

# Chairman Message

I am pleased to meet you and present the Annual Report of National Marine Dredging Company (the “Group”) for the year ended 31st December 2018. The report includes a summary of the Group’s performance, its financial statements and the Auditor’s Report thereon.

At the outset, I extend my complete faithfulness to, and utmost appreciation of, the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, for their infinite support for National companies in general and your Group in particular.

## Overview

According to the Organization for Economic Co-operation and Development (OECD) report published in November 2018, global growth is slowing, and clouds are gathering on the horizon. The GDP growth projections for emerging markets for 2018, which were set at around 5.4% in the May projections, were toned down to below 5.2% in the November projections, with growth projections for 2019 falling to 4.9%. The Future Market Insights report on the global dredging market covering the period from 2017 to 2022 also forecasts that the global dredging market will grow at a sluggish CAGR during the assessment period, predicted at 2.7%. Increasing policy uncertainty in major advanced economies, the potential impact of the US-China Trade dispute and Brexit, and crude oil price volatility all point towards weakening potential growth.

Locally, however, there are some positive signs. The UAE government posted a surplus of AED 67.5bn (\$18.4bn) in 2018, according to the latest figures released by the Ministry of Finance. The surplus increase is attributed to the rise in the UAE Government’s revenues, which hit AED 455.5bn (\$124bn) in 2018, while expenditures totalled AED 388.147bn (\$105.6bn). Oil price improvements in the second and third quarters of 2018, as well as ongoing fiscal reforms, have contributed to diversifying non-energy revenues sources, raising the total government revenues. Oil prices rose from an average of \$54.25 a barrel in 2017 to an average of \$71 in 2018. On another front, Moody’s has recently affirmed Abu Dhabi’s Aa2 rating with stable outlook. The rating agency in a statement said: “The affirmation of Abu Dhabi’s Aa2 ratings is supported by Moody’s expectations that the sovereign’s fiscal strength will remain very high, with very low government debt and vast sovereign assets. Prospects for a medium-term increase in economic activity and revenue from the hydrocarbon sectors and reforms aimed at developing the non-oil sector also support the ratings.”

Perhaps as a reflection of these sentiments, ADNOC, continues to be in the news, with announcements of more awards, the most recent being the award of a 35-year concession for “Onshore Block 4” to Japan’s Inpex Corp, and the award of oil and gas exploration rights to “Abu Dhabi Onshore Block 1” to a consortium of two Indian oil companies, Bharat Petroleum Corporation Limited and Indian Oil Corporation Limited.

To conclude, despite major factors and predictions that indicate a slowdown in global economic activity, upside potential exists when oil price recovery supports activity in the oil and gas sectors and infrastructure investments in economies that are dependent on oil exports. The current economic uncertainties therefore, on one side, hold threats, but on other hand also offer opportunities for the acquisition of quality assets and even companies.

## **Financial Performance**

Under these challenging circumstances and the current unstable global macro-economic environment, your Group has shown resilience and continued to perform well, as reflected in the Group's financial performance, summarised below.

The Group achieved a revenue of AED 1,532 million for 2018, which was an 8% improvement over the 2017 performance. The increase in revenue was largely due to improved vessel utilization through projects in the UAE and Egypt. Our Egyptian operations contributed over 30% of our total revenue in 2018, making up for decreases due to completion of projects in the UAE, India and Bahrain.

Net profit for 2018 at AED 121 million as compared to AED 101 million in 2017, showed an absolute increase of 20%, while the net profit margin improved to 7.8% in 2018 compared to 7.1% in 2017. The improvement in net margin was also primarily due to improved utilization of our main equipment compared to the year 2017.

In order to continue to build the infrastructure to support your Group's growth, we have invested in fixed assets amounting to AED 123 million during the year, of which almost 40% relates to the final instalment on the new hopper dredger that was delivered in the first quarter of 2018. In addition, in early 2019, we have committed to the acquisition of 2 more dredgers, which are currently under construction at shipyards in the Netherlands.

## **Major Achievements**

In the second quarter of 2018, NMDC's new joint venture entity, Egyptian Emirates Dredging Company ("EEMDC") was formally incorporated in the Suez Canal Economic Zone. The joint venture is formed to execute dredging and related works within and outside the Arab Republic of Egypt.

In December 2018, your Group commenced operations on a major project for the further expansion of Khalifa Port, and in February 2019, NMDC was awarded another major project for the construction of artificial islands at Hail and Gasha, which is currently one of the largest marine projects in the world. Our success in winning this award has placed us firmly in position as one of the members of the "big five" club of the largest global dredging entities in the world.

NMDC's new hopper dredger Arzana was successfully delivered in first quarter of 2018, and deployed into our operations in Egypt.

These achievements are of strategic importance to NMDC as they will give your Group an opportunity to grow into an EPC contractor and enable your Group to grow outside the UAE.



## Vision

Under the wise leadership and vision of the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, may Allah protect and save them a solid asset to our beloved country and the people of the UAE. As UAE boldly moves forward to chart out its economic destiny, your Group is committed to being a partner in the development. We are hopeful and confident to grow as always by blazing new trails and living up to our promise that WE MAKE IT HAPPEN!

Over the past four decades, our shareholders, our clients, the governments, our partners, our employees and our well-wishers have supported our strategies and decisions and have stood by us through thick and thin. At the end of this year and at the beginning of another year, we thank each one of you and look forward to your continued support, belief and trust.

We pledge to work hard to meet the elevated expectations of our stakeholders. But all of you know, there is no shortcut to success. It comes with hard work, determination and personal sacrifice. We believe in our strategy and are confident that it will lead us to success.

  
**Mohammed Thani Murshed Al Rumaithi**  
Chairman







# Directors Report

The Board of Directors of the Company have the pleasure of presenting the 2018 annual report along with the audited financial statements as at and for the year ended 31 December 2018.

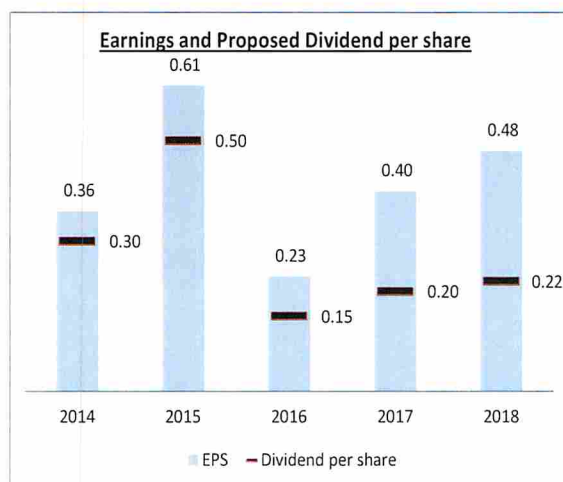
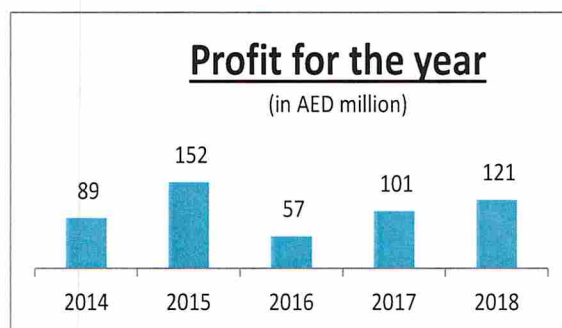
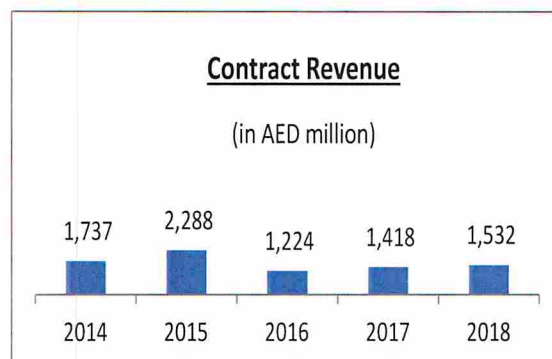
## Highlights

- Despite the ongoing challenges in the market NMDC has shown resilience and reports an improvement in overall financial performance.
- NMDC's new hopper dredger Arzana was successfully delivered in first quarter of 2018, and deployed into our operations in Egypt.
- In the second quarter of 2018, NMDC's new joint venture entity, Egyptian Emirates Dredging Company ("EEMDC") was formally incorporated in the Suez Canal Economic Zone. The joint venture is formed to execute dredging and related works in the Arab Republic of Egypt.
- In December 2018, NMDC commenced operations on a major project for the further expansion of the Khalifa Port, and in February 2019, NMDC was awarded another major project for the construction of artificial islands at Hail and Ghasha.

## Financial Results

Your Company achieved revenues of AED 1,532 million and net profits of AED 121 million for the year 2018 as compared to revenues of AED 1,418 million and net profits of AED 101 million in 2017.

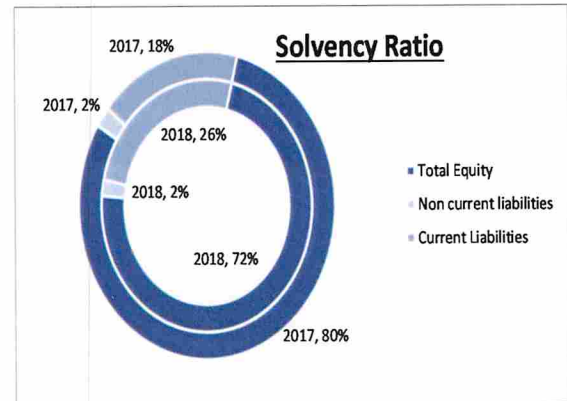
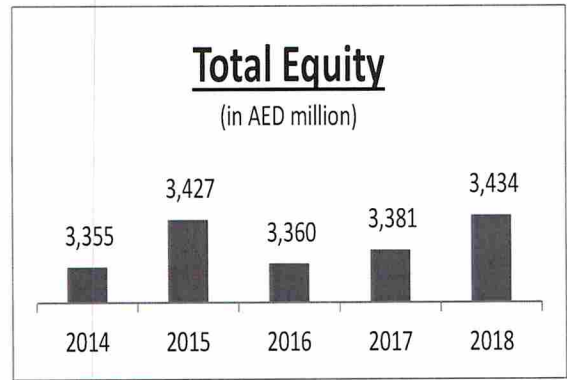
Consequently, earnings per share increased from AED 0.40 in 2017 to AED 0.48 for 2018. The Directors have proposed a dividend for 2018 of AED 0.22 per share, a 10% increase on last year's proposal, representing a pay-out of 46% of earnings per share.



## Financial Position

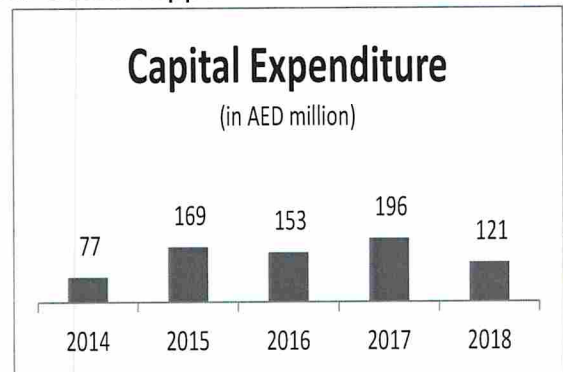
Your Company's equity stands at AED 3,434 million at end of the year 2018, which is an increase of 2% YoY from AED 3,381 million at end of the year 2017. The total equity has been relatively stable from 2014 through 2018, showing a modest but steady CAGR of 0.6 percent.

Solvency ratio, which represents debt paying capacity of the Company, stood at 72% at end of the year 2018 as against 80% at end of the year 2017. Low level of debt in capital structure is in line with the strategic decision to keep the composite leverage at an optimal level.



## Capital Expenditure

In order to deliver our clients with services to the highest standard, we continue to invest into latest technologies, machineries and equipment that would support the future execution of complex projects and improves our margins. Accordingly, we have added Fixed Assets amounting to AED 123 million in the year 2018 as against AED 196 million in the year 2017. The majority of the capital expenditure in 2018 relates to the final instalment on the new hopper dredger that has been delivered in the first quarter of 2018, in addition to dry docking/ modernisation of certain dredgers, pipelines and the purchase of a Modular pontoon. In addition, in early 2019, we have committed to the acquisition of 2 more dredgers, which are currently under construction at shipyards in the Netherlands.



## **Fleet**

Your Company currently owns a marine fleet consisting of 18 dredgers, 3 booster stations, an accommodation barge (which can accommodate more than 300 personnel) and 68 other marine equipment such as marine tugs, fuel barge ships, support craft and 88 earth moving equipment.

In March 2018, the new build hopper dredger 'Arzana' was deployed into service. In addition, as mentioned above, we are in the process of making further additions to our fleet, in 2019. With continuous investment, your Company has grown its fleet and is currently one of the largest cutter fleet owners in the region

Addition of these vessels to our fleet will allow NMDC to take on more challenging and diverse projects in coming years.

## **Information Technology**

During the year, your Group has focused on Security of Network Traffic and devises. To achieve this, we implemented the following with respect to IT Security:

- SOC - Centralized unit that deals with security issues on an organizational (business) and technical level.
- Vulnerability assessment for Network devices and services.
- Log collections, storing and correlation.

In order to increase efficiency and provide better employee services for NMDC employees, NMDC has automated the following processes:

- Purchase Documents (Paperless Approval process)
- Salary Certificate
- Employment Letter
- Bank Transfer Letter
- Uploading of Personal Documents such as Scan copies of Passport, Visas, Emirates ID and Insurance.

To facilitate the international expansion of the group, NMDC rolled out the implementation of Oracle to all its subsidiaries such as EEMDC-Egypt, ADEC and KSA. With Oracle implemented in all our key operating sites, efficiency, standardization of data and reports and control on the foreign operations is enhanced.



## **Information Technology** continued

We have implemented VAT in Oracle system, as per the regulations passed by the following Tax Authorities

- FTA - UAE
- GAZT – KSA
- ETA – Egypt
- National Bureau of Revenue –Bahrain
- MERA – Maldives
- GST – India

We have implemented Supply Chain applications for Arzana dredger and Ramhen. We have also developed ADNOC – ICV system for supplier evaluation.

NMDC developed automated production reports which provide information about the daily productivity of dredger in terms of volume dredged, amount of time taken on the production and areas of dredging. The reports provide the management a useful tool to assess the productivity of the vessels, analysis of planning production with the actual production and it also help to forecast the production volumes. These reports increased the efficiency of the dredgers on the projects. Information is gathered about the consumption of fuel and utilized spare parts, pick points/cutter teeth and other relevant data for monitoring technical and operational performance. The data serves as historical tool to plan better in future projects in terms of which type of dredgers to be utilized, time spend and volume of production achieved and cost of production.

## **Quality, Health, Safety and Environmental (“QHSE”)**

As part of the company’s 2018 vision and continuous commitment to sustaining its excellence in Quality, Health, Safety and Environment, NMDC has finalized the transition requirements for upgrading the already existing system of OSHAS 18001: 2007 into ISO 45001 looking for official certification in late 2019.

In addition, as part of our QHSE pro-active approach the following were accomplished:

- NMDC has been qualified as a Maritime Labor Convention (MLC) manning/staffing agency office.
- Earlier than planned, NMDC was able to implement its QHSEMS on its very own latest TSHD to the fleet, Arzanah. In compliance to standards: ISO 9001:2015, ISO 14001:2015, OSHAS 18001:2007 and ISM.
- The commitment to performance reflected in our award the first NEESHAN Award for “Best HSE Performance for strategic partner” from Abu Dhabi Ports during our participation in “Occupational Health & Hygiene, together for a bright future” Event.

## **Quality, Health, Safety and Environmental (“QHSE”)** continued

Safety culture is embedded in our organization which makes safety a fully integrated part of working behavior. The Company has planned year 2019 to be a benchmark in the efficiency of HSE reporting system and performance analysis where it will implement HSE reporting software. This would not only benefit the outcome of our reporting and analysis process but also promote ownership and a safety-driven mindset

The extensive expectations of our clients and the company strategy requires continuous monitoring and improvements in order to meet our targets and then exceed them as far as possible to achieve the level of excellence that would be expected from an EPC contractor of our caliber. This is reflected in our KPIs, innovation approach in planning, problem solving. With the assistance of the new acquired technology, our focus will be on gaps identified during performance measurement and internal audits.

QHSE performance improvement measures represented in implementation of internal audit program is being followed regularly. All recorded system implementation abnormalities are being thoroughly investigated, performance gaps identified and corrective actions are being taken in order to prevent recurrences. Lessons learnt are communicated to concerned department heads and follow-up action is carried out.

The commitment of departmental management to QHSE Management Systems expectations have also showed a recognizable improvement due to the cascading of accountability by the Top Management.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **Management's explanation on qualification in auditors' report**

With reference to the Auditor's Report on the consolidated financial statements – "Qualified Opinion" & "Emphasis of Matters" – Management would like to highlight that the Group is executing strategic projects for the Government of Abu Dhabi and/or Government related entities. The Group is involved in the projects from concept design to final construction and the nature of these projects is such that they require time from conceptualization to finalization with the clients. Discussions and negotiations with clients for finalization of the billing arrangements are continuing and the billings for a significant amount of the unbilled receivables is currently at an advanced stage of approval.

Management expects that progress will be made on securing approvals for billing, in the coming periods.

### **Our competitive strengths**

We believe that we are well positioned to maintain and enhance our leadership position in the Dredging & Marine Construction market, on account of our competitive strengths, which are:

#### *Government backed dredging Company in the UAE*

NMDC is one of the leading companies providing dredging, reclamation, and marine construction work in the Middle East. Our fleet mainly operates within the Middle East; however, our technical capabilities can be extended to any part of the Globe. We operate from a modern well-equipped premise, which includes multi-discipline workshops, slipways and fully supported administration and technical departments.

#### *Largest Portfolio of Dredging Assets in UAE*

Your Company owns a marine fleet consisting of 18 dredgers with capacity ranging from 1,795 KW to 20,725 KW. Our dredgers are supported by our modern marine equipment such as tugs and multicat crafts, and ably assisted by A-Frame and barges wherever necessary, in addition to recently purchased modular pontoons. It is our endeavour to keep reviewing and expanding our fleet to meet the exacting demands of our customers.

With the delivery of the new Hopper Dredger Arzana, NMDC owns and operates the first hopper dredger that was specifically designed for working in areas such as the Arabian Gulf and in similar operating conditions. The project was delivered within the planned timeframe and within budget due to an excellent co-operation between NMDC and the shipyard.

#### *Strong relationships with Customers*

Dredging and Marine Construction are our mainstream business positioning us at the top as one of the largest dredging players in the region. Today our dredging operations are a highly-sophisticated business, and our latest modern technology helps our customers not only meet their needs but to exceed their expectations.

## Our strategies

As a Company, we are committed to high quality growth while becoming a largest independent turnkey solution provider in the region.

### *Making forays into foreign markets*

Apart from consolidating our presence in the UAE market, we have established branches in Egypt, Bahrain, Saudi Arabia, Oman, the Maldives and India, as part of strategy to foray into global markets to reduce geography risk. This strategy has started to show results whereby NMDC has executed projects in Egypt, Bahrain and Oman and more recently in India and the Maldives. Our Egyptian operations contributed over 30 percent to revenue in 2018, and our new joint venture, Egyptian Emirates Dredging Company ("EEMDC") has been formally incorporated during 2018.

### *Evolving into a fully Integrated and leading Middle East EPC Contractor*

Over the years, NMDC has been expanding its capabilities and operations from pure dredging activities, into related marine construction activities. As a longer term strategy, NMDC's seeks to expand from its current marine focused model, into becoming a fully integrated EPC contractor with civil construction capabilities beyond marine contracting, as management believe that this will be critical for NMDC to achieve sustainable future operations and growth.

To this end, the Company is actively looking for opportunities for the acquisition of entities in backward or forward stages of the value chain as well as to enter into strategic alliances or acquisitions to diversify the business into civil or infrastructural development.

### *Reducing Operational Cost*

In recent years, the Company has adopted a demand and supply model to support operations whereby focus is to reduce fixed cost and optimize utilization of internal resources. Cost reduction drive has been initiated with the intention to reduce cost without compromising the quality of services, which has resulted in improvements to systems and reduction of costs.

While creating and developing good business relations with banks, your Company has given special attention to procuring finance facilities at very competitive rates, which has resulted in your Company being able to secure cheaper funding & non-funding facilities.

### *Enhancement of the fleet capability*

Your Company has taken delivery of TSHD 'Arzana' in March 2018. This newbuild 'Hopper Dredger' is a strategic addition to the fleet. The Arzana was built at one of the leading shipyards for this type of vessels. Your Company is confident that the addition of the Arzana will not only provide an edge but also widen up the scope of work. In addition to the newbuild 'Hopper Dredger', your Company has entered into an agreement to upgrade some of existing equipment with latest technology, which is expected to enhance the performance and lead to a prolonging of their economic lives. Lastly, in early 2019, the Company has committed to the acquisition of 2 more dredgers, which are currently under construction at shipyards in the Netherlands.

### *Optimization of capacity utilization*

Company is committed to continue to optimize its capacity utilization by continuous project monitoring and review, reducing equipment downtime through preventive maintenance and working with repair yards to accelerate dry dock repair periods and through a renewed focus on training.



## Internal control systems and their adequacy

The Company has reasonable system of delegation at proper levels and an adequate system of internal control commensurate with its size and nature of its business. The Company has its own independent internal audit department for conducting extensive audit of various important operational and financial matters.

To develop the culture towards zero tolerance to fraud, during the year Company has set up Ethics & Compliance Department which reports directly to CEO and/ or the Audit Committee. Further, to increase awareness, the Company arranged multiple training sessions and workshop on Fraud Awareness.

## Emiratization

The Company has devised a plan to implement Emiratization in order to provide more opportunities to UAE Nationals to work in NMDC. The Company has been coordinating with government bodies like Tawteen Council to support in this initiative. The Company provides training and resources while getting them on board on full time basis.

## ACKNOWLEDGMENT

On behalf of the Board, I wish to express our appreciation for the support and cooperation of the financial institutions, suppliers, subcontractors, business associates and government authorities and expect the same in future for sustaining the Company's growth rate. The Board would like to place on record its appreciation to the hard work, commitment and unstinting efforts put in by your Company's employees at all levels.



**Mohammed Thani Murshed Al Rumaithi**  
Chairman

