CHAIRMAN’S MESSAGE
Arabtec is well-positioned to capitalise on the UAE Government’s strategy for economic diversification and the Abu Dhabi Economic Vision 2030.

GROUP CEO’S MESSAGE
Our focus is aligned to the UAE’s national agenda, with productivity and efficiency being a key driver in positioning Arabtec as a competitive and sustainable business.

GROUP CFO’S MESSAGE
In 2019 our focus continues to be on the collection of legacy receivables, shortening payment cycles, improvement of working capital and strengthening our balance sheet.

VISION
Building our future

MISSION
To develop social and economic infrastructure efficiently and sustainably, as the result of long-term relationships with our clients and partners

VALUES
Commitment
Integrity
Accountability
Professionalism
Team Spirit
The Group has now achieved eight consecutive quarters of profitability supported by cash from operating activities and a reduction in net debt.

Our Purpose
Arabtec Holding is a leading engineering and construction group headquartered in the UAE. Through our operating companies and investments, we deliver construction and infrastructure projects in the building, economic and social infrastructure and industrial sectors in the UAE, KSA, Egypt, Bahrain and Kuwait.

We are committed to improving the quality of life and standard of living for people in the communities we develop.

The Group is currently working on some of the most prestigious projects in the Middle East, such as the UAE Pavilion, Zayed Museum, Public Realm Concourses and Arrival Plazas for Expo 2020 and the Midfield Terminal Building in Abu Dhabi.

The Pavilion is set on an area of 15,000 square metres, with a built-up area of 19,200 square metres. It comprises a 2,000 square metre upper floor and a 562 square metre mezzanine, with a plaza level and related facilities spread across 3,000 square metres. The ground level includes a garden and car park encompassing 13,300 square metres.

Among the projects are:
- UAE Pavilion for Expo 2020
- West Yas Villas
- Construction of 1,017 villas over 440,000 square metres

Our Profile
- AED 9.9 bn Revenue
- 44 Years in business
- 5 Operating entities
- AED 256 m Net profit
- 31 Towers
- 20K+ Villas
- 750+ Projects
- 45,000+ Workforce
- 2005 1st construction company listed on DFM
- 44 Ongoing projects

Construction of 1,017 villas over 440,000 square metres
2018 HIGHLIGHTS

Robust revenue growth and operational efficiency driving profitability

**KEY FIGURES**

<table>
<thead>
<tr>
<th>Revenue (AED Million)</th>
<th>EBIT (AED Million)</th>
<th>Net Profit (AED Million)</th>
<th>Backlog (AED Billion)</th>
<th>G&amp;A Expenses (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,853</td>
<td>364</td>
<td>256</td>
<td>15.6</td>
<td>3.0</td>
</tr>
</tbody>
</table>

+7.8% y-o-y compared to AED 9,141 mn in FY 2017
+72.3% y-o-y compared to AED 212 mn in FY 2017
+188.3% y-o-y compared to AED 125 mn in FY 2017
G&A expenses as a percentage of revenue improved from 3.5% in FY 2017 to 3.0%

**MAJOR WINS (2018)**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Value (AED mn)</th>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Development*</td>
<td>1,160</td>
<td>ADNOC LNG</td>
<td>Expansion of Phase II</td>
</tr>
<tr>
<td>AKOYA Oxygen</td>
<td>992</td>
<td>DAMAC Properties</td>
<td>Construction &amp; MEP of villas</td>
</tr>
<tr>
<td>Infrastructure Project</td>
<td>588</td>
<td>Dubai Municipality</td>
<td>Industrial sewerage system</td>
</tr>
<tr>
<td>Bu Hasa Project</td>
<td>921</td>
<td>TAV Tepe Akfen</td>
<td>MEP for ADNOC’s oil project</td>
</tr>
<tr>
<td>Public Realm</td>
<td>311</td>
<td>Expo 2020</td>
<td>Concourse &amp; arrival plazas</td>
</tr>
<tr>
<td>Residential Towers</td>
<td>253</td>
<td>DAMAC Properties</td>
<td>Construction of two towers</td>
</tr>
<tr>
<td>Opera District</td>
<td>250</td>
<td>TAV Tape Afken</td>
<td>MEP for two towers</td>
</tr>
<tr>
<td>Villanova</td>
<td>222</td>
<td>Dubai Properties</td>
<td>Construction of villas</td>
</tr>
<tr>
<td>Uptown Cairo</td>
<td>157</td>
<td>Emaar Misr</td>
<td>Construction of Phases 3 &amp; 4</td>
</tr>
<tr>
<td>Creekside Horizon</td>
<td>117</td>
<td>Emaar Properties</td>
<td>MEP</td>
</tr>
</tbody>
</table>

* Net profit attributable to parent

**MARKET OUTLOOK**

Within the MENA region, the UAE and KSA are the largest construction markets and are set to register the highest growth and offer the bulk of the opportunities in the coming years. Egypt is showing potential, markets and are set to register the highest growth and offer the bulk of the opportunities in the coming years. Egypt is showing potential, with mixed use projects contributing 78% of the sector.

The majority of the opportunities in the Gulf Cooperation Council (GCC) have been in the Building and Industrial segments.

- **Building Sector** accounts for 42% of the addressable market, with mixed use projects contributing 78% of the sector.
- **Economic Infrastructure Sector** accounts for 24% of the addressable market, as a result of various projects contributing 35% of the sector.
- **Industrial Sector** accounts for 35% of the addressable market, with mixed use projects contributing 35% of the sector followed by sports and recreation contributing 35%

The UAE construction market is estimated at AED 189 billion in 2019 and expected to grow to a CAGR of 6.8% over the coming five years. Growth in the UAE construction market is driven by a number of factors including rising oil prices, a growing economy and Expo 2020. Key drivers include:

- Infrastructure investments in relation to Ghadan 21 stimulus plan, Abu Dhabi Economic Vision 2030, UAE Vision 2021 and KSA National Vision,
- Efforts for economic diversification and focus on non-oil sectors such as tourism and finance;
- Government-supported infrastructure projects in transport and utilities; and
- The UAE is becoming a hub for renewables and green technologies, with Masdar spearheading new ventures.
Throughout 2018, we maintained our focus on preparing the business for growth, continuing to strengthen our balance sheet and building on the solid foundation achieved in 2017 following our Recapitalisation Programme. I am pleased to report that 2018 was a strong year for Arabtec.

Prospects for the social and economic infrastructure sector are positive, with continued infrastructure spending in transport and utilities leading up to Expo 2020.

In line with the Group’s objective to diversify its revenue across all sectors, Arabtec is well-positioned to capitalise on the UAE Government’s strategy for economic diversification and the Abu Dhabi Economic Vision 2030. In particular, prospects for the social and economic infrastructure sector are positive, with continued infrastructure spending in transport and utilities leading up to Expo 2020 that will provide opportunities in 2019 and beyond.

The Group continues to focus selectively on countries in the Middle East and North Africa that offer a solid, sustainable pipeline of construction and infrastructure opportunities. The market outlook for the UAE and KSA remains strong. Similarly, Egypt is showing potential for construction growth, underpinned by improving macro conditions and population growth.

Innovation is equally important for our future success and will continue to be a strategic priority for the Group in 2019, as reflected in the Abu Dhabi Economic Vision 2030 and the UAE’s diversification into higher value-add industries.

Arabtec has been designated a strategic partner of the Ministry of Human Resources and Emiratisation. This has enabled us to align our Emiratisation strategy more closely to the UAE’s objectives and we are proud to have been recognised through awards in three categories of the Emiratisation Government Accelerator Programme.

Our Emiratisation Sponsorship Programme continues to invest in local talent in collaboration with the Abu Dhabi Centre for Technical and Vocational Education and Training, the UAE Higher Colleges of Technology and UAE University.

Our Emiratisation Sponsorship Programme continues to invest in local talent in collaboration with UAE partners.

I would like to thank our employees, shareholders and my fellow Board Members for continuing to deliver on our strategy and driving our business forward.

Mohamed Thani Murshed Al Rumaithi
Chairman
I am pleased to report a successful year for the Arabtec Group, underpinned by an increase in revenue of 7.85% year-on-year to AED 9.9 billion in FY 2018 compared to AED 9.1 billion for FY 2017. Net profit attributable to parent for FY 2018 was AED 256 million compared to AED 123 million for FY 2017, up 108% year-on-year. The Group has now achieved two full years of profitability supported by positive cash from operating activities and a reduction in net debt.

The Group has now achieved two full years of profitability supported by positive cash from operating activities and a reduction in net debt.

We continued to diversify our backlog into infrastructure and industrial sectors, which now comprise 50% of our current projects supported by a strong pipeline of opportunities in our addressable market. Amongst our current portfolio of projects in the UAE, we are proud to be delivering the UAE Pavilion, Zayed Museum and Public Realm Concourses and Arrival Plazas for Expo 2020. We have successfully strengthened longstanding client relationships which supported winning further work with Dubai Municipality in the economic infrastructure sector and with ADNOC Group in the industrial sector.

Looking ahead, we will expand our regional footprint, taking advantage of the growing market opportunities in the UAE, KSA, Egypt, Bahrain and Kuwait to further diversify our backlog. Our focus is aligned to the UAE’s national agenda, with productivity and efficiency being key drivers in positioning Arabtec as a competitive and sustainable business. We continue to simplify the business through standardised processes, enabling tools and embracing the digital revolution as well as the removal of duplicated functions and activities through shared services and outsourcing.

We are proud to be delivering the UAE Pavilion, Zayed Museum and Public Realm Concourses and Arrival Plazas for Expo 2020.

In line with the Group’s sustainability objectives, Arabtec will continue to create value for our stakeholders through responsible and efficient operations, while ensuring employee safety and wellbeing remains paramount. Our focus on robust risk management and further training our workforce will strengthen our safety culture and help us create positive and responsible impacts in the countries where we operate.

We continue to simplify the business through standardised processes, enabling tools and embracing the digital revolution.

I am pleased to report that, in line with our Strategic Roadmap, we have delivered on our 2018 objective to rebalance the business through a range of initiatives focused on productivity, efficiency, innovation and strengthening our balance sheet. The Arabtec Group is now positioned to enter the third phase of our Strategic Roadmap, the “Growth” phase. I would like to thank our employees, shareholders and business partners for their continuing support and valuable contribution throughout 2018 in helping to build a successful and sustainable Arabtec.

Mr. Hamish G. Tyrwhitt
Group Chief Executive Officer
GROUP CFO’S MESSAGE

Through 2018 we focused on establishing a sustainable platform for continued growth. Consistent with the Group’s strategic priority to strengthen the balance sheet, net debt to equity ratio has reduced from 1.1 at 31 December 2017 to 0.6 at 31 December 2018. EBIT profit margin also saw a positive improvement from 2.3% in 2017 to 3.7% in 2018 as we continued to selectively onboard higher margin projects through our stringent 4-Gate Work-Winning Process.

EBIT profit margin also saw a positive improvement as we continued to selectively onboard higher margin projects.

Through our concerted efforts to shorten payment cycles, debtor days have reduced by 31 days to 155 days.

This focus on receivables has resulted in net cash from operating activities of AED 924 million.

In line with our strategic priorities, in 2019 our focus continues to be on the collection of legacy receivables, shortening payment cycles, improvement of working capital and strengthening our balance sheet to support Arabtec’s position as a leading regional contractor.

Mr. Peter Pollard
Group Chief Financial Officer

To further strengthen our balance sheet in 2019, we will continue to streamline our debt repayment profile.

The Board of Directors is recommending the distribution of a final cash dividend of 5.0 fils per share for FY 2018, subject to shareholder approval at the Annual General Assembly Meeting.
Key focus on strategic alignment of the Group to its vision, mission and values

**STRATEGIC ROADMAP**

**Phase – 1: Stabilise**
- Implement the Recapitalisation Programme
- Establish Arabtec Holding as a strategic management company
- Build and implement a strong risk management approach
- Stabilise the Group’s organisation structure and role
- Embed a performance-based culture
- Resolve legacy project claims, receivables and WIP
- Dispose of non-core assets

**Phase – 2: Prepare**
- Consistently secure annual backlog of new projects of at least AED 8-9 billion at Group level
- Maintain leaner organisation with G&A expenses at target benchmark level
- Ensure on-time and on-budget delivery of projects
- Risk management framework
- Remuneration framework
- Capital recycling

**Phase – 3: Grow**
- Consistent growth in net profit and improve cash flow generation
- Attract, retain and develop appropriate resources to deliver growth
- Continue to improve project gross margins and ensure on-time delivery
- Grow capabilities in Mechanical, Electrical and Plumbing (MEP), EPCM, infrastructure and specialist construction
- Grow from existing capital base

**STRATEGIC PRIORITIES – 2019**

**Rebasings the business through a range of initiatives**

**Productivity**
- Enhance measures to increase workforce productivity
- Implement Group-level solution for manpower planning
- Increase internal subcontracting of workforce

**Efficiency**
- Remove duplicated functions and activities through shared services and outsourcing
- Simplify and closely integrate the Group’s operating structure
- Support international Operating Companies (OPCOs) through single support centre

**Sustainability**
- Improve net debt to equity ratio
- Continue to divest or develop non-core assets and investments
- Create paperless work environment

**Innovation**
- Implement innovative methods for construction
- Improve cost savings and benefits through integrated supply chain management
- Integrate BIM and 3D modelling into new projects
- Explore opportunities to reduce waste through the modularisation of building design

**Culture and Worker Welfare**
- Improve safety measures
- Improve communication across stakeholders
- Focus on increasing UAE nationals in workforce

**Responsible Supply Chain**
- Procure raw materials using Group’s strategic procurement platform
- Develop approved supplier list by evaluating existing and new suppliers
- Improve debtor days and creditor days

**Market and Growth**
- Achieves target work winning rate
- Pursue opportunities in the infrastructure sector
- Diversify revenue through international projects
- Develop framework & competency to offer other funding solutions for government projects

**Governance**
- Complete roll-out of Business Standards across the Group
- Roll-out policies and procedures to support Business Standards
- Continue harmonisation of internal control systems
- Establish risk management processes
- Establish Group-wide compliance framework
- Implement Oracle Fusion across the Group
Our focus continues to mirror the UAE’s national agenda, with an emphasis on productivity and efficiency, innovation and sustainability.
Mr. Ghannam Butti Al Mazrouei
Board Member and Chairman of the Audit Committee since June 2016
Mr. Ghannam Butti Al Mazrouei is a Board Member of Arabtec Holding PJSC and Chairman of the Audit Committee since June 2016. Mr. Al Mazrouei became Director of Human Capital & Administration at Abu Dhabi National Oil Company (ADNOC) in September 2016. He previously worked for ADNOC Onshore as Senior Vice President, Support Service Function. Prior to this, he held the position of Chief Financial Officer and also worked as Head of Market Operations & Surveillance at Abu Dhabi Securities Exchange (ADX). Mr. Al Mazrouei is currently a Board Member of Abu Dhabi Securities Exchange (ADX) and Chairman of the Audit Committee. Board Member, Abu Dhabi Retirement Pensions & Benefits Fund. Chairman of the Board of Trustees in ADNOC Schools and Member in ADNOC Technical Academy (ATA). Mr. Al Mazrouei has a Master of Science in Financial Economics from Boston University, USA, and a Bachelor of Business Administration and Finance from the University of Suffolk in Boston, USA.

Mr. Khalieefa Ali AlQamzi
Board Member and a Nomination and Remuneration Committee Member since April 2018
Mr. Khalieefa Ali AlQamzi is a Board Member of Arabtec Holding PJSC and a Nomination and Remuneration Committee Member. Mr. AlQamzi is the Director of ADIA’s Evaluation & Follow-up Division (EFD), in the Managing Director’s Office. In this role he is responsible for ensuring that EFD fulfills its charter to advise and support the Managing Director and ADIA’s Investment Committee. EFD is responsible for providing independent analyses and recommendations on all investment proposals generated by ADIA’s investment departments. Mr. AlQamzi joined ADIA in 1997 after obtaining his Bachelor of Science in Management from MaryHurst University, USA. He has an Executive MBA from Zayed University. Prior to moving to EFD, he had previously worked as an investment manager in the Far East Equities Department as well as a Deputy Director in the Emerging Markets Equities Department & the Infrastructure Division. Outside ADIA, Mr. AlQamzi is a Board Member of TAZA, Board Member of Abu Dhabi Securities Exchange, and Chairman of the Investment Committee of the Zayed Charitable & Humanitarian Foundation. He has also previously served as a Board Member of the Abu Dhabi Chamber of Commerce & Industries, Abu Dhabi and Al Ain Distribution Companies, as well as ADWEA.

Mr. Amine Abid
Audit Committee Member since August 2017
Mr. Amine Abid has been an Audit Committee Member of Arabtec Holding PJSC since August 2017. Mr. Abid is Senior Vice President – Real Estate & Infrastructure at Mubadala. He has 13 years of experience in the finance sector and has worked previously for the Mubadala teams of Lazard and Mubadala. Mr. Abid holds a Master of Mechanical Engineering from École Nationale Supérieure d’Arts et Métiers (ENSAM), France, and the Georgia Institute of Technology, USA.

Mr. Hamish G. Tyrwhitt
Group Chief Executive Officer since November 2016
Bachelor of Engineering (Civil), University of Western Australia FIE Aust, CPEng., MemIEHK, FTSE Mr. Hamish Tyrwhitt was appointed in November 2016 as Group Chief Executive Officer of the Arabtec Group. Since April 2016 he has held the position of Group Chief Executive Officer of Depa Limited, one of the world’s leading providers of interior solutions. He is also a Non-Executive Director of Design Studio as well as a Director of Jordan Wood Industries PLC. Mr. Tyrwhitt has three decades of senior leadership experience in the global engineering and construction sector. Most recently, he was CEO of Asia Resource Minerals PLC, a coal mining company listed in London. Prior to this, he was CEO of Australian Securities Exchange-listed Leighton Group (now known as CIMIC Group), with annual revenues of around USD 20 billion and operations in more than 20 international markets. In his previous roles, Mr. Tyrwhitt supervised the delivery of numerous multi-billion dollar projects and, as Managing Director for Leighton Asia, he ran the business across Asia, based out of their headquarters in Hong Kong.

Mr. Peter Pollard
Group Chief Financial Officer since April 2017
Bachelor of Business, Monash University ICSA, FCPA Mr. Peter Pollard was appointed as Group Chief Financial Officer of the Arabtec Group in April 2017. For the past fifteen years, Mr. Pollard has held executive CFO roles, partnering with CEOs in developing and supporting complex, geographically-spread businesses in engineering and construction; infrastructure services; property development; PPPs; telecommunications; mining; and oil and gas in Australia, Asia, India and the Middle East. Mr. Pollard joined the Group from Serco Group where he served as Managing Director of the Hong Kong business. Prior to joining Serco Group Mr. Pollard held various posts as Chief Financial Officer in the construction and property sectors, most notably for Leighton Contractors Pty Limited (now trading as CPB Contractors Pty Limited), where he played a major role in the Company’s successful five-year turnaround plan to stabilise, diversify and grow the business.
Depa Group is one of the world’s leading providers of interior solutions. Listed on the Nasdaq Dubai and headquartered in the UAE, it is part of Arabtec Holding PJSC, the largest UAE-based construction group.

Arabtec Construction LLC
Established in 1975, Arabtec Construction LLC (Arabtec) is the largest subsidiary of Arabtec Holding PJSC and delivers social and economic infrastructure projects including high-rise developments, airport terminals, luxury villas and iconic landmarks. Arabtec has undertaken projects in the UAE, wider GCC, North Africa and Asia.

Target Engineering Construction Company LLC
Target Engineering Construction Company LLC was established in 1975 and is a leading single source EPC contractor with standalone specialties. With operations in the UAE, Qatar and KSA, it is part of Arabtec Holding PJSC (owning 96% equity in the Company), the largest UAE-based construction group.

Emirates Falcon Electromechanical Co. (EFECO) LLC
Emirates Falcon Electromechanical Co. (EFECO) LLC was established in 2001 to serve the electromechanical building services sector of the construction industry in the Middle East. The company has branches in Abu Dhabi, Doha, Amman and Riyadh.

Arabtec Engineering Services LLC
Arabtec Engineering Services LLC was established in 2007 to offer engineering services related to infrastructure works, including sewerage, water and irrigation networks. Its operations span the GCC.

Austrian Arabian Ready Mix Concrete Co. LLC
Austrian Arabian Ready Mix was established in 2004 as a construction materials business specialising in ready mix concrete and aggregates. Headquartered in Jebel Ali Second Industrial Area, it has operations in the UAE, KSA and Qatar.
Established in 1975, Arabtec Construction is the largest subsidiary of Arabtec Holding PJSC and delivers social and economic infrastructure projects including high-rise developments, airport terminals, luxury villas and iconic landmarks. Arabtec has undertaken projects in the UAE, wider GCC, North Africa and Asia.

For more than 40 years, Arabtec has built a reputation for quality and solid expertise in complex construction. Its ability to manage each phase of a project’s lifecycle efficiently and effectively has enabled the Company to successfully complete more than 240 projects, including the world’s tallest building, the Burj Khalifa in Dubai, and the inspirational Louvre Abu Dhabi.
Target Engineering Construction Company offers a single source EPC service with standalone specialties in buildings, electrical, mechanical, marine and steel structure works. With more than 40 years of experience, Target has established a strong customer base comprising oil and gas sector companies, major EPC contractors, government sector clients and property developers.

Target also owns a controlling stake in IDROTEC s.r.l., Italy, a specialist marine design engineering firm renowned worldwide for its marine, hydraulic and environmental design for oil and gas sector and marine developments.

Civil, Industrial & Buildings Division
High-rise towers, hospitals, sports centres, hotels, shopping malls, housing complexes, MEP services, power plants, utilities plants, effluent treatment plants, industrial plants, water treatment plants and power stations

Mechanical, Oil & Gas Division
Oil refining, oil processing and treating, gas processing, petrochemical industry, tanks, farms and storage facilities, power projects, infrastructural facilities, pipeline projects, revamping and shutdown projects, industrial facilities and structural, mechanical piping (SMP) fabrication facilities

Power, Instrumentation & Controls Division
EPC of substations up to 132kv, EPC of instrumentation and control works, EPC of control systems integration and expansion, EPC of packaged substations up to 33kv, erection of high voltage substations up to 400kv, testing and commissioning of power generation plants, fire alarm systems, telecoms systems, lighting systems and skid-mounted flow control systems

Marine Division
Harbours/ports, sea water intakes, outfalls, dredging/reclamation, sheet piling, marinas/jetties, submarine pipelines, man-made islands, nuclear plants and marine transportation
Established in 2001, EFECO is one of the largest and most successful International Tier 1 Mechanical, Electrical and Plumbing (MEP) companies in the region. In 2018, EFECO received the ‘MEP Contractor of the Year Award’ from CPI Industries for its MEP practices in project execution, HSE policies, modularisation and sustainability capabilities.

EFECO specialises in complex MEP projects in the Middle East and GCC, including high-rise commercial and residential developments, villa developments, mixed use developments and infrastructure. Significant UAE projects completed by EFECO include iconic buildings such as the Nation Towers – St Regis Hotel Abu Dhabi, Palazzo Versace Hotel Dubai, Dubai International T2 Expansion and over 14,000 villas in the UAE. Elsewhere, EFECO has undertaken several projects that involved complex and technically challenging work on advanced military centres and airport developments including the Midfield Terminal Building Abu Dhabi and related infrastructure.
Arabtec is fully committed to implementing the highest degree of corporate accountability across its business operations and towards its stakeholders. It proactively contributes to the UAE’s sustainability plans and targets and the sustainable development of other countries where it operates.

Arabtec’s Sustainability Strategic Framework
Towards Responsible Construction
Arabtec aims to systematically and continuously improve its sustainability performance, taking into consideration the Group’s sustainability context and stakeholders’ input, as explained in the previous pages.

Arabtec’s Sustainability Strategic Framework
Towards Responsible Construction
Arabtec aims to endorse Responsible Construction through its commitments to managing its core strategic responsibilities and the strategic foundations as shown in Arabtec’s sustainability framework:

- Managing and Reducing Environmental Impact
- Safe and Healthy Work Environment
- Creating Economic Value
- Community Wellbeing
- Sound Corporate Governance
- Responsible Supply Chain
- Developing a Competent Workforce
- Efficient Operations
- Group Vision, Mission and Values
- Construction Sector Best Practices
- National Plans and Frameworks

Managing and Reducing Environmental Impact
Arabtec is committed to implementing strategies and practices that use resources efficiently, mitigate pollution and manage waste production and disposal responsibly.

Safe and Healthy Work Environment
Arabtec is committed to providing a safe work environment for all and promotes a culture of accountability to mitigate exposure to occupational risks.

Creating Economic Value
Arabtec is committed to maintaining a healthy financial position for all and promoting the Group’s economic sustainability and to generating direct and indirect economic value to stakeholders including shareholders, employees, suppliers, subcontractors and the wider Arabtec community.

Community Wellbeing
Arabtec is committed to delivering value within its community, prioritising the welfare of its workforce and the local communities where it operates through employee welfare programmes, infrastructure development and strategic community investment plans.

Sound Corporate Governance
Arabtec is committed to ensuring legal and regulatory compliance and investor protection by generating sustainable value for all stakeholders, while translating practices of good corporate governance into strong profitability.

Responsible Supply Chain
Arabtec is committed to collaborating with suppliers and subcontractors towards mutual sustainability targets.

Developing a Competent Workforce
Arabtec is committed to hiring and developing a qualified workforce that can deliver to the standards and quality that the Group benchmarks. Specific values that are promoted include nurturing a workforce that is committed to acting responsibly, professionally, and with integrity, while collectively contributing towards responsible construction practices.

Efficient Operations
Arabtec is committed to encouraging innovative operational practices and to promoting a culture of efficiently and innovation to ensure the timely completion of projects within appropriate financial parameters. Arabtec also works to reduce time and cost while improving quality, health and safety and the environmental performance of projects.
Sound Corporate Governance
- The roll-out of Business Standards across the Group
- The roll-out of the 4-Gate Work-Winning Process across the Group
- Implementing standardised processes and tools across the Group

Creating Economic Value
- Strengthening the balance sheet
- Pursuing opportunities in the infrastructure sector to secure sustainable growth of the Group
- Developing framework and competency to offer other funding solutions for government projects

Efficient Operations
Promoting a culture of efficiency and innovation that ensures the timely completion of major projects within appropriate financial parameters, including lean management, modular construction and prefabrication, value engineering, technology utilisation, and construction processes management and standardisation

Safe and Healthy Work Environment
- Arabtec’s Health and Safety Management System (HSMS) provides the structure for a systematic approach to the identification of hazards and the control of related health and safety risks
- Arabtec’s HSMS is duly certified in accordance with BS OHSAS 18001:2007 and ISO 14001:2004
- The Workers Lives Matter programme was developed to eliminate or mitigate high consequence risks. An essential component is the Safety Accountability Leading Arabtec Management Action (SALAMA) Programme, which applies a strategic approach to the identification and management of high consequence risks

Developing a Competent Workforce
- Arabtec’s Human Resource (HR) management is centred around the Employee Value Proposition (EVP). This identifies four key drivers to the HR Vision to be the “Employer of Choice in the Construction Industry”: Employer reputation, People and culture, Remuneration and advancement opportunities, and Job characteristics
- Arabtec is committed to maintaining a healthy age blend within the workforce, bringing a mix of experience and fresh ideas to the organisation
- Arabtec’s vision for Emiratisation is to attract, develop and engage competent UAE nationals who are capable of delivering sustainable growth, with a focus on customer service and relations
- Arabtec respects human rights principles as described in UAE laws and regulations and International Labour Organisation (ILO) guidelines
- Arabtec offers equal opportunities for men and women at all employment levels and locations

Community Wellbeing
- Arabtec’s biggest contribution to the community is the development of social and economic infrastructure that promotes the quality of life for residents
- Arabtec works towards being the best “Labour Friendly” organisation in the UAE. Arabtec has developed its Welfare Management Policy to ensure full compliance with the Group’s moral, legal and contractual obligations
- The Arabtec Welfare Management Plan acts as a guide to promote welfare practices within employee accommodation
- Arabtec’s dedicated Workers’ Welfare Management Department is a regulatory platform through which the organisation manages and reviews its employee welfare policies

Responsible Supply Chain
- Arabtec’s sourcing management system aims to ensure the selection of capable and experienced suppliers and subcontractors as well as the compliance of materials selected
- Arabtec is moving towards Group-level collaborative procurement which focuses on sourcing common categories across the Group
- Arabtec monitors and evaluates the performance of suppliers and subcontractors biannually, or after the completion of a contract

Managing and Reducing Environmental Impact
Aligned with the ISO 14001 Standard for Environmental Management, Arabtec’s Health, Safety and Environment Management System encapsulates the Group’s objectives, policies and procedures it must implement in each priority environmental focus area. This ensures that the corporate commitment of Arabtec to reduce negative environmental impacts from its business operations is achieved. Accordingly, Arabtec is committed to:
- Efficient use of resources;
- Energy efficiency;
- Water efficiency;
- Controlling and minimising waste and efficient waste disposal;
- Monitoring and mitigating noise and air pollution;
- Preventing environmental incidents; and
- Complying with all the relevant national laws on environment, statutory requirements and the ISO 14001 Standard as applicable to our scope of work.
The Arabtec Group upholds firm Enterprise Risk Management (ERM) principles as a proactive approach to mitigating the business strategic, social, economic, environmental, operational and governance risks to secure its objectives towards:

- Safe, healthy and sustainable operations;
- Financial sustainability;
- Maintaining a high standard for project delivery and quality within agreed time-frames and budgets;
- Operational excellence; and
- Legal compliance.

Arabtec’s ERM approach is in line with the ISO 31000 Risk Management Standard, which is used as a global industry best-practice baseline. In 2017, Arabtec conducted a comprehensive risk assessment and identified the following mitigation areas:

- To formalise and communicate strategies, operational objectives and directions across the organisation;
- To develop initiatives for empowerment and accountability across the organisation through an established delegation of authority;
- To enhance the management of tenders and control the approval process for securing contractual commitments that align with Arabtec’s risk appetite, strategy and economic objectives;
- To enhance project management and risk management capabilities by improving existing practices and processes and facilitating a thorough review of current procedures, performance review schemes, reporting, indicators and methods of work; and
- To enhance talent management, ensuring efficient recruitment and retention of internal talent.

Arabtec’s Enterprise Risk Management Policy

Arabtec recognises that risk management is a key aspect of maintaining a sustainable business and competitive advantage, ensuring performance, operational excellence and compliance to laws, regulations and standards. Our risk management objectives are to:

- Develop and implement a risk management system that is embedded across Arabtec’s operational and strategic processes to secure the Group’s objectives and enhance its performance;
- Allow Arabtec to manage risks and leverage opportunities in accordance with best practices;
- Have a common understanding across the organisation of risk management processes and methodologies, using unified terminology and tools;
- Put under control the main risks that may affect Arabtec’s operational, financial or strategic objectives, and ensure they are managed in a consistent and systematic manner across the organisation, at every level;
- Integrate risk management into strategic planning, activity planning, performance management and operational decisions;
- Ensure that risks are managed in accordance with this policy by all Arabtec’s subsidiaries, departments and divisions, in line with the agreed risk appetite;
- Continuously evaluate and enhance all risk management disciplines practised within the organisation;
- Promote a corporate culture that understands and implements enterprise-wide risk management and incorporates evaluation of risks and treatment in decision-making processes; and
- Provide assurance and confidence to all stakeholders that Arabtec risks are known and effectively managed.
Ensuring Integrity

Arabtec is committed to conducting its business with the highest standards of honesty and integrity and equally expects all employees and subcontractors to maintain the same. All organisations face the risk of employees conducting themselves unethically or in breach of the Code of Conduct. A culture of integrity and accountability in line with Arabtec’s core values is essential in order to prevent such situations occurring and to be able to address them appropriately and quickly when they do occur.

Board Members and all employees are obliged to sign Arabtec’s Code of Conduct to ensure they adhere to Arabtec’s high standards of business ethics and discipline. Arabtec provides a Whistleblowing Hotline & Reporting Portal hosted by a third-party provider to encourage employees and business partners to report violations of the Code of Conduct, policies and procedures or the law.

RISK MANAGEMENT

Project Risk Management

Arabtec puts in place a formal risk management process for each project it is awarded. The objectives of this approach are to:

- Secure the project’s objectives in terms of quality, cost and schedule;
- Follow-up tender stage risks and identify further risks;
- Ensure proactive behaviour towards risk through mitigation;
- Monitor the evolution of risks and act accordingly;
- Provide decision support to project managers and management to validate reviews and deliver approvals at the project’s key stages;
- Monitor evolution of contingencies and ensure cost and schedule targets are kept; and
- Ensure feedback of lessons learnt to feed the risks library.

Through dedicated training and coaching sessions, all project teams have been familiarised with this approach, which has been documented through a standard project risk management plan that is now part of the Group’s standard project management procedures.

Risk identification and risk evaluation sessions for all projects allow projects to develop their own risk register and to decide on mitigation actions geared at controlling those risks and diminishing their potential impact on the cost, schedule or quality of the project.

Risk review sessions are regularly organised to follow-up the risk profile of projects and the progress of decided actions. Risks are part of the standard project reports to management and are on the agenda of regular performance reviews.

Tender Risk Management

Arabtec implements a formalised 4-Gate Work-Winning Process that aims to better control the risks related to its commercial and contractual commitments and, by extension, to project execution.

This mandatory process allows Arabtec to optimise the commercial costs of the organisation, to support a tender decision-making process based on objective risk information and to ensure that contractual commitments are in line with the organisation’s objectives and its defined risk appetite.

At each stage, a decision is taken as to whether or not to pursue the commercial opportunity based on a thorough risk analysis that supports the decision-making process through objective risk criteria.

Gate 1

APPROVAL TO PURCHASE OPPORTUNITIES

Determine how the opportunity compares with selective better quality opportunities where Arabtec can add value

Gate 2

APPROVAL TO PREPARE A TENDER

Consider tender strategies to reduce risk and improve financial outcomes

Gate 3

APPROVAL TO SUBMIT A TENDER

Prepare and review every tender in full detail, both technically and commercially

Gate 4

APPROVAL TO SIGN A CONTRACT

Ensure significant matters and changes to the tender and/or submission are signed off by an appropriate member of management under the original delegated approval process

At Arabtec, integrity means that we do the right thing in a reliable way, creating value both for our business and for our communities, and that we demonstrate honest and ethical behaviour in everything we do.
Goverance

Arabtec’s corporate governance structures, principles, policies and practices provide a comprehensive framework to:
- Enhance accountability to shareholders and other stakeholders;
- Ensure timely and accurate disclosures of all material matters;
- Deal fairly with shareholders’ other stakeholders’ interests; and
- Maintain high standards of business ethics and integrity. The corporate governance framework enables Arabtec to discharge its statutory duty of ensuring an orderly, informed and fair market, and of ensuring risks are managed prudently in accordance with a robust risk management framework, while pursuing its business objectives. To serve the interests of shareholders and other stakeholders, Arabtec’s corporate governance framework is subject to ongoing review, assessment and improvement. The Board proactively adopts governance policies and practices designed to align the interests of the Board and management with those of shareholders and other stakeholders and to promote the highest standards of ethical behaviour and risk management at every level of the Group.

Internal Controls

The Group’s internal control system is the combination of various frameworks, standards, policies and procedures established by the Board and senior management to enhance operational performance and to secure the Group’s objectives in accordance with the Group Business Plan. The internal control system is based on the model of three lines of activity control:
- First Line of Control – Exercised by every employee and their direct line manager in every department and business function across the Group, in the course of carrying out their day-to-day role and activities;
- Second Line of Control – Exercised through the Head of Internal Controls and Compliance Officer at the Group and OPCO level, and through the implementation of Enterprise Risk Management objectives in accordance with the Group’s risk management framework; and
- Third Line of Control – Exercised by the Internal Audit Department, which periodically assesses policies, procedures and business activities across the Group and their effectiveness in accordance with the Internal Audit Plan approved by the Board.

The internal control system is designed to follow this multi-tiered approach and is implemented at various governance levels throughout the Group. The internal control system relies on accountability, delegation and collaboration within the various departments and business functions, encouraging the Group-wide alignment of objectives, resources and the mechanisms deployed. It is based on the clear identification of minimum governance standards and responsibilities; human resources policies and procedures ensuring that resources and skill levels are appropriate across the Group; and that information technology systems and tools are implemented to serve each department and business function for each OPCO. Each OPCO is responsible for implementing appropriate and robust policies and procedures in line with the scope and nature of their business activities to comply with the Group’s standards and internal control system.

Board of Directors

The Board approves the strategic direction and objectives of the Group and matters of key financial, operational and governance importance including the management system of Group-wide Business Standards which govern how the Group operates and conducts its business activities. The Board’s role includes overseeing, counselling and directing senior management and the Board committees and approving and maintaining an appropriate delegation of authority to ensure that the interests of the Group and its business partners are being served. The Board has access to all documents and reports required to discharge its fiduciary duties and to act in good faith with due diligence and care in the best interests of Arabtec and its shareholders. The Board is responsible for ensuring senior management maintains a system of internal control in accordance with its obligations set out in Article (43) (Obligations of the Board of Directors) and Article (50) (Internal Control) of The Chairman of Authority’s Board of Directors’ Resolution No. (7 B.M) of 2016 Concerning the Standards of Institutional Discipline and Governance of Public Shareholding Companies (SCA Resolution No.7).

Group CEO

The Group CEO is responsible for implementing the Group’s strategy and objectives approved by the Board in the Group’s Business Plan. The Group CEO is responsible for implementing policies and procedures to comply with the Group-wide Business Standards approved by the Board including in relation to the Group’s internal control system. The Group CEO is expected to meet the objectives, key performance indicators (KPIs), budget and operating targets approved by the Board and report business performance to the Board. He is supported in the achievement of his role through a professional and experienced senior management team including the OPCO senior management teams.

Group CFO and the Finance Department

The finance consolidation team led by the Group CFO holds primary responsibility for meeting the Group’s financial reporting requirements in accordance with its obligations to the Dubai Financial Market. It ensures integrity and adequacy of the Group’s financial reporting processes, procedures and systems and receives key financial information approved by the CFO of each OPCO on a monthly basis. The finance consolidation team carries out appropriate checks and balances and prepares consolidated financial statements for the Group together with business reporting information for Board and Audit Committee review.

Senior Management and Department Heads

The role of senior management and department heads at both Arabtec Holding and OPCO levels is to implement and maintain appropriate and robust policies and procedures in respect of governance and risk management; operational functions including tender management and project delivery; and Group support functions including finance, treasury and HR to comply with the Group-wide Business Standards approved by the Board.

Each OPCO has its own senior management team responsible for implementing a business plan approved by the Group CEO and ensuring the implementation and continuous improvement of the Group’s internal control system so that OPCO objectives, KPIs, budgets and operating targets are achieved.

Roles and responsibilities are defined by the Group’s organisational structure charts and job descriptions. In order to empower the OPCO senior management teams to achieve their business plan KPIs and objectives, the Group CEO delegates certain of their functional, operational and financial decision-making authority to the OPCO CEOs appropriate to the OPCO’s day-to-day business requirements commensurate with the materiality of the OPCO to the Group as a whole.

Legal Department, Company Secretarial, Internal Controls & Compliance

The role of the Legal Department at Group level is to safeguard the interests and reputation of the Group, Group CEOs, Board Members, senior management, employees and the business activities of the Group as a whole. It monitors and reports on compliance with applicable law, provides effective Board company secretarial support and robust, cost-effective legal advice to the Board, senior management and OPCOs where required. The team maintains a dialogue with the OPCOs and carries out regular site visits for inspections, compliance audits and to make recommendations with respect to appropriate training and development programmes. The team monitors the effectiveness of the Group’s internal control system and provides the Audit Committee with regular updates and recommendations for improvements to the Group’s internal control system. It is responsible for maintaining an effective dialogue with regulators and the Arabtec Group Legal Panel as well as overseeing the implementation of the Group’s Enterprise Risk Management objectives.

The Group’s Enterprise Risk Management objectives require the implementation and monitoring of a Group-wide consistent risk management process, to ensure that risks are identified and managed at OPCO level in a systematic and proactive manner across the Group at both corporate and project levels. The Group’s risk management framework ensures that the risks identified across the Group are in line with the risk appetite set by senior management and Board and in line with the objectives and strategy of the Group.

Shared Services Division

In line with the Group’s strategic direction, the Shared Services team is responsible for developing and delivering an effective and comprehensive support function including IT, HR Operations, Insurance and Strategic Procurement. Service Level Agreements ensure quality support is provided to the Group that fits with the Group’s objectives.

Internal Audit Department

The Internal Audit Department supports the mitigation of the Group’s material risks and gives assurance on compliance with the Group’s policies and procedures. Its role encompasses providing reasonable assurance on governance, risk management and internal controls, conducting investigations and special reviews at the request of the Board, Board committees or senior management.
### Board Committees

The Board delegates authority and oversight of key areas of responsibility to Board committees including the Audit Committee and Nomination andRemuneration Committee constituted by the Board in accordance with the Articles of Association and applicable law. The committees report to the Board with their recommendations with respect to matters presented to and discussed by the committees in accordance with the relevant Committee Charter.

#### Audit Committee

The Audit Committee is responsible for governance and internal control matters including audit, compliance and risk management in accordance with its obligations set out in Article (49) (Duties of the Audit Committee) of SCA Resolution No.7. It reviews financial statements, oversees the Group’s Enterprise Risk Management objectives and guides the work of the Internal Audit Department.

The names of members of the Audit Committee, and a statement of its functions and the duties assigned thereto

<table>
<thead>
<tr>
<th>Committee Member</th>
<th>Position</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Ghannam Al Mazrouei</td>
<td>Chairman</td>
<td>Independent</td>
</tr>
<tr>
<td>Mr. Khalifa Al Romaithi</td>
<td>Member</td>
<td>Non-Executive</td>
</tr>
<tr>
<td>Mr. Amr Abd</td>
<td>Member</td>
<td>External</td>
</tr>
</tbody>
</table>

- Establishing and implementing a policy for entering into a contract with the external auditor;
- Following up and controlling the independence of the external auditor and the extent of their objectivity;
- Controlling the integrity of the Group’s financial statements and reports (yearly, half-yearly and quarterly) and reviewing the same during the year;
- Considering any important and unusual items recognised or to be recognised in these reports and accounts;
- Reviewing financial and internal control and risk management systems in the Group;
- Discussing the internal control system with management and ensuring it fulfils its purpose of establishing an effective internal control system;
- Examining the main investigations’ results with respect to internal control matters;
- Ensuring coordination between the Internal Audit Department and the external auditor and the availability of required resources for the internal control system;
- Reviewing financial and accounting policies and procedures for the Group;
- Reviewing the external auditor’s mission and action plan;
- Ensuring the timely response by the Board to substantive clarifications and issues raised in the external auditor’s report;
- Establishing the controls that enable the Group’s employees to report any suspected irregularity in financial or internal control reports, or such other matters, in a confidential manner, as well as the steps to investigate such irregularities independently and fairly;
- Monitoring the extent of the Group’s compliance with the Code of Conduct;
- Ensuring the implementation of business rules related to the committee’s duties and the powers vested therein by the Board; and
- Submitting a report to the Board on the above-mentioned matters.

#### Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for: ensuring the Board contains an appropriate balance of skills, knowledge and experience; making recommendations to the Board in respect of senior management appointments, dismissals and remuneration; and monitoring the implementation of the Group HR Policies and Procedures Manual in accordance with its obligations set out in Article (47) (Duties of the Nomination and Remuneration Committee) of SCA Resolution No.7.

The names of members of the Nomination and Remuneration Committee, and a statement of its functions and the duties assigned thereto

<table>
<thead>
<tr>
<th>Committee Member</th>
<th>Position</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Mohamed Hamad Al Mehrari</td>
<td>Chairman</td>
<td>Non-Executive</td>
</tr>
<tr>
<td>Mr. Khalifa AlGarmati</td>
<td>Member</td>
<td>Independent</td>
</tr>
<tr>
<td>Mr. Tareq Al Masaood</td>
<td>Member</td>
<td>Independent</td>
</tr>
</tbody>
</table>

#### Board and Board Committee Attendance

<table>
<thead>
<tr>
<th>No.</th>
<th>Date of the meeting</th>
<th>Number of attendees</th>
<th>Number of attendees by proxy</th>
<th>Names of absent members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12-2 Feb-18</td>
<td>6</td>
<td>1</td>
<td>Nil</td>
</tr>
<tr>
<td>2</td>
<td>13- Mar-18</td>
<td>7</td>
<td>Nil</td>
<td>Mr. Mohamed Al Mehairi</td>
</tr>
<tr>
<td>3</td>
<td>9-May-18</td>
<td>5</td>
<td>Nil</td>
<td>Mr. Khalifa Al Romaithi</td>
</tr>
<tr>
<td>4</td>
<td>8-Aug-18</td>
<td>4</td>
<td>1</td>
<td>H.E. Mohamed Al Romaithi</td>
</tr>
<tr>
<td>5</td>
<td>6-Nov-18</td>
<td>5</td>
<td>Nil</td>
<td>H.E. Mohamed Al Romaithi</td>
</tr>
</tbody>
</table>

- Determining the Group’s need for qualified staff at the level of the senior management level and employees and the basis of their selection;
- Formulating and supervising the application and annual review of the Group’s Human Resources and Training Policy; and
- Organising and complying with the procedures of nomination to the membership of the Board in line with applicable laws and regulations as well as the Committee Charter.

### Audit Committee Attendance

<table>
<thead>
<tr>
<th>Date</th>
<th>Mr. Ghannam Al Mazrouei</th>
<th>Mr. Khalifa Al Romaithi</th>
<th>Mr. Amr Abd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting 1</td>
<td>06/02/18</td>
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<tr>
<td>Meeting 2</td>
<td>06/03/18</td>
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<tr>
<td>Meeting 3</td>
<td>09/05/18</td>
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<td></td>
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<tr>
<td>Meeting 4</td>
<td>03/07/18</td>
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<tr>
<td>Meeting 5</td>
<td>10/07/18</td>
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<tr>
<td>Meeting 6</td>
<td>17/07/18</td>
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<tr>
<td>Meeting 7</td>
<td>08/08/18</td>
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<tr>
<td>Meeting 8</td>
<td>18/09/18</td>
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<tr>
<td>Meeting 9</td>
<td>09/10/18</td>
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<tr>
<td>Meeting 10</td>
<td>23/10/18</td>
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<tr>
<td>Meeting 11</td>
<td>06/11/18</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Mr. Mohamed Al Mehairi</th>
<th>Mr. Tareq Al Masaood</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25/01/18</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>14/03/18</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>09/04/18</td>
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</tr>
<tr>
<td>4</td>
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<td>01/08/18</td>
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</tr>
<tr>
<td>6</td>
<td>10/10/18</td>
<td></td>
</tr>
</tbody>
</table>

* Jamal Al Nuaimi was replaced by Mr. Khaleefa AlGarmati as a member of the NRC from 8th May 2018.

### Nomination and Remuneration Committee Attendance

- Verification of continuous independence of Board Members;
- Formulating and reviewing annually the policy on granting remuneration, benefits, incentives and salaries to Board Members and employees and verifying that remuneration and benefits granted to the management of the Group are reasonable and in line with the Group’s performance;
- Reviewing the external auditor’s mission and action plan;
- Reviewing financial and accounting policies and procedures, or to be recognised in these reports and accounts;
- Establishing and implementing a policy for entering into a contract with the external auditor;
The Board of Directors of Arabtec Holding PJSC presents the consolidated financial statements as at 31 December 2018 for the Arabtec Group.

**Financial Performance**

The Board of Directors is pleased to report that 2018 was a strong year for Arabtec. Revenue increased to AED 9.9 billion in FY 2018 compared to AED 9.1 billion for FY 2017, up 7.8% year-on-year. Net profit attributable to parent for FY 2018 was AED 256 million compared to AED 123 million for FY 2017, up 108% year-on-year. The Group has now achieved eight consecutive quarters of profitability supported by positive cash from operating activities and a reduction in net debt. The Group’s backlog remained strong at AED 15.6 billion. In line with the Group’s dividend policy of paying out between 25% and 50% of net profit annually, the Board of Directors is proposing to distribute a final dividend of 5.0 fils per share (Total dividend: AED 75 million) for the year ended 31 December 2018, subject to shareholder approval at the Annual General Assembly Meeting.

**Key Milestones**

Throughout 2018 we maintained our focus on positioning the business for growth, continuing to strengthen our balance sheet and building on the solid foundation achieved following our recapitalisation programme completed in 2017. The Group is now back on track and, in line with the Group’s objective to diversify its revenue across all sectors, Arabtec is well-placed to capitalise on the UAE Government’s strategy for economic diversification and the Abu Dhabi Economic Vision 2030. In particular, prospects for social, economic, infrastructure and industrial sectors are positive, with continued infrastructure spending in transport and utilities in the lead-up to Expo 2020 providing opportunities in 2019 and beyond. Arabtec is proud to be delivering the UAE Pavilion and Public Realm Concourses and Arhnais Plazas for Expo 2020 and has strengthened longstanding client relationships, winning further work with Dubai Municipality in the economic infrastructure sector and with ADNOC Group in the industrial sector.

Emiratisation remains a key stakeholder priority, with Arabtec being designated a strategic partner of the Ministry of Human Resources and Emiratisation. This has enabled us to align our Emiratisation strategy more closely to the UAE’s objectives and we are proud to have been recognised through awards in three categories of the Emiratisation Government Accelerator Programme.

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**Our Emiratisation Sponsorship Programme continues to invest in UAE talent in collaboration with the Abu Dhabi Centre for Technical and Vocational Education and Training, the UAE Higher Colleges of Technology and UAE University.**

**The Year Ahead**

The Group continues to focus selectively on MENA countries that offer a solid, sustainable pipeline of construction, infrastructure and industrial opportunities. The market outlook for the UAE and KSA remains strong. Egypt is showing potential for construction growth, underpinned by growing political stability and population growth. Innovation is equally important for our future success and will continue to be a strategic priority for the Group in 2019, reflecting the priorities of the Abu Dhabi Economic Vision 2030 and the UAE’s diversification into higher value-add industries.
INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF ARABTEC HOLDING PJSC

PricewaterhouseCoopers (Dubai Branch), License no. 102461
Emirates Square, Building 4, Level 6, P.O.Box 11887, Dubai – United Arab Emirates
T: +971 (0)4 330 3200; F: +971 (0)4 345 3200, www.pwc.com/me

Report on the audit of the consolidated financial statements
Our qualified opinion
In our opinion, except for the possible effects of the matters described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arabtec Holding PJSC (the “Company”) and its subsidiaries (together the “Group”) as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited
The Group’s consolidated financial statements comprise:
• the consolidated statement of financial position as at 31 December 2018;
• the consolidated income statement;
• the consolidated statement of changes in equity for the year then ended;
• the consolidated statement of financial position as at 31 December 2017;
• the consolidated statement of income for the year then ended;
• the consolidated cash flows for the year then ended; and
• the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for qualified opinion
All the Group’s tangible and intangible properties include a property comprising of a plot of land and associated development costs (“the property”) with a carrying amount of AED 568 million (2017: AED 568 million). As discussed in note 6 to the consolidated financial statements, management has not carried out a detailed impairment review to assess the recoverable amount of the property, which is calculated as the higher of its value-in-use and fair value less cost to sell in accordance with IAS 36, “Impairment of Assets”. Consequently, we were unable to satisfy ourselves as to the carrying amount of the property and determine whether any impairment charge should have been recorded in the consolidated income statement.

As explained in note 10 to the consolidated financial statements, the balance of trade and other receivables includes net exposures of AED 152 million relating to amounts due from customers that have not been certified by the customers and which are subject to negotiations and discussions. We were not provided with sufficient appropriate audit evidence to ascertain the extent and timing of the recoverability of these amounts. Consequently, we were not able to determine whether any impairment adjustments relating to these amounts are necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of matter
Dispute with a shareholder of a subsidiary
We draw attention to note 36 (c) to the consolidated financial statements, which provides details of a dispute and the claim filed by the shareholder of Arabtec Construction W.L.L. Qatar, the outcome of which cannot be determined with reasonable certainty as at the date of this report. Our opinion is not modified in respect of this matter.

Our audit approach
Overview

Key Audit Matters

Contract revenue and profit or loss recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As at 31 December 2018, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in formulating our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter
Our qualified opinion

Contract revenue and profit or loss recognition
The Group enters into contracts, many of which are complex and long-term in nature and can span a number of reporting periods. Contract revenue is recognised over time as performance obligations are fulfilled in accordance with IFRS 15 – Revenue from Contracts with Customers.

We focused in particular on this area because the timing of revenue recognition, estimates of costs to complete, the determination of contractual entitlement and assessment of probability of customer approval of changes in scope and recognition of claims on contracts have inherent complexities in the construction industry, are matters of significant management estimate and judgment and often take time to resolve.

The total amount of revenue and profit or loss to be recognised on a contract can be affected by changes in conditions and circumstances over time, such as:
• variations to the original contract terms
• cost overruns
• scope changes that require further negotiation and agreement.

There can also be significant uncertainties in determining the amounts to be recovered from customers as a result of changes in conditions and circumstances on projects which have led to additional work having been performed (variations). In addition, with respect to claims, the determination of whether it is highly probable that a significant reversal of cumulative revenue will not occur when the uncertainty relating to the claim is resolved and the estimation of the claim amount often require the exercise of significant judgment by management.

The timing of revenue recognition is subjective to judgments surrounding the costs expected to be incurred in completing the work, as revenue on contracts is recognised on a percentage of completion basis.

We obtained from management an understanding of the internal controls over revenue recognition.

We tested a sample of contracts based on value and with the following risk-based characteristics:
• contracts with significant revenue recognised in the year, or with forecast losses;
• contracts with significant un billed work in progress balances;
• contracts that had been identified by management as higher risk based on our discussions with them, or from their routine internal reporting; and
• other contracts not meeting any of the above criteria, selected at random.

We also visited a sample of project sites to enhance our understanding of the projects and discuss directly with the project management teams on site the progress of the project and estimates of costs to complete.

To test whether revenue and profit or loss is accurately recorded, for the selected samples, we performed the following procedures:
• verified the project costs incurred during the year by tracing them to the underlying supporting documentation;
• for estimated costs to complete we obtained an understanding from the respective project teams as to the re- performed and challenged management’s estimates by:
  • assessing the estimated costs against historical and current trends understood by management;
  • evaluating the out-turn of previous estimates; and
  • comparing the year end estimated costs-to-complete against the latest available information provided by the management.

We obtained documentary evidence for the approval of variations by the Group’s customers included in total estimated contract revenue.

With respect to claims, we evaluated management’s judgment on how advanced the negotiations with customers were based on the facts and circumstances of particular contracts, documentary evidence and correspondence and the Group’s relationship with the customer. Further, we verified any subsequent approvals, certifications or cash receipts in relation to the claims recognised at the reporting date.

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

Key audit matters

Contract revenue and profit or loss recognition

How our audit addressed the key audit matter

As a result of the often highly subjective amount involved in determining the costs to complete a contract, the magnitude of any variations and the outcome of claims, there are significant risks that contract revenue and associated margins, or foreseeable losses, are not correctly recognised. We focused on this area because management exercises significant judgment regarding the recoverability of the balances and therefore in estimating the extent of any provision for impairment required in respect of such balances.

We corroborated management’s assessments by reference to other factors such as the status of the contract work and its certification, relationship with the customer, the customer’s financial ability to pay and, where the Group has a legal claim against the customer, the Group’s legal counsel’s and external lawyer’s assessments of the likelihood of a favourable or unfavourable outcome.

As part of this process, we also discussed the progress of the work on the contracts with the respective project teams and we tested the subsequent cash receipts to the source documents for the certified amounts due existing at the reporting date.

For receivable balances with recoverability issues, we checked that an impairment provision had been created in accordance with the Group’s policy and the specific circumstances attaching to each case. In respect of the contract receivables that are subject to arbitration (refer to note 36 (a) and (b) to the consolidated financial statements), we evaluated the probability and timing of recovery of outstanding amounts by reference to the status of negotiations and arbitration proceedings along with other supporting documentation. We also made enquiries of management-appointed legal counsel in respect of the current status of proceedings.

We also tested that appropriate disclosures had been made in the consolidated financial statements in compliance with financial reporting standards.

Recoverability of contract receivables

We focused on this area because management exercises significant judgment regarding the recoverability of the balances and therefore in estimating the extent of any provision for impairment required in respect of such balances.

We corroborated management’s assessments by reference to other factors such as the status of the contract work and its certification, relationship with the customer, the customer’s financial ability to pay and, where the Group has a legal claim against the customer, the Group’s legal counsel’s and external lawyer’s assessments of the likelihood of a favourable or unfavourable outcome.

As part of this process, we also discussed the progress of the work on the contracts with the respective project teams and we tested the subsequent cash receipts to the source documents for the certified amounts due existing at the reporting date.

For receivable balances with recoverability issues, we checked that an impairment provision had been created in accordance with the Group’s policy and the specific circumstances attaching to each case. In respect of the contract receivables that are subject to arbitration (refer to note 36 (a) and (b) to the consolidated financial statements), we evaluated the probability and timing of recovery of outstanding amounts by reference to the status of negotiations and arbitration proceedings along with other supporting documentation. We also made enquiries of management-appointed legal counsel in respect of the current status of proceedings.

We also tested that appropriate disclosures had been made in the consolidated financial statements in compliance with financial reporting standards.

Other information

The directors are responsible for the other information. The other information comprises the Directors’ Report but does not include the consolidated financial statements and our auditor’s report thereon, which we obtained prior to the date of this auditor’s report and the Group’s Annual Report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the basis for qualified opinion section above, we were unable to obtain sufficient evidence about the carrying value of an investment property, as management did not perform an impairment review of the property, and the recoverability of customer receivables where the amounts involved are subject to negotiation, the likely outcome of which is not yet known. We are unable to conclude whether or not the other information is materially misstated with respect to these matters.

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
Auditor’s responsibilities for the audit of the consolidated financial statements

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or, in extremely rare circumstances, we conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (5) of 2015, we report that:

i) we have obtained all the information we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (5) of 2015;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors’ report is consistent with the books of account of the Group;

v) note 33 to the consolidated financial statements discloses the Group’s investment in shares during the year ended 31 December 2018;

vi) note 13 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (5) of 2015 or, in respect of the Company, its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2018.

PricewaterhouseCoopers
12 February 2019

Mohamed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December

Note 2018 AED’000 2017 AED’000

ASSETS

Non-current assets
Property, plant and equipment 5 638,874 754,914
Investment properties 6 595,320 599,647
Goodwill 7 248,741 248,741
Other intangible assets 7 16,000 17,000
Investments in associates 8 209,328 225,884
Deferred tax assets 9 5,282 1,824
Trade and other receivables 10 5,577,018 751,839
Other financial assets 11 17,882 17,282
Advances paid to suppliers and subcontractors 282,223 220,891
3,548,068 2,903,540

Current assets
Inventories 12 130,590 116,942
Trade and other receivables 13 5,937,753 6,089,160
Investments in associates and subcontractors 14 126,359 128,572
Due from related parties 15 576,100 741,499
Other financial assets 16 205,713 182,427
Current assets 17 2,548,068 2,903,540

EQUITY AND LIABILITIES

EQUITY
Share capital 16 1,500,000 1,500,000
Reserve policy 17 155,929 155,929
Foreign currency translation reserve 18 27,603 33,491
Other reserves 19 (222,646) (199,541)
Retained earnings 20 189,763 129,512
Equity attributable to owners of the Parent 21 1,660,657 1,584,949
Noncontrolling interests 22 (258,396) (244,368)
Net equity 1,402,261 1,340,581

LIABILITIES
Non-current liabilities
Bank borrowings 18 559,911 792,339
Promissory notes payable 19 361,244 348,461
Provision for employee’s and of service benefits 20 216,045 240,540
1,137,390 1,381,341
Current liabilities
Trade and other payables 21 4,741,546 4,816,107
Advances received from customers for contracts 22 1,757,322 2,010,184
Bank borrowings 23 1,497,096 1,843,437
Due to related parties 24 487,029 556,261
Income tax payable 25 12,866 9,924
8,495,659 10,252,995
Total liabilities 9,632,849 10,602,411
Total equity and liabilities 11,035,107 11,942,911

Notes 1 to 40 are an integral part of these consolidated financial statements

Haminis Tyworthit  Peter Pollard
Chief Executive Officer  Chief Financial Officer

Chief Financial Officer

The consolidated financial statements were approved for issue by the Board of Directors on 12 February 2019 and signed on its behalf by:

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Arabtec Holding Annual Report 2018

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### CONSOLIDATED INCOME STATEMENT

**Year ended 31 December**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>22</td>
<td>9,852,989</td>
</tr>
<tr>
<td>Direct costs</td>
<td>23</td>
<td>(9,217,754)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>23</td>
<td>635,235</td>
</tr>
<tr>
<td>Investment income</td>
<td>24</td>
<td>4,080</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>25</td>
<td>(297,509)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>26</td>
<td>(1,125)</td>
</tr>
<tr>
<td>Other income – net</td>
<td>27</td>
<td>14,945</td>
</tr>
<tr>
<td>Operating profit</td>
<td>28</td>
<td>355,626</td>
</tr>
<tr>
<td>Finance costs – net</td>
<td>29</td>
<td>(103,468)</td>
</tr>
<tr>
<td>Share of profit from associate</td>
<td>30</td>
<td>8,795</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>31</td>
<td>260,983</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>32</td>
<td>(4,337)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>33</td>
<td>256,616</td>
</tr>
</tbody>
</table>

#### Attributable to:
- Owners of the Parent: 256,299 123,053
- Non-controlling interests: 317 (66,115)

**Total:** 256,616 96,921

**Earnings per share**
- Basic and diluted (AED): 0.17 0.10

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### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 December**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>34</td>
<td>256,616</td>
</tr>
</tbody>
</table>

#### Other comprehensive income

- Items that will be reclassified to consolidated income statement in subsequent periods:
  - Net change in foreign currency translation reserve: (9,421) 14,276
- Items that will not be reclassified to consolidated income statement in subsequent periods:
  - Actuarial (loss)/gain recognised: 20 (19,681) 9,402
  - Other comprehensive (loss)/income for the year: (29,105) 5,167

**Total comprehensive income for the year – net of tax** 227,514 102,088

#### Attributable to:
- Owners of the Parent: 230,723 129,292
- Non-controlling interests: (3,209) (27,204)

**Total:** 227,514 102,088

---

Notes 1 to 40 are an integral part of these consolidated financial statements.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December</td>
<td>1,500,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>At 1 January 2018</td>
<td>1,500,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>– (9,933)</td>
<td>(37)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>– (9,933)</td>
<td>(37)</td>
</tr>
<tr>
<td>Transfer to statutory reserve (Note 17)</td>
<td>254,209</td>
<td>254,209</td>
</tr>
<tr>
<td>Acquisition of non-controlling interest</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend paid to non-controlling interests</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend paid to shareholders</td>
<td>– (6,033)</td>
<td>(8,013)</td>
</tr>
<tr>
<td>Repatriation to directors (Note 15)</td>
<td>– (6,033)</td>
<td>(8,013)</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>1,500,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>At 1 January 2017</td>
<td>4,415,065</td>
<td>4,415,065</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other comprehensive income for the year</td>
<td>– (3,526)</td>
<td>(5,895)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>– (3,526)</td>
<td>(5,895)</td>
</tr>
<tr>
<td>Transfer to statutory reserve (Note 17)</td>
<td>254,209</td>
<td>254,209</td>
</tr>
<tr>
<td>Acquisition of non-controlling interest</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend paid to non-controlling interests</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dividend paid to shareholders</td>
<td>– (6,033)</td>
<td>(8,013)</td>
</tr>
<tr>
<td>Repatriation to directors (Note 15)</td>
<td>– (6,033)</td>
<td>(8,013)</td>
</tr>
</tbody>
</table>

Notes 1 to 40 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

<table>
<thead>
<tr>
<th>Operating activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>260,953</td>
<td>112,835</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sale of property, plant and equipment</td>
<td>24</td>
<td>2,360</td>
</tr>
<tr>
<td>Investment income</td>
<td>24,490</td>
<td>26,452</td>
</tr>
<tr>
<td>Depreciation on investment properties</td>
<td>5,185</td>
<td>5,219</td>
</tr>
<tr>
<td>Net income/(cost) on non-current receivables and payables</td>
<td>28</td>
<td>7,667</td>
</tr>
<tr>
<td>Valuation on investment properties</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Valuation on property, plant and equipment</td>
<td>5</td>
<td>168,560</td>
</tr>
<tr>
<td>Amortisation of Intangible assets</td>
<td>4</td>
<td>1,000</td>
</tr>
<tr>
<td>Provision for employees' end of service benefits</td>
<td>24</td>
<td>5,595</td>
</tr>
<tr>
<td>Finance costs</td>
<td>28</td>
<td>111,335</td>
</tr>
<tr>
<td>Share of profit from associate</td>
<td>848</td>
<td>7,790</td>
</tr>
<tr>
<td>Interest on provision for doubtful receivables</td>
<td>10</td>
<td>9,245</td>
</tr>
<tr>
<td>Reversal of provisions for slow-moving inventories</td>
<td>77</td>
<td>15,826</td>
</tr>
<tr>
<td>Less: declaration of dividend</td>
<td>26</td>
<td>2,354</td>
</tr>
<tr>
<td>Operating cash flow before employees' end of service benefits paid, income tax paid and changes in working capital</td>
<td>565,052</td>
<td>309,293</td>
</tr>
</tbody>
</table>

Changes in working capital:

- Trade and other receivables | 368,732 | (112,560) |
- Advances paid to suppliers and sub-contractors | 290,267 | 174,414 |
- Loss on disposal of associate | 138,289 | 448,189 |
- Prepayments | 101,860 | 701 |
- Other current assets | 46,082 | 66,352 |
- Trade and other payables | (111,335) | (3,526) |
- Advances received for construction work | 562,922 | 146,540 |
- Due to related parties | (49,239) | (189,358) |
- Inventories | (43,254) | 2,704 |
- Cash generated/(used in) operating activities | 996,416 | 1,245,837 |
- Employee end of service benefits paid | (20) | (9,741) |
- Finance income | 2,940 | 3,367 |
- Net cash generated from/(used in) operating activities | 993,495 | (135,397) |
| Balance carried forward | 993,495 | (135,397) |
| Net cash outflow from investing activities | 130,279 | 256,299 |
| Balance at the beginning of the year | 993,495 | (135,397) |
| Net cash used in investing activities | (88,741) | (192,988) |

Financing activities:

- Net movement in borrowings | (107,144) | 293,299 |
- Proceeds from disposal of investment in associate | 982 | 1,516 |
- Proceeds from disposal of property, plant and equipment | 8,354 | 24,741 |
- Net movement in other financial assets | (252,186) | (8,167) |
- Movement in depositsmaturing after 3 months | (15) | (40,000) |
- Others | 4,500 | – |
- Net cash used in investing activities | (102,741) | (192,988) |

Notes 1 to 40 are an integral part of these consolidated financial statements
Arabtec Holding PJSC (the “Company”) is a Public Joint Stock Company established under the laws of the United Arab Emirates (UAE) pursuant to the resolution of the Department of Economic Development, Dubai, number 71 dated 2 July 2004. The Company commenced operations on 20 September 2004. The Company’s shares are listed on the Dubai Financial Market (DFM). The registered office of the Company is PO Box 3399, Dubai, UAE.

The Group’s major shareholder is Aabar Investment PJSC whose parent company is International Petroleum Investment Company (IPIC). IPIC is ultimately owned by the Government of Abu Dhabi.

Arabtec Holding PJSC and its subsidiaries (the “Group”) are primarily engaged in construction of high-rise towers, buildings and residential villas, in addition to the execution of related services such as drainage, electrical and mechanical works, provision of ready mix concrete and construction equipment supply and rental.

The Group also operates in the oil and gas, infrastructure and power sector, facilities management and property development. The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 12 February 2019.

### Subsidiaries, associates and joint ventures

<table>
<thead>
<tr>
<th>Name of subsidiary and domicile</th>
<th>% Holding (including indirect holding) 2018</th>
<th>% Holding (including indirect holding) 2017</th>
<th>Principal activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arabtec Construction LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Construction Syria LLC, Syrian Arab Republic</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Pakistan (Pvt) Limited, Pakistan</td>
<td>60%</td>
<td>60%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Egypt for Construction SAE, Arab Republic of Egypt</td>
<td>55%</td>
<td>55%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Construction LLC (Foreign Company), State of Palestine</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec – Musawa W.L.L, Kingdom of Bahrain**</td>
<td>100%</td>
<td>75%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Construction L.L.C (Dubai foreign working entity), Jordan</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec International Company Limited, Republic of Mauritius</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Construction India (Pvt) Limited, India</td>
<td>63%</td>
<td>63%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Constructions LLC – Abu Dhabi, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Precast LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Manufacturing of precast panels</td>
</tr>
<tr>
<td>Arabtec Minority Holding Limited, JAFZA, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Investment holding company</td>
</tr>
<tr>
<td>Arabtec Building Equipment LLC, UAE</td>
<td>76%</td>
<td>76%</td>
<td>Trading and leasing of civil construction and building equipment</td>
</tr>
<tr>
<td>Arabtec Engineering Services LLC, UAE</td>
<td>80%</td>
<td>80%</td>
<td>Infrastructure, construction</td>
</tr>
<tr>
<td>Arabtec – Envirogreen Management Services LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Building maintenance and facilities management services</td>
</tr>
<tr>
<td>Arabtec Property Development LLC – Abu Dhabi, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Real estate, investment, development and management</td>
</tr>
<tr>
<td>Arabtec Property Development LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Real estate, development</td>
</tr>
<tr>
<td>Arabtec Property Management LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Leasing and management of third party property</td>
</tr>
<tr>
<td>Arabtec Real Estate LLC – Abu Dhabi, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Real estate leasing and management services</td>
</tr>
<tr>
<td>Arabtec Real Estate LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Real estate leasing and management services</td>
</tr>
<tr>
<td>Arabtec Living For Construction LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Limited, JAFZA, UAE</td>
<td>100%</td>
<td>100%</td>
<td>General trading commercial and real estate investments</td>
</tr>
<tr>
<td>Arabtec Trading Limited, JAFZA, UAE</td>
<td>100%</td>
<td>100%</td>
<td>General trading commercial and real estate investments</td>
</tr>
</tbody>
</table>

### Name of subsidiary and domicile | % Holding (including indirect holding) 2018 | % Holding (including indirect holding) 2017 | Principal activities |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arabtec Consolidated Contractors Limited, JAFZA, UAE*</td>
<td>51%</td>
<td>51%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Austrian Arabian Ready Mix Concrete Co. LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Ready mix concrete manufacturing</td>
</tr>
<tr>
<td>Emirates Falcon ElectroMechanical Co. (EFECO) LLC – Dubai, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Electrical, mechanical, and plumbing contracting</td>
</tr>
<tr>
<td>EFECO Qatar W.L.L, Qatar*</td>
<td>49%</td>
<td>49%</td>
<td>Electrical, mechanical, and plumbing contracting</td>
</tr>
<tr>
<td>EFECO LLC, State of Palestine</td>
<td>100%</td>
<td>100%</td>
<td>Electrical, mechanical, and plumbing contracting</td>
</tr>
<tr>
<td>Emirates Falcon ElectroMechanical Co. (EFECO) LLC – Abu Dhabi, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Electrical, mechanical, and plumbing contracting</td>
</tr>
<tr>
<td>Gulf Steel Industries FZ-E, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Fabrication of steel structure and profiles</td>
</tr>
<tr>
<td>Gulf Steel Construction Contracting LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Fabrication of steel structure and profiles</td>
</tr>
<tr>
<td>Idrotec S.r.l., Italy</td>
<td>96%</td>
<td>96%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Idrotec’s Peripheral Factory Ready Mix Concrete Co. LLC, Qatar*</td>
<td>49%</td>
<td>49%</td>
<td>Manufacturing and transportation of ready mix concrete products</td>
</tr>
<tr>
<td>Saudi Target Engineering Construction Company LLC, Kingdom of Saudi Arabia</td>
<td>65%</td>
<td>65%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Target Engineering Construction Company LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Target Steel Industries LLC, UAE</td>
<td>97%</td>
<td>97%</td>
<td>Fabrication of steel structure and profiles</td>
</tr>
<tr>
<td>Target Engineering Construction Company LLC, Foreign Company, Jordan</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec – Musawa W.L.L, Kingdom of Bahrain**</td>
<td>100%</td>
<td>100%</td>
<td>Civil construction and related works</td>
</tr>
<tr>
<td>Arabtec Gulf for Property Development, Egypt</td>
<td>100%</td>
<td>100%</td>
<td>Real estate, investment, development and management</td>
</tr>
<tr>
<td>Arabtec – Envirogreen Facility Management Services LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Investment holding company</td>
</tr>
<tr>
<td>Arabtec – Envirogreen Facility Management Services LLC, UAE</td>
<td>100%</td>
<td>100%</td>
<td>Investment holding company</td>
</tr>
</tbody>
</table>

### Legal status and activities

The Company and its subsidiaries have the following branches:

- **Arabtec Holding PJSC – Abu Dhabi branch**
- **Arabtec Construction LLC – St Petersburg, Russia**
- **Arabtec Construction LLC, Riyadh, Kingdom of Saudi Arabia**
- **Arabtec Construction LLC – Fujairah branch**
- **Arabtec Construction LLC, Bahain branch**
- **Arabtec Construction LLC, Sharjah branch**
- **Idrotec SRL – Abu Dhabi**
- **ACC Arabtec JV SAI – Syrian Arab Republic branch**
- **Target Engineering Construction Company – Dubai branch**
- **Target Engineering Construction Company – Sharjah branch**
- **Target Engineering Construction Company – Fujairah branch**

* Although the Group holds 50% or less of the share capital, it exercises control over these subsidiaries.

** During the year ended 31 December 2018, the Group acquired the remaining 25% shareholding in Arabtec – Musawa W.L.L. Kingdom of Bahrain for AED 712,000, increasing its ownership interest to 100%. The difference of AED 13,585 thousand between the purchase price and the carrying value of the non-controlling interest acquired has been reflected in other reserves.

The Company and its subsidiaries are engaged in the following principal activities:

- Target Engineering Construction Company W.L.L, Qatar branch
- Arabian Engineering Services LLC, Abu Dhabi branch
- Austrian Arabian Ready Mix Co LLC – Abu Dhabi branch
- EFECO – Riyadh, Kingdom of Saudi Arabia
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  Continued
for the year ended 31 December 2018

1 Legal status and activities Continued
The Group has the following associates over which it exercises significant influence:

<table>
<thead>
<tr>
<th>Name of associate and domicile</th>
<th>% Holding (including indirect holding)</th>
<th>Principal activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depa Limited, Dubai, UAE (‘DEPA’)</td>
<td>24%</td>
<td>Luxury fit-out of five star hotels, yachts and facilities and related services</td>
</tr>
</tbody>
</table>

Joint operations in the Group are disclosed in Note 37.

2 Summary of significant accounting policies
The significant accounting policies applied in the Group in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) and IFRS Interpretation Committee (IFRIC) interpretations applicable to companies reporting under IFRS. The financial statements comply with IFRSs as issued by the International Accounting Standards Board (‘IASB’). These consolidated financial statements have been prepared under the historical cost convention except for the following:

- certain financial assets and liabilities – measured at fair value
- defined benefit pension plans – plan assets measured at fair value

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The Group considers that the estimates involving a higher degree of judgement or complexity, or areas where assumptions are considered to be more uncertain, are those relating to:

- the measurement of provisions for impairments resulting from the application of IAS 36 ‘Non-current assets held for sale or impairment’;
- the assessment of the recoverable amount of assets held at the reporting date;
- the measurement of sales and profit margins;
- the preparation of the operating profit for the year ended 31 December 2018;
- the determination of the useful lives of plant and equipment.

The new standard eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. Leases are ‘capitalised’ by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. The Group is in the process of assessing the potential impact of the application of IFRS 16 on the amounts reported and disclosed in these consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group’s consolidated financial statements.

2.2 Basis of consolidation

a) Subsidiaries

The consolidated financial statements comprise the financial statement of the Group and its subsidiaries (Note 1). Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the current ability to direct, the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the investee acquired in the case of a bargain purchase, the difference is recognised directly, within profit and loss in the consolidated statement of comprehensive income statement. If the business combination is achieved in stages, the acquisition date carrying value of the acquiree’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Where a non-controlling interest has control of, or significantly influences, the entity, the amounts reported by subsidiaries have been adjusted to correct for both the non-controlling interest and for the entity’s accounting policies.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Business combinations arising from transfers of interests in associated entities to the Group are accounted under predecessor accounting. The assets and liabilities acquired are recognised at the carrying amounts on the date of acquisition and no adjustments are made to reflect the fair values. Any difference between the consideration given for the acquisition of the carrying value of assets and liabilities acquired is recognised directly in equity. No goodwill is recognised as a result of the combination.

b) Loss of control
If the Group loses control over a subsidiary, it:
- recognises the assets (including goodwill) and liabilities of the subsidiary;
- recognises the carrying amount of any non-controlling interest;
- recognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained, with the change in the carrying amount recognised in consolidated income statement;
- recognises any surplus or deficit in consolidated income statement; and
- reclassifies the parent’s share of assets and liabilities that have not been previously consolidated at fair value into the cost of retained investment or retained earnings, as appropriate.

c) Joint arrangements
The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations are consolidated on a proportional line by line basis.

d) Associates
Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policies decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition.

The Group’s investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group’s share of post-acquisition profit or loss is recognised within profit and loss in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying fair value of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
2 Summary of significant accounting policies

2.2 Basis of consolidation

a) Group

The Group comprises Arabtec Holding and its associated companies. The Group's primary economic environment is the United Arab Emirates ("UAE"). The Group's financial statements are presented in United Arab Emirates Dirhams ("AED"). The functional and presentation currency is the AED.

b) Significant events

No assets held under operating lease have been classified as financial assets or liabilities.

2.3 Foreign currency translation

a) Functional and presentation currency

The Group measures and recognises only retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

b) Foreign currency transactions

Foreign currency transactions are translated into foreign currency at rates prevailing at the date of the transaction. Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated into foreign currency at the closing rate in the period in which they are incurred.

c) Foreign currency financial assets and liabilities

The gains and losses arising in investments in associates are recognised within profit and loss in the consolidated income statement.

2.4 Property, plant and equipment

a) Recognition and derecognition

Gains and losses arising on the disposal of an item are recognised in the consolidated income statement in the period in which they are incurred.

b) Capitalisation

Specific borrowing costs directly attributable to the construction of an asset in a long-term project that are expected to be recovered through increased revenue from the asset are capitalised. Such costs are included in the cost of the asset and are amortised over the useful life of the asset.

2.5 Investment properties

a) Impairment

Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that an impairment may exist.

2.6 Intangible assets

a) Goodwill

Goodwill is impaired on a business combination and represents the excess of the consideration transferred over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities, and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group's highest generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination.

b) Intangibles assets (excluding goodwill)

Separately acquired intangibles are assets at historical cost less accumulated amortisation. The cost of intangible assets acquired in a business combination is recognised at fair value at the acquisition date. Intangible assets having a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as mentioned below:

<table>
<thead>
<tr>
<th>Years</th>
<th>Costs</th>
<th>Customer contracts</th>
<th>Other intangibles</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Gains or losses arising from de-recognition of an intangible asset are measured at the carrying amount of the related disposal proceeds and the carrying amount of the asset and are recognised within the consolidated income statement when the asset is derecognised.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued
for the year ended 31 December 2018

2 Summary of significant accounting policies Continued

2.7 Impairment of non-financial assets Continued
In assessing the recoverable amount of estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks involved in the estimation of the cash flows. In determining fair value less costs to sell, recent market transactions are taken into account. A loss event can seize the assets and a valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of one to five years. For longer periods, the long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

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

2.8 Financial instruments

The application of the new standard required the management to apply the following new accounting policies.

a) Classification

From 1 January 2018, the Group classifies its financial assets into the following categories and subcategories on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are classified as:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group’s business model for managing the financial assets that whether the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the cash flows that are solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is recognised using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/losses together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

b) Impairment of financial assets

For trade and contract assets, the Group has applied a combination of the simplified and general approach permitted by IFRS 9. Simplified approach is applied to a portfolio of trade receivables that are homogeneous in nature and carry similar credit risk. Under general approach, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. However, simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

c) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information is presented without applying the requirements of IFRS 9. The Group has measured all financial assets at fair value with unrealised gains and losses recognised in other comprehensive income. Interest earned whilst holding available-for-sale financial assets is reported as interest income using effective interest rate method.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the asset using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income. Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income as part of other income when the Group’s right to receive payments is established.

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income as part of other income when the Group’s right to receive payments is established.

2.9 Non-current assets classified as held for sale

Assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and management expects to complete the sale within one year from the date of classification.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in areas or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is calculated as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

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 (such as an increase in the expected cash flows or decrease in the credit risk), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.9 Non-current assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and management expects to complete the sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.
2.14 Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in provisions due to the passage of time are recognised as interest expense. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the classification of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.15 Financial Liabilities
Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.
The Group’s financial liabilities include trade and other payables and bank borrowings as appropriate.
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

2.16 Bank borrowings
Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently carried at amortised cost using the effective interest method.

2.17 Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Invoiced interest earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

2.18 Current and deferred income tax
The tax expense for the period comprises current and deferred tax expense recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets are recognised on deductible temporary differences for associates and joint arrangements only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are recognised on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employees’ end of service benefits
A provision is made for the estimated liability for employees’ entitlements to annual leave and related benefits as a result of services rendered by the employees up to the reporting date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the Labour Laws applicable in the countries in which the Group operates, for their periods of service up to the reporting date.
The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.
Actuarial gains and losses arising from experience adjustments and changes in assumptions are charged or credited to equity in the other comprehensive income in the period in which they arise. The service cost and service credits are recognised immediately in consolidated statement of income.
The defined benefit liability comprises the present value of the defined benefit obligations using a discount rate based on market yield rates. The Group has not allocated any assets to such plans.

2.20 Revenue recognition
The application of the new standard requires management to apply the following new accounting policy:
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contracts that have been partially fulfilled and excluding discounts, rebates, customer returns and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.
Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.12 Share capital
Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.
Where any Group company purchases the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company’s equity holders until the shares are cancelled or reissued.
Where such ordinary shares are subsequently reissued, any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company’s equity holders.

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The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

• The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
• The customer receives control of goods or services as the Group performs; or
• The customer receives significant benefits provided by the Group's performance as the Group performs; or
• The Group satisfies a performance obligation at a point in time or over time.

The Group recognises revenue from contracts with customers in time at which the performance obligation is satisfied.

The Group's performance does not create an asset with an alternative use and has an enforceable right to receive the consideration when the uncertainty associated with the claim is substantially resolved.

The amount of consideration to be paid in one contract does not affect the amount due to be received in another contract; or

The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

If the above criteria are met, the arrangements are combined and accounted for as a single arrangement for revenue recognition.

Pre-contract cost of obtaining a contract with a customer is recognised as an asset if those costs are expected to be recovered.

Revenue is recognised in the statement of comprehensive income to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the revenue and costs, if applicable, can be measured reliably.

i) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate (EIR) applicable, which is the rate that exactly discounts future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

ii) Dividend income

Dividend income from investments is recognised when the rights to receive payment have been established.

iv) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

v) Accounting policies applied until 31 December 2017

The Group has applied IFRS 15 retrospectively, but has elected not to restate comparative information. The impact of adopting the accounting standard did not have a material impact on the consolidated financial statements. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, which is as follows:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment when the work is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duties.

The following specific recognition criteria must also be met before revenue is recognised:

a) Contract revenue

Contract revenue is recognised under the percentage-of-completion method. When the outcome of the contract is known it is probable, revenue is recognised by reference to the proportion that accumulated costs up to the year end bear to the estimated total costs of the contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year end which are considered recoverable.

Revenue related to variation orders is recognised when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

Claims and incentive payments are recognised as contract revenue when settled or when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be measured reliably.

ii) Costs incurred

- The costs of goods sold and the costs of contracts comprise direct contract costs and other costs relating to the contracting activity.
- Costs that cannot be related to contract activity or cannot be allocated to a contract are excluded from the costs of the construction contracts and are included in general and administrative expenses.
2 Summary of significant accounting policies

2.22 Leases

The determination of whether an arrangement is or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rental payments under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased item are consumed.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.23 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded to the nearest thousand currency units unless otherwise stated.

2.24 Dividends

Dividends payable as a percentage of the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but distributed at the end of the reporting period.

3 Financial risk management

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group’s Board of directors and senior management oversee the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

a) Market risk

i) Foreign exchange risk

The Group’s foreign currency monetary assets and liabilities are denominated mainly in the following currencies:

- Category I: Saudi Arabian Riyals, Qatari Riyals, Jordanian Dinars, Bahamian Dinars
- Category II: Euro, Kuwaiti Dinars, Indian Rupees, Pakistani Rupees, Egyptian Pounds, Syrian Pounds

As the Category I monetary assets and liabilities are pegged to US Dollars, the sensitivity only considers the effect of a reasonably possible movement of the AED currency rate against Category II monetary assets and liabilities with all other variables held constant, on the consolidated statement of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

At 31 December 2018, if these had weakened/strengthened by 10% against the AED, the profit/(loss) for the year would have been lower/higher by AED 12,869 thousand (2017: AED 10,588 thousand).

ii) Price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group’s listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group’s senior management on a regular basis. The Group’s Board of Directors reviews and approves all equity investment decisions.

The Group is not exposed to significant price risks as it does not have significant price sensitive assets and liabilities.

iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities bank deposits, bank overdrafts, acceptances, trust receipts and term loans. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

At 31 December 2018, if interest rates on borrowings had been 0.1% higher/lower with all other variables held constant, profit for the period would have been AED 2,057 thousand (2017: AED 2,634 thousand) lower/higher, mainly as a result of higher/lower interest expense.

b) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities including contract, concessions and trade receivables, due from related parties and bank balances. Trade and contract receivables consist of a number of customers, spread across diverse industries and geographical areas within and outside the UAE. The terms of payment are specified in formal signed contracts with customers.

The Group is only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group’s exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit exposure is controlled by counterparty limits that are reviewed and approved by the management regularly and the Group maintains a provision for doubtful accounts receivable based on expected collectability of all accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 15% of gross monetary assets at any time during the year.

The Group limits its credit risk with regard to bank deposits by dealing only with reputable international and local banks.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business through the Group maintains adequate bank balances and credit facilities to fund its operations.

Management monitors the forecast of the Group’s liquidity position on the basis of expected cash flows.

The Group is currently financed from shareholders’ equity and bank borrowings. The table below analyses the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.
The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

4.2 Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed overhead costs.

3 Financial risk management

3.2 Capital management
The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio which is calculated as net debt divided by total equity (as shown in the consolidated statement of financial position including non-controlling interests).

In the gearing ratio of the Group at 31 December 2018 and 31 December 2017 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank borrowings (Note 18)</td>
<td>2,057,007</td>
<td>2,033,771</td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 15)</td>
<td>1,269,575</td>
<td>1,244,146</td>
</tr>
<tr>
<td>Net debt</td>
<td>797,432</td>
<td>1,489,627</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,402,258</td>
<td>1,540,498</td>
</tr>
<tr>
<td>Total capital</td>
<td>2,189,690</td>
<td>2,835,125</td>
</tr>
<tr>
<td>Net debt to equity ratio</td>
<td>36%</td>
<td>53%</td>
</tr>
</tbody>
</table>

3.3 Fair value estimation

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of bank balances and cash, trade and other receivables, other financial assets, other current assets and due from related parties. Financial liabilities consist of bank borrowings, trade and other payables and due to related parties. The fair values of financial instruments are not materially different from their carrying values. The fair value of the financial assets and liabilities is considered at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Bank balances and cash, trade receivables, other financial assets, other current assets, due from related parties, bank borrowings, trade and other payables and due to related parties approximate their carrying amounts, largely due to the short-term maturities of these instruments.

- Long term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken in to account for the expected losses of these receivables.

- As at 31 December 2018, the carrying amounts of such receivables, not of provisions, are not materially different from their fair values.

- Fair value of bank borrowings and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debts on similar items, credit risk and remaining maturities.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair values of assets and liabilities by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value hierarchy disclosures relating to other assets and liabilities (such as goodwill and investment properties) are made in the relevant notes.

4 Critical accounting estimates and judgements

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

4.1 Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed overhead costs.

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

b) Contract variations and claims
Variation orders will have to be accounted for prospectively or as new contracts based on the nature and price of additional products and services requested through these variation orders. The amount of claim recognised as part of the revenue for the year is AED 381 million (2017: AED 383 million).

The Group includes variable consideration (including claims, re-measurable contract values and discounts) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

c) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions and forward-looking estimates at the end of each reporting period.

At the reporting date, gross trade, contract and other receivables and contract retainings amounted to AED 5,931,028 thousand (2017: AED 6,503,797 thousand), and the provision for doubtful debts was AED 336,257 thousand (2017: AED 452,932 thousand). Any difference between the amounts actually collected in a future period and the amounts expected, will be recognised in the consolidated income statement in that period.

d) Impairment of non-financial assets

There are no indicators of impairment for all non-financial assets at each reporting date. If any such indication exists, or when annual impairment review is performed, the Group assesses whether the asset’s recoverable amount. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist.

Other non-financial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Please refer to Notes 6 and 7 for impairment assessment of investment properties and goodwill.

e) Employees’ end of service indemnity

The cost of the end of service benefits and the present value of these benefits obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

All assumptions are reviewed annually. Further details about the assumptions used and sensitivity analysis are given in Note 20.

4.2 Critical judgements

a) Joint operations
The Group reports its interests in jointly controlled entities as joint operations when the Group has direct right to the assets, and obligations for the liabilities, relating to an arrangement. In this case it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation. Management has evaluated its interests in joint arrangements and has concluded them to be joint operations.

b) Operating lease commitments – Group as lessor
The Group lessees into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements for an asset it required the Group not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

c) Assessment of control in subsidiaries in which the Group holds less than 50% shareholding
The Group has evaluated its subsidiaries in Qatar although the Group holds less than 50% in those entities. Management have assessed that the Group has the practical ability to direct the relevant activities of these entities and affect variable returns. Accordingly, these entities have been consolidated in these financial statements.
### 5 Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Additions</th>
<th>Transfers</th>
<th>Disposals</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2017</td>
<td>48,031</td>
<td>6,242</td>
<td>1,063</td>
<td>-</td>
<td>55,336</td>
</tr>
<tr>
<td>At 31 December 2017</td>
<td>53,427</td>
<td>6,302</td>
<td>1,118,467</td>
<td>168,047</td>
<td>622,846</td>
</tr>
</tbody>
</table>

#### Accumulated depreciation

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Leasehold land</th>
<th>Plant machinery and office equipment</th>
<th>Vehicles</th>
<th>Labour camps and buildings</th>
<th>Furniture</th>
<th>Scaffolding</th>
<th>tunnelling forms</th>
<th>Properties under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2017</td>
<td>-</td>
<td>1,986</td>
<td>658,516</td>
<td>173,198</td>
<td>130,179</td>
<td>10,956</td>
<td>2,674</td>
<td>91,585</td>
<td>-</td>
<td>1,242,576</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>-</td>
<td>68</td>
<td>84,499</td>
<td>17,810</td>
<td>42,367</td>
<td>13,068</td>
<td>16,062</td>
<td>-</td>
<td>-</td>
<td>147,872</td>
</tr>
<tr>
<td>Transfers</td>
<td>-</td>
<td>-</td>
<td>(33,495)</td>
<td>(9,143)</td>
<td>(29,241)</td>
<td>(5,454)</td>
<td>(89,910)</td>
<td>-</td>
<td>-</td>
<td>(168,329)</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(7,749)</td>
<td>(17,397)</td>
<td>(10,042)</td>
<td>(2,399)</td>
<td>(494)</td>
<td>(21)</td>
<td>(123,642)</td>
<td>-</td>
</tr>
<tr>
<td>At 1 January 2018</td>
<td>5,396</td>
<td>60</td>
<td>29,086</td>
<td>3,119</td>
<td>4,023</td>
<td>4,984</td>
<td>9,545</td>
<td>4,065</td>
<td>60,298</td>
<td>-</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>59,685</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>1,063</td>
<td>59,685</td>
</tr>
</tbody>
</table>

The Group’s investment properties consist of the following:

1. **Investment properties** includes a land in Dubai, UAE amounting to AED 568 million (2017: AED 568 million). The carrying value of the land includes incurred development costs of AED 88 million.

2. **Land and buildings** is pledged against the borrowing from Mashreq Bank amounting to AED 25 million (2017: AED 307.7 million).

3. **Villas in Abu Dhabi, UAE** with a carrying value of AED 2 million (2017: AED 2 million), the fair value of these investment properties based on market prices approximates AED 2 million at 31 December 2018 (2017: AED 2 million). The villas are designated for rental activities and accordingly, classified as investment properties.

4. **Land in Al Ain, UAE** amounting to AED 25 million (2017: AED 25 million). management has classified this land as investment property and is currently held for appreciation in the value. The fair value of the land is not expected to be materially different from the carrying value as at 31 December 2018.

During the year, there is no rental income (2017: Nil) related to investment properties and the depreciation charge in the consolidated income statement amounted to AED 327 thousand (2017: AED 327 thousand).

#### 7 Intangible assets

**Intangible assets comprise:**

- **Goodwill:** 248,741
- **Other intangible assets:** 16,000

The calculation of value-in-use is sensitive to the following assumptions:

- **Revenue growth rate:**
- **Profit margins:**
- **Discount rate:**

Revenue growth rate: Estimates are based on forecasted growth rates in the industry and historical performance of each CGU. Revenue growth rates averaging 5.82% per annum (2017: 5% and 10% per annum) have been applied.

Profit margins: Estimates are based on assumption of achieving a stabilised level of performance based on the contracts in hand and expected orders. The effect of changes in economic conditions and the level of activity in the construction industry would impact the profit margins. Profit margin percentages ranged from 3.7% to 6.96% (2017: 2.88% to 6.78%)

Discount rate: Discount rates used throughout the assessment period ranged between 11.76% and 14.83% per annum (2017: 12.31% and 15% per annum), reflecting the CGU’s estimated weighted average cost of capital and specific market risk profile and cost of debt. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

#### 8.2 Impairment of goodwill

Management has carried out an impairment test of goodwill at the year end using an external expert and has concluded that no impairment exists as at 31 December 2018 (2017: Nil). For this purpose, the recoverable amount of each CGU has been estimated, and is based on a value-in-use calculation using cash flow projections approved by the board and covering a five year period. Cash flows beyond the five year period are extrapolated using a growth rate, which management believes approximates the long-term average growth rate for the industries in which the CGU’s operate.
8 Investments in associates
At 31 December, the Group’s investments in associates comprise:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Additions</td>
<td>Impairment</td>
<td>Net carrying value</td>
</tr>
<tr>
<td></td>
<td>AED’000</td>
<td>AED’000</td>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>2017</td>
<td>317,586</td>
<td>(5,282)</td>
<td>4,648,571</td>
<td>4,337</td>
</tr>
<tr>
<td>2018</td>
<td>3,735</td>
<td>4,653,636</td>
<td>1,000</td>
<td>4,337</td>
</tr>
</tbody>
</table>

9 Income tax
The Group is subject to taxation on its operations except in the United Arab Emirates and Bahrain. Income in countries of operations is subject to tax rates ranging between 5% and 34%.

a) Income tax recognised in the consolidated income statement

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Tax expense components</td>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Current tax expense</td>
<td>7,796</td>
<td>16,000</td>
</tr>
<tr>
<td>Deferred tax income relating to the origination and reversal of temporary differences</td>
<td>(1,439)</td>
<td>(260)</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>6,357</td>
<td>15,740</td>
</tr>
</tbody>
</table>

The income tax expense in the income statement is at the applicable tax rate of the respective subsidiaries in the consolidated financial statements.

b) Deferred tax balances
Deferred tax assets arise from temporary differences on property, plant and equipment as follows:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>1,623</td>
<td>3,757</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact on the consolidated statement of comprehensive income</td>
<td>1,459</td>
<td>86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>5,282</td>
<td>1,827</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities are considered non-current.

10 Trade and other receivables

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Current</td>
<td>AED’000</td>
<td>AED’000</td>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>55,462</td>
<td>56,785</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Contract receivables</td>
<td>1,830,731</td>
<td>1,875,675</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amounts due from customers on contracts</td>
<td>2,641,928</td>
<td>2,981,193</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>(334,521)</td>
<td>(265,182)</td>
<td>(1,736)</td>
<td>(1,736)</td>
</tr>
<tr>
<td>Retentions receivable</td>
<td>844,163</td>
<td>699,945</td>
<td>528,754</td>
<td>701,899</td>
</tr>
<tr>
<td>Total</td>
<td>5,037,753</td>
<td>5,248,016</td>
<td>5,037,018</td>
<td>5,701,899</td>
</tr>
</tbody>
</table>

The maximum exposure to credit risk at the reporting date is represented by the carrying amounts of each class of receivables mentioned above.

Contract receivables represent amounts due from customers for construction work rendered by the Group and certified by the customers’ consultants.

Retentions receivable represent amounts withheld by the customers in accordance with contract terms and conditions. These amounts are to be released upon fulfilment of contractual obligations.

The balance of contract receivables includes two customers’ balances totaling AED 335 million (2017: AED 346 million) individually representing more than 5% of the total balance of contract receivables. The Group does not expect any losses from these receivables due to history of payments from these customers.

A provision has been made for the estimated impairment amounts of trade and other receivables of AED 335 million (2017: AED 265 million). This provision has been determined based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 31 December 2018

10 Trade and other receivables
Continued
Movement in the provision for doubtful debts against trade and other receivables is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>265,382</td>
<td>298,478</td>
</tr>
<tr>
<td>Provisions on impact of changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In accounting policies (Note 39)</td>
<td>112,679</td>
<td></td>
</tr>
<tr>
<td>Write off of trade receivables (33,854)</td>
<td>1,176</td>
<td></td>
</tr>
<tr>
<td>Reversal of provision during the year (9,025)</td>
<td>(31,430)</td>
<td></td>
</tr>
<tr>
<td>Provision made during the year (Note 26)</td>
<td>1,075</td>
<td>2,491</td>
</tr>
<tr>
<td>Relating to disposal of a subsidiary</td>
<td></td>
<td>(2,982)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>336,257</td>
<td>265,382</td>
</tr>
</tbody>
</table>

Amounts due from customers for contract work are presented net of impairment provision of AED 39,209 thousand (2017: AED 39,209 thousand).

Contract and trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group’s impairment policies and the calculation of the loss allowance are provided in Note 2.

At 31 December 2018, the Group has no receivable exposure amounting to AED 153 million after considering outstanding advances and other receivables from the customer and direct payments made to the Group’s suppliers by the customer. Negotiations with the customer for recovery of the amounts are in progress. Based on the contracts and communications with the customer, management of the Group does not expect any losses. The Group has not recorded any provision for impairment when no provision for impairment has been made against these balances.

At 31 December 2018, contract receivables of AED 499,657 thousand (2017: AED 154,468 thousand) were fully performing. Included in the Group’s contract receivables balance are debtors with a carrying amount of AED 1,034,817 million (2017: AED 1,096,125 million) which are past due at the reporting date for which the Group has not recorded any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of past due but not impaired balances:

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past due for less than 3 months</td>
<td>532,988 555,169</td>
<td></td>
</tr>
<tr>
<td>Past due for more than 3 months</td>
<td>501,829 140,986</td>
<td></td>
</tr>
<tr>
<td>Total provision</td>
<td>1,034,817 1,096,125</td>
<td></td>
</tr>
</tbody>
</table>

In determining the recoverability of contract and trade receivables, the Group considers any change in the credit quality of the contract and trade receivables from the date the credit was initially granted up to the reporting date. At the reporting date, management has taken the current market conditions into account when assessing the credit quality of contract and trade receivables. The project directors also hold regular meetings with contract customers to renegotiate payment terms and to ensure the credit-worthiness of the ultimate end-users. In addition, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, taking all of the above into account, the Board of Directors of the Group believes that there is no further credit provision required in excess of the current provision for doubtful debts disclosed above.

Aging of impaired contract and trade receivables against which the provision for doubtful debts has been made amount to AED 336,257 thousand (2017: 265,382 thousand).

10.1 Amounts due from customers on contracts

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts due from customers on contracts included in trade and other receivables</td>
<td>2,641,928 2,981,193</td>
<td></td>
</tr>
<tr>
<td>Amounts due from customers on contracts included in trade and other payables (Note 21)</td>
<td>(1,455) (17,921)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,675,473 2,809,272</td>
<td></td>
</tr>
</tbody>
</table>

Contract costs incurred plus recognised profit less recognised losses to date on contracts in progress:

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss: Provision recognised for doubtful debts</td>
<td>41,344,875 36,615,929</td>
<td></td>
</tr>
<tr>
<td>Provision on progress (Note 20)</td>
<td>(58,769,402) (33,806,657)</td>
<td></td>
</tr>
<tr>
<td>At 31 December</td>
<td>2,675,473 2,809,272</td>
<td></td>
</tr>
</tbody>
</table>

Movement in provision for impairment in inventories:

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>5,620 16,544</td>
<td></td>
</tr>
<tr>
<td>Provision recognised during the year (Note 26)</td>
<td>50 525</td>
<td></td>
</tr>
<tr>
<td>Provision recognised during the year (Note 27)</td>
<td>(2,979) (9,144)</td>
<td></td>
</tr>
<tr>
<td>Disposal of a subsidiary</td>
<td>(2,585)</td>
<td>(12,056)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>2,691 5,620</td>
<td></td>
</tr>
</tbody>
</table>

due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. For the non-current trade receivables and rentals, the fair values were calculated based on discounted cash flows discounted. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

11 Other financial assets

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Non-current</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 AED'000</td>
<td>2017 AED'000</td>
<td>2018 AED'000</td>
</tr>
<tr>
<td>Financial assets at cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets at fair value through other comprehensive income</td>
<td>17,282</td>
<td>17,282</td>
</tr>
<tr>
<td>Total financial assets at fair value through other comprehensive income</td>
<td>17,282</td>
<td>17,282</td>
</tr>
<tr>
<td>Financial assets at amortised cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed deposits under lien</td>
<td>80,843</td>
<td>63,459</td>
</tr>
<tr>
<td>Margin deposits</td>
<td>124,870</td>
<td>118,968</td>
</tr>
<tr>
<td>Total financial assets under lien</td>
<td>205,713</td>
<td>182,427</td>
</tr>
<tr>
<td>Total other financial assets</td>
<td>205,713</td>
<td>182,427</td>
</tr>
</tbody>
</table>

Unquoted equity shares include an investment in Al Waab City project, Qatar. As the fair value of this investment cannot be reliably determined, it is carried at cost less provision for impairment of AED 1,110 thousand (2017: AED 1,110 thousand). The Group intends to hold this investment for future growth or until an appropriate exit is available.

Fixed deposits under lien and margin deposits include the deposits held against bank facilities and labour visas.

12 Inventories

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel inventories required for specific projects</td>
<td>9,144 13,050</td>
<td></td>
</tr>
<tr>
<td>Other construction materials</td>
<td>75,027 80,541</td>
<td></td>
</tr>
<tr>
<td>Work in progress</td>
<td>42,738 22,217</td>
<td></td>
</tr>
<tr>
<td>Ready mix concrete and other related materials</td>
<td>6,172 6,258</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133,281 122,959</td>
<td></td>
</tr>
<tr>
<td>Less: provision for impairment in inventories (2,691) (5,620)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>130,590 117,339</td>
<td></td>
</tr>
</tbody>
</table>

13 Related party transactions and balances

The Group enters into a variety of transactions with companies and entities that fall within the definition of related parties as contained in International Accounting Standard No. 24: Related Party Disclosures on mutually agreed terms. Related parties comprise the Group’s shareholders who control or exercise significant influence, directors and entities related to them, companies under common ownership and/or common management and control, their partners and key management personnel, joint operations partners and non-controlling interests are considered by the Group as related parties. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

a) Due from related parties

<table>
<thead>
<tr>
<th></th>
<th>2018 AED'000</th>
<th>2017 AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint operations</td>
<td>561,231 634,713</td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td>73,788</td>
<td></td>
</tr>
<tr>
<td>Other related parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entities with common ownership and management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Al Waab City W.L.L., Doha, Qatar</td>
<td>2,552 2,552</td>
<td></td>
</tr>
<tr>
<td>Al-Abitec – Musawa W.L.L</td>
<td>7,353</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>5,024 3,356</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14,929 8,998</td>
<td></td>
</tr>
<tr>
<td>757,160 844,718</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued
for the year ended 31 December 2018

13 Related party transactions and balances Continued
b) Due to related parties

<table>
<thead>
<tr>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint operations</td>
<td></td>
</tr>
<tr>
<td>Amounts due to joint operations’ partners</td>
<td>390,369</td>
</tr>
<tr>
<td>Shareholders</td>
<td>7,048</td>
</tr>
<tr>
<td>Associate</td>
<td>50,855</td>
</tr>
<tr>
<td>Other related parties</td>
<td></td>
</tr>
<tr>
<td>Entities with common ownership and management</td>
<td>31,666</td>
</tr>
<tr>
<td>Others</td>
<td>7,071</td>
</tr>
<tr>
<td></td>
<td>38,757</td>
</tr>
<tr>
<td></td>
<td>487,029</td>
</tr>
</tbody>
</table>

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

- **Loan from a related party**
  - On 15 July 2016, the Group entered into a loan note agreement with Aabar (Investments PJSC a shareholder) for a term loan facility of AED 450 million, to support the projects’ execution. As at 22 June 2017, the draw-down balance of the loan, amounting to AED 199,635 thousand, was settled from the proceeds of the rights issue.
  - The nature of significant related party transactions and the amounts involved were as follows:
    - **Joint operations**
      - Manpower and other charges to joint operations | 64,543 | 47,115 |
    - **Shareholders**
      - Contract and other revenue | 23,119 | 15,961 |
    - **Other related parties**
      - Contract and other revenue | 98,229 | 148,011 |
      - Subcontracting costs | 10,134 | 19,516 |
      - Equipment hire | – | 126 |
      - Wages and salaries | – | 117 |
  - **f) Included in amounts due from customers for contract work is an amount of AED 648 thousand (2017: Nil) due from a shareholder.**
  - The Group, in the ordinary course of business, enters into various transactions including borrowings and bank deposits with financial institutions which may be majority-owned by the Government of the Emirate of Abu Dhabi. The effect of these transactions is included in the consolidated financial statements. These transactions are made at terms equivalent to those that prevail in arm’s length transactions.
  - Cash and cash equivalents and borrowings include AED 1,344,452 thousand (2017: AED 1,444,476 thousand) and AED 540,181 thousand (2017: AED 648,937 thousand) respectively, with/from entities in which the Government of the Emirate of Abu Dhabi has an equity stake. Finance cost includes AED 30,582 thousand (2017: AED 20,550 thousand) relating to balances with these entities.

14 Other current assets

<table>
<thead>
<tr>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid expenses</td>
<td>139,069</td>
</tr>
<tr>
<td>Other receivables</td>
<td>146,564</td>
</tr>
<tr>
<td>Due from employees</td>
<td>3,668</td>
</tr>
<tr>
<td></td>
<td>289,301</td>
</tr>
</tbody>
</table>

15 Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash and short-term deposits held by the Group, net of bank overdrafts. The details are as follows:

<table>
<thead>
<tr>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank balances</td>
<td>898,728</td>
</tr>
<tr>
<td>Short-term bank deposits</td>
<td>170,847</td>
</tr>
<tr>
<td>Bank balance and cash</td>
<td>1,269,575</td>
</tr>
<tr>
<td>Deposits maturing after three months</td>
<td>(40,912)</td>
</tr>
<tr>
<td>Bank overdrafts (Note 15)</td>
<td>(353,765)</td>
</tr>
<tr>
<td>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</td>
<td>874,892</td>
</tr>
<tr>
<td>Term deposits carry an average interest rate of 1.9% to 3% (2017: 1% to 2.5%) per annum.</td>
<td></td>
</tr>
</tbody>
</table>

16 Share capital

<table>
<thead>
<tr>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised, issued and fully paid up</td>
<td>1,500,000 thousand shares of AED 1 each (31 December 2017: 1,500,000 thousand shares of AED 1 each)</td>
</tr>
</tbody>
</table>

18 Bank borrowings

<table>
<thead>
<tr>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdrafts (Note 15)</td>
<td>353,765</td>
</tr>
<tr>
<td>Acceptances</td>
<td>105,755</td>
</tr>
<tr>
<td>Project payment certificate discounting</td>
<td>20,097</td>
</tr>
<tr>
<td>Trust receipts</td>
<td>975,467</td>
</tr>
<tr>
<td>Total</td>
<td>1,497,096</td>
</tr>
</tbody>
</table>

During the year ended 31 December 2017, the Group completed its recapitalisation program. The share capital of the Company was increased by AED 1.5 billion through the issuance of new shares at an offer price of AED 1 per share and reduced through the cancellation of 4,450,085 thousand shares of AED 1 each in the Company on a pro-rata basis to extinguish the accumulated losses after obtaining the necessary regulatory approvals. Based on the resolution of the Board of Directors, the Group’s statutory reserve was used to offset the Group’s losses of AED 30,181 thousand decreasing statutory reserve to AED 117,974 thousand.

17 Reserves

a) Statutory reserve

In accordance with the UAE Federal Law No. 2 of 2015 and the Company’s Articles of Association, the Company is required to establish a statutory reserve by appropriation of a minimum of 10% of net profit for each year until the reserve equals a minimum of 50% of the share capital. This reserve is not available for distribution except in the circumstances stipulated by the Law.

In line with the Board of Directors’ recommendation under UAE Federal Law No. 2 of 2015, a resolution was passed by the shareholders during the General Assembly convened on 2 June 2016 to reduce the accumulated losses by using the statutory reserve. Accordingly, statutory reserve amounting to AED 1,004,434 thousand was offset against the accumulated losses at the date of approval. During the year ended 31 December 2018, an amount of AED 25,653 thousand (2017: AED 12,305 thousand) has been transferred to the statutory reserves.

As of 31 December 2018, the statutory reserve amounted to AED 155,909 thousand representing 10.4% of the issued capital (2017: AED 130,279 thousand representing 8.7% of the issued share capital).

b) Other reserves

These represent reserves created on acquisition of additional interests in certain subsidiaries.
### 18 Bank borrowings

**Bank overdrafts**

Bank overdrafts have been obtained from commercial banks and subject to EIBOR and KCB rates + margins of 1.5% to 3% per annum (2017: EIBOR + margins of 1.5% to 3% per annum).

**Acceptances and trust receipts**

Acceptances are subject to commission charges. Trust receipts are obtained from commercial banks, repayable in 180 days and subject to EIBOR and KCB + margins of 2.5% to 3.5% per annum (2017: margins of 2.5% to 3.5% per annum).

The bank facilities are subject to certain restrictive covenants on overall borrowings outstanding at any time, including:

- Irrevocable assignment of project proceeds to the financing banks to be confirmed by the customers.
- Irrevocable undertaking by a subsidiary to deposit the proceeds of projects financed by banks into the specific accounts maintained with the financing banks.
- Assignment of concession rights on property.
- Assignment of subcontractors' performance bonds in favour of the financing banks for specific contracts.

#### Details of term loans

<table>
<thead>
<tr>
<th>Term Loan</th>
<th>Purpose</th>
<th>Pricing</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term loans 1</td>
<td>Property, Plant and equipment</td>
<td>EIBOR + 3.25% – 3.95% per annum</td>
<td>1,279,844</td>
<td>1,499,024</td>
</tr>
<tr>
<td>Term loans 2</td>
<td>Working capital</td>
<td>EIBOR + 2.5% – 5% per annum</td>
<td>1,279,844</td>
<td>1,499,024</td>
</tr>
</tbody>
</table>

The above term loans are taken from commercial banks in the UAE and KSA and are repayable in monthly, quarterly and semi-annually equal instalments of various amounts.

Included in term loans are borrowings of AED 216,530 thousand (2017: AED 278,515 thousand) relating to the Group’s subsidiaries in Kingdom of Saudi Arabia that were de-consolidated during the year 2017. The balances represent the Group’s share of the liability under the corporate guarantees issued by the Group on behalf of the de-consolidation subsidiaries.

#### 19 Retentions payable

Retentions payable represent retentions that have been withheld by the Group from payments due to subcontractors. These amounts excluding current portion of retentions payable become due in a period exceeding one year from the end of the reporting period.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Total retentions payable</td>
<td>742,540</td>
</tr>
<tr>
<td>Less: Retentions payable – current portion (Note 21)</td>
<td>(381,306)</td>
</tr>
<tr>
<td>Retentions payable – non-current portion</td>
<td>361,234</td>
</tr>
</tbody>
</table>

#### 20 Provision for employees’ end of service benefits

Provision for employees’ end of service benefits is made in accordance with the relevant labour laws assuming the maximum payable based on current remuneration and cumulative years of service at the end of the reporting period.

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2018 and 2017 using actuarial techniques, in respect of employees’ end of service benefits payable under the UAE labour Law and the Laws applicable in the countries in which the Group operate, for their periods of service up to the balance sheet date.

Under this method an assessment has been made of the employees’ expected service life with the Group and the expected basic salary at the date of leaving the service. Future salary increases have been estimated on a basis consistent with the natural progression of an employee’s salary in line with the Group’s salary scales, past experience and market conditions. As part of their assessment, management assumes an average increment/promotion cost and the expected liability at the date of leaving the service discounted to the net present value using an appropriate discount.

These have been listed in the following tables. The following tables summarise the components of net benefit expense recognised in the consolidated income statement:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Net benefit expense</td>
<td></td>
</tr>
<tr>
<td>Current service cost</td>
<td>51,564</td>
</tr>
<tr>
<td>Interest cost</td>
<td>4,031</td>
</tr>
<tr>
<td>Net expense recognised in the consolidated income statement</td>
<td>55,595</td>
</tr>
<tr>
<td>Net actuarial loss/(gain) recognised in other comprehensive income</td>
<td>19,681</td>
</tr>
</tbody>
</table>

Changes in the present value of defined benefit obligations is as follows:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>At 1 January 2018</td>
<td>200,510</td>
</tr>
<tr>
<td>Current service cost</td>
<td>51,564</td>
</tr>
<tr>
<td>Interest cost</td>
<td>4,031</td>
</tr>
<tr>
<td>Benefits paid during the year</td>
<td>(9,741)</td>
</tr>
<tr>
<td>Actuarial loss/(gain) recognised in other comprehensive income</td>
<td>19,681</td>
</tr>
<tr>
<td>Disposal of a subsidiary</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>216,045</td>
</tr>
</tbody>
</table>

### 21 Trade and other payables

#### Trade payables

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Amounts due to subcontractors</td>
<td>2,060,827</td>
</tr>
</tbody>
</table>

#### Other accruals and payables

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Amounts due to customers for services provided</td>
<td></td>
</tr>
<tr>
<td>Retentions payable – current portion (Note 19)</td>
<td>381,306</td>
</tr>
<tr>
<td>Amounts due to customers for contract work (Note 10.L)</td>
<td>66,455</td>
</tr>
<tr>
<td>Other accruals and payables</td>
<td>1,037,205</td>
</tr>
</tbody>
</table>

#### 22 Revenue

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Contract revenue</td>
<td>9,250,630</td>
</tr>
<tr>
<td>Divisions revenue</td>
<td>167,486</td>
</tr>
<tr>
<td>Plant division revenue</td>
<td>40,976</td>
</tr>
<tr>
<td>Other revenues</td>
<td>147,226</td>
</tr>
<tr>
<td>Total revenue</td>
<td>9,552,922</td>
</tr>
</tbody>
</table>

The principal assumptions used in determining the provision for end of service benefit obligations are shown below:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate per annum</td>
<td>6%</td>
</tr>
<tr>
<td>Salary increase rate per annum</td>
<td>5%</td>
</tr>
<tr>
<td>Workers</td>
<td>4%</td>
</tr>
</tbody>
</table>

Following shows the sensitivity analysis on liability due to change in the actuarial assumptions:

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>AED’000</td>
<td>AED’000</td>
</tr>
<tr>
<td>Increase in discount rate by 0.5%</td>
<td>(5,223,850)</td>
</tr>
<tr>
<td>Decrease in discount rate by 0.5%</td>
<td>5,556,090</td>
</tr>
<tr>
<td>Increase in salary inflation by 1%</td>
<td>10,182,174</td>
</tr>
<tr>
<td>Decrease in salary inflation by 1%</td>
<td>(9,770,574)</td>
</tr>
</tbody>
</table>
### 23 Direct costs

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract costs</td>
<td>8,785,968</td>
<td>8,164,756</td>
</tr>
<tr>
<td>Cost of sales of ready mix concrete/preauired</td>
<td>140,537</td>
<td>168,899</td>
</tr>
<tr>
<td>Drainage division costs</td>
<td>215,343</td>
<td>134,660</td>
</tr>
<tr>
<td>Plant division costs</td>
<td>36,411</td>
<td>41,549</td>
</tr>
<tr>
<td>Other costs</td>
<td>39,495</td>
<td>148,977</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,217,754</strong></td>
<td><strong>8,681,417</strong></td>
</tr>
</tbody>
</table>

### 24 Investment income

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>4,080</td>
<td>8,011</td>
</tr>
<tr>
<td>Gain on disposal of a subsidiary</td>
<td>–</td>
<td>1,922</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,080</strong></td>
<td><strong>9,933</strong></td>
</tr>
</tbody>
</table>

### 25 General and administrative expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ salaries and other benefits</td>
<td>193,201</td>
<td>202,044</td>
</tr>
<tr>
<td>Consultancy fees</td>
<td>662</td>
<td>1,187</td>
</tr>
<tr>
<td>Tender expenses</td>
<td>17,217</td>
<td>17,374</td>
</tr>
<tr>
<td>Depreciation (apportioned) (Note 5)</td>
<td>8,649</td>
<td>9,150</td>
</tr>
<tr>
<td>Traveling expenses</td>
<td>2,123</td>
<td>6,841</td>
</tr>
<tr>
<td>Office rent – operating leases</td>
<td>6,788</td>
<td>12,938</td>
</tr>
<tr>
<td>Setting expenses</td>
<td>510</td>
<td>2,248</td>
</tr>
<tr>
<td>IT, communication and utilities</td>
<td>3,525</td>
<td>3,908</td>
</tr>
<tr>
<td>Amortisation of intangible assets (Note 7)</td>
<td>1,000</td>
<td>4,552</td>
</tr>
<tr>
<td>Legal expenses</td>
<td>5,116</td>
<td>9,301</td>
</tr>
<tr>
<td>Others</td>
<td>59,718</td>
<td>31,643</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>297,509</strong></td>
<td><strong>319,314</strong></td>
</tr>
</tbody>
</table>

### 26 Impairment losses

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for impairment of trade receivables (Note 10)</td>
<td>1,075</td>
<td>2,491</td>
</tr>
<tr>
<td>Impairment losses on slow-moving inventories (Note 32)</td>
<td>50</td>
<td>525</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,125</strong></td>
<td><strong>3,016</strong></td>
</tr>
</tbody>
</table>

### 27 Other income – net

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain/(loss) on sale of property, plant and equipment</td>
<td>1,097</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Shop sales</td>
<td>1,372</td>
<td>1,009</td>
</tr>
<tr>
<td>Rent income</td>
<td>2,543</td>
<td>2,333</td>
</tr>
<tr>
<td>Write back of liabilities</td>
<td>3,613</td>
<td>3,392</td>
</tr>
<tr>
<td>Reversal of inventory provision during the year (Note 12)</td>
<td>2,979</td>
<td>8,144</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td><strong>3,341</strong></td>
<td><strong>8,110</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,945</strong></td>
<td><strong>23,463</strong></td>
</tr>
</tbody>
</table>

### 28 Finance cost – net

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost on borrowings</td>
<td>111,335</td>
<td>97,215</td>
</tr>
<tr>
<td>Interest income on non-current trade receivables</td>
<td>–</td>
<td>(112)</td>
</tr>
<tr>
<td>Interest income on non-current retentions receivable</td>
<td>(1,819)</td>
<td>11,753</td>
</tr>
<tr>
<td>Interest income on non-current retentions receivable</td>
<td>(6,048)</td>
<td>(5,745)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103,468</strong></td>
<td><strong>98,911</strong></td>
</tr>
</tbody>
</table>

### 29 Basic and diluted earnings per share

- Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Company of AED 256,299 thousand (2017: AED 1,183,058 thousand) by the weighted average number of shares outstanding during the period of AED 1,500,000 thousand (2017: AED 1,183,058 thousand).

### 30 Contingencies and commitments

- **Contingent liabilities**
  - Performance and bond bids: AED 5,040,559 thousand (2017: AED 4,443,946 thousand)
  - Advance payment bonds: AED 2,015,442 thousand (2017: AED 2,498,012 thousand)
  - Retention refunds: AED 1,071,126 thousand (2017: AED 719,377 thousand)
  - Letters of credit: AED 396,261 thousand (2017: AED 496,189 thousand)
  - Financial guarantees: AED 155,052 thousand (2017: AED 162,188 thousand)
  - Labour guarantees: AED 46,248 thousand (2017: AED 41,722 thousand)

- The Group is a defendant in a number of lawsuits in its ordinary course of business. The Group’s management believes that it is only possible, but not probable, that the claimants will succeed. Accordingly, the Group’s management has assessed that the provision currently booked is adequate to cover any liability arising for such cases.

- During the year, a third party has filed a claim before the courts of Dubai against the Group and its JV partner, along with other defendants, in respect of a previously completed project. The proceedings are still in early stages and the court has yet to provide the defendants with a full bundle of the Claimant’s exhibits. Consequently, management and the Group’s legal counsel are not in a position to provide an assessment on the likely outcome and range of potential losses, if any, at this stage.

### 31 Operating lease commitments

<table>
<thead>
<tr>
<th>Type of lease</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum lease payments under operating leases recognised as expense in the consolidated income statement for the year</td>
<td>AED 116,702</td>
<td>AED 215,763</td>
</tr>
</tbody>
</table>

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

<table>
<thead>
<tr>
<th>Commitment Date</th>
<th>2018 AED’000</th>
<th>2017 AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>AED 149,137</td>
<td>AED 242,691</td>
</tr>
<tr>
<td>Two to five years</td>
<td>AED 243,121</td>
<td>AED 572,270</td>
</tr>
<tr>
<td>More than five years</td>
<td>AED 136,730</td>
<td>AED 235,993</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>529,998</strong></td>
<td><strong>1,050,945</strong></td>
</tr>
</tbody>
</table>

Operating lease payments represent rentals payable by the Group for land, buildings, certain labour camps and rented vehicles.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued

for the year ended 31 December 2018

32 Segment reporting
Continued

Primary segment information
Continued

Segment wise statement of income information for the year ended 31 December 2018 is presented below:

<table>
<thead>
<tr>
<th>Segment</th>
<th>AED '000</th>
<th>AED '000</th>
<th>AED '000</th>
<th>AED '000</th>
<th>Total AED '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and social infrastructure</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
<td></td>
</tr>
<tr>
<td>Eliminations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>6,863,497</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
</tr>
<tr>
<td>Timing of revenue recognition</td>
<td>6,863,497</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
</tr>
<tr>
<td>At a point in time</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>6,863,497</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
</tr>
</tbody>
</table>

The following table presents segment assets, segment liabilities and other information of the Group's operating segments as at 31 December 2018 and 2017:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Building and social infrastructure</th>
<th>Industrial</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>AED '000</td>
<td>AED '000</td>
<td>AED '000</td>
<td>AED '000</td>
</tr>
<tr>
<td>Building and social infrastructure</td>
<td>2,561,053</td>
<td>933,917</td>
<td>3,682</td>
<td>2,561,053</td>
</tr>
</tbody>
</table>

The carrying amounts of the assets and liabilities of these subsidiaries at the date of de-consolidation were as follows:

<table>
<thead>
<tr>
<th>Assets</th>
<th>AED '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and social infrastructure</td>
<td>2,561,053</td>
</tr>
</tbody>
</table>

33 Acquisition of non-controlling interests and business combination

As detailed in Note 1, at 31 December 2016, the Group acquired remaining minority interest of Arabtec – Musawa W.L.L., Kingdom of Bahrain of 25% for AED 7 million, increasing its ownership interest to 100%.

34 Disposal of subsidiaries

a) Loss of control over KSA business

As detailed in Note 1, at 31 December 2016, the Group assessed that it had lost control over its subsidiaries in Kingdom of Saudi Arabia (KSA). Management's previous assessment of control over these entities was based on the Group's practical ability to direct relevant activities and affect variable returns of these entities. Management believes that due to discontinuation of major operations of the subsidiaries in KSA, there are no further relevant activities that the Group exercises control over these entities.

The Group retained a portion of the bank borrowings of the de-consolidated subsidiaries representing the Group's share of the liability under the corporate guarantees issued by the Group on behalf of the de-consolidated subsidiaries (Note 18).
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 31 December 2018

34 Disposal of subsidiaries
Continued
b) Disposal of a subsidiary – House of Equipments LLC
During the year ended 31 December 2017, the Group has disposed of the following subsidiary:

Effective 19 October 2017, the Group disposed of its investment in House of Equipment LLC, UAE for a consideration of AED 15 million. The net liabilities of the subsidiary on the date of disposal amounted to AED 0.4 million. Gain on disposal amounted to AED 1.9 million was recorded in the consolidated income statement.

c) Disposal of a subsidiary – Powercon Switchgear Factory, UAE
Effective 31 December 2016, the Group disposed of its investment in Powercon Switchgear Factory, UAE for a consideration of AED 1. The net assets of the subsidiary on the date of disposal amounted to AED 3.5 million.

35 Material partly-owned subsidiary
Financial information of subsidiaries that have material non-controlling interests are provided below:

a) Proportion of equity interest held by non-controlling interests

- Arabtec Construction W.L.L., Qatar
  284 386,195
  33% 66.66%

- EFECO Qatar W.L.L.
  30% 51%

b) Accumulated balances of material non-controlling interest

- Arabtec Construction W.L.L., Qatar
  AED'000
  2018 2017
  Non-current liabilities (81,943) (82,129)
  Current liabilities (81,943) (82,129)
  Non-current assets 24,603 25,003
  Current assets 24,603 25,003
  Net assets (57,340) (57,126)

- EFECO Qatar W.L.L.
  AED'000
  2018 2017
  Non-current liabilities 2,375 –
  Current liabilities 2,375 –
  Non-current assets 3,430 –
  Current assets 3,430 –
  Net assets (3,015) –

- Arabtec Holding Annual Report 2018

The summarised financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations:

d) Summarised statement of comprehensive income

<table>
<thead>
<tr>
<th>Arabtec Construction W.L.L.</th>
<th>EFECO Qatar W.L.L.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>AED'000</td>
</tr>
<tr>
<td>Revenue</td>
<td>3,266</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3,266</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>0</td>
</tr>
<tr>
<td>Profit/(loss) after tax</td>
<td>0</td>
</tr>
</tbody>
</table>

For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>Arabtec Construction W.L.L.</th>
<th>EFECO Qatar W.L.L.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>AED'000</td>
</tr>
<tr>
<td>Revenue</td>
<td>3,266</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3,266</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>0</td>
</tr>
<tr>
<td>Profit/(loss) after tax</td>
<td>0</td>
</tr>
</tbody>
</table>

For the year ended 31 December 2017

The Group has a total exposure of AED 428 million as at 31 December 2018 relating to receivables against a previous project in Dubai, UAE. As the client disputed the payment of receivables, the Board of Directors of the Group resolved to initiate arbitration proceedings against the customer.

b) Disposal of a subsidiary – House of Equipments LLC
The Group has a total exposure of AED 203 million as at 31 December 2018 relating to receivables against two projects in Dubai, UAE; for the same client. During the last quarter of 2017, the Group received a court judgment in its favour in respect of one project, which the Group is taking steps to enforce. During the year, the Group received an arbitral award for the second project in its favour and the Group is taking steps to enforce its rights. During the year, the Group received a court judgment in its favour and the Group is taking steps to enforce its rights.

c) Disposal of a subsidiary – Powercon Switchgear Factory, UAE
During the year ended 31 December 2017, the Group received a court judgment in its favour and the Group is taking steps to enforce its rights.

36 Contract Disputes

a) The Group has a total exposure of AED 428 million as at 31 December 2018 (2017: AED 428 million) relating to receivables against a previous project in Dubai, UAE. As the client disputed the payment of receivables, the Board of Directors of the Group resolved to initiate arbitration proceedings against the customer.

b) The Group has a total exposure of AED 203 million as at 31 December 2018 (2017: AED 203 million) relating to receivables against two projects in Dubai, UAE; for the same client. During the last quarter of 2017, the Group received a court judgment in its favour in respect of one project, which the Group is taking steps to enforce. During the year, the Group received an arbitral award for the second project in its favour and the Group is taking steps to enforce its rights.

c) During 2016, the non-controlling shareholder of the Group’s subsidiary in Qatar (Arabtec Construction W.L.L., Qatar) issued a letter indicating their non-approval or non-authorisation to issue the financial statements of the subsidiary, on the grounds that they accepted no responsibility for the financial position and performance and management of the subsidiary. The Group has obtained legal advice and strongly believes that the non-controlling shareholder is responsible for their share of the subsidiary’s operations based on the Qatar Commercial Companies Law, and that both shareholders of the entity are jointly liable for the liabilities of the subsidiary. During the year ended 31 December 2017, the shareholder filed a claim against the Group related to the above mentioned matter.

Management believes that the outcome of such a dispute would have no impact on the consolidated results of the Group as a whole or on its total equity.

37 Joint operations

The Group has the following significant interests in joint operations:

- Samsung/Arabtec joint operation project, UAE
  40%

- Six Construct/Arabtec joint operation projects, UAE
  50%

- Samsung/Max Bogl joint operation project, UAE
  30%

- Arabtec/MAXES joint operation projects, UAE
  50%

- Arabtec/Emirates Road and Highway joint operation projects, UAE
  50%

- Arabtec/Engineering Companies joint operation projects, Jordan
  50%

- Arabtec/Dubai Contracting Company joint operation project, UAE
  50%

- Target Engineering and Construction Company LLC/Maritmon Middle East and Asia joint operation project, UAE
  65%

- Arabtec Engineering Services/ACCT joint operation project, UAE
  50%

- Arabian Construction company/Arabtec joint operation project, Syria
  50%

- Arabtec/National Projects and Construction joint operation project, UAE
  50%

- Arabtec/Marintek Middle East and Asia joint operation project, UAE
  66.66%

- Arabtec/Combined Group Contracting Company joint operation, Kuwait
  60%

- Arabtec/Cosmos/Arabtec joint operation project, UAE
  55%

- Arabtec/CCC/Arabtec joint operation, UAE
  55%

- Oger Abu Dhabi LLC/Constructora San JoseSA/Arabtec Joint operation, UAE
  55%

- LCC/Arabtec/Arabtec joint operation, Kazakhstan
  50%

- ATC/CCC/CCC joint venture, UAE
  50%

- ATC/Egypt joint operation project, Egypt
  55%

- ATC/Construction San José SA joint operation project, UAE
  50%

- EFGECO joint operation project, UAE
  50%

- Arabtec/Al Mawaleh Joint operation, Pakistan
  60%

- ACC/Arabtec Joint operation, Lebanon
  50%

The Group is entitled to a proportionate share of the joint operations’ assets and revenues and bears a proportionate share of their liabilities and expenses.
### 38 Financial instruments by category

<table>
<thead>
<tr>
<th>Financial assets at amortised cost AED’000</th>
<th>Financial assets at fair value through profit and loss AED’000</th>
<th>Total AED’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets as per consolidated statement of financial position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>At 31 December 2018</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables (excluding advances) (Note 10)</td>
<td>5,574,771</td>
<td>5,574,771</td>
</tr>
<tr>
<td>Due from related parties (Note 15)</td>
<td>576,160</td>
<td>576,160</td>
</tr>
<tr>
<td>Other financial assets (Note 11)</td>
<td>205,713</td>
<td>17,282</td>
</tr>
<tr>
<td>Other current assets (excluding prepaid expenses) (Note 14)</td>
<td>150,232</td>
<td>150,232</td>
</tr>
<tr>
<td>Cash and bank balances (Note 15)</td>
<td>1,269,575</td>
<td>1,269,575</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,776,451</td>
<td>17,282</td>
</tr>
</tbody>
</table>

| **At 31 December 2017** | | |
| Trade and other receivables (excluding advances) (Note 10) | 6,640,415 | 6,640,415 |
| Due from related parties (Note 15) | 714,409 | 714,409 |
| Other financial assets (Note 11) | 199,707 | 199,707 |
| Other current assets (excluding prepaid expenses) (Note 14) | 182,143 | 182,143 |
| Cash and bank balances (Note 15) | 1,144,144 | 1,144,144 |
| **Total** | 8,283,838 | 17,282 | 8,290,820 |

### Other financial liabilities at amortised cost AED’000

| **At 31 December 2018** | | |
| Bank borrowings (Note 18) | 2,067,007 | |
| Trade payables and accruals (excluding advances from customers) (Note 21) | 4,741,346 | |
| Due to related parties (Note 15) | 487,029 | |
| Retentions payable (Note 19) | 742,540 | |
| **Total** | 8,027,922 | |

| **At 31 December 2017** | | |
| Bank borrowings (Note 18) | 2,633,771 | |
| Trade payables and accruals (excluding advances from customers) (Note 21) | 4,520,462 | |
| Due to related parties (Note 15) | 596,268 | |
| Retentions payable (Note 19) | 606,206 | |
| **Total** | 8,381,609 | |

### 39 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group’s consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods. As a result of the changes in the Group’s accounting policies, opening retained earnings in the consolidated financial statements has been adjusted. IFRS 9 and IFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated consolidated statement of financial position as at 31 December 2017, but are recognised in the opening retained earnings on 1 January 2018. The adjustments are explained in more detail below.

#### 39.1 IFRS 15 Revenue from Contracts with Customers

**Impact of adoption**

The IASB has issued a new standard for the recognition of revenue. IFRS 15 Revenue from contracts with customers outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes IAS 11 which covers construction contracts and IAS 18 which covers contracts for goods. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has adopted IFRS 15 from 1 January 2018 and applied the modified retrospective approach permitted by IFRS 15 upon adoption. Following practical expedients available under the modified retrospective approach of IFRS 15 have been opted by the Group:

- The requirements of the new standard have been applied to contracts that are not completed as at the date of initial application (1 January 2018); and
- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

The Group has assessed the impact of applying the new standard on the Group’s consolidated financial statements and has identified following areas that were affected:

- Variation orders will have to be accounted for prospectively or as new contracts based on the nature and price of additional products and services requested through these variation orders;
- Incremental costs of obtaining a contract are costs that the Group would not have incurred if the contract had not been obtained and are recognised as an asset if they are expected to be recovered; and
- The Group will have to include variable consideration (including claims, re-measurable contract values and discounts) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

During the impact assessment exercise of IFRS 15, the Group has identified contracts which meet the above criteria. However, the impact of the above on the consolidated financial statements is not material.

#### 39.2 IFRS 9 Financial Instruments

**Impact of adoption**

The following table shows the adjustments for each individual line item of the consolidated statement of financial position. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be re-calculated from the numbers provided.

<table>
<thead>
<tr>
<th>Non-current assets</th>
<th>Current assets</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 January 2018 AED’000</strong></td>
<td><strong>31 December 2017 AED’000</strong></td>
<td><strong>IFRS 9 impact AED’000</strong></td>
</tr>
<tr>
<td>17,282</td>
<td>5,288,516</td>
<td>(122,679)</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td><strong>Current assets</strong></td>
<td><strong>Equity</strong></td>
</tr>
<tr>
<td>17,282</td>
<td>5,288,516</td>
<td><strong>Retained earnings</strong></td>
</tr>
<tr>
<td>(122,679)</td>
<td></td>
<td>(120,152)</td>
</tr>
<tr>
<td>(18,755)</td>
<td></td>
<td>(199,709)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Non-controlling interests</strong></td>
<td><strong>Total AED’000</strong></td>
</tr>
<tr>
<td>(224,368)</td>
<td>(576,160)</td>
<td>(101,397)</td>
</tr>
<tr>
<td>(5,574,771)</td>
<td>(2,633,771)</td>
<td>(253,650)</td>
</tr>
</tbody>
</table>

*The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of AED 2,633,771 thousand were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. No gain or loss was recognised on such transfer.*

### Notes to the Consolidated Financial Statements

Continued for the year ended 31 December 2018
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

i) Classification and measurement
On 1 January 2018 (the date of initial application of IFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. Management has concluded that there are no material reclassifications of financial assets other than disclosed above.

ii) Impairment of financial assets
The Group has the following types of financial assets that are subject to IFRS 9’s new expected credit loss model:
- trade and other receivables; and
- contract assets (i.e. retentions and amounts due from construction contract customers).

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group’s retained earnings and equity is disclosed above. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets
For trade receivables, the Group has applied a combination of the simplified and general approach permitted by IFRS 9. Under general approach, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. However, simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on credit risk characteristics and past due delays. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>AED'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2017 – calculated under IAS 39</td>
<td>265,382</td>
</tr>
<tr>
<td>Amounts adjusted</td>
<td>112,679</td>
</tr>
<tr>
<td>Opening loss allowance as at 1 January 2018 – calculated under IFRS 9</td>
<td>378,061</td>
</tr>
</tbody>
</table>

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery.

40 Comparative figures
Certain corresponding figures have been reclassified where appropriate to conform with current year’s presentation.

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Key shareholder contacts
Registrar: First Abu Dhabi Bank (FAB)
Auditor: PricewaterhouseCoopers Middle East
Investor Relations: Sara Shakil – Head of Investor Relations
ir@arabtecholding.com

Registered Office
1st Floor, Low Rise Office Tower, (PIC Square), Sultan Bin Zayed the First Street (Al Muroor Road), P.O. Box 7340, Abu Dhabi, UAE
Telephone: +971 2 333 7777

Ticker Symbol: ARTC

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