NATIONAL MARINE DREDGING COMPANY

Review report and interim financial information for the period ended 30 September 2015

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Deloitte.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
National Marine Dredging Company
Abu Dhabi, UAE

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of National Marine Dredging Company ("the Company") and its subsidiaries (together referred to as "the Group") as at 30 September 2015 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34, *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

Management has recognised revenue and unbilled receivables on projects wherein formal agreements have not been signed for significant periods of time. In addition, various projects with formal agreements have long outstanding receivables which are still unbilled. As at 30 September 2015, unbilled receivables relating to unsigned contracts and signed contracts, net of allowances, amounts subsequently invoiced or collected, and amounts recognised on claims under negotiation as described in the emphasis of matter paragraph below, amounted to AED 497,454 thousand and AED 263,929 thousand, respectively. These amounts relate to transactions with the Government of Abu Dhabi, its departments, or other related parties. While we have noted progress in the negotiations with the concerned customers, the absence of signed contracts and the significant delays in billing and collection casts doubts on the recoverability of these amounts.

Conclusion

Based on our review, except for the possible effects of the matters as described in the basis of qualified conclusion, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34, *"Interim Financial Reporting"*.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (continued)

Emphasis of matter

Without further qualifying our conclusion, as stated in note 7, unbilled receivables include an amount of AED 600,000 thousand recognised on the basis of claims submitted in prior periods. While the customer has acknowledged the claims, the amount of the claims is still under negotiation. The finalisation of such negotiations could have a significant impact on the amount of receivables recognised. Our conclusion is not qualified in respect of this matter.

Other matter

The comparative amounts in the condensed consolidated statement of financial position at 31 December 2014 and related explanatory information were audited by another auditor whose report dated 14 April 2015 expressed a qualified opinion thereon in relation with the matter described in the basis for qualified conclusion paragraph above. The prior period comparative amounts in the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows and related explanatory information for the nine-month period ended 30 September 2014, were reviewed by another auditor who issued a qualified conclusion dated 30 March 2015 in relation with the matters discussed above.

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Condensed consolidated statement of financial position as at 30 September 2015

	Notes	30 September 2015 AED '000 (unaudited)	31 December 2014 AED '000 (audited) (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,294,874**	1,295,453
Goodwill and intangible assets		**52,392**	52,989
Total non-current assets		**1,347,266**	1,348,442
Current assets			
Inventories	6	**232,315**	248,570
Trade and other receivables	7	**3,050,985**	3,163,265
Available-for-sale financial assets	8	**7,980**	7,992
Financial assets at fair value through profit or loss	9	**26,662**	26,817
Cash and bank balances	10	**366,093**	177,021
Total current assets		**3,684,035**	3,623,665
Total assets		**5,031,301**	4,972,107
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**250,000**	250,000
Share premium		**341,500**	341,500
Reserves		**745,597**	746,763
Retained earnings		**2,035,460**	2,016,607
Total equity		**3,372,557**	3,354,870
Non-current liabilities			
Provision for employees' end of service benefits		**80,050**	75,672
Bank borrowings	14	**3,375**	135,768
Total non-current liabilities		**83,425**	211,440
Current liabilities			
Trade and other payables	15	**915,777**	619,378
Bank overdrafts	10	**209,773**	-
Advances from customers	11	**343,213**	349,312
Dividends payable		**34,556**	31,992
Bank borrowings	14	**72,000**	405,115
Total current liabilities		**1,575,319**	1,405,797
Total liabilities		**1,658,744**	1,617,237
Total equity and liabilities		**5,031,301**	4,972,107

Mohammad Thani Murshid Al Rumaithi	**Yasser Nasr Zaghloul**	**Gautam V. Pradhan**
Chairman	Chief Executive Officer	Chief Financial Officer

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

Condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 September 2015

	Notes	9 months ended 30 September 2015 (unaudited) AED '000	9 months ended 30 September 2014 (unaudited) AED '000	3 months ended 30 September 2015 (unaudited) AED '000 (restated)	3 months ended 30 September 2014 (unaudited) AED '000
Contract revenue		**1,931,051**	1,167,301	**529,889**	473,810
Contract costs		**(1,675,477)**	(1,087,995)	**(412,810)**	(311,919)
Gross profit		**255,574**	79,306	**117,079**	161,891
Other income	17	**27,799**	34,405	**9,903**	17,666
Administrative expenses		**(83,920)**	(56,916)	**(17,954)**	(19,474)
Allowance for impairment of receivable		**(40,206)**	(36,532)	**(21,302)**	-
Provision for liquidated damages		**(30,000)**	-	**(30,000)**	-
Provision for future losses		**(20,913)**	-	**(20,913)**	-
Allowance for impairment of inventories		**(2,500)**	-	**(2,500)**	-
Provision for warranty		**(5,000)**	-	**(5,000)**	-
Net finance expenses	18	**(6,981)**	(19,593)	**(2,448)**	(4,452)
Profit for the period		**93,853**	670	**26,865**	155,631
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss:					
Fair value (loss)/gain on foreign currency hedge		**(1,293)**	-	**572**	-
Release/(fair value loss) on interest rate swap		**143**	(27)	**-**	821
Fair value (loss)/gain on available-for-sale financial assets (net)		**(12)**	85	**(328)**	184
Cumulative translation adjustment		**(4)**	(14)	**(72)**	(19)
Total comprehensive income for the period		**92,687**	714	**27,037**	156,617
Basic and diluted earnings per share (fils)		**0.38**	0.003	**0.11**	0.64

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

Condensed consolidated statement of changes in equity for the period ended 30 September 2015

	Share capital AED '000	Additional share capital AED '000	Share premium AED '000	Reserves AED '000	Proposed dividend AED '000	Retained earnings AED '000	Total AED '000
Balance at 1 January 2014 (audited)	227,849	173,446	190,205	735,696	75,000	1,938,213	3,340,409
Profit for the period	-	-	-	-	-	670	670
Other comprehensive income/(loss)							
Fair value gain on available-for-sale financial assets (net)	-	-	-	85	-	-	85
Fair value loss on interest rate swap	-	-	-	(27)	-	-	(27)
Cumulative translation adjustment	-	-	-	(14)	-	-	(14)
Total comprehensive income for the period	-	-	-	44	-	670	714
Additional share capital	22,151	(173,446)	151,295	-	-	-	-
Dividend payable	-	-	-	-	(75,000)	-	(75,000)
Balance at 30 September 2014 (unaudited)	**250,000**	-	**341,500**	**735,740**	-	**1,938,883**	**3,266,123**
Balance at 1 January 2015 (audited)	250,000	-	341,500	746,763	-	2,016,607	3,354,870
Profit for the period	-	-	-	-	-	93,853	93,853
Other comprehensive (loss)/income							
Fair value gains on available-for-sale financial assets (net)	-	-	-	(12)	-	-	(12)
Release on interest rate swap	-	-	-	143	-	-	143
Fair value loss on foreign currency exchange hedge	-	-	-	(1,293)	-	-	(1,293)
Cumulative translation adjustment	-	-	-	(4)	-	-	(4)
Total comprehensive income for the period	-	-	-	(1,166)	-	93,853	92,687
Dividends	-	-	-	-	-	(75,000)	(75,000)
Balance at 30 September 2015 (unaudited)	**250,000**	-	**341,500**	**745,597**	-	**2,035,460**	**3,372,557**

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

Condensed consolidated statement of cash flows for the period ended 30 September 2015

	Notes	9 months ended 30 September 2015 (unaudited) AED '000	2014 (unaudited) AED '000
Cash flows from operating activities			
Profit for the period		**93,853**	670
Adjustments for:			
Depreciation of property, plant and equipment	5	**134,957**	133,405
Impairment losses on property, plant and equipment	5	**6,823**	-
Amortisation of intangibles		**597**	596
Interest expense	14	**7,693**	14,792
Impairment losses on receivables	7	**34,239**	-
Allowance for inventory obsolescence	6	**2,500**	-
Provision for liquidated damages	15	**30,000**	-
Provision for future losses	15	**20,913**	-
Provision for warranty		**5,000**	-
Gain on disposal of property, plant and equipment	5	**(4,874)**	(5,882)
Fair value loss on financial assets at fair value through profit or loss	9	**155**	6,055
Dividend income		**(867)**	(1,254)
Provision for employees' end of service benefits		**9,218**	9,027
End of service benefit charge		**(4,840)**	(10,333)
		335,367	147,076
Movements in working capital:			
Decrease in inventories		**13,755**	4,531
Decrease in trade and other receivables		**78,041**	289,579
Increase/(decrease) in trade and other payables		**239,336**	(164,512)
Decrease in advances from customers		**(6,099)**	(26,139)
Cash generated from operating activities		**660,400**	250,535
Cash flows from investing activities			
Payment for purchase of property, plant and equipment	5	**(141,429)**	(53,579)
Dividend income		**867**	1,254
Proceeds from disposal of property, plant and equipment	5	**5,102**	10,589
Cash paid for acquisition of a subsidiary (net)		-	(2,300)
Net cash used in investing activities		**(135,460)**	(44,036)
Cash flows from financing activities			
Dividends paid		**(72,436)**	(73,315)
Proceeds from bank borrowings	14	**350,000**	-
Borrowings repaid	14	**(815,508)**	(274,441)
Interest expense paid	14	**(7,693)**	(14,792)
Net cash used in financing activities		**(545,637)**	(362,548)
Net decrease in cash and cash equivalents		**(20,697)**	(156,049)
Cash and cash equivalents at beginning of the period		**177,021**	212,275
Cumulative translation adjustment		**(4)**	(14)
Cash and cash equivalents at end of the period	10	**156,320**	56,212

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

Notes to the condensed consolidated financial statements for the period ended 30 September 2015

1 General information

National Marine Dredging Company ("the Company") is a public shareholding company incorporated in the Emirates of Abu Dhabi. The Company was incorporated by Law No. (10) of 1979, as amended by Decree No. (3) and (9) of 1985 issued by His Highness Sheikh Khalifa Bin Zayed Al Nahyan, who was then the Deputy Ruler of the Emirate 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 UAE, principally under the directives of the Government of Abu Dhabi ("the Government"), a major shareholder. The Group also operates in Qatar, Bahrain, Egypt, Saudi Arabia and India through its subsidiaries, branches and joint operation.

The interim financial information of the Company as at and for the nine months ended 30 September 2015 includes the financial performance and position of the Company and its below mentioned subsidiaries and branches (together referred to as "the Group").

Name	Country of incorporation	Share of equity 2015	2014	Principal activities
Emarat Europe Fast Building Technology System Factory L.L.C. (Emarat Europe)	UAE	**100%**	100%	Manufacturing and supply of precast concrete
National Marine Dredging Company (Industrial)	UAE	**100%**	100%	Manufacturing of steel pipes and steel pipe fittings and holding 1% investment in the Group's subsidiaries to comply with the local regulations
ADEC Engineering Consultancy L.L.C.	UAE	**100%**	100%	Consultancy services in the fields of civil, architectural, drilling and marine engineering along with related laboratory services
National Marine Dredging Co S.P.C.	Qatar	**100%**	100%	Dredging and associated land reclamation works, drilling & deepening of waterways and ports & marine installation works
Abu Dhabi Marine Dredging Co S.P.C.	Bahrain	**100%**	100%	Offshore reclamation contracts, services for fixing water installation for marine facilities and excavation contracts
National Marine and Infrastructure India Private Limited	India	**100%**	100%	Dredging and associated land reclamation works, civil engineering, port contracting and marine construction

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

1 General information (continued)

Name	Country of incorporation	Share of equity 2015	2014	Principal activities
National Marine Dredging Company (NMDC) Br.	Saudi Arabia	**100%**	-	Perform drilling operation within the bottom of coastal seas, dredging and withdrawing the soil or extracting out
National Marine Dredging Company Branch	Egypt	**100%**	-	Implement contract on Suez Canal project

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

2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2015

In the current period, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2015. The application of these new and revised 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 and change in accounting policy on interest in joint operations (note 23).

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

Other than the above, there are no other IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2015.

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations	1 January 2016
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants	1 January 2016
Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates* relating to applying the consolidation exception for investment entities	1 January 2016
Amendsments resulting from September 2014 Annual Improvements IFRS 5 Non-current Assets Held for Sale and Discontinued Opeation, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting	1 January 2016
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 (2014) is first applied
Amendments to IAS 39 Financial Instruments on continuation of hedge accounting	When IFRS 9 (2014) is first applied
IAS 1 *Presentation of Financial Statements: Amendments* resulting from the disclosure initiative	1 January 2016
IFRS 9 *Financial Instruments* (as amended in 2014), IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS (2010) and IFRS 9 (2013)	1 January 2018

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective (continued)

Management anticipates that the application of the above Standards and Interpretations in future periods will have no material impact on the condensed consolidated financial statements of the Group in the period of initial application with the exception of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments which management is currently assessing. However, it is not practicable to provide reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

3 Summary of significant accounting policies

3.1 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and also comply with the applicable requirements of the laws in the UAE.

3.2 Basis of preparation

The condensed consolidated financial statements are presented in UAE Dirhams (AED) which is the functional currency of the Group and all values are rounded to the nearest thousand (AED '000) except when otherwise indicated.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of certain financial instruments.

These condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2014. In addition, results for the nine months ended 30 September 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

The accounting policies, significant judgments, estimates and assumptions applied by the Group in these condensed consolidated financial statements are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective 1 January 2015.

As required by the Securities and Commodities Authority ("SCA") notification dated 12 October 2008, accounting policies relating to investments in joint ventures, financial assets and derivative financial instruments are disclosed below.

3 Summary of significant accounting policies (continued)

3.3 Interests in joint operation

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

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to the interest in joint operation:

- its assets including its share of any assets held jointly;
- its liabilities including its share of any liabilities held jointly;
- its revenue from the sale of its share and output arising from joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including any share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenue and expenses relating to interest in joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenue and expenses.

When a group entity transacts with a joint operation in which the group entity is a joint operator (such a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transaction are recognised in the Group's condensed consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which the group entity is a joint operator (such as purchase of assets), the Group does not recognised its share of the gains and losses until it resells to a third party.

3.4 Financial assets

The Group has the following financial assets: 'loans and receivables', 'fair value through profit or loss (FVTPL)' and 'available for sale (AFS)' financial assets. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

<u>Cash and cash equivalents</u>

Cash and cash equivalents include cash on hand and deposits held at call with banks (excluding deposits held under lien) with original maturities of three months or less.

<u>Loans and receivables</u>

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

3 Summary of significant accounting policies (continued)

3.4 Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

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

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

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

Available for sale (AFS) investments

Investments not classified as either "FVTPL" or "held to maturity" are classified as AFS investments and are initially measured at trade date value, plus directly attributable transaction costs.

After initial recognition, AFS investments are remeasured at fair value, based on quoted market prices at the end of reporting period.

Unrealised gains and losses on remeasurement to fair value on AFS investments are recognised directly in equity until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in profit or loss.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risks, such as interest rates swaps and forward currency contracts. Such derivative financial instruments are initially recognised and measured at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

3 Summary of significant accounting policies (continued)

3.4 Financial assets (continued)

Derivative financial instruments and hedge accounting (continued)

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Any gains or losses arising from changes in fair value on derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is based on quotes received from banks.

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

For the purpose of hedge accounting, the Group designates derivatives into two types of hedge categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

Hedge accounting

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3 Summary of significant accounting policies (continued)

3.4 Financial assets (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

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

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

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

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

3 Summary of significant accounting policies (continued)

3.4 Financial assets (continued)

Impairment of financial assets (continued)

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or 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.

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

4 Critical accounting judgments and key sources of estimation uncertainty

The preparation of these condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies, and the key sources of estimates uncertainty were the same as those applied in the audited financial statements as at and for the year ended 31 December 2014, except for the following:

Classification of a joint arrangement

The Company entered into a joint arrangement with other parties ("the Consortium") for the performance of the marine dredging works related to a certain project in Egypt, under a Consortium Agreement dated 15 October 2014. Management performed an assessment whether its interest on the joint arrangement should be classified as joint operation or joint venture. Management considered the detailed criteria as prescribed in IFRS 11 *Joint Arrangements* with respect to its rights to assets and obligations to liabilities and with reference to the Consortium Agreement.

The rights to assets and obligation for liabilities must both be satisfied in order for the arrangement to be classified as a joint operation. Based on a detailed assessment, the joint arrangement was classified by management as a joint operation. The comparative figures has been restated as a result of this classification, as detailed in note 23.

Revenue recognition

As described in note 3, when the outcome of the transaction involving the rendering of services can be estimated reliably, revenue and cost are recognised by reference to the stage of completion (percentage of completion, or POC) of the activity in accordance with IAS 11 Construction Contracts. For the purpose of estimating the stage of completion of the activity, management uses the proportion that costs incurred to date bear to the estimated total cost of the project. Management has considered the forecasts for revenue and cost related to the project.

As for contracts that are yet to be signed as of 30 September 2015, Management has recognised revenue to the extent of cost incurred.

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

5 Property, plant and equipment

	30 September 2015 AED'000
Cost	
At 1 January 2015 (audited)	3,196,588
Additions	141,429
Disposals	(23,447)
At 30 September 2015 (unaudited)	**3,314,570**
Accumulated depreciation	
At 1 January 2015 (audited)	1,901,135
Charge for the period	134,957
Eliminated on disposals	(23,219)
Allowance for impairment losses	6,823
At 30 September 2015 (unaudited)	**2,019,696**
Net carrying amount	
At 30 September 2015 (unaudited)	**1,294,874**
At 31 December 2014 (audited)	1,295,453

6 Inventories

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
Spare parts and consumable stores	**253,600**	263,762
Raw materials	**1,803**	4,370
Finished goods	**9,307**	10,535
Goods in transit	**202**	-
Less: allowance for slow moving and obsolete inventories	**(32,597)**	(30,097)
	232,315	248,570

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

7 Trade and other receivables

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000 (restated)
Trade receivables	**949,537**	701,353
Less: allowance for impairment losses on trade receivables	**(49,202)**	(41,347)
	900,335	660,006
Unbilled receivables (net of allowance)	**1,675,418**	2,130,579
Deposits and prepayments	**296,981**	47,288
Other receivables	**178,251**	325,392
	3,050,985	3,163,265

Unbilled receivables include AED 525,727 thousand (31 December 2014: AED 424,088 thousand) receivables from Government of Abu Dhabi, out of which AED 108,083 thousand has been recognised as revenue during the period (for the period ended 30 September 2014: AED 134,086 thousand). The balance of AED 525,727 thousand includes amount of AED 391,070 thousand (31 December 2014: AED 351,736 thousand), outstanding for a period exceeding one year as at the reporting date. Unbilled receivables also include AED 608,670 thousand (31 December 2014: AED 1,147,474 thousand) on signed contracts from various customers, out of which AED 470,334 thousand (for the period ended 30 September 2014: AED 464,265 thousand) has been recognised as revenue during the period.

In addition, as at 30 September 2015 and 31 December 2014, the Group recognised unbilled receivables amounting to AED 600 million, out of total proposed claims amounting to AED 771 million. In a letter dated 14 April 2015, the customer acknowledged the claim to the extent of AED 704 million and mentioned that the claim is in advanced stage of review.

The total allowance for impairment of unbilled receivables as at 30 September 2015 is AED 61.17 million (31 December 2014: AED 26.6 million).

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

8 Available-for-sale financial assets

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
At 1 January	**7,992**	9,305
Change in fair value	**(12)**	(63)
Provision for impairment	**-**	(1,250)
	7,980	7,992

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

9 Financial assets at fair value through profit or loss

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
At 1 January	**26,817**	38,282
Fair value adjustments	**(155)**	(10,215)
Provision for impairment	-	(1,250)
	26,662	26,817

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

10 Cash and cash equivalents

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000 (restated)
Cash in hand	**1,212**	1,007
Cash at banks		
- Current accounts	**178,019**	149,050
- Short term deposits	**186,862**	26,964
	366,093	177,021
Bank overdrafts	**(209,773)**	-
	156,320	177,021

11 Advances from customers

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
Suez Canal	**228,880**	323,824
Ministry of Housing	**61,037**	-
Hail Field Development	**22,426**	-
Ruwais Extension	**9,736**	-
Ras Ghurab	**7,260**	
Other projects	**13,874**	25,488
	343,213	349,312

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

12 Earnings per share

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

The weighted average number of ordinary shares outstanding at the end of the reporting period was 250,000,000 (30 September 2014: 245,456,103). There are no potentially dilutive instruments therefore the basic and diluted earnings per share are the same.

13 Related party transactions

Related parties include the Government of Abu Dhabi, 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.

The Group derives significant portion of its UAE revenue from the Government of Abu Dhabi, the major shareholder, and its departments.

14 Borrowings

During the period, a new facility was obtained from a commercial bank amounting to AED 350 million which was used to settle an existing facility by the same amount. It carries profit at 1 month EIBOR plus margin and is repayable one month from each draw down date. Further during the period, an amount of AED 305 million had been drawn from the bank overdraft facility in a commercial bank. This was used as a settlement of an existing loan amounting to AED 350 million.

14 Borrowings (continued)

Another existing facility amounting to AED 94.5 million carries profit at 1 month EIBOR plus margin and is repayable in 42 monthly equal installment of AED 2.25 million each, of which AED 64.125 million was repaid during the period.

In addition to the above, another existing facility amounting to AED 35.144 million carries profit at 3 months EIBOR plus margin and is repayable in 12 quarterly equal installment. This was repaid during the period.

Further, another existing facility amounting to AED 61.24 million carries profit at 3 months EIBOR plus margin and is repayable in 11 quarterly instalments of AED 4.37 million each, commencing from the draw down date. The Group has an option to repay the remaining amount of AED 61.24 million in lump sum as the twelfth instalment. This was repaid during the period.

15 Trade and other payables

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000 (restated)
Trade payables	**168,510**	208,700
Accrued liabilities	**400,447**	366,576
Provision for taxes	**118,849**	-
Gross amounts due to customers on construction contracts	**91,388**	-
Retentions payable	**14,072**	26,108
Provision for liquidated damages	**30,000**	-
Provision for future losses	**20,913**	-
Other project provisions	**68,628**	-
Other payables	**2,970**	17,994
	915,777	619,378

16 Staff costs

	9 month period ended 30 September		**3 month period ended 30 September**	
	2015 (unaudited) AED'000	2014 (unaudited) AED'000	**2015 (unaudited) AED'000**	2014 (unaudited) AED'000
Salaries and wages	**187,763**	87,241	**63,347**	28,641
Other benefits	**171,328**	150,948	**60,127**	48,333
	359,091	238,189	**123,474**	76,974

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

17 Other income

	9 month period ended 30 September		3 month period ended 30 September	
	2015 (unaudited) AED'000	2014 (unaudited) AED'000	**2015 (unaudited) AED'000**	2014 (unaudited) AED'000
Gain on disposal of property, plant and equipment	**4,874**	5,882	**1,601**	2,295
Foreign exchange gain	**3,278**	1,415	**568**	1,011
Insurance claim	**13,782**	7,474	**5,495**	280
Miscellaneous income	**5,865**	19,634	**2,239**	14,080
	27,799	34,405	**9,903**	17,666

18 Net finance expense

	9 month period ended 30 September		3 month period ended 30 September	
	2015 (unaudited) AED'000	2014 (unaudited) AED'000	**2015 (unaudited) AED'000**	2014 (unaudited) AED'000
Fair value gain/(loss) on financial assets at fair value through profit or loss	**(155)**	(6,055)	**(1,217)**	276
Interest expense, net	**(7,693)**	(14,792)	**(1,231)**	(5,174)
Dividend income	**867**	1,254	**-**	446
	(6,981)	(19,593)	**(2,448)**	(4,452)

19 Dividends

At the Annual General Meeting (AGM) held on 29 April 2015, the Shareholders resolved to distribute cash dividends amounting to 30% of the Company's share capital, amounting to AED 75 million, to all the shareholders whose names were included in register of members as at the 10th day following the AGM. Dividends amounting to AED 72.436 million were paid during the period.

Notes to the condensed consolidated financial statements for the period ended 30 September 2015 (continued)

20 Contingencies and commitments

	30 September 2015 (unaudited) AED'000	31 December 2014 (audited) AED'000
Bank guarantees	**1,247,471**	1,475,373
Letters of credit	**2,631**	15,861

The above letters of credit and bank guarantees were issued in the normal course of business.

21 Seasonality of results

No significant income of a seasonal nature was recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the nine-month period ended 30 September 2015 and 2014.

22 Segment information

Geographical segment information

The Group operates in two main geographical segments, namely, UAE and Egypt. The following table shows the Group's geographical segment analysis:

	30 September 2015 (unaudited)			
	UAE AED	Egypt AED	Rest of the world AED	Group AED
Segment revenue	710,289	1,175,239	174,646	2,060,174
Intersegment revenue	(129,123)	-	-	(129,123)
Revenue	581,166	1,175,239	174,646	1,931,051
Segment gross (loss)/profit	(73,969)	354,014	(24,471)	255,574
Other income				27,799
Administrative expenses				(83,920)
Provision for impairment of receivables				(40,206)
Provision for liquidated damages				(30,000)
Provision for future losses				(20,913)
Provision for impairment on inventories				(2,500)
Provision for warranty				(5,000)
Net finance expenses				(6,981)
Profit for the period				93,853
Total assets	4,109,398	801,566	120,337	5,031,301
Total liabilities	1,076,371	419,985	162,388	1,658,744
Equity	3,075,130	354,301	(56,874)	3,372,557

Majority of the Group's revenue in UAE is generated from marine dredging contracts and associated works carried out for the Government of Abu Dhabi. As at and for the year ended 31 December 2014 and for the period ended 30 September 2014, operations were mainly in the territorial waters of the UAE.

Notes to the condensed consolidated financial statements
for the period ended 30 September 2015 (continued)

23 Restatement

The following balances in the comparative condensed consolidated financial statements have been restated to conform to the current period's presentation.

Condensed statement of financial position

		As previously reported AED '000	Restatement AED '000	As restated AED '000
31 December 2014				
Trade and other receivables	(a),(b)	3,083,984	79,281	3,163,265
Cash and cash equivalents	(a)	146,442	30,579	177,021
Advance from customers (current portion)	(a)	211,595	137,717	349,312
Trade and other payables	(a),(b)	647,235	(27,857)	619,378
Total current liabilities	(a),(b),(c)	1,371,609	34,188	1,405,797
Total non-current liabilities	(a),(b),(c)	135,768	75,672	211,440

(a) In the prior year, the Group accounted for a joint arrangement under equity method instead of proportionate consolidation method in accordance with IFRS 11 *Joint Arrangements*. Accordingly the assets and liabilities as at 31 December 2014 had been restated to account for the proportionate share of the Group in the joint operation, in accordance with the requirements of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This restatement does not have an impact on the profit or loss as reported in the statement of profit or loss and other comprehensive income and statement of financial position as at 1 January 2014.

(b) Certain receivables and payables have been reclassified to conform with the current period classification.

(c) Provision for end of service benefit has been reclassified from current liabilities to non-current liabilities as this is not expected to be settled within 12 months from the statement of financial position date.

24 Approval of condensed consolidated financial statements

The condensed consolidated financial statements were approved by management and authorised for issue on 11 NOV 2015.

شـــركـة الـجـرافـات
الـبـحـريـة الـوطـنـيـة
NATIONAL MARINE
DREDGING COMPANY

11 NOV 2015

Management Discussion and Analysis for the period ended 30 September 2015

After Greetings,

Revenue and profits

National Marine Dredging Company (NMDC) ("the Company") recognised revenue of AED 1,931 million for the nine months period ended 30 September 2015 compared to AED 1,167 million for the nine months period ended 30 September 2014, with a profit of AED 94 million for the nine months period ended 30 September 2015 compared to a profit of AED 1 million for the nine months period ended 30 September 2014.

Our Projects

The Company is actively working on various projects in Africa.

Capital Investment

Investment in new marine equipments, pipelines and other capital equipment for the nine months period ended 30 September 2015 amounted to AED 141 million.

Islamic Facilities

During the current period, the Company has repaid its Islamic facility amounting to AED 816 million and obtained a new facility of AED 350 million to finance the Company's working capital requirements.

Management Explanation on Auditor's Conclusion

With reference to the Auditor's Report on Interim Financial Statements – "Qualified Conclusion" & "Emphasis of Matter" – Management would like to highlight that the Company is executing strategic projects for the Government and/or Government related entities. The Company is involved in the projects from concept design to final construction and due to the nature of these projects they require some time from completion to finalisation with the clients.

During the current period, Management is pleased to inform you that we are in advanced stage of negotiation with the clients and expects to settle the outstanding amount by the end of fourth quarter of 2015.

Yours faithfully,

For and on behalf of
National Marine Dredging Company

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NATIONAL MARINE DREDGING CO.

Yasser Nasr Zaghloul
Chief Executive Officer

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