Drake and Scull International PJSC

Condensed consolidated interim financial information (Unaudited) for the six-month period ended 30 June 2013

Drake and Scull International PJSC

Condensed consolidated interim financial information for the six-month period ended 30 June 2013

Report on review of condensed consolidated interim financial information to the shareholders of Drake and Scull International PJSC

Introduction

We have reviewed the accompanying consolidated interim balance sheet of Drake and Scull International PJSC ("the PJSC") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2013 and the related interim consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting." Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 5 to this condensed consolidated interim financial information, which describes the uncertainty related to the outcome of the arbitrations with certain customers.

PricewaterhouseCoopers
5 August 2013

Jacques E Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Drake and Scull International PJSC

Interim consolidated balance sheet

	Note	30 June 2013 (Unaudited) AED'000	31 December 2012 (Audited) AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	533,073	504,200
Intangible assets		1,117,343	1,136,219
Deferred income tax assets		17,282	17,630
Available-for-sale financial assets	10	57,850	2,384
Trade and other receivables	5	198,205	174,415
		1,923,753	1,834,848
Current assets			
Inventories		27,625	26,510
Development properties		65,863	64,830
Trade and other receivables	5	4,241,443	3,741,861
Due from related parties	6	62,782	25,990
Financial assets at fair value through profit or loss		4,678	4,821
Cash and bank balances	7	809,220	730,700
		5,211,611	4,594,712
Total assets		7,135,364	6,429,560
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent			
Share capital		2,285,047	2,285,047
Share premium	11	3,026	-
Treasury shares	11	-	(28,622)
Statutory reserve		79,219	79,219
Other reserve		24,543	24,543
Retained earnings		463,797	363,835
Foreign currency translation reserve		(9,184)	(8,346)
		2,846,448	2,715,676
Non-controlling interests		66,414	53,106
Total equity		2,912,862	2,768,782
LIABILITIES			
Non-current liabilities			
Bank borrowings	8	69,591	119,384
Deferred income tax liabilities		9,450	8,835
Employees' end of service benefits		92,711	84,669
Derivative financial instruments	9	33,396	21,659
		205,148	234,547
Current liabilities			
Trade and other payables		2,670,176	2,205,158
Bank borrowings	8	1,336,248	1,209,374
Due to related parties	6	10,930	11,699
		4,017,354	3,426,231
Total liabilities		4,222,502	3,660,778
Total equity and liabilities		7,135,364	6,429,560

The condensed consolidated interim financial information was approved and authorised by the Board of Directors on .5..August 2013and signed on its behalf by:

.... Chairman

.... Chief Executive Officer

The notes on pages 8 to 21 are an integral part of these condensed consolidated interim financial information.

Drake and Scull International PJSC

Interim consolidated income statement

	Note	Six months ended 30 June 13 AED'000	Six months ended 30 June 12 AED'000	Three months ended 30 June 13 AED'000	Three months ended 30 June 12 AED'000
Contract revenue		2,566,580	1,494,002	1,340,007	717,296
Contract costs		(2,280,951)	(1,287,172)	(1,184,822)	(619,785)
Gross profit		285,629	206,830	155,185	97,511
Other income		6,336	6,541	3,855	2,126
General and administrative expenses		(132,735)	(140,034)	(69,458)	(68,169)
Other losses		(11,737)	(3,665)	(8,084)	-
Operating profit		147,493	69,672	81,498	31,468
Finance income		11,575	21,739	5,736	9,958
Finance costs		(20,720)	(5,410)	(13,406)	(2,304)
Finance (costs)/income – net		(9,145)	16,329	(7,670)	7,654
Profit for the period before tax		138,348	86,001	73,828	39,122
Income tax expense	12	(23,448)	(11,364)	(21,622)	(7,136)
Profit for the period		114,900	74,637	52,206	31,986
Attributable to:					
Owners of the Parent		99,962	63,630	43,961	26,054
Non-controlling interests		14,938	11,007	8,245	5,932
		114,900	74,637	52,206	31,986
Earnings per share					
- Basic and diluted (AED)	13	0.0437	0.028	0.0192	0.012

Drake and Scull International PJSC

Interim consolidated statement of comprehensive income

	Six months ended		Three months ended	
	30 June 13 AED'000	30 June 12 AED'000	30 June 13 AED'000	30 June 12 AED'000
Profit for the period	114,900	74,637	52,206	31,986
Other comprehensive (loss)/income:				
Foreign currency translation	(838)	2,435	(421)	1,148
Other comprehensive (loss)/income for the period	(838)	2,435	(421)	1,148
Total comprehensive income for the period	114,062	77,072	51,785	33,134
Attributable to:				
Owners of the parent	99,124	66,065	43,540	27,202
Non-controlling interests	14,938	11,007	8,245	5,932
	114,062	77,072	51,785	33,134

The notes on pages 8 to 21 are an integral part of these condensed consolidated interim financial information.

Interim consolidated statement of changes in equity

	Share Capital AED'000	Treasury shares AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling Interests AED'000	Total AED'000
Balance at 1 January 2012	**2,177,778**	**(28,622)**	-	**73,753**	**24,543**	**446,639**	**(8,778)**	**2,685,313**	**32,244**	**2,717,557**
Profit for the period	-	-	-	-	-	63,630	-	63,630	11,007	74,637
Other comprehensive income for the period	-	-	-	-	-	-	2,435	2,435	-	2,435
Total comprehensive income for the period	-	-	-	-	-	**63,630**	**2,435**	**66,065**	**11,007**	**77,072**
Dividends	-	-	-	-	-	(171,631)	-	(171,631)	-	(171,631)
Bonus shares issued to shareholders	107,269	-	-	-	-	-	-	107,269	-	107,269
Non-controlling interest contribution to subsidiary's share capital	-	-	-	-	-	-	-	-	112	112
Balance at 30 June 2012	2,285,047	(28,622)	-	73,753	24,543	338,638	(6,343)	2,687,016	43,363	2,730,379
Balance at 1 January 2013	**2,285,047**	**(28,622)**	-	**79,219**	**24,543**	**363,835**	**(8,346)**	**2,715,676**	**53,106**	**2,768,782**
Profit for the period	-	-	-	-	-	99,962	-	99,962	14,938	114,900
Other comprehensive income for the period	-	-	-	-	-	-	(838)	(838)	-	(838)
Total comprehensive income for the period	-	-	-	-	-	**99,962**	**(838)**	**99,124**	**14,938**	**114,062**
Dividends	-	-	-	-	-	-	-	-	(1,630)	(1,630)
Sale of treasury shares	-	28,622	3,026	-	-	-	-	31,648	-	31,648
Balance at 30 June 2013	2,285,047	-	3,026	79,219	24,543	463,797	(9,184)	2,846,448	66,414	2,912,862

The notes on pages 8 to 21 are an integral part of these condensed consolidated interim financial information.

Drake and Scull International PJSC

Interim consolidated statement of cash flows

	Six months ended 30 June 2013 AED'000	Six months ended 30 June 2012 AED'000
Operating activities		
Profit for the period before tax	138,348	86,001
Adjustments for:		
Depreciation	23,551	18,462
Amortisation of intangible assets	18,876	18,876
Provision for employees' end of service benefits	15,751	13,747
Group management fee expense	-	7,400
Finance income	(11,575)	(21,739)
Fair value loss on financial assets at fair value through profit or loss	143	3,665
Gain on disposal of property, plant and equipment	(665)	(1,344)
Finance costs	20,720	5,410
Fair value loss on interest rate swaps	3,164	-
Fair value loss on equity warrants	6,392	-
Fair value loss on shares swap	2,181	-
Fair value gain on available-for-sale financial assets	(1,625)	-
Provision for impairment of inventories	-	5,497
Provision for impairment on trade receivables and retentions - net	2,163	12,916
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital	217,424	148,891
Employees' end of service benefits paid	(7,709)	(5,574)
Income tax paid	(23,100)	(12,497)
Changes in working capital:		
Inventories	(1,116)	465
Development properties	(1,033)	(5,638)
Trade and other receivables before provisions and excluding interest receivable and loans and advances	(526,985)	(195,390)
Due from related parties	(36,793)	(1,612)
Trade and other payables excluding income tax, interest and group management fee payable	463,525	(167,494)
Due to related parties	(769)	(12,410)
Net cash generated from/(used in) operating activities	83,444	(251,259)
Investing activities		
Purchase of property, plant and equipment	(89,740)	(92,194)
Proceeds from disposal of property, plant and equipment	37,981	2,088
Net proceeds from disposal of investments	(53,841)	206,695
Loans and advances	(1,629)	30,440
Interest received	14,653	11,481
Net cash (used in)/generated from investing activities	(92,576)	158,510

Interim consolidated statement of cash flows (continued)

	Note	Six months ended 30 June 2013 AED'000	30 June 2012 AED'000
Financing activities			
Term deposits under lien		(50,320)	226,642
Net proceeds from trust receipts and other borrowings		95,232	118,886
Proceeds from term loans		25,898	264,336
Payment of term loans		(111,557)	(450,654)
Proceeds from buy-back of treasury shares		31,648	-
Non-controlling interest's contribution to subsidiary's capital		-	112
Dividends paid		(1,630)	(64,361)
Interest paid		(18,610)	(8,293)
Net cash (used in)/generated from financing activities		(29,339)	86,668
Net decrease in cash and cash equivalents		(38,471)	(6,081)
Net foreign currency translation difference		(838)	2,435
Change in restricted cash		(15,905)	-
Cash and cash equivalents, beginning of the period		182,034	223,370
Cash and cash equivalents, end of the period	7	126,820	219,724

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2013

1 General 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 Company in accordance with the UAE Federal Law No. 8 of 1984, (as amended). The Company is listed on Dubai Financial Market.

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, air conditioning and sanitation work in the Middle East, Europe, Asia and North Africa region.

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

Major Subsidiaries	*Principal activities*	*Shareholding %*		*Country of incorporation*
		2013	*2012*	
Drake & Scull International LLC (Abu Dhabi)	Contracting work relating to the construction industry	100	100	UAE
Gulf Technical Construction Company LLC	Mechanical, electrical and civil construction work	100	80	UAE
Drake & Scull Water and Power LLC	Developing waste water, water and sludge treatment plants	100	100	UAE
Drake & Scull International for Electrical Contracting WLL	Electrical contracting and repairing work relating to the construction industry	75	75	Kuwait
Drake & Scull International (Qatar) WLL	Contracting work relating to the construction industry	100	100	Qatar
Passavant Engineering Limited	Holding company	100	100	British Virgin Island
Passavant Roediger GmbH and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International (Thailand) Limited	Contracting work relating to the construction industry	100	100	Thailand
Drake & Scull International WLL	Contracting work relating to the construction industry	65	65	Saudi Arabia
International Center for Contracting Co. Ltd	Contracting work relating to the construction industry	100	100	Saudi Arabia
Drake & Scull Construction Company LLC	Contracting work relating to the construction industry	94	94	Saudi Arabia
Drake & Scull International for Contracting SAE	Contracting work relating to the construction industry	100	100	Egypt
Drake & Scull Water & Energy India Private Limited	Developing waste water, water and sludge treatment plants	100	-	India
Drake & Scull International LLC (Oman)	Contracting work relating to the construction industry	51	51	Oman

1 General information (continued)

The Group, through Gulf Technical Construction Company LLC, also has a 50% interest in Ranya Test Joint Venture, a joint venture with Ranya General Contracting Company LLC under a joint arrangement agreement dated 12 August 2005.

The Group, through Drake & Scull Water & Power LLC, also has a 50% interest in a Joint Venture with Afghan Electrical Power Corporation under a joint arrangement agreement dated 27 September 2011.

The Group, through Drake & Scull International for Contracting SAE, also has a 50% interest in a Joint Venture with Hassan Allam Sons (Misr Sons Development S.A.E) under a joint arrangement agreement dated 21 July 2011.

The Group, through Drake & Scull Construction Company LLC, also has a 50% interest in a Joint Venture with Consolidated Contractors Group S.A.L (Offshore) (CCC) under a joint arrangement agreement dated 27 September 2011.

The Group, through Drake & Scull Construction Company LLC – Saudi Arabia, also has a 50% interest in a Joint Venture with Arabia Construction Co (ACC –DSC JV) under a joint arrangement agreement dated 15 October 2012.

The Group, through Drake & Scull International PJSC, also has a 50% interest in a Joint Venture with SICIM S.p.A under a joint arrangement agreement dated 11 January 2013.

2 Basis of preparation and accounting policies

2.1 Basis of preparation

This interim condensed consolidated financial information for the six months period ended 30 June 2013 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to profit already recognised.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

2 Basis of preparation and accounting policies (continued)

2.3 Basis of consolidation

The condensed consolidated interim financial information at and for the six month period ended 30 June 2013 comprises results of the Group. The condensed interim financial information of the subsidiaries is prepared for the same reporting period as that of the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Estimates and assumptions

The preparation of interim condensed consolidated financial information 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 interim condensed consolidated financial information, the significant judgements 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 2012.

Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2012.

Liquidity risk factors

The Group monitors its risk of a possible shortage of funds using cash flow forecasts. These forecasts consider the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

3 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; Mechanical, Electrical and Plumbing ("MEP"), Infrastructure, Water and Power ("IWP"), Civil and other (corporate office).

The MEP segment carries out contracting work relating to the construction industry, such as mechanical, electrical, plumbing and sanitation work.

The IWP segment carries out contracting work relating to the construction industry, such as infrastructure, water treatment plants, district cooling plants and power plants.

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

Other segment represents 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 income statement.

The amounts provided to the Executive management with respect to the total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

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, Thailand, Algeria, Djibouti, India, Afghanistan, Iraq, and Jordan.

Drake and Scull International PJSC

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2013 (continued)

3 Segment reporting (continued)

Information about business segments

All figures in AED'000

	MEP	IWP	Civil	Other	Inter segment elimination	Total	MEP	IWP	Civil	Other	Inter segment elimination	Total
	Six months ended 30 June 2013						Six months ended 30 June 2012					
Revenue												
External customers	965,037	191,178	1,214,567	195,798	-	2,566,580	830,346	290,344	373,312	-	-	1,494,002
Inter- segment	148,317	195	16,524	-	(165,036)	-	126,938	2,666	51,568	-	(181,172)	-
	1,113,354	191,373	1,231,091	195,798	(165,036)	2,566,580	957,284	293,010	424,880	-	(181,172)	1,494,002
Segment profit / (loss)	63,912	(17,323)	62,444	5,867	-	114,900	89,652	(7,399)	(2,403)	(2,387)	(2,826)	74,637
Depreciation and amortisation	10,757	1,242	9,118	21,310	-	42,427	6,361	1,231	10,272	19,474	-	37,338
Capital expenditure	11,334	1,726	69,434	7,246	-	89,740	56,697	2,100	33,207	190	-	92,194
	At 30 June 2013						At 31 December 2012					
Segment total assets	2,490,055	717,293	2,276,870	3,106,754	(1,455,608)	7,135,364	2,249,977	704,452	1,807,879	2,965,228	(1,297,976)	6,429,560

Revenue from one customer amounting to AED 832,427 thousand which exceeded 10% of the Group revenue was earned through the Civil works segment. In 2012, one customer accounted for over 10% of the Group revenue which represents AED 189,072 thousand relating to Civil works.

3 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	UAE	Saudi Arabia	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Others	Inter segment elimination	Total
	Six months ended 30 June 2013					Six months ended 30 June 2012				
Revenue from external customers	505,408	1,387,496	673,676	-	2,566,580	425,473	650,636	417,893	-	1,494,002

4 Property, plant and equipment

The Group acquired property, plant and equipment during the six-month period ended 30 June 2013 amounting to AED 89,740 thousand (2012: AED 92,194 thousand). The Group disposed property, plant and equipment during the six-month period ended 30 June 2012 amounting to AED 37,316 thousand (2012: AED 744 thousand) and depreciation charged to the interim consolidated income statement amounted to AED 23,551 thousand (2012: AED 18,462 thousand).

5 Trade and other receivables

	30 June 2013 AED'000	31 December 2012 AED'000
Non-current		
Trade receivables and retentions	165,326	183,570
Loans and advances	39,694	-
	205,020	183,570
Less: fair value adjustment	(6,815)	(9,155)
	198,205	174,415
Current		
Trade receivables and retentions	1,775,979	1,410,576
Prepayments and other receivables	426,671	412,366
Amount due from customers on contracts	1,989,652	1,829,550
Loans and advances	103,717	141,782
	4,296,019	3,794,274
Less: provision for impairment	(54,576)	(52,413)
	4,241,443	3,741,861

Arbitrations

The Group has already filed arbitrations or in the process of filing with certain customers for settlement of the receivables, retentions and due from customers on contracts' balances of AED 58 million, AED 36 million and AED 41.3 million respectively, which relate to projects that were completed and handed over to those customers. Currently, the outcome of the arbitrations is uncertain. Management is of the opinion that the balances are fully recoverable. As at 31 December 2012, no provision for impairment has been made against these balances of AED 135.3 million.

6 Related party transactions and balances

Related parties comprise the major shareholders, key management personnel, joint ventures, directors and businesses which are controlled directly or indirectly by the 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.

The Group had the following transactions with Drake & Scull Group ("DSG"), an entity owned by the Chief Executive Officer of the Company:

From 1 January 2013 to 30 June 2013:

The significant related party transactions primarily include management fees charged by DSG amounting to AED Nil (2012: AED 7,400 thousand).

The outstanding balances with related parties are given below:

Due from related parties:

	30 June 2013 AED'000	31 December 2012 AED'000
Joint venture	59,293	22,408
Affiliated entities	3,489	3,582
	62,782	25,990
Due to related parties:		
Drake and Scull Group	890	842
Other affiliated entities	10,040	10,857
	10,930	11,699

Compensation of key management personnel

The remuneration of directors and other key members of management are as follows:

	Six months ended		Three months ended	
	30 June 13 AED'000	30 June 12 AED'000	30 June 13 AED'000	30 June 12 AED'000
Short term benefits	18,563	20,584	8,668	10,414
Employees' end of service benefits	1,834	1,378	358	436
	20,397	21,962	9,026	10,850

7 Cash and bank balances

	30 June 2013 AED'000	31 December 2012 AED'000
Cash on hand	5,940	2,782
Cash at bank	236,438	636,941
Term deposits	566,842	90,977
Cash and bank balances	809,220	730,700

Term deposits carry an average interest rate of 1% to 5% (2012: 1% to 5%).

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

	30 June 2013 AED'000	30 June 2012 AED'000
Cash and bank balances	809,220	280,315
Less: Term deposits under lien	(94,479)	(37,260)
Bank overdrafts	(127,149)	(23,331)
Restricted cash	(460,772)	-
Cash and cash equivalents	126,820	219,724

8 Bank borrowings

The Group has obtained bank borrowings (including bank overdrafts) from several commercial banks, mainly to fund the acquisition of new businesses and to meet other working capital requirements.

	30 June 2013 AED'000	31 December 2012 AED'000
Non-current		
Term loan	69,591	119,384
Current		
Term loan	575,337	611,203
Trust receipts and other borrowings	633,762	538,529
Bank overdrafts	127,149	59,642
	1,336,248	1,209,374

8 Bank borrowings (continued)

The Group entered into a syndicated facility agreement dated 13 November, 2012, amounting to USD 75 million and AED 166.8 million with local and international banks.

The facility is guaranteed by three subsidiaries in the United Arab Emirates and two subsidiaries in the Kingdom of Saudi Arabia. In addition, the two subsidiaries in the Kingdom of Saudi Arabia have issued promissory notes of AED 178,503 thousand and USD 80,250 thousand.

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

Interest rates on the term loans were at variable rates and ranging between 2% to 6.5% (2012: 2% to 8.5%) 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, plant and equipment; and
- Pledge of all assets acquired through utilisation of credit facilities.

The carrying amount of current borrowings approximates their fair value at the balance sheet 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 balance sheet date.

At 31 December 2012 and at 30 June 2013, the Group was not compliant with certain financial covenants in relation to the syndicated loan facility obtained during the year ended 31 December 2012. This non-compliance with covenants may require the Group to repay the entire borrowings amounting to AED 444,867 thousand on demand by the lenders. Accordingly, all borrowings were classified under current liabilities in the balance sheet. Subsequent to the year ended 31 December 2012, the Group reached an agreement with its lenders for a conditional waiver of the breach where management is able to meet these conditions and obtain a final waiver and a reset of the stated financial covenants. In addition, at 31 December 2012 and 30 June 2013, the Group was not compliant with financial covenants in relation to another facility agreement with an international bank. The bank borrowings related to this facility are classified under current liabilities. Subsequent to the year ended 31 December 2012, the Group has received a conditional waiver of the breach where management is able to meet these conditions and obtain a final waiver and a reset of the stated financial covenants.

9 Derivative financial instruments

	30 June 2013 AED'000	31 December 2012 AED'000
Non-current liability		
Equity warrants	6,877	485
Interest rate swaps	24,338	21,174
Shares swap	2,181	-
	33,396	21,659

The notional principal amounts outstanding are:

Equity warrants	146,960	146,960
Interest rate swaps	441,550	441,550
Shares swaps	31,809	-
	620,319	588,510

The notional principal amounts outstanding are denominated in the following currencies:

	30 June 2013 AED'000	31 December 2012 AED'000
Principal amount outstanding (in thousands):		
USD denominated (115,000 thousand)	454,319	422,510
AED	166,000	166,000

The Group has issued equity warrants to Goldman Sachs International ("GSI"). These warrants have a notional value of USD 40 million equivalents to AED 147 million which represents approximately 9% of the company's market capitalisation. The maturity of the warrants is 5 years and can be exercised by GSI any time after 2 years. Upon exercise of the warrants, GSI's economic exposure will be cash settled (subject to a pre-agreed maximum cash settlement amount). Further, the warrants agreement set a cap of USD 18 million on the liability that DSI may incur on this transaction.

9 Derivative financial instruments (continued)

The full fair value of the derivative instrument is classified as non-current liability since the remaining maturity of the related host contracts is more than 12 months as at the end of the reporting period.

Fair value losses on interest rate swaps, equity warrants and shares swap amounting to AED 3,164 thousand, AED 6,392 thousand and AED 2,181 thousand, respectively, were recognised in the consolidated income statement under "Other losses".

10 Available-for-sale financial assets

During the period, the Group invested an amount of AED 53,841 thousand, which represents 10% of the share capital of Lamar investments and real estate development L.L.C, a company incorporated in Saudi Arabia, through its subsidiary Drake & Scull Construction Company, KSA. The Group classified the investment as an available-for-sale financial asset as at the end of the financial reporting period. The fair value of this investment as of 30 June, 2013 is equivalent to the consideration paid during the period.

11 Treasury shares

During the period, the Group sold 32,400 thousand treasury shares with a carrying value of AED 28,622 thousand for total sale proceeds of AED 31,648 thousand. The difference between the sale proceeds and the carrying value of treasury shares amounting to AED 3,026 thousand was classified as share premium.

12 Income tax expense

The major components of income tax expense are:

	Six months ended		Three months ended	
	30 June 13 AED'000	30 June 12 AED'000	30 June 13 AED'000	30 June 12 AED'000
Current income tax expense:				
Current income tax charge	22,522	11,055	20,729	7,341
Deferred income tax expense / (credit)				
Relating to origination and reversal of temporary differences	926	309	893	(205)
	23,448	11,364	21,622	7,136

13 Earnings per share

Basic

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

	Six months ended		Three months ended	
	30 June 13	30 June 12	30 June 13	30 June 12
Earnings (AED'000)				
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	99,962	63,630	43,961	26,054
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,285,046,667	2,252,646,667	2,285,046,667	2,252,646,667
Basic and diluted earnings per share (AED)	0.0437	0.028	0.0192	0.012

Diluted

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

14 Guarantees

	30 June 2013 AED'000	31 December 2012 AED'000
Performance bonds	1,030,320	921,909
Letter of guarantees	1,348,333	705,617
	2,378,653	1,627,526

The various bank guarantees above were issued by the Group's bankers in the ordinary course of business. In the opinion of the Directors, the above bank guarantees are unlikely to result in any liability to the Group.

15 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:

	30 June 2013 AED'000	31 December 2012 AED'000
Future minimum lease payments:		
No later than one year	20,430	26,009
Later than one year but no later than five years	25,238	12,324
Later than five years	1,546	1,633
	47,214	39,966

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	1,011,389	363,066