027
At 1 January 2012	36,660	686,911	507,906	114,503	15,047	-	1,361,027
Charge for the year	9,703	64,525	93,095	74,048	3,982	-	245,353
Write-off/ disposals	(945)	(7)	(8,812)	(5,423)	(58)	-	(15,245)
Exchange of assets	-	-	(4,935)	-	-	-	(4,935)
At 31 December 2012	45,418	751,429	587,254	183,128	18,971	-	1,586,200
Carrying amounts							
At 31 December 2011	61,924	426,977	289,189	159,103	15,265	189,316	1,141,774
At 31 December 2012	104,891	364,284	433,724	328,758	19,671	81,584	1,333,912

During the year the Group leased barges and tugboats under finance lease agreements. At 31 December 2012, the net carrying amount of leased plant and equipment was AED 92,238 thousand (2011: Nil).