

**DRAKE AND SCULL  
INTERNATIONAL PJSC & ITS  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2018**

## **Consolidated financial statements for the year ended 31 December 2018**

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## **REPORT OF THE BOARD OF DIRECTORS**

The Board of Directors present their report and the consolidated financial statements for the year ended 31 December 2018.

## **PRINCIPAL ACTIVITIES**

Drake & Scull International PJSC is preliminary engaged in engineering, integrated design and construction disciplines of engineering, civil contracting and water and power infrastructure.

## **RESULTS**

For the year ended 31 December 2018, the Group recorded revenue of AED 798 million (2017: AED 2,637 million). The net loss for the year was AED 5,093 million (2017: AED 1,396 million). The increase in loss is mainly due to allowance against expected credit losses on certain receivable and due from contract as highlighted in previous audit report and impairment of goodwill and intangibles due to resultantly losses.

Looking ahead our main focus will be to restructure our debt and equity for which a comprehensive plan is in progress.

## **AUDITORS**

A resolution to re-appoint Ernst & Young as auditors for the ensuing year will be put to the members at the Annual General Meeting.

## **For and on Behalf of the Board of Directors**



Chairman

24/04/2019

Dubai, United Arab Emirates

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C.**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Disclaimer of opinion*

We were engaged to audit the consolidated financial statements of Drake and Scull International P.J.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

#### *Basis for disclaimer of opinion*

##### *1. Review of opening balances and working papers of the predecessor auditor*

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed a qualified opinion on those financial statements on 27 March 2018. We were not provided with access to review the predecessor auditor's working papers relating to their audit of the Group for the year ended 31 December 2017. Because we were denied such access, and in the absence of sufficient reliable alternative procedures, it was not possible for us to satisfy ourselves on opening balances as at 31 December 2017. Any adjustment to those figures would have a consequential effect on the results and cash flows for the year ended 31 December 2018.

##### *2. Intercompany reconciliations*

Reconciliations between intra-group balances and transactions reflect un-reconciled differences between Group entities of AED 140 million, of which AED 70 million relates to the year ended 31 December 2018 and AED 70 million relates to prior years. Such differences have been adjusted during the relevant periods in the consolidated income statement under general and administrative expenses. We were not provided with detailed reconciliations of balances between the Group companies in order for us to understand the nature of, and audit the supporting documentation for, such differences. In the absence of such reconciliations, we were unable to satisfy ourselves with regards to the adjustments recorded in the relevant accounts.

##### *3. Audit of material subsidiaries*

We were not provided with sufficient and appropriate audit evidence to complete our audits of the following Group subsidiaries: Gulf Technical Construction Company (GTCC), UAE, Drake & Scull International Saudia Company Limited, KSA and Drake and Scull Construction, Jordan for the year ended 31 December 2018. These subsidiaries reported total assets and liabilities as of, and revenues for the year ended, 31 December 2018 amounting to AED 1,434 million, AED 2,605 million and AED 20 million, respectively. There were no practicable alternative audit procedures that we could carry out and, accordingly, we were unable to satisfy ourselves with regard to the completeness, existence and accuracy of the reported results and financial position of these subsidiaries for the year ended 31 December 2018.



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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Basis for disclaimer of opinion (continued)*

#### 4. *Audits of Group subsidiaries in the United Arab Emirates*

The Group has material subsidiaries in the United Arab Emirates, Drake and Scull International LLC, Abu Dhabi which has reported revenue of AED 104 million and cost of sales of AED 220 million, and Drake and Scull Engineering (MEP Division), Dubai, which has reported revenue of AED 163 million and cost of sales of AED 322 million for the year ended 31 December 2018. We were not provided with the following details for these subsidiaries:

##### 4.1 *Contract value revisions:*

Revenue on certain contracts was recognised on values that are different from contract-stated values. We were not provided with the nature and supporting documents for variations or claims to the original contract values, and whether the same are approved or unapproved. Due to the unavailability of such information, it was not possible for us to determine the accuracy of the recognised revenue for the year.

##### 4.2 *Contract cost estimation:*

We requested detailed break downs for the 'cost to complete' estimates with details of committed and uncommitted costs and categorisation into materials, labour, sub contract costs and overheads. We were not provided with such information and details and, hence, it was not possible for us to test the reasonableness of the cost to complete estimates and their corresponding impact on the consolidated financial statements.

#### 5. *Reporting of a material subsidiary in Qatar*

As detailed in note 32, a subsidiary in Qatar has reported net liabilities of AED 709 million included in the consolidated financial statements of the Group for the year ended 31 December 2018. We were not provided with financial information as at 31 December 2018 of the Group's subsidiary in Qatar and, therefore, we have not been able to perform our audit procedures on the subsidiary's financial information. We were, accordingly, unable to conclude on the results or balances of the subsidiary's financial information included in the Group's consolidated financial statements for year ended 31 December 2018.

#### 6. *Drake and Scull Water and Energy (DSWE) India*

DSWE India, a Group subsidiary is currently under insolvency proceeding based on the legal cases filed by suppliers under the National Company Law Tribunal (NCLT), India which has led to loss of control over the subsidiary. We were not provided with management's assessment and legal opinion on the potential impact of the above proceedings on the Group or its other subsidiaries. In the absence of any procedures that we could perform in respect of this matter, we were not able to assess the potential impact of this matter on the Group's consolidated financial statements.

#### 7. *External lawyers' confirmations*

We were not able to obtain external lawyers' confirmations in relation to legal cases to assess the Group's exposure against legal cases as of 31 December 2018. In the absence of any procedures that we could perform in respect of this matter, we were unable to satisfy ourselves with regard to the sufficiency of legal provisions, required disclosures and accruals made.



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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Basis for disclaimer of opinion (continued)*

##### 8. *Bank confirmations*

We were not able to obtain all the required bank confirmations to verify the bank balances and related commitments and contingencies of the Group. In the absence of any procedures that we could perform in respect of this matter, we were unable to complete our audit procedures with respect to the existence and completeness of these balances.

##### 9. *Impairment assessment of property and equipment*

International Accounting Standard 36 "Impairment of Assets" requires management to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset and recognise an impairment loss, if any. Management has not carried out an impairment assessment for property and equipment amounting to AED 202 million as at 31 December 2018 and, therefore, we were unable to determine whether any adjustments to the carrying values of the property and equipment were necessary.

##### 10. *IFRS 15 adjustments*

The Group has adopted IFRS 15 "Revenue from contracts with customers", which is effective for periods beginning on or after 1 January 2018, in the preparation of the consolidated financial statements for the year ended 31 December 2018. Management has not assessed the impact relating to adjustments required to opening balances as at 1 January 2018. Accordingly, we are unable to assess the accuracy of revenue adjustments made in the consolidated financial statements for the year ended 31 December 2018, or the impact of those relating to the transitional requirements of IFRS 15 on opening balances.

##### 11. *Going concern assessment*

As detailed in note 2 to the consolidated financial statements, the Group has incurred a net loss of AED 5,093 million for the year ended 31 December 2018 and, as of that date, it had accumulated losses of AED 4,943 million and its current liabilities exceeded its current assets by AED 4,741 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements, however, have been prepared on a going concern basis, based on a restructuring plan developed by management as detailed in note 2. The Group's going concern assumption is highly dependent on the successful execution of such a plan and approval by the relevant stakeholders, including external counterparties. The accompanying consolidated financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.



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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL P.J.S.C. (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *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 IFRSs, and in compliance with the applicable provisions of the articles of association of the Company and 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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

### Report on other legal and regulatory requirements

Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we are unable to provide an opinion on other legal and regulatory requirements.

For Ernst & Young

Signed by:  
Ashraf Abu-Sharkh  
Partner  
Registration No: 690

24 April 2019

Dubai, United Arab Emirates

# Drake and Scull International PJSC & its subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 AED'000	31 December 2017 AED'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	201,638	282,018
Intangible assets	6	-	930,591
Deferred income tax assets	7	12,397	12,924
Investment in associate	8	-	284,480
Non-current financial assets	9	551	551
Trade and other receivables	11	186,937	286,594
		<u>401,523</u>	<u>1,797,158</u>
<b>Current assets</b>			
Inventories	10	19,064	28,185
Development properties		7,525	7,525
Trade and other receivables	11	1,058,378	4,492,300
Due from related parties	12	62,964	64,626
Financial assets at fair value through profit or loss	13	1,887	3,488
Current financial assets	9	-	30,000
Cash and bank balances	14	154,971	520,201
Investment in associate	8	96,000	-
Assets held for sale	31	111,132	-
		<u>1,511,921</u>	<u>5,146,325</u>
<b>TOTAL ASSETS</b>		<u><u>1,913,444</u></u>	<u><u>6,943,483</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	15	1,070,988	1,070,988
Share premium	15	3,026	3,026
Statutory reserve	16	125,760	125,760
Other reserve	17	24,543	24,543
Accumulated losses		(4,942,918)	(430,366)
Foreign currency translation reserve		(63,728)	(67,381)
<b>Equity attributable to equity holders of the parent</b>		<u>(3,782,329)</u>	<u>726,570</u>
Non-controlling interests		(966,593)	(374,920)
<b>(Deficiency of Assets) / Total equity</b>		<u>(4,748,922)</u>	<u>351,650</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings	18	295,479	456,030
Employees' end of service benefits	19	113,724	134,819
		<u>409,203</u>	<u>590,849</u>
<b>Current liabilities</b>			
Bank borrowings	18	1,937,626	2,430,657
Trade and other payables	20	3,060,515	3,345,024
Due to related parties	12	80,057	225,303
		<u>5,078,198</u>	<u>6,000,984</u>
Liabilities associated with discontinued operations	31	465,560	-
Net Liabilities associated with loss of control over a subsidiary	32	709,405	-
<b>Total liabilities</b>		<u>6,662,366</u>	<u>6,591,833</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>1,913,444</u></u>	<u><u>6,943,483</u></u>

The consolidated financial statements were approved by the Board of Directors on 24 April 2019 and signed on its behalf by:

Chairman

The attached notes 1 to 33 form part of these consolidated financial statements.



## Drake and Scull International PJSC & its subsidiaries CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018 AED'000</i>	<i>2017 AED'000</i>
<b>Continuing operation</b>			
Revenue from contracts with customers	4	798,253	2,636,635
Cost of sales	21	<u>(1,750,492)</u>	<u>(3,018,563)</u>
<b>Gross loss</b>		<b>(952,239)</b>	<b>(381,928)</b>
Other income	23	18,196	7,680
General and administrative expenses	24	<u>(3,499,423)</u>	<u>(940,911)</u>
<b>Operating loss</b>		<b>(4,433,466)</b>	<b>(1,315,159)</b>
Finance income		1,939	974
Finance costs	25	<u>(111,237)</u>	<u>(94,609)</u>
Finance costs – net		<b>(109,298)</b>	<b>(93,635)</b>
Bargain purchase gain	8	-	214,480
<b>Loss before tax from Continuing Operations</b>		<b>(4,542,764)</b>	<b>(1,194,314)</b>
Income tax expense and zakat	7	<u>(12,738)</u>	<u>(21,688)</u>
<b>Loss from Continuing Operations</b>		<b>(4,555,502)</b>	<b>(1,215,982)</b>
<b>Discontinued Operations</b>			
Loss after tax from discontinued operations		(149,805)	(179,633)
Loss after tax from lost subsidiary		<u>(387,639)</u>	<u>-</u>
<b>Loss for the year</b>		<b>(5,092,946)</b>	<b>(1,395,615)</b>
<b>Attributable to:</b>			
Equity holders of the parent		(4,501,273)	(1,183,275)
Non-controlling interests		<u>(591,673)</u>	<u>(212,340)</u>
		<b>(5,092,946)</b>	<b>(1,395,615)</b>
<b>Loss per share</b>			
Basic and diluted (AED)	26	<u>(4.191)</u>	<u>(1.48)</u>

The attached notes 1 to 33 form part of these consolidated financial statements.

Drake and Scull International PJSC & its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Loss for the year	(5,092,946)	(1,395,615)
<b>Other comprehensive income items that will be reclassified subsequently to profit or loss</b>		
Currency translation differences	3,654	(1,695)
Other comprehensive income / (loss) for the year	3,654	(1,695)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(5,089,292)</b>	<b>(1,397,310)</b>
<b>Attributable to:</b>		
Equity holders of the parent	(4,497,619)	(1,184,970)
Non-controlling interests	(591,673)	(212,340)
	<b>(5,089,292)</b>	<b>(1,397,310)</b>

The attached notes 1 to 33 form part of these consolidated financial statements

**Drake and Scull International PJSC & its subsidiaries**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2018

*Attributable to the equity holders of the parent*

	Share capital AED '000	Share premium AED '000	Statutory reserve AED '000	Other reserve AED '000	Accumulated losses AED '000	Foreign currency translation reserve AED '000	Total AED '000	Non-controlling interests AED '000	Total AED '000
Balance at 31 December 2017	1,070,988	3,026	125,760	24,543	(460,769)	(67,381)	696,167	(344,517)	351,650
Reclassification (Note 2.3)	-	-	-	-	30,403	-	30,403	(30,403)	-
Balance at 31 December 2017	1,070,988	3,026	125,760	24,543	(430,366)	(67,381)	726,570	(374,920)	351,650
Impact of changes in accounting policies (Note 2.4)	-	-	-	-	(11,279)	-	(11,279)	-	(11,279)
Balance at 1 January 2018	1,070,988	3,026	125,760	24,543	(441,645)	(67,381)	715,291	(374,920)	340,371
Loss for the year	-	-	-	-	(4,501,273)	-	(4,501,273)	(591,673)	(5,092,946)
Other comprehensive income for the year	-	-	-	-	-	3,654	3,654	-	3,654
Total comprehensive (loss)/profit for the year	-	-	-	-	(4,501,273)	3,654	(4,497,619)	(591,673)	(5,089,292)
<b>Balance at 31 December 2018</b>	<b>1,070,988</b>	<b>3,026</b>	<b>125,760</b>	<b>24,543</b>	<b>(4,942,918)</b>	<b>(63,727)</b>	<b>(3,782,329)</b>	<b>(966,593)</b>	<b>(4,748,921)</b>
Balance at 1 January 2017	2,285,047	3,026	125,760	24,543	(991,553)	(65,686)	1,381,137	(132,177)	1,248,960
Loss for the year	-	-	-	-	(1,183,275)	-	(1,183,275)	(212,340)	(1,395,615)
Other comprehensive income for the year	-	-	-	-	-	(1,695)	(1,695)	-	(1,695)
Total comprehensive loss for the year	-	-	-	-	(1,183,275)	(1,695)	(1,184,970)	(212,340)	(1,397,310)
Cancellation of shares (note 2.1)	(1,714,059)	-	-	-	1,714,059	-	-	-	-
Issue of new shares (note 15)	500,000	-	-	-	-	-	500,000	-	500,000
Balance at 31 December 2017	1,070,988	3,026	125,760	24,543	(460,769)	(67,381)	696,167	(344,517)	351,650

The attached notes 1 to 33 form part of these consolidated financial statements

# Drake and Scull International PJSC & its subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

		<i>For the year ended 31 December</i>	
		<i>2018</i>	<i>2017</i>
		<i>AED'000</i>	<i>AED'000</i>
	<i>Notes</i>		
<b>Operating activities</b>			
Loss before tax from continuing operations		(4,542,764)	(1,194,314)
Loss before tax from discontinued operations		(149,802)	(173,020)
Loss before tax from lost subsidiary		(387,639)	
Profit before tax		(5,080,205)	(1,367,334)
Adjustments for:			
Depreciation	5	31,008	47,485
Impairment of property and equipment	5	36,085	61,843
Amortisation of intangible assets	6	29,361	33,555
Impairment of goodwill		901,230	-
Provision for employees' end of service benefits	19	16,704	29,002
Finance cost	25	217,943	165,879
Fair value loss on financial assets at fair value through profit or loss	13	1,601	-
Loss / (Gain) on disposal of property and equipment		3,472	(1,643)
Gain on disposal of investments		(4,872)	-
Fair value loss on available for sale investment		-	119
Bargain purchase gain	8	-	(214,480)
Provision for impairment of trade receivables, retentions, work-in-progress, related parties and other receivables	11	2,107,882	731,076
Provision for impairment of amounts due from Associates		188,480	-
Provision against bond encashment and future losses		96,483	-
Finance income		(1,939)	(974)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		(1,456,769)	(515,472)
Payment of employees' end of service benefits	19	(25,321)	(35,069)
Income tax paid	9	(3,745)	(9,800)
Changes in working capital:			
Inventories		9,099	11,848
Development properties		-	1,035
Trade and other receivables (before provisions)		1,205,514	(141,540)
Due from related parties		1,322	(9,739)
Trade and other payables (excluding income tax and interest payable)		(98,859)	(85,745)
Due to related parties		30,728	(55,887)
Net cash used in operating activities		(338,029)	(840,369)
<b>Investing activities</b>			
Purchase of property and equipment	5	(3,374)	(8,637)
Proceeds from disposal of property and equipment	5	3,215	39,550
Proceeds from disposal of assets held for sale	9	-	307,855
Proceeds from disposal of investments	9	34,872	(27,761)
Interest received		-	582
Net cash generated from investing activities		34,713	311,589
<b>Financing activities</b>			
Term deposits under lien	14	138,885	14,296
Proceeds from trust receipts and other borrowings	18	23,081	41,187
Proceeds from term loans	18	186,147	93,097
Payment of term loans	18	(72,540)	(136,965)
Issue of share capital	15	-	500,000
Interest paid		-	(111,305)
Net cash generated from financing activities		275,573	400,310
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(27,743)	(128,470)
Net foreign currency translation difference		3,653	(1,695)
Cash and cash equivalents at the beginning of the year		(435,134)	(304,969)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	(459,224)	(435,134)

The attached notes 1 to 33 form part of this consolidated financial statements.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 1 CORPORATE INFORMATION

Drake and Scull International PJSC (the “Company” or the “Parent Company”) was incorporated on 16 November 2008 and was registered on 21 January 2009 as a Public Joint Stock Group in accordance with the UAE Federal Law No. (2) of 2015. The Company is listed on Dubai Financial Market.

The address of the Company’s registered office is PO Box 65794, Dubai, United Arab Emirates.

The principal activities of the Company and its subsidiaries (together, the “Group”) are carrying out contracting work relating to the construction industry, such as electrical, plumbing, oil and gas, air conditioning and sanitation work in the Middle East, Europe, Asia and North Africa region.

The Group has either directly or indirectly the following major subsidiaries:

<i>Major Subsidiaries</i>	<i>Principal activities</i>	<i>Shareholding %</i>		<i>Country of incorporation</i>
		<i>31 December 2018</i>	<i>31 December 2017</i>	
Drake & Scull International LLC (Abu Dhabi)	Contracting work related to mechanical, electrical and sanitary engineering	100	100	UAE
Gulf Technical Construction Group LLC*	Mechanical, electrical and civil construction work	91	91	UAE
Drake & Scull Engineering formerly Drake & Scull Water and Power LLC	Engineering, procurement and construction of Water and Power Infrastructure projects	100	100	UAE
Drake & Scull International (Qatar) WLL	Mechanical, electrical and plumbing activities	**	100	Qatar
Passavant Energy & Environment and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International Saudia Group Limited*	Implementation of construction contracts, operation and maintenance of electrical and mechanical installations and related activities	59	59	Saudi Arabia
Drake & Scull International for Electrical Contracting WLL	Mechanical, Electrical contracting and repairing work relating to the construction industry	100	100	Kuwait
International Center for Contracting Co. Ltd *	Contracting work relating to the construction industry	91	91	Saudi Arabia
Drake & Scull Construction Group LLC	Contracting work relating to the construction industry	91	91	Saudi Arabia
Drake & Scull International for Contracting SAE	Contracting work relating to mechanical, electrical and sanitary engineering	100	100	Egypt
Drake & Scull International LLC (Oman)	Contracting work related to mechanical, electrical and sanitary engineering	51	51	Oman

\*\* During the year ended December 31, 2018 the Group administratively and operationally lost control of its subsidiary in Qatar.

\* Refer note 2.3

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 1 CORPORATE INFORMATION (continued)

The Group, through Gulf Technical Construction Group LLC has a 50% interest in Ranya Test Joint Venture, a joint arrangement with Ranya General Contracting Group LLC under a joint arrangement agreement dated 12 August 2005. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull International for Contracting SAE has a 50% interest in a joint control with Hassan Allam Sons (Misr Sons Development S.A.E) under a joint arrangement agreement dated 21 July 2011. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull International Saudi Co. LLC has a 50% interest in a joint control with Specon Saudi LLC under a joint arrangement agreement dated 14 February 2013. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull Construction Group LLC has a 50% interest in a joint control with Consolidated Contractors Group S.A.L (Offshore) (CCC) under a joint arrangement agreement dated 27 September 2011. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull Construction Group LLC – Saudi Arabia has a 50% interest in a joint control with Saudi Arabia Construction Co (SACC – DSC JV) under a joint arrangement agreement dated 15 October 2012. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull Construction LLC has a 50% interest in a joint venture with John Sisk and Sons Construction LLC, (SISK-DSC-SMH-Joint Venture) under a joint arrangement agreement dated 25 November 2012. This is classified as joint operation in these consolidated financial statements.

Drake and Scull International PJSC has a 50% interest in a joint venture with SICIM S.p.A under joint arrangement agreement dated 11 January 2013. This is classified as joint operation in these consolidated financial statements.

Drake and Scull International PJSC has a 51% interest in a joint venture with Al Habtoor Specon LLC (DSI-HLS Joint Venture) under a joint arrangement agreement dated 17 April 2013. The joint venture agreements in relation to the DSI-HLS Joint Venture require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

Drake and Scull Engineering LLC has a 49% interest in a joint control with Al Habtoor Specon LLC (HLS-DSE Joint Venture) under a joint arrangement agreement dated 1 May 2013. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake and Scull Construction Group LLC has a 33% interest in a joint control with Consolidated Contractors Group S.A.L (Offshore) and Arabtec Construction LLC under a joint arrangement agreement dated 10 June 2013. This is classified as joint operation in these consolidated financial statements.

#### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

##### 2.1 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis in view of the restructuring initiatives undertaken during and after the year ended 31 December 2018. The Company had set up a restructuring committee and appointed relevant restructuring advisors to develop a comprehensive restructuring plan taking into consideration interests of all stakeholders.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.1 GOING CONCERN (continued)

The Group has incurred a loss of AED 5,093 million during the year ended 31 December 2018 (31 December 2017: loss of AED 1,396 million), and as of that date, its current liabilities exceed its current assets by AED 4,741 million (2017: AED 855 million). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the Group be unable to continue as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any liabilities which might arise, and to reclassify non-current assets as current assets and non-current liabilities as current liabilities, however, these consolidated financial information, have been prepared on the going concern basis based on the developments related to restructuring highlighted above. Further, during the general assembly meeting of the Shareholders held on 4th October 2018, the Shareholders of the Group have agreed to continue the operations of the Company. The same was reaffirmed in the general assembly meeting of the Shareholders dated April 8, 2019.

The Board of Directors have developed future strategy and business plan which is predicated on successful restructuring of the debt, trade creditor management and recapitalization of the balance sheet.

The Management has been working with advisors to develop and execute a feasible restructuring plan. The following actions have been taken and / or are under consideration, among others:

- Reviewing and reducing the operational costs to minimize the operational losses
- Negotiating with banks and trade creditors to restructure liabilities
- Securing new contracts/projects of substantial value
- Aligning of manpower resources with utilised capacity, and
- Reviewing of branches or subsidiaries of the Group to assess future operations.

### 2.2 BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRSIC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The consolidated financial statements have been prepared in United Arab Emirates Dirhams (AED), since this is the currency of the country in which the company is domiciled. All values are rounded to the nearest thousands (000') except otherwise mentioned.

The preparation of 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

### 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise of the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.3 BASIS OF CONSOLIDATION (continued)

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. During the year, the Group has made changes to the previously reported shareholding percentages in order to reflect the precise ownership position. Due to such rectification opening balance of non-controlling interest is adjusted with a corresponding impact on the accumulated losses. There is no impact on the profit and loss of the comparative period and total equity.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### 2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

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 interim 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 previous year.

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 was 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 2018, but are recognised in the opening retained earnings as at 1 January 2018. The adjustments are explained in more detail below:

#### 2.4.1 IFRS 15 Revenue from contracts with customers

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 recognized 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.



## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

#### 2.4.1 IFRS 15 Revenue from contracts with customers (continued)

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 recognized 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.

The Group has identified contracts which meet the above criteria. However, the full impact of the above on the consolidated financial statements based on the review of full contracts is still under progress.

#### 2.4.2 IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements for the year ended 31 December 2017. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

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 subtotals and totals disclosed cannot be recalculated from the numbers provided.

<b>Consolidated statement of financial position</b>	<i>31 December 2017</i>	<i>IFRS 9</i>	<i>1<sup>st</sup> January 2018</i>
<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	
<b>Non-current assets</b>			
Other financial assets	551	-	551
<b>Current assets</b>			
Trade and other receivables	4,492,300	(11,279)	4,481,021
<b>Equity</b>			
Accumulated losses (after reclassification, refer note 2.3)	(430,366)	(11,279)	(441,645)

\* 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 551 thousand were reclassified from available-for-sale financial assets to financial assets at FVOCI. No gain or loss was recognised on such transfer.

#### (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 not material reclassifications of financial assets other than disclosed above.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### 2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

##### 2.4.2 IFRS 9 Financial Instruments (continued)

###### (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 contacts. 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 the trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	<i>AED '000</i>
As at 31 December 2017 – calculated under IAS 39	990,901
Amounts adjusted	11,279
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1,002,180

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

#### 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's separate financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

##### **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### **IFRS 16 Leases (continued)**

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is in process of assessing potential impact of application of IFRS 16 on the amount reported and disclosures made in these consolidated statements.

#### **IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

#### **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

#### **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective.

#### **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

#### **Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### **Amendments to IAS 28: Long-term interests in associates and joint ventures (continued)**

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

#### **Annual Improvements 2015-2017 Cycle (issued in December 2017)**

These improvements include:

##### **• IFRS 3 Business Combinations**

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

##### **• IFRS 11 Joint Arrangements**

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

##### **• IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

##### **• IAS 23 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **IFRS 9 Accounting policies**

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

##### *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- 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 contractual terms of the cash flows that whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Management determines the classification of its investment at initial recognition.

##### *Recognition and measurement*

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income (FVOCI) are carried at fair value. After initial measurement, the Group present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

##### *Impairment of financial assets*

For trade receivables, 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.

#### **IFRS 15 Accounting policies**

The application of the new standard required the Group to apply the following new accounting policies:

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: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IFRS 15 Accounting policies (continued)

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 Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. As part of the impact assessment exercise, Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore, it meets the criteria to recognise revenue over the period of time and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performance obligation.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

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

Variations which are in the nature of extension of existing scope of work are accounted for using cumulative catch up adjustments to the cost of complete method of revenue recognition. Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

A loss is recognised in the statement of comprehensive income when the expected contract costs exceed the total anticipated contract revenue.

The Group combines two or more contracts entered into at or near the same time with the same customer and accounts for the contracts as a single contract if one or more of the following criteria are met:

- The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other 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 is met, the arrangements are combined and accounted for a single arrangement for revenue recognition.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IFRS 15 Accounting policies (continued)

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.

#### Value-added Tax (VAT)

Expenses, and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and/or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

#### Contract costs

Contract costs comprise direct contract costs and other costs relating to the contracting activity in general and which can be allocated to contracts. In addition, contract costs include other costs that are specifically chargeable to the customer under the terms of the contracts.

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.

#### Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method, at rates calculated to allocate the cost of assets less their estimated residual value over their expected useful lives as follows:

Buildings	over 5-10 years
Machinery	over 2-5 years
Furniture, fixtures and office equipment	over 2-5 years
Motor vehicles	over 3-5 years

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.



## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

##### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

###### Intangible assets

###### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Parent Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree 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 each of the Cash Generating Units ("CGUs"), or Groups of CGUs, The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

###### (b) Trade names

Trade names are shown at historical cost. Trade names have indefinite lives and are not amortised due to the minimal cost of renewal.

###### (c) Customer relationships

Acquired contractual customer relationships are initially recognised at fair value at the time of acquisition and subsequently carried at cost less accumulated amortisation. The contractual customer relationships have a finite useful life. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over its estimated useful life of 10 years, which is the estimated period of benefit.

###### (d) Orders backlog

Acquired orders backlog is arrived at by calculating the present value of the expected future economic benefits to arise from those orders after deducting the contributory asset charge. Subsequently, orders backlog is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of orders backlog over its estimated useful life of 4 years, which is the estimated period of benefit.

###### Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Costs are those expenses incurred in bringing each product to its present location and condition and are determined using the first-in, first-out method.

Net realisable value is based on estimated selling price less any further costs to be incurred on completion and disposal.

###### Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### (a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

##### (b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting year. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'due from related parties', and 'cash and cash equivalents' in the consolidated statement of financial position (Notes 8, 20 and 13 respectively).

##### (c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting year.

##### (d) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or a Group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent year, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

#### **Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

No hedge accounting has been applied by the group as the hedge requirements have not been met.

The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The gain or loss relating to the change in fair value is recognised immediately in the consolidated statement of income within "Other gain/(losses)". The Group does not have any gains or losses relating to the change in fair value for the year ended 31 December 2018.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Development properties**

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Such properties are stated at the lower of cost and net realisable value. The cost of development properties includes the cost of land and other related expenditure which are recognised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in completing and selling the property. Any gains or losses on sale of development properties are included in other gain/(losses) in the consolidated statement of income.

#### **Assets classified as held for sale**

Assets classified as held for sale 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 expect 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 the fair value less costs to sell.

#### **Trade receivable**

Trade receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

#### **Cash and cash equivalents**

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances, and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management, and cash margin.

#### **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 purchases the Group'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 Group's equity holders until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, included in equity attributable to the Group's equity holders.

#### **Taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of income, 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.

#### *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxes (continued)

##### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

#### **Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### **Dividend distribution**

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Group's shareholders.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Interest income

Interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated income statement.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

#### Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

#### 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 consolidated statement of financial position 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 consolidated statement of financial position date.

With respect to its UAE national employees, the Group makes a provision for contributions to be made to the UAE Pension Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. These are dealt with as payments to defined contribution plans, where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

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.

#### Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates ('the functional currency'). The consolidated financial statements are presented in United Arab Emirates Dirhams ('AED'), which is the Group's presentation currency.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency translation (continued)

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rate are recognised in the consolidated statement of income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are recognised in other comprehensive income.

##### (c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

#### Bank borrowings

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

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through EIR amortisation process.

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

Other financial liabilities including deferred consideration on acquisition of subsidiaries are measured at amortised cost.

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 recognized in the consolidated income statement.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

#### **Derecognition of financial liabilities**

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 statement of comprehensive income.

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities 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 cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year. Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet 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.

#### Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is classified as current when:

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

The Group classifies all other liabilities as non-current.

## 3 USE OF ESTIMATES AND JUDGMENTS

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

In preparing this consolidated financial statement, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

### 3.1 Critical accounting estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.



## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 3 USE OF ESTIMATES AND JUDGMENTS (continued)

##### 3.1 Critical accounting estimates and assumptions (continued)

###### 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 foreseen, 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 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 risk of default and expected loss rates. The Group uses judgment 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.

###### (d) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates 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 amounts 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.

#### 4 SEGMENT REPORTING

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 "Operating Segments". IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the "Executive management" who are the Chief Operating decision-makers in order to allocate resources to the segment and to assess its performance. Executive management assesses the performance of the operating segments based on revenue.

##### **Business segments**

For management purpose, the Group is organised into business units based on their services and has three reportable business segments; Engineering (Mechanical, Electrical and Plumbing), Civil and Others.

The Engineering segment carries out contracting work relating to the construction industry, such as mechanical, electrical, plumbing and sanitation work and contracting work relating to the construction industry, such as infrastructure, water treatment plants, district cooling plants and power plants.

## Drake and Scull International PJSC & its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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At 31 December 2018

#### 4 SEGMENT REPORTING (continued)

##### **Business segments (continued)**

The Civil works segment carries out contracting work relating to the construction industry, such as property construction, sanitation work and real estate activities.

Others segment represents a subsidiary carrying out contracting work in energy and environment industry and the corporate office which carries out strategic planning, management of all subsidiaries, treasury management, mergers and acquisition, corporate branding and investor relations. For segment information disclosure, goodwill and other intangible assets and their amortisation are disclosed under the relevant segment. Sales between segments are carried out at agreed terms. The revenue from external parties reported to the Executive management is measured in a manner consistent with that in the consolidated interim statement of income.

##### **Geographical segments**

Executive management considers the geographical distribution of the Group's operations into three main segments; UAE, Saudi Arabia and Others. The Group is presently engaged in carrying out contracting work relating to the construction industry mainly in the United Arab Emirates, Saudi Arabia, Kuwait, Qatar, Egypt, Oman, Germany, Algeria, India, Iraq and Jordan.

Finance cost, finance income, other income are not allocated to individual segment as the underlying instruments are managed by the group.

Drake and Scull International PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

4 SEGMENT REPORTING (continued)

Information about business segments

All figures in AED'000

	For the year ended 31 December 2018					For the year ended 31 December 2017				
	Engineering	Civil	Others	Inter segment elimination	Total	Engineering	Civil	Others	Inter segment elimination	Total
Revenue										
External customers	376,797	261,798	159,658	-	798,253	1,633,993	757,291	245,352	-	2,636,635
Inter- segment	(54,262)	-	318	53,944	-	89,830	-	15,625	(105,455)	-
	322,535	261,798	159,976	53,944	798,253	1,723,823	757,291	260,977	(105,455)	2,636,635
Segment loss	(2,701,588)	(1,265,345)	(552,418)	(36,151)	(4,555,502)	(866,259)	(430,979)	81,255	-	(1,215,982)
Depreciation and amortisation	13,483	11,277	34,548	-	59,308	24,461	15,492	39,413	-	79,366
Capital expenditure	552	2,696	256	-	3,505	4,457	3,064	458	-	7,979
Segment total assets	1,474,609	1,095,570	4,461,470	(5,118,204)	1,913,445	3,789,341	2,384,471	4,425,751	(3,656,080)	6,943,483

At 31 December 2018 (Audited)

At 31 December 2017 (Audited)

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 4 SEGMENT REPORTING (continued)

##### Information about geographical segments

All figures in AED'000

	<i>UAE</i>	<i>Saudi Arabia</i>	<i>Others</i>	<i>Inter Segment elimination</i>	<i>Total</i>
<i>For the year ended 31 December 2018</i>					
Revenue from external customers	<b>384,024</b>	<b>(27,144)</b>	<b>441,373</b>	<b>-</b>	<b>798,253</b>
<i>For the year ended 31 December 2017</i>					
Revenue from external customers	1,172,319	434,019	1,030,297	-	2,636,635
<i>31 December 2018</i>					
Non-current assets	<b>1,976,518</b>	<b>62,792</b>	<b>23,300</b>	<b>(1,661,087)</b>	<b>401,523</b>
<i>31 December 2017</i>					
Non-current assets	2,288,066	96,164	137,129	(724,201)	1,797,158

#### 5 PROPERTY AND EQUIPMENT

##### 31 December 2018

	<i>Land and buildings</i>	<i>Machinery</i>	<i>Furniture, Fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Capital work-in-progress</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
<b>Cost:</b>						
At 1 January 2018	295,606	194,484	102,331	30,445	11,137	634,003
Additions	30	2,641	587	379	-	3,637
Disposals	(16,159)	(7,679)	(5,618)	(415)	-	(29,871)
Currency translation differences	(13)	(540)	(1,118)	(59)	(771)	(2,501)
Discontinued operations	(52)	(18,672)	(11,478)	(8,810)	(8,347)	(47,359)
At 31 December 2018	<b>279,412</b>	<b>170,234</b>	<b>84,704</b>	<b>21,540</b>	<b>2,019</b>	<b>557,909</b>
<b>Depreciation:</b>						
At 1 January 2018	73,161	165,753	86,719	17,444	8,908	351,985
Charge for the year	7,258	10,477	9,232	3,749	292	31,008
Impairment loss	36,151	(52)	(1)	(13)	-	36,085
Disposals	(11,059)	(7,119)	(5,520)	275	(85)	(23,508)
Transfers from	-	96	229	-	-	325
Currency translation differences	(51)	(931)	(687)	(81)	(482)	(2,232)
Discontinued operations	(4)	(16,337)	(6,187)	(7,639)	(7,225)	(37,392)
At 31 December 2018	<b>105,456</b>	<b>151,887</b>	<b>83,785</b>	<b>13,735</b>	<b>1,408</b>	<b>356,271</b>
<b>Net carrying amount:</b>						
At 31 December 2018	<b>173,956</b>	<b>18,346</b>	<b>918</b>	<b>7,804</b>	<b>610</b>	<b>201,638</b>

Drake and Scull International PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

5 PROPERTY AND EQUIPMENT (continued)

31 December 2017

	<i>Land and buildings AED '000</i>	<i>Machinery AED '000</i>	<i>Furniture, Fixtures and office equipment AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Capital work-in- progress AED '000</i>	<i>Total AED '000</i>
Cost:						
At 1 January 2017	391,916	208,007	114,213	40,227	10,446	764,809
Additions	-	6,059	1,343	1,235	-	8,637
Disposals	(97,327)	(28,205)	(4,300)	(11,176)	-	(141,008)
Transfers	1,005	8,534	(9,539)	-	-	-
Currency translation differences	12	89	614	159	691	1,565
At 31 December 2017	295,606	194,484	102,331	30,445	11,137	634,003
Depreciation:						
At 1 January 2017	87,699	151,280	78,900	19,653	6,845	344,377
Charge for the year	8,808	18,387	13,462	6,828	-	47,485
Impairment loss	43,217	15,773	579	797	1,477	61,843
Disposals	(67,056)	(22,376)	(3,681)	(9,988)	-	(103,101)
Transfers	506	2,445	(2,969)	18	-	-
Currency translation differences	(13)	244	428	136	586	1,381
At 31 December 2017	73,161	165,753	86,719	17,444	8,908	351,985
Net carrying amount:						
At 31 December 2017	222,445	28,731	15,612	13,001	2,229	282,018

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

	<i>2018 AED '000</i>	<i>2017 AED '000</i>
Cost of sales (Note 21)	12,775	32,383
General and administrative expenses (Note 24)	15,747	13,428
Related to discontinued operations	2,486	1,674
	31,008	47,485

Capital work-in-progress represents assets under construction.

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 6 INTANGIBLE ASSETS

##### 31 December 2018

	<i>Goodwill</i> <i>AED'000</i>	<i>Trade name*</i> <i>AED'000</i>	<i>Customer</i> <i>relationships</i> <i>AED'000</i>	<i>Orders</i> <i>backlog</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Cost:					
At 1 January 2018	844,447	86,246	335,552	16,779	1,283,024
At 31 December 2018	<b>844,447</b>	<b>86,246</b>	<b>335,552</b>	<b>16,779</b>	<b>1,283,024</b>
Amortisation and impairment:					
At 1 January 2018	29,463	-	306,191	16,779	352,433
Amortisation charge for the year	-	-	29,361	-	29,361
Impairment	814,984	86,246	-	-	901,230
At 31 December 2018	<b>844,447</b>	<b>86,246</b>	<b>335,552</b>	<b>16,779</b>	<b>1,283,024</b>
Net carrying amounts:					
At 31 December 2018	-	-	-	-	-

##### 31 December 2017

	<i>Goodwill</i> <i>AED'000</i>	<i>Trade name*</i> <i>AED'000</i>	<i>Customer</i> <i>relationships</i> <i>AED'000</i>	<i>Orders</i> <i>backlog</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Cost:					
At 1 January 2017	844,447	86,246	335,552	16,779	1,283,024
At 31 December 2017	844,447	86,246	335,552	16,779	1,283,024
Amortisation and impairment:					
At 1 January 2017	29,463	-	272,636	16,779	318,878
Amortisation charge for the year	-	-	33,555	-	33,555
At 31 December 2017	29,463	-	306,191	16,779	352,433
Net carrying amounts:					
At 31 December 2017	814,984	86,246	29,361	-	930,591

\* Trade name represents "Drake and Scull" naming rights. The management believe that trade name is fully impaired due to continued losses of the Group.

The business units considered as Cash Generating Units ("CGUs") of the Group, for the purposes of assessment of impairment in the value of goodwill, are Engineering, Water and Waste Water and Civil.

The key assumptions used for value-in-use calculations in 2018 are as follows:

At 31 December 2018 goodwill amounted to Nil (31 December 2017: AED 814,984 thousand). Management assessed that due to liquidity position of the Group the recoverable amount of entities is not certain hence impairment has been recorded.

The key assumptions used for value-in-use calculations in 2017 are as follows:

At 31 December 2017 goodwill amounted to AED 814,984 thousand (31 December 2016: AED 814,984 thousand). Management assessed each CGU individually for potential impairment and concluded an impairment charge of AED Nil (31 December 2016: AED 29,463 thousand).

The other key assumptions used in the value-in-use calculations are as follows:

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 6 INTANGIBLE ASSETS (continued)

##### (A) Budgeted gross margins:

The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements, price fluctuations and manpower costs.

The recoverable amounts of CGUs for the year 2017 has been determined based on their value-in-use, calculated using cash flows projections based on the financial budgets approved by management covering a period of 5 years. The discount rate applied is 11%.

##### (B) Discount rate:

These represent the weighted average cost of capital for the cash generating units adjusted for the respective geographical risk factors.

##### (C) Cost inflation:

The basis used to determine cost inflation is the forecast general price index during the budget year for the cash generating units.

##### (D) Terminal growth rate:

The terminal growth rate has been assumed to be 4% (31 December 2016: 4%). In management's view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the five year period.

#### 7 INCOME TAX AND ZAKAT

The major components of income tax expense are:

	2018 AED'000	2017 AED'000
<i>Current income tax expense:</i>		
Current income tax and Zakat charge	12,738	21,688
<i>Deferred income tax expense:</i>		
Relating to origination and reversal of temporary differences	527	6,515
	<u>13,265</u>	<u>28,203</u>

The gross movement on the deferred income tax assets is as follows:

	2018 AED'000	2017 AED'000
<i>Deferred income tax assets:</i>		
At 1 January	12,924	17,878
Exchange differences	(527)	1,561
Income statement credit	-	(6,515)
At 31 December	<u>12,397</u>	<u>12,924</u>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 8 INVESTMENT IN ASSOCIATES

Subsequent to year end the Group on account of liquidity need, decided to sale its shares in Wahat Al Zawya Holding PJSC in AED 96million where the initial investment of the Group in this deal was AED 70 million.

The Group's share in the assets and liabilities included in the consolidated financial statements is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	<b>284,480</b>	-
Investment during the year	-	70,000
Bargain purchase gain	-	214,480
Impairment	<b>(188,480)</b>	-
	<b>96,000</b>	284,480

#### 9 FINANCIAL ASSETS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	<b>30,551</b>	2,909
Additions	-	30,000
Disposals	<b>(30,000)</b>	(2,239)
Loss on disposal of available for sale investment	-	(119)
	<b>551</b>	30,551
Non - Current	<b>551</b>	551
Current	-	30,000
	<b>551</b>	30,551

Financial assets are classified as current and non-current assets in the consolidated financial statements. The value of the current investment portion is carried at fair value which is determined based on the fair market price (bid price) of the units which is received from third party fund manager. These investments, except those carried at fair value as disclosed in Note 30, are carried at cost as their fair value cannot be reliably determined.

The Group classified the above investment as financial assets at the date of investment.

#### 10 INVENTORIES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Materials and consumables	<b>19,087</b>	28,185
Related to lost subsidiary	<b>(23)</b>	-
	<b>19,064</b>	28,185

Inventories comprise of materials and consumables which are used in carrying out contracting work relating to the construction industry, such as electrical, plumbing, and oil and gas.

The cost of the materials recorded in cost of sales amounted to AED 468 million (2017: AED 1,251 million).



## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 11 TRADE AND OTHER RECEIVABLES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<b>Non-current</b>		
Trade receivables and retentions	<b>198,303</b>	300,248
Less: fair value adjustment*	<b>(11,366)</b>	(13,654)
	<b>186,937</b>	286,594
	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<b>Current</b>		
Trade receivables and retentions	<b>1,303,038</b>	1,495,006
Prepayments and other receivables	<b>366,245</b>	663,303
Amount due from customers on contracts	<b>2,359,613</b>	3,324,892
	<b>4,028,896</b>	5,483,201
Less: Allowance for expected credit losses on trade and other receivables	<b>(2,970,518)</b>	(990,901)
	<b>1,058,378</b>	4,492,300
Amount due from customers on contracts comprise :		
Costs incurred to date	<b>20,791,307</b>	21,908,234
Recognised (losses) / profits	<b>(2,494,683)</b>	(876,844)
	<b>18,296,624</b>	21,031,390
Less: Progress billings	<b>(18,173,247)</b>	(18,346,262)
	<b>123,377</b>	2,685,128

\* 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 retentions the fair values were calculated based on cash flows discounted at discount rate ranges from 2.25% to 4%. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

As at 31 December 2018, trade receivables at nominal value of AED 714,717 (2017 : AED 329,799) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	<b>329,799</b>	323,428
Charge for the year	<b>384,918</b>	43,974
Written off during the year	-	(37,603)
At 31 December	<b>714,717</b>	329,799

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 11 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	Total AED'000	Neither past due nor impaired AED'000	Past due but not impaired				
			<30 days AED'000	31-60 days AED'000	61-90 days AED'000	91-120 days AED'000	>120 days AED'000
2018	786,594	-	592,796	12,466	42,844	106,981	31,507
2017	1,465,455	1,205,499	49,883	47,767	389	666	161,251

The Group's credit period is 90 to 120 days after which trade receivables are considered to be past due. Unimpaired trade receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over trade receivables. ECL % as per IFRS 9 used is 3.5%.

#### (a) Change orders and claims

On 31 December 2017, due from customers on contract includes an amount of AED 1,699 million relating to unapproved change orders and claims. Management has provided provision on account of uncertainty in recoverability.

#### 12 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise the major shareholders, key management personnel, joint venture partners, directors and businesses which are controlled directly or indirectly by the major shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates").

In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group management or its Board of Directors.

Balances with related parties included in the consolidated statement of financial position are as follows:

#### Due from related parties:

	2018 AED'000	2017 AED'000
Joint arrangements	57,192	61,995
Affiliates	6,112	2,631
Related to Assets held as discontinued operations (Note 31)	(179)	-
Related to Assets lost subsidiary (Note 32)	(160)	-
	<b>62,964</b>	<b>64,626</b>

#### Due to related parties:

	2018 AED'000	2017 AED'000
Joint arrangements	52,451	106,231
Affiliates	203,579	119,072
Related to Assets held as discontinued operations (Note 31)	(159,751)	-
Related to Assets lost subsidiary (Note 32)	(16,222)	-
	<b>80,057</b>	<b>225,303</b>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 12 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

##### Significant related party transactions:

Significant related party transactions during the year with affiliates amounted to AED 92 million (2017: AED 8.386 million) that mainly represent funds received to meet working capital requirements.

The remuneration of key members of the management are as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Short term benefits	16,049	28,379
Employees' end of service benefits	3,812	473
	<u>19,861</u>	<u>28,852</u>

#### 13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Investment in a real estate fund	<u>1,887</u>	<u>3,488</u>

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated statement of income within 'General and administrative expenses' (Note 24).

#### 14 CASH AND BANK BALANCES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash on hand	3,861	9,157
Cash at bank	82,184	186,552
Term deposits	68,926	324,492
Cash and bank balances	<u>154,971</u>	<u>520,201</u>

Term deposits carry an average interest rate of 1% to 3% (2017: 1% to 3%) per annum.

##### Cash and Cash Equivalent

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash and bank balances	165,267	520,201
Less: Term deposits under lien	(84,482)	(223,366)
Bank overdrafts (Note 18)	(540,009)	(731,969)
Restricted cash	-	-
Cash and cash equivalents	<u>(459,224)</u>	<u>(435,134)</u>

Cash and cash equivalents related to discontinued operations and lost subsidiary amount to AED (74,305) thousand which is included in above balance as at 31 December 2018

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 15 SHARE CAPITAL

	2018 AED'000	2017 AED'000
<i>Authorised, issued and paid up</i>		
1,070,987,748 ordinary shares of AED 1 each		
(2017: 1,070,987,748 ordinary shares of AED 1 each) paid in cash	<u>1,070,988</u>	<u>1,070,988</u>

(i) Assets and liabilities of Drake and Scull International (LLC) and its subsidiaries, were transferred to Drake and Scull International PJSC as in-kind contribution for a 45% shareholding in the Company.

(ii) During the Annual General Meeting held on 26 April 2012, the shareholders approved the cash dividend of 3% of the face value of the issued shares and 5% bonus shares. The increase in share capital was formally approved by the Ministry of Economy on 25 June 2012. These dividends had been reflected in the consolidated statement of changes in equity, accordingly.

(iii) During the year ended 31 December 2009, the Company obtained necessary regulatory approval to undertake a share buy-back program. A total of 32,400 thousand shares were purchased from the market at an average price of AED 0.8834 per share amounting to AED 28,622 thousand. During the year ended 31 December 2013, these shares were re-issued at an average price of AED 0.977 per share amounting to AED 31,648 thousand, recognising a share premium of AED 3,026 thousand.

On 9 September 2017 at the Annual General Assembly Meeting of Drake and Scull International PJSC, the shareholders approved unanimously the reduction of the paid-up share capital to cover the Company's accumulated losses (AED 1,714,058,920) through the cancellation of the corresponding number of shares. Moreover, the shareholders also resolved to ratify the validity and continuity of the resolutions of the Annual General Assembly of the company dated 4 May 2017 regarding the capital increase by AED 500 million through the issuance of AED 500 million new shares to be subscribed at par value AED 1 per share. The shareholders also authorised the Company's Board of Directors thereafter to duly complete the share capital reduction and increase in accordance with the UAE Commercial Companies law and undertake the required amendments to the Articles of Association of the Company to reflect the share capital reduction and increase.

In October 2017, the Group obtained the approval from Securities and Commodities Authority on the capital reduction of AED 1,714,058,920 through the cancellation of 1,714,058,920 of the company's shares and on the capital increase of AED 500 million through the issuance of new shares.

#### 16 STATUTORY RESERVE

In accordance with the Group's Articles of Association and the UAE Federal Law No. (2) of 2015, 10% of the net profit for each year is required to be transferred to a statutory reserve. Such transfers may be ceased when the statutory reserve equals half of the paid-up share capital of the applicable entities. This reserve is non-distributable except in certain circumstances. The consolidated statutory reserve reflects transfers made post-acquisition for subsidiary companies together with transfers made by the parent Group. It does not, however, reflect the additional transfers to the consolidated statutory reserves which would be made if the retained post-acquisition profits of the subsidiaries were distributed to the Parent Group.

#### 17 OTHER RESERVE

During the third quarter of the year ended 31 December 2011, the Group acquired the remaining 20% of the shares relating to the non-controlling interest in one of its subsidiaries, Gulf Technical Construction Group LLC ("GTCC"). The fair value of the total net identifiable assets of GTCC was AED 160,000 thousand. The 20% shares were owned equally by two individuals. The Group paid one of the shareholders fully in cash and paid the other shareholder partially in cash and settled the remaining balance for 6% shares in another subsidiary, Drake and Scull Construction LLC (a wholly owned subsidiary of the Parent Group). This was subsequently increased to 9.3%.

The difference of AED 24,543 thousand between the total consideration paid/equity transferred and contingent liability assumed of AED 26,862 thousand and the carrying amount of non-controlling interest of AED 51,405 thousand had been credited to other reserves under the consolidated statement of changes in equity.

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 18 BANK BORROWINGS

The Group has obtained bank borrowings (including bank overdrafts) from several commercial banks, mainly to fund other working capital requirements.

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<b>Non-current</b>		
Term loan	490,970	456,030
Less: Related to lost subsidiary	(195,491)	-
	<u>295,479</u>	<u>456,030</u>
<b>Current</b>		
Term loan	726,082	662,508
Trust receipts and other borrowings	756,136	1,036,180
Bank overdrafts (Note 14)	455,408	731,969
	<u>1,937,626</u>	<u>2,430,657</u>

The movement in carrying value of term loans including Sukuk bonds is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At beginning of year	1,118,538	1,162,406
New term loans during the year	186,147	93,097
Repayment of term loans during the year	(72,540)	(136,965)
Related to discontinued operations	(210,584)	-
At end of year	<u>1,021,561</u>	<u>1,118,538</u>

The carrying amount of the Group's borrowings is primarily denominated in AED, USD or other currencies pegged to USD.

During the year ended 31 December 2018, the Group converted short term facilities (i.e. bank overdrafts and trust receipts) into term loans of AED 113 million. Term loans payable within twelve months at the date of consolidated interim statement of financial position are classified within current liabilities.

Interest rates on the term loans were at variable rates and ranging between 2% to 8% (2017: 2% to 6.5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

The nature of securities provided in respect of certain bank borrowings by the Group, are set out below:

- Lien on motor vehicles and equipment purchased and on certain receivables;
- Mortgage over certain property and equipment;
- Pledge of assets acquired through utilisation of credit facilities; and
- Term deposits of AED 84,482 thousand (2017: AED 223,366 thousand).

The carrying amount of current borrowings approximates their fair value at the reporting date. Long-term borrowings are at market linked variable interest rates and therefore the carrying amounts of non-current borrowings approximate their fair value at the reporting date.

At 31 December 2017, the Group was in breach of the financial covenants in relation to the syndicated Sukuk facility and certain other borrowing facilities. As of 31 December 2017, the Group has obtained a waiver from the Sukuk lenders where the latter has been obtained on semi-annual basis for the last 2 fiscal years. These breaches have rendered the loans to be technically payable on demand.

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 19 EMPLOYEES' END OF SERVICE BENEFITS

The movements in the provision were as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	134,819	140,886
Provided during the year	16,704	29,002
Payments made during the year	(25,321)	(35,069)
Related to Discontinuing Operations	(2,582)	-
Related to lost subsidiary	(9,896)	-
	<u>113,724</u>	<u>134,819</u>

Employees end of service benefits' charge has been allocated in the consolidated statement of income as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Contract costs (Note 21)	7,963	22,448
General and administrative expenses (Note 24)	6,861	4,821
Related to Discontinuing Operations	1,880	1,733
	<u>16,704</u>	<u>29,002</u>

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 operates, for their periods of service up to the balance sheet date.

#### 20 TRADE AND OTHER PAYABLES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Trade payables and accruals	2,188,602	2,357,239
Amount due to customers on contracts	161,222	119,704
Advances from customers	710,691	868,081
	<u>3,060,515</u>	<u>3,345,024</u>
	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Amounts due to customers on contracts comprise:		
Progress billings	5,103,098	4,193,400
Less: Cost incurred to date	(5,132,819)	(3,710,998)
Less/add: Recognised profits/losses	198,984	(362,698)
Related to Discontinued operations	(8,041)	-
	<u>161,222</u>	<u>119,704</u>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 21 COST OF SALES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Material costs	467,738	1,250,744
Labour and staff costs (Note 22)	391,417	867,170
Sub-contracting costs	419,139	471,972
Finance cost (Note 25)	79,791	59,446
Depreciation (Note 5)	12,775	32,383
Employees' end of service benefits (Note 19)	7,963	22,448
Provision against bond encashment and future losses	96,483	-
Other costs	275,186	314,400
	<u>1,750,492</u>	<u>3,018,562</u>

#### 22 STAFF COSTS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cost of sales (Note 21)	391,417	867,170
General and administrative expenses (Note 24)	99,510	119,258
	<u>490,927</u>	<u>986,428</u>

#### 23 OTHER INCOME

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Gain on disposal of property and equipment	-	-
Rental income	192	1,224
Dividend income	-	603
Gain on disposal of investment	4,872	-
(Loss) / gain on scrap sale	8,639	(2,263)
Others	4,493	8,116
	<u>18,196</u>	<u>7,680</u>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 24 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 AED'000	2017 AED'000
Provision for impairment of due from customers on contracts	1,657,256	594,230
Staff costs (Note 22)	99,510	119,258
Provision for impairment of trade receivables and other receivables	444,621	15,706
Provision for impairment of amounts due from Associates (Note 8)	188,480	-
Provision for impairment of amounts due from related parties	6,004	26,000
Impairment of property and equipment (Note 5)	36,085	61,843
Business development, legal and professional fees	15,827	37,419
Impairment of intangible assets (Note 6)	901,230	-
Amortisation (Note 6)	29,361	33,555
Depreciation (Note 5)	15,747	13,428
Bank Charges	2,304	10,146
Rent	14,949	8,285
Repair and maintenance	2,547	5,357
Employees' end of service benefits (Note 19)	6,861	4,821
Utilities	2,720	2,240
Loss / (gain) on disposal of property and equipment	3472	(1,643)
Other expenses	72,449	10,266
	<u>3,499,423</u>	<u>940,911</u>

#### 25 FINANCE COSTS

	2018 AED'000	2017 AED'000
Finance costs	191,028	154,055
Charged to cost of sales (Note 21)	(79,791)	(59,446)
	<u>111,237</u>	<u>94,609</u>

#### 26 LOSS PER SHARE

##### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Group by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased and held as treasury shares.

	2018 AED'000	2017 AED'000
<b>Loss (AED'000)</b>		
Loss for the purposes of basic earnings per share being net loss attributable to owners of the Parent	(4,501,273)	(1,183,275)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,070,987,748	800,301,110
Basic and diluted loss per share (AED)	(4.20)	(1.48)

##### (b) Diluted

The Group has not issued any instruments which would have a dilutive impact on earnings per share when exercised.



## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 27 GUARANTEES

	2018 AED'000	2017 AED'000
Performance bonds	1,101,165	1,194,544
Letter of guarantees	893,519	1,048,251
	<u>1,994,684</u>	<u>2,242,795</u>

The various bank guarantees disclosed above were issued by the Group's bankers in the ordinary course of business.

#### 28 EXPENDITURE COMMITMENTS

##### (a) Operating lease commitments

The Group has various operating lease agreements. The future minimum lease payments payable under operating leases are as follows:

	2018 AED'000	2017 AED'000
Future minimum lease payments:		
No later than one year	4,232	34,782
Later than one year but no later than five years	10,264	121,593
Later than five years	2,015	2,417
	<u>16,511</u>	<u>158,792</u>

##### (b) Other commitments

	2018 AED'000	2017 AED'000
Letters of credit for purchase of materials and operating equipment	87,537	347,978

##### (c) Contingencies

The Group is engaged as a claimant in a long standing arbitration on a construction contract. Following arbitration proceedings, the Dubai International Arbitration Centre's Tribunal appointed an expert to advise on the complex structural aspects of the case. The matter is currently being assessed by the appointed expert; a process that is expected to span a period of several months. The Group expects a subsequent hearing in 2018. Following a review of the Respondent's plea and supporting documents, the legal counsel considers a maximum upside of AED 58 million and a maximum downside of AED 119 million.

#### 29 RISK MANAGEMENT

The main risks arising from the Group's financial instruments are interest rate risk, price risk, credit risk, liquidity risk and currency risk. The management of the Group reviews and agrees policies for managing each of these risks which are summarised below:

##### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments.

The Group holds its surplus funds in short term bank deposits. During the year ended 31 December 2018, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by AED 299 thousand (31 December 2017: AED 1,408 thousand).

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 29 RISK MANAGEMENT (continued)

##### Interest rate risk (continued)

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2018, if interest rates on borrowings had been 0.5% higher/lower, the profit/loss would have been higher/lower by AED 14,157 thousand (31 December 2017: AED 13,787 thousand).

##### Price risk

The Group's exposure to equity securities price risk arises from investments held by the group and classified in the statement of financial position either as available-for-sale or at fair value through profit or loss.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

##### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables and due from customers on contracts.

##### Bank balances

The Group is exposed to credit risk on its bank balances. The Group seeks to limit its credit risk with respect to bank balances by dealing only with reputable banks.

##### Trade receivables and due from customers on contract

The amounts of trade receivables and due from customers on contracts are related to significant projects of the Group and mainly due from government entities which maintains high credit worthiness and no history of debt defaults.

The Group has a formal procedure of monitoring and follow-up of customers for outstanding trade receivables. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2018, the Group had a significant concentration of credit risk with ten customers (31 December 2017: ten customers) accounting for 60% of the trade receivables (31 December 2017: 37%). Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

The other categories of financial assets do not result in significant credit risk.

##### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group limits its liquidity risk by retaining funds from operation and when it is available.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

##### As at 31 December 2018

	<i>Less than 1 year AED'000</i>	<i>Between 1 year and 2 years AED'000</i>	<i>Between 2 year and 5 years AED'000</i>	<i>Total AED'000</i>
Trade and other payables (excluding advance)	2,349,824	-	-	2,349,824
Bank borrowings	1,902,686	34,940	295,479	2,233,105
Due to related parties	62,964	-	-	62,964
Total	<u>4,315,474</u>	<u>34,940</u>	<u>295,479</u>	<u>4,645,893</u>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 29 RISK MANAGEMENT (continued)

##### Liquidity risk (continued)

As at 31 December 2017

	<i>Less than 1 year AED '000</i>	<i>Between 1 year and 2 years AED '000</i>	<i>Between 2 year and 5 years AED '000</i>	<i>Total AED '000</i>
Trade and other payables (excluding advance)	2,476,943	-	-	2,476,943
Bank borrowings	2,430,657	133,105	322,925	2,886,687
Due to related parties	225,303	-	-	225,303
Total	<u>5,132,903</u>	<u>133,105</u>	<u>322,925</u>	<u>5,588,933</u>

##### Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group's foreign currency monetary assets and liabilities are denominated mainly in Saudi Arabian Riyals, Qatari Riyals, Euro, Kuwaiti Dinars, Omani Riyal, Egyptian Pounds, Indian Rupee, Jordanian Dinar, Iraqi Dinar and Algerian Dinar.

As Saudi Arabian Riyals, Qatari Riyals, Omani Riyals and United Arab Emirates Dirhams (AED) are pegged to US Dollars, the sensitivity considers the effect of a reasonably possible movement of the AED currency rate against the Euro, Kuwaiti Dinars, Indian Rupee, Algerian Dinars, Egyptian Pounds, Iraqi Dinar, Jordanian Dinars with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities).

At 31 December 2018, if these currencies had weakened/strengthened by 5% against the AED, the losses for the year would have been lower/higher by AED 35 thousand (31 December 2017: AED 13 thousand).

##### Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2018. Capital comprises share capital, share premium, statutory reserve, other reserve, accumulated losses, foreign currency translation reserve and non-controlling interests and is measured at AED (4,748,921) thousand as at 31 December 2018 (2017: AED 351,650 thousand).

#### 30 FAIR VALUES

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, trade and other receivables, other financial assets, development properties and due from related parties. Financial liabilities consist of bank borrowings, trade and other payables and due to related parties.

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 30 FAIR VALUES (continued)

The fair values of financial instruments are not materially different from their carrying values. The fair value of the financial assets and liabilities are 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:

- Cash and bank balances, trade receivables, other financial assets, due from related parties, bank borrowings, trade and other payables and due to related parties and income tax payable 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, and individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken to account for the expected losses of these receivables. As at 31 December 2018, the carrying amounts of such receivables, net 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 value 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.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018:

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	1,887	-	1,887
Fair Value through OCI				
- Equity securities	-	-	551	551
Development properties	-	-	7,526	7,526
<b>Total assets</b>	<b>-</b>	<b>1,887</b>	<b>8,077</b>	<b>9,964</b>

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2017.

	<i>Level 1</i> <i>AED'000</i> <i>Audited</i>	<i>Level 2</i> <i>AED'000</i> <i>Audited</i>	<i>Level 3</i> <i>AED'000</i> <i>Audited</i>	<i>Total</i> <i>AED'000</i> <i>Audited</i>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	3,488	-	3,488
Available for sale financial assets				
- Equity securities	-	30,000	551	30,551
<b>Total assets</b>	<b>-</b>	<b>33,488</b>	<b>551</b>	<b>34,039</b>

The Group has no liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

There were no transfers between Levels 1, 2 and 3 during the year.

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 30 FAIR VALUES (continued)

##### Fair value hierarchy (continued)

###### (a) Valuation techniques used to derive Level 2 fair values

###### (i) Investments carried at fair value through profit or loss

Level 2 investments carried at fair value through profit or loss comprise of investments in funds for which fair value is estimated using net assets value approach. Fair values of investments in funds are determined using the net assets value provided by the fund managers based on the observable market prices of the assets managed by the fund.

At 31 December 2017 and 31 December 2018, the fair values of all other financial assets and liabilities, which are measured at amortised cost approximate their carrying values.

###### (b) Group's valuation processes

Changes in Level 2 and 3 fair values are analysed at each reporting date during quarterly valuation discussions. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

There were no changes in the valuation techniques during the year.

#### 31 DISCONTINUED OPERATIONS

During the year in 2018, two subsidiaries of the Group namely Drake & Scull International Oman & DSWP India went into liquidation. The liquidation of these entities are expected to be completed within a year of reporting date:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<b>Income Statement</b>		
Contract revenue	<b>51,291</b>	110,176
Contract costs	<b>(105,889)</b>	(168,707)
Gross loss	<b>(54,598)</b>	(58,531)
Other income	<b>997</b>	782
General and administrative expenses	<b>(79,472)</b>	(103,980)
Operating loss	<b>(133,072)</b>	(161,730)
Finance costs	<b>(16,730)</b>	(11,290)
Loss for the year before tax	<b>(149,802)</b>	(173,020)
Income tax expense	<b>(3)</b>	(6,613)
<b>Loss from Discontinued Operations</b>	<b>(149,805)</b>	(179,633)

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 31 DISCONTINUED OPERATIONS (continued)

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<b>Financial Position</b>		
<b>ASSETS</b>		
Property, plant and equipment	1,831	3,376
Trade and other receivables	10,327	10,467
Trade and other receivables	95,633	212,491
Due from related parties	179	273
Cash and bank balances	3,162	2,578
	<u>111,132</u>	<u>229,185</u>
<b>LIABILITIES</b>		
Other payables	2,586	5,224
Trade and other payables	96,155	130,993
Bank borrowings	207,069	183,293
Due to related parties	159,751	120,582
	<u>465,560</u>	<u>440,092</u>

#### Cashflow from discontinued operations 2018

	<i>2018</i> <i>AED'000</i>
Operating	(24,736)
Investing	1,544
Financing	23,775
	<u>584</u>

#### 32 SUBSIDIARY WITH LOST CONTROL

During the year, the Group administratively and operationally lost control over its subsidiary in Qatar. The subsidiary may be closed under restructuring plan:

	<i>2018</i> <i>AED'000</i>
<b>Income Statement</b>	
Contract revenue	186,221
Contract costs	(185,292)
Gross profit	929
Other income	49
General and administrative expenses	(380,440)
Operating profit / (loss)	(379,461)
Finance costs	(8,178)
Profit / (loss) for the year	<u>(387,639)</u>

## Drake and Scull International PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 32 SUBSIDIARY WITH LOST CONTROL (continued)

	<i>2018</i> <i>AED'000</i>
<b>Financial Position</b>	
<b>ASSETS</b>	
Property, plant and equipment	8,136
Trade and other receivables	90,728
Inventories	23
Trade and other receivables	14,154
Due from related parties	160
Cash and bank balances	7,134
	<u>120,335</u>
<b>LIABILITIES</b>	
Other payables	9,896
Trade and other payables	412,379
Bank borrowings	391,243
Due to related parties	16,222
	<u>829,740</u>

#### 33 EVENTS AFTER THE REPORTING PERIOD

On 8 April 2019, the Group decided to sell its shares in its investment in associate as disclosed in Note 8.

Further, it was also resolved during the meeting by the majority attendees to grant the Board of Directors the authority to liquidate, close, and sell branches of the Group or subsidiaries according to the restructuring plan. Furthermore, during the meeting, resolution to continue the Group was also made (Note 2.1).