Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

DIRECTORS' REPORT

The Board of Directors of Arabtec Holding PJSC (the "Company") has the pleasure in submitting the consolidated statement of financial position of the Company and its Subsidiaries (the "Group") as at 31 December 2012, and the related consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2012.

Principal activities

During the year ended 31 December 2012 the Group was primarily engaged in the construction of high-rise towers, other buildings and residential villas and related activities through Arabtec Construction LLC and other contracting related subsidiaries and joint ventures both in the UAE and Overseas.

Financial results

The Group has reported a net profit for the year of AED 188.2 million (2011 restated: AED 263.5 million) representing a 29% decrease from the previous year. The 2012 results reflect an increase in revenue, gross profit and net investment income, offset by a reduction in other income which included a net write back of allowances for doubtful debts amounting to AED 109 million in 2011.

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law, an appropriation of AED 14.6 million (2011: AED 26.1 million) is made to statutory reserves from the distributable profit of AED 139.2 million (2011 restated: AED 221.1 million).

Total equity attributable to the shareholders of the Company as of 31 December 2012 amounted to AED 2,947 million (2011 restated: AED 2,896 million) an increase of 18%. The directors are proposing no dividend payment for 2012 in order to preserve the net cash position of the Company. This is subject to approval at the forthcoming Annual General Meeting of the Company.

Strategy

The Company is pursuing a growth strategy that will be implemented through organic growth, acquisitions and international joint ventures. The Company aims to achieve greater geographical and sectorial diversification as it expands, reducing counterparty and market risk. It is actively exploring opportunities in selective fast-growing markets, and also complementing its strong presence in residential and commercial projects, with an expanded footprint in fast-growing and sophisticated construction sectors in the Middle East, such as oil and gas, infrastructure and power.

Directors

H.E. Khadem Al Qubaisi (Chairman)
Mr. Hasan Ismaik
Mr. Riad Kamal
Mr. Mohamed Al Fahim
Mr. Mohamed Al Mehairi
Mr. Khalifa Al Mehairi
Mr. Mohamed Al Husseiny
Mr. Raja Ghanma
Mr. Mutaz Sawwaf

Directors (continued)
On 7 August 2012, Mr. Yasser Zagloul resigned and Mr. Hasan Ismaik has been appointed as a board member. During September 2012, Mr. Hasan Ismaik was appointed as the Managing Director of the Group.

Auditors
Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2012. Ernst & Young are eligible for reappointment for 2013 and have expressed their willingness to continue in office.

On behalf of the Board

H.E. Khadem Al Qubaisi
Chairman

Dubai
27 February 2013

ERNST & YOUNG

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARABTEC HOLDING PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Arabtec Holding PJSC (the "Company") and its Subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the Company's Articles of Association and the UAE Commercial Companies Law of 1984 (as amended), 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARABTEC HOLDING PJSC (continued)

Emphasis of matter
We draw attention to the following notes to the consolidated financial statements:

(a) Note 30 which provides details on a contractual dispute that is subject to arbitration proceedings, the probable outcome of which cannot be determined with reasonable certainty at the date of this report.

(b) Note 36 which describes the uncertainty in connection with the outcome of a project suspended after the start of the social and political unrest in Syria, and the management's assessment of the impact on the related contract.

Our opinion is not qualified in respect of the above matters.

Other matters
The consolidated financial statements as of 31 December 2011 (before restatement) were audited by another auditor whose report dated 7 March 2012 expressed an unqualified opinion with an emphasis of matter on those consolidated financial statements.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; an inventory was duly carried out; and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

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

27 February 2013
Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
Revenue	5	5,659,944	4,923,558
Direct costs	6	(5,084,345)	(4,375,317)
GROSS PROFIT		575,599	548,241
Other operating income	19d	17,332	36,545
General and administrative expenses	9	(484,776)	(446,240)
Gain on derecognition of financial assets		-	19,707
Other income	7	33,764	142,307
Interest income / (expenses) on non-current receivables and payables	10	5,318	(11,518)
Net investment income	8	86,052	11,026
Finance costs		(41,531)	(34,248)
Share of loss of associate	14	(2,025)	-
PROFIT BEFORE TAX		189,733	265,820
Income tax expense	21	(1,506)	(2,288)
PROFIT FOR THE YEAR		188,227	263,532
Attributable to:			
Equity holders of the parent		139,171	221,095
Non-controlling interests		49,056	42,437
		188,227	263,532
BASIC EARNINGS PER SHARE (AED)	4	0.09	0.14
OTHER COMPREHENSIVE INCOME			
Unrealised loss on revaluation of available-for-sale investments		(1,005)	(5,055)
Impairment loss on available-for-sale investments	8	1,289	5,002
Net unrealised gain / (loss) on available for sale investments		284	(53)
Actuarial (loss) / gain recognised	26	(16,457)	2,649
Net change in foreign currency translation reserve		1,763	(264)
Total other comprehensive (loss) / income for the year		(14,410)	2,332
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		173,817	265,864
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent		127,807	223,124
Non-controlling interests		46,010	42,740
		173,817	265,864

The attached notes 1 to 39 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)	2010 AED'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	12	**1,108,245**	1,180,912	1,272,433
Investment properties	11	**95,867**	-	-
Intangible assets	13	**44,740**	94,211	143,741
Investments in associates	14	**268,738**	-	3,200
Goodwill	15	**248,666**	248,629	246,836
Trade and other receivables - non-current portion	16	**668,235**	797,719	774,524
Other financial assets	17	**25,037**	207,365	43,958
Other non-current assets		**5,093**	9,925	10,396
Deferred tax assets	21	-	331	331
		2,464,621	2,539,092	2,495,419
Current assets				
Trade and other receivables	16	**4,144,594**	3,856,063	4,201,860
Other financial assets	17	**104,725**	151,028	178,106
Inventories	18	**202,731**	319,016	369,009
Other current assets	22	**161,873**	110,629	128,324
Due from related parties	19	**1,060,724**	1,057,806	723,563
Cash and cash equivalents	20	**812,400**	688,057	592,745
		6,487,047	6,182,599	6,193,607
TOTAL ASSETS		**8,951,668**	8,721,691	8,689,026
EQUITY AND LIABILITIES				
Equity				
Share capital	23	**1,569,750**	1,495,000	1,196,000
Statutory reserve	24	**308,486**	293,873	267,819
Fair value adjustment reserve		**300**	16	69
Foreign currency translation reserve		**2,315**	(264)	-
Other reserves	35	**(2,201)**	-	-
Retained earnings		**1,067,903**	1,107,072	1,215,864
Equity attributable to equity holders of the Parent		**2,946,553**	2,895,697	2,679,752
Non-controlling interests		**398,792**	398,433	417,926
Total equity		**3,345,345**	3,294,130	3,097,678
Non-current liabilities				
Bank borrowings	25	**152,707**	55,650	110,379
Provision for employees' end of service indemnity	26	**165,508**	126,729	113,868
Retentions payable - non-current portion	27	**138,558**	91,760	203,832
Deferred tax liabilities	21	**1,061**	-	-
		457,834	274,139	428,079
Current liabilities				
Bank borrowings	25	**647,215**	468,308	626,672
Trade and other payables	28	**3,929,632**	3,865,945	4,182,956
Due to related parties	19	**571,154**	817,135	348,075
Income tax payable	21	**488**	2,034	5,566
Total current liabilities		**5,148,489**	5,153,422	5,163,269
Total liabilities		**5,606,323**	5,427,561	5,591,348
TOTAL EQUITY AND LIABILITIES		**8,951,668**	8,721,691	8,689,026



Hasan Abdulla Ismaik
Managing Director
27 February 2013

The attached notes 1 to 39 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
OPERATING ACTIVITIES			
Profit before tax		**189,733**	265,820
Adjustments for:			
Depreciation of property, plant and equipment	12	**229,834**	223,098
Depreciation of investment properties	11	**1,668**	-
Amortisation of intangible assets	13	**49,471**	49,530
Provision for employees' end of service indemnity	26	**37,887**	34,269
Accrued discretionary bonus	9	**41,373**	18,044
Write back of provision for bonus	9	**(44,014)**	-
Impairment of due from related party	19	**7,377**	-
Impairment loss on available-for-sale investments	8	**1,289**	5,002
Impairment of Goodwill	15	**1,786**	-
Loss on sale of steel inventory	9	**33,592**	10,211
Provision for and impairment of slow-moving inventories	18	**2,399**	12,952
Gain on sale of property, plant and equipment		**(8,765)**	(6,218)
Gain on derecognition of financial assets	8	**(60,070)**	(19,707)
Interest income	8	**(6,754)**	(11,010)
Profit income on Sukuk	8	**(20,517)**	-
Finance costs		**41,531**	34,248
Interest income/ (expenses) on non-current receivables and payables	10	**(5,318)**	11,518
		492,502	627,757
Working capital change			
Other financial assets		**46,587**	45,723
Trade and other receivables		**(153,729)**	145,875
Due from related parties		**(11,111)**	(334,243)
Inventories		**80,294**	26,830
Other current assets		**(47,261)**	17,695
Traded and other payables		**61,966**	(335,369)
Due to related parties		**(245,981)**	469,060
Retentions payable - non-current portion		**46,798**	(112,072)
Cash from operating activities		**270,065**	551,256
Employees' end of service indemnity paid		**(15,565)**	(18,758)
Interest received		**6,754**	11,010
Interest paid		**(41,531)**	(34,248)
Income tax paid		**(3,052)**	(5,820)
Net cash flows from operating activities		**216,671**	503,440
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	12	**(288,352)**	(195,273)
Proceeds from sale of financial assets	17	**264,205**	-
Proceeds from disposal of property, plant and equipment		**42,415**	69,914
Investment in associates	14	**(268,738)**	-
Net cash flows used in investing activities		**(250,470)**	(125,359)

The attached notes 1 to 39 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
Year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
FINANCING ACTIVITIES			
Proceeds/ repayments of borrowings (net)		**82,779**	(130,087)
Dividends paid to Equity holders of the parent	34	**(74,750)**	-
Acquisition of non-controlling interests		**(18,007)**	-
Capital contribution from non-controlling interests		**-**	578
Dividends paid to non-controlling interests		**(27,644)**	(69,990)
Net cash flows used in financing activities		**(37,622)**	(199,499)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**(71,421)**	178,582
Cash and cash equivalents at 1 January (restated - Note 39)	20	**414,028**	235,710
Net foreign exchange difference		**2,579**	(264)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**345,186**	414,028

The attached notes 1 to 39 form part of these consolidated financial statements

Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to the equity holders of the Parent								
	Share capital AED'000	*Statutory reserve AED'000*	*Fair value adjustment reserve AED'000*	*Foreign currency translation reserve AED'000*	*Other reserves AED'000*	*Retained earnings AED'000*	*Total AED'000*	*Non-controlling interests AED'000*	*Total equity AED'000*
Balance At 1 January 2012	1,495,000	293,873	16	(264)	-	1,107,072	2,895,697	398,433	3,294,130
Profit for the year	-	-	-	-	-	139,171	139,171	49,056	188,227
Other comprehensive income	-	-	284	2,579	-	(14,227)	(11,364)	(3,046)	(14,410)
Total comprehensive income for the year	-	-	284	2,579	-	124,944	127,807	46,010	173,817
Issue of bonus shares (Note 34)	74,750	-	-	-	-	(74,750)	-	-	-
Transfer to statutory reserve	-	14,613	-	-	-	(14,613)	-	-	-
Dividends paid (Note 34)	-	-	-	-	-	(74,750)	(74,750)	-	(74,750)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(27,644)	(27,644)
Acquisition of non-controlling interests (Note 35)	-	-	-	-	(2,201)	-	(2,201)	(18,007)	(20,208)
Balance At 31 December 2012	**1,569,750**	**308,486**	**300**	**2,315**	**(2,201)**	**1,067,903**	**2,946,553**	**398,792**	**3,345,345**

The attached notes 1 to 39 form part of these consolidated financial statements

Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to the equity holders of the Parent								
	Share capital AED'000	*Statutory reserve AED'000*	*Fair value adjustment reserve AED'000*	*Foreign currency translation reserve AED'000*	*Other reserves AED'000*	*Retained earnings AED'000*	*Total AED'000*	*Non-controlling interests AED'000*	*Total equity AED'000*
Balance at 1 January 2011 as previously reported	1,196,000	267,819	(7,494)	-	-	1,241,549	2,697,874	404,444	3,102,318
Prior year adjustments (Note 39)	-	-	7,563	-	-	(25,685)	(18,122)	13,482	(4,640)
Balance at 1 January 2011 as restated*	1,196,000	267,819	69	-	-	1,215,864	2,679,752	417,926	3,097,678
Profit for the year (restated*)	-	-	-	-	-	221,095	221,095	42,437	263,532
Other comprehensive income (restated*)	-	-	(53)	(264)	-	2,346	2,029	303	2,332
Total comprehensive income for the year (restated*)	-	-	(53)	(264)	-	223,441	223,124	42,740	265,864
Issue of bonus shares (Note 34)	299,000	-	-	-	-	(299,000)	-	-	-
Transfer to statutory reserve	-	26,054	-	-	-	(26,054)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(69,990)	(69,990)
Adjustment to non-controlling interests (Note 39)	-	-	-	-	-	(7,179)	(7,179)	7,179	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	578	578
Balance at 31 December 2011 (restated*)	1,495,000	293,873	16	(264)	-	1,107,072	2,895,697	398,433	3,294,130

*Certain amounts shown here do not correspond to the 2011 consolidated financial statements as previously reported and reflect adjustments made as detailed in Note 39.

The attached notes 1 to 39 form part of these consolidated financial statements

1 CORPORATE INFORMATION

Arabtec Holding PJSC (the "Company") is a Public Joint Stock Company established under the laws of the United Arab Emirates pursuant to the resolution of the Department of Economic Development, Dubai, number 71 dated 2 July 2004. The Company commenced operations on 20 September 2004. The Company's shares are listed on the Dubai Financial Market ("DFM"). The registered office of the Company is P.O. Box 72122, Dubai, UAE.

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 27 February 2013.

2 SUBSIDIARIES

Name of subsidiary and domicile	*% Holding (including indirect holding)*		*Principal activities*
	2012	*2011*	
Arabtec Construction LLC, Dubai, UAE	**100%**	100%	Civil construction and related works
Austrian Arabian Ready Mix Concrete Co. LLC, Dubai, UAE	**100%**	100%	Manufacturing and transportation of ready mix concrete products
House of Equipment Co. LLC, Dubai, UAE	**66.7%**	66.7%	Trading and leasing of construction equipments
Arabtec Construction W.L.L. Doha, Qatar*	**49%**	49%	Civil construction and related works
Arabtec Precast LLC, Dubai, UAE	**100%**	100%	Manufacturing of precast panels
Nasser Bin Khaled Factory Ready Mix Concrete Co. LLC, Doha, Qatar*	**49%**	49%	Civil construction and related works
Emirates Falcon Electromechanical Co EFECO LLC, Dubai, UAE	**55%**	55%	Electrical mechanical and plumbing contracts
Arabtec Engineering Services LLC, Dubai, UAE **	**80%**	80%	Infrastructure construction works
Arabtec International Company, Limited, Republic of Mauritius	**100%**	100%	Civil construction and related works
Arabtec Construction Syria LLC, Syrian Arab Republic	**100%**	100%	Civil construction and related works
Arabtec Pakistan (Pvt.) Limited, Pakistan*	**60%**	60%	Civil construction and related works
Target Engineering Construction Company LLC, Abu Dhabi, UAE	**60%**	60%	Civil construction and related works
Gulf Steel Industries FZC, Sharjah, UAE	**100%**	55%	Fabrication of steel structure and profiles
Arabtec Saudi Arabia LLC, Kingdom of Saudi Arabia *	**45%**	45%	Civil construction and related works
Arabtec Egypt for Construction SAE, Arab Republic of Egypt	**55%**	55%	Civil construction and related works

2 SUBSIDIARIES (continued)

Name of subsidiary and domicile	*% Holding (including indirect holding)* 2012	2011	*Principal activities*
Arabtec Construction LLC (Foreign Company), State of Palestine	**100%**	100%	Civil construction and related works
Arabtec - Musawa W.L.L., Kingdom of Bahrain	**75%**	75%	Civil construction and related works
EFECO Saudi LLC, Kingdom of Saudi Arabia*	**39%**	39%	Electrical, mechanical and plumbing contracts
EFECO Qatar W.L.L, Doha, Qatar*	**27%**	27%	Electrical, mechanical and plumbing contracts
EFECO LLC, State of Palestine	**100%**	100%	Electrical, mechanical and plumbing contracts
Arabtec Construction Machinery LLC Kingdom of Saudi Arabia	**58%**	58%	Trading and leasing of construction Equipment
Saudi Austrian Arabian Ready Mix Co LLC Kingdom of Saudi Arabia	**62%**	62%	Manufacturing and transportation of ready mix concrete products
Idrotec Srl, Italy	**96%**	48%	Civil construction and related works
Arabtec Construction LLC, State of Kuwait (under formation)	**100%**	100%	Civil construction and related works
Arabtec-Envirogreen Facility Management Services LLC, Dubai, UAE	**51%**	51%	Building maintenance and cleaning services, facilities management and security services
Powercon Switchgear Factory, UAE	**75%**	-	Manufacturing of Switch gears and power distribution panels
Stoneoil and gas Inc, Canada	**70%**	-	Consultancy and engineering
Arabtec Construction LLC, Abu Dhabi	**100%**	100%	Civil construction and related works
Emirates Falcon Electromechanical Co EFECO LLC, Dubai, UAE , Abu Dhabi	**55%**	55%	Electrical, Mechanical & Plumbing contracts
Target Steel Industries LLC, Free Zone, Abu Dhabi, UAE	**59.4%**	59.4%	Fabrication of steel structure and profiles
Target Engineering Construction Company, Qatar *	**36%**	36%	Civil construction and related works
Saudi Target Engineering Construction Company LLC, KSA*	**39%**	39%	Civil construction and related works
GSI Steel Construction Contracting LLC, Dubai, UAE	**100%**	55%	Fabrication of steel structure and profiles
Arabtec Construction India (Pvt) Limited, India	**63%**	63%	Civil construction and related works
Arabtec Investments Holding Limited, JAFZA, Dubai, UAE	**100%**	100%	Holding or investment of shares or commercial holding

2 SUBSIDIARIES (continued)

* Those represent indirect holdings of the Group. Although the Group holds less than 50%, it exercises control over these subsidiaries through direct holdings.

** The investment in Arabtec Pakistan (Pvt) Limited is held by third parties in trust and for the benefit of the Company. The investment in Arabtec Engineering Services LLC, Dubai is held by two of the shareholders on trust and for the benefit of the Company.

The Company has the following associates over which it exercises significant influence:

Name of associate and domicile	*% Holding (including indirect holding)* *2012*	*2011*	*Principal activities*
Polypod Middle East LLC, Abu Dhabi, UAE	**40%**	40%	Assembly of bathroom pods and other types of pods on the same concept
Depa Limited, Dubai, UAE	**24%**	-	Fit out of furniture of five star hotels, yachts and facilities and related services
Gulf Capital PJSC – Salboukh project, Saudi Arabia	**24%**	-	Development of Salboukh residential compound
Envirecon, Kingdom of Saudi Arabia	**30%**	-	Manufacture of concrete and mixture, additives and other construction chemicals

The Company has the following branches:

- Arabtec Construction LLC, St Petersburg and Kazan , Russian
- Arabtec Construction LLC, Riyadh, KSA
- Arabtec Saudi Arabia LLC, Riyadh, KSA

Joint Ventures of the Group are disclosed in note number 31.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED") since that is the currency of the country in which the Company is domiciled. All values are rounded to the nearest thousand ("000"), except when otherwise indicated.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries (note 2) as at 31 December 2012.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries used in the consolidation are prepared for the same reporting period as Arabtec Holding PJSC, using consistent accounting policies. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.2 BASIS OF CONSOLIDATION

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

Control is presumed to exist when there is power to govern the financial and operating policies of the Group under a statute or agreement so as to obtain benefits from its activities. Non-controlling interest represents the interest not held by the Group. Although the Group owns less than 50% of the equity shares in certain companies as listed in note 2 above, the Group has the power to govern the strategic operating and financial decisions of these companies and therefore treats them as subsidiaries.

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

3.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year except for the following:

Presentation of the consolidated statement of comprehensive income
The Group has merged its consolidated statement of income and statement of comprehensive income into one single statement of comprehensive income. This new presentation has no impact on the financial position or performance of the Group.

New and revised accounting standards and interpretations

(a) Standards, amendments and interpretations effective from 1 January 2012 which are adopted by the Group

The following interpretations were mandatory for accounting period beginning on or after 1 January 2012 and are adopted by the Group:

- IAS 12 Income Taxes: (Amendment) - Deferred Taxes: Recovery of Underlying Assets effective 1 January 2012
- IFRS 7 Financial Instruments: Disclosures - Enhanced Disclosure Requirements about offsetting of financial assets and financial liabilities

(b) Standards, amendments and interpretations effective from 1 January 2012 but not relevant to the Group's operations

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters effective 1 July 2011.

(c) Standards, amendments and interpretations in issue but not effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.3 CHANGES IN ACCOUNTING POLICIES (continued)

New and revised accounting standards and interpretations (continued)

(c) Standards, amendments and interpretations in issue but not effective (continued)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendments become effective for annual periods beginning on or after 1 January 2013 and are not expected to have any material impact on the financial position or performance of the Group.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the issuance of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The change will impact the way the Group accounts for its joint ventures (refer to IFRS 11 below). The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans - Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.3 CHANGES IN ACCOUNTING POLICIES (continued)

New and revised accounting standards and interpretations (continued)

(c) Standards, amendments and interpretations in issue but not effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a Group, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any significant impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly–controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application. The Group expects change in the accounting of jointly controlled entities in the Group's financial statements as such entities are accounted for on a proportionate consolidation basis. Management has started the process of analysing the impact on the consolidated financial statements, but it was not practicable to determine the ultimate impact on the consolidated financial statements as of the date of issue of these financial statements. Joint ventures are disclosed in Note 31.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group's financial position and performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.3 CHANGES IN ACCOUNTING POLICIES (continued)

New and revised accounting standards and interpretations (continued)

***(d)* Annual improvements May 2012**

These improvements will not have any significant impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in consolidated statement of comprehensive income.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint ventures (continued)
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Interests in joint ventures
The Group has interests in joint ventures, which are jointly controlled entities and joint operations, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

Any goodwill arising on the acquisition of the Group's interest in a jointly-controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Where any of the Group's entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group's share of intra-group balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture are eliminated on consolidation. Losses on transactions are recognised immediately if there is evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. The difference between the carrying amount of the investment upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in associate.

Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)
The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the consolidated statement of comprehensive income. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Foreign currencies
The Group's consolidated financial statements are presented in AED, which is also the parent company's functional and reporting currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in consolidated statement of comprehensive income.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Contract revenue
Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is determined based on the proportion of contract costs incurred to date to the estimated total contract costs. Variations in contract work are recognised to the extent that it is probable that they will result in revenue and such revenue can be reliably measured, while contract claims and incentive payments are included only to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred where the recoverability is probable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts.

Due from customers or contract work-in-progress is stated at cost plus attributable profit, less provision for any anticipated losses and progress payments received and receivable. Where the payments received and receivable for any contract exceed the cost plus attributable profit or less anticipated losses, the excess is shown as due to customers or excess billings.

Sale of goods
Revenue from the sale of goods is recognised when all the following conditions are satisfied:
- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity and not to the Group; and
- The costs incurred or to be incurred and amount of revenue in respect of the transaction can be measured reliably.

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

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

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

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income tax
Current income tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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 amounts of deferred tax assets are 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 reassessed 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 other comprehensive income or directly in equity.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
Deferred tax (continued)
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income 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 to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Property, plant and equipment
Property, plant and equipment except for land are stated at cost less 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in consolidated statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets other than land and properties under construction, over their estimated useful lives, using the straight-line method as follows:

Plant machinery and office equipment	Over 3 to 15 years
Vehicles	Over 5 to 7 years
Labour camps and buildings	Over 10 to 20 years
Furniture	Over 5 years
Scaffolding, cabins and tunnel forms	Over 3 to 7 years
Leasehold land	Period of lease

Labour camps built on leased plots of land are depreciated over the shorter of their estimated useful lives or the periods of the leases.

Properties under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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 the carrying amount of the asset) is included in the consolidated statement of comprehensive income 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.

Investment properties
Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the consolidated statement of comprehensive income in the period in which it is incurred.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)
Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of 20 years. All subsequent additions are depreciated over the remaining useful lives of investment properties. Land is not depreciated.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets arising on business combinations are recognised only if all of the following conditions are met:

- The assets can be identified and are separable;
- It is probable that the asset will generate future economic benefits; and
- The fair value of the asset can be reliably measured.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

Lease hold property benefits	amortised on a straight line basis over 18 – 21 years
Arabtec brand	amortised on a straight line basis over 10 years
Customer contracts	amortised on a straight line basis over 10 years
Other intangibles	amortised on a straight line basis over 10 years

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Financial assets
Initial recognition and measurement
The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- 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.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate ("EIR"), less impairment. 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 as finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

Available-for-sale financial investments
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale financial investments
For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of comprehensive income. Loans and advances together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income - is removed from other comprehensive income and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through 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 CGUs fair value less costs to sell and its value in use. Recoverable amount 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. When 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 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 companies or other available fair value indicators.

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU'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 consolidated statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Trade and other receivables
Contract and trade receivables 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.

Where payment plans exceed one year from the financial position date, these are reclassified as non-current and are measured at amortised cost.

Due from/to related parties
Amounts due from/to related parties are stated at their amortised cost.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, those costs that have been incurred in bringing the inventories to their present location and condition.

Raw materials, consumables and trading goods	-	purchase cost on a weighted average basis.
Manufacturing work-in-progress and finished goods	-	costs of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables and bank borrowings.

Derecognition- 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.

Trade and other payables and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Bank borrowings
Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

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

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

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

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

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

Employees' end of service indemnity
In accordance with labour laws prevailing in the countries in which Group and its subsidiaries operate, the Group provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service indemnity (continued)
The Group provides for a number of post employment defined benefit plans under several jurisdictions in which the Group operates. These benefits are un-funded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for the defined benefit plans are recognised in full in the period in which they occur in other comprehensive income. The past service costs are recognised as an expense in the consolidated statement of comprehensive income, on a straight line basis over the average period until the benefits become vested. The interest cost component is expensed to the statement of comprehensive income.

The defined benefit liability comprises the present value of the defined benefit obligations using a discount rate based on market yield rates. The Group has not allocated any assets to such plans.

Payments made to Social Security Institutions in connection with government pension plans in various countries where the Group operates 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 Group pays contributions to the social security institutions on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period to which the employees' service relates.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the consolidated financial statement under accounts payable and accruals. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Fair value of financial instruments
For investments traded in an active market, fair value is determined by reference to quoted market bid prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

The fair value of interest bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 37.

3.5 USE OF ESTIMATES AND JUDGMENTS

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.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.5 USE OF ESTIMATES AND JUDGMENTS (continued)

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognises in the financial statements) are as follows:

Judgments

Joint ventures

The Group reports its interest in joint ventures/jointly controlled entities using the proportionate consolidation method which management considers appropriately recognizes the substance of the business arrangements.

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Contract dispute

Note 30 describe a contract dispute that is currently in progress with one of the customers of one of the Group's joint ventures. The encashment of the Performance Security and Advance Payment Guarantee (the "Securities") by the customer, and the claims presented, raise questions about the accounting treatment for the transaction. In light of the contract dispute arising, the directors were required to consider whether it was appropriate to recognise the amount of the encashed securities as expenses or, alternatively, as amounts receivable from the customer pending resolution of the dispute.

In making this judgment, management considered the criteria in The Framework for the Preparation and Presentation of Financial Statements in conjunction with IAS 37 Provisions, Contingent Liabilities and Contingent Assets in determining whether the amounts paid can be recognised as an asset of the Group. In particular, consideration was given to whether it is probable that recognition of the asset will result in future economic benefits flowing to the Group. In view of management's judgment that the contract termination and call on the securities was not justified, and, in the light of continuing legal opinion on the arbitration proceedings initiated by the Joint Venture, management continues to consider that the outcome of the proceedings will be favourable to the Group and continues to recognise the amount of the securities as a receivable and not as an expense.

Management has continued to obtain legal advice related to the arbitration proceedings and, based on this advice, considers that the Group continues to have a strong case which will ultimately result in the full recovery, of all related amounts included in receivables in these consolidated financial statements.

Classification of Investment properties

The Group determines whether a property is classified as an investment property or property, plant and equipment.

Investment properties comprises land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation or where the intention of the Group is not yet clear.

Property, plant and equipment comprise property, land and buildings which are occupied substantially for use by, or in the operations of the Group.

Impairment of available-for-sale financial asset

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.5 USE OF ESTIMATES AND JUDGMENTS (continued)

Estimates and assumptions (continued)

Percentage-of-completion and cost to complete estimates of construction contracts

The Group uses the percentage-of-completion method in accounting for its construction contracts. At each reporting date, the Group is required to estimate stage of completion and costs to complete on its construction contracts. These estimates require 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 claim by subcontractors and the cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the year in which the estimates are revised.

The Group uses internal quantity surveyors together with project managers to estimate the costs to complete of construction contracts. Factors such as 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.

Contract variations

Contract variations are recognised as revenues only to the extent that it is probable that they will result in revenue which can be reliably measured. This requires the exercise of estimating the value of variations based on management's prior experience, application of contract terms and the relationship with the customers.

Contract claims

Contract claims are recognised as revenue only when management believes that an advanced stage of negotiation has been reached and the revenue can be estimated with reasonable certainty.

Impairment of accounts receivable

An estimate of the collectible amount of contract and trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Provision for doubtful debts is determined using a combination of factors, including the overall quality and ageing of receivables, continuing credit evaluation of the customers' financial strength and collateral requirements from customers in certain circumstances. Management makes provision for doubtful debts based on its best estimates at the end of the reporting period.

At the end of the reporting period the Group has significant receivables from entities operating in the real estate sector. Management has carefully considered these receivables in light of current economic circumstances and the status of negotiations with customers, signed and draft memoranda of understanding, agreed payment plans, together with potential offsetting arrangements with advances received from customers and amounts due to subcontractors in order to determine provision for the potential impairment losses which may occur on finalising collection of contract receivables, amounts due from customers for contract work and retentions receivable.

At the reporting date, gross trade accounts receivable were AED 2,485,301 (2011: AED 2,877,011), and the provision for doubtful debts was AED 47,230 (2011: AED 57,213). Any difference between the amounts actually collected in a future period and the amounts expected, will be recognised in the consolidated statement of comprehensive income in that period.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues.

At the reporting date, gross inventories were AED 219,886 (2011: AED 335,147), with provisions for old and obsolete inventories of AED 17,155 (2011: AED 16,131). Any difference between the amounts actually realised in a future period and the amounts expected, will be recognised in the consolidated statement of comprehensive income in that period.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.5 USE OF ESTIMATES AND JUDGMENTS (continued)

Estimates and assumptions continued)

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Management has not considered any residual value as it is deemed immaterial. During the year management performed assessments of both the fair value and value in use of property, plant and equipment and determined that no impairment losses arose.

Useful lives of investment properties

The Group's management determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Management has not considered any residual value as it is deemed immaterial. During the year management performed assessments of both the fair value and value in use of investment properties and determined that no impairment losses arose.

Non-current retentions and contract receivables

Non-current retentions receivable and contract receivables and payables are restated at their amortised cost at each reporting period by discounting at the Group's effective deposit and borrowing rates, as appropriate, which management considers being the appropriate discount rates for these assets and liabilities.

Impairment of investments held at amortised cost

The Group reviews its investments on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of comprehensive income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Fair value of other financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and estimation is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of non-financial assets

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years, and do not include significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

3.5 USE OF ESTIMATES AND JUDGMENTS (continued)

Estimates and assumptions (continued)

Impairment of intangible assets

If there is an indication that an intangible asset may be impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future economic benefits expected to be derived from the asset.

During the year, management reconsidered the recoverability of the intangible assets arising from the Group's business combinations and recorded impairments where required. Management is confident that the remaining carrying amount of the assets will be recovered in full, over the defined amortisation periods. This situation will be closely monitored, and adjustments made in future periods, if future assessments indicate that such adjustments are appropriate.

Taxation

The Group is subject to tax in a number of jurisdictions and judgment is required in determining the provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods, and such provisions are based upon management's assessment of exposures.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary share holders of the Parent of AED 139,171 thousand (2011: AED 221,095 thousand) by the weighted average number of shares outstanding during the year of 1,569 million shares of AED 1 each.

The earnings per share of AED 0.14 as reported for the year ended 31 December 2011 (previously reported as AED 0.17) has been adjusted for the effect of the shares issued in 2012 as a result of the stock dividend and restatements in 2011 (note 39).

The figure for basic and diluted earnings per share is the same as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

5 REVENUES

Revenues comprise the following:

	2012 AED'000	*2011 AED'000 (Restated)*
Contract revenue	**5,305,148**	4,682,462
Sale of ready mix concrete / precast	**179,814**	56,396
Drainage division revenue	**68,695**	93,118
Sale and hire of equipment	**58,905**	50,350
Model division revenue	**19,205**	12,648
Plant division revenue	**17,550**	16,798
Scaffolding division revenue	**7,457**	9,042
Electrical division revenue	**1,786**	2,744
Residential building revenue	**1,384**	-
	5,659,944	4,923,558

6 DIRECT COSTS

Direct costs comprise the following:

	2012 AED'000	*2011 AED'000 (Restated)*
Contract costs	**4,793,722**	4,079,135
Cost of sales of ready mix concrete / precast	**140,696**	140,793
Drainage division costs	**57,146**	66,827
Cost of sales of equipment	**48,001**	46,380
Plant division costs	**20,697**	24,760
Model division costs	**14,063**	9,642
Scaffolding division costs	**5,016**	4,903
Electrical division costs	**2,679**	2,877
Residential building costs	**2,325**	-
	5,084,345	4,375,317

7 OTHER INCOME

	2012 AED'000	*2011 AED'000 (Restated)*
Gain on sale of property, plant and equipment	**8,765**	6,218
Write back of provision for doubtful debt	**9,261**	109,240
Gain on derecognition of financial liabilities	**-**	5,595
Write-back of provision for bonuses (Note 9)	**2,641**	-
Others	**13,097**	21,254
	33,764	142,307

8 NET INVESTMENT INCOME

	2012 AED'000	*2011 AED'000 (Restated)*
Interest income	**6,754**	11,010
Gain on disposal of Sukuk	**60,070**	-
Profit income on Sukuk	**20,517**	-
Amortisation of discount on held to maturity investments	-	5,018
Impairment loss on available-for-sale investments	**(1,289)**	(5,002)
	86,052	11,026

9 GENERAL AND ADMINISTRATIVE EXPENSES

	2012 AED'000	*2011 AED'000 (Restated)*
Employees' salaries and other benefits	**199,938**	193,312
Attendance fees to directors	**3,630**	2,000
Tender expenses	**12,342**	7,848
Selling expenses	**2,736**	2,232
Communication and utilities	**12,116**	11,360
Office rent	**11,807**	13,230
Depreciation (apportioned)	**25,354**	28,748
Amortisation of intangible assets (Note 13)	**49,471**	49,530
Impairment losses on goodwill (Note 15)	**1,786**	-
Discretionary bonuses *	-	18,044
Legal expenses	**7,571**	5,682
Impairment of due from associate (Note 19)	**7,377**	-
Impairment losses on slow-moving inventories (Note 18)	**1,024**	12,952
Loss on sale of steel inventory	**33,592**	10,211
Other general and administrative expenses	**116,032**	91,091
	484,776	446,240

* Discretionary bonuses accrued for the year amounting to AED 41,373 thousand were reduced by the write-back of provision for bonuses relating to prior years of AED 44,014. The write-back is due to change in estimations. Net amount of written-back and accrued bonuses is disclosed under Note 7.

10 INTEREST INCOME / (EXPENSE) ON NON-CURRENT RECEIVABLES AND PAYABLES

	2012 AED'000	*2011 AED'000*
Interest income / (expense) on non-current trade receivables	**8,848**	(19,336)
Interest (expense) / income on non-current retentions receivable	**(3,504)**	11,522
Interest expense on non-current retentions payable	**(26)**	(3,704)
	5,318	(11,518)

Interest income / (expense) relates to the Group agreeing on long-term payment plans for certain trade receivables and payables, in addition to retentions which are due after completion of a minimum service period of completed contracts. On date of inception, the discount amount is recognised as interest income or expense. Payments are estimated to be received or paid over the long term which results in interest expense or income recognised on amortisation until maturity. The risk of recovery for receivables was provided for under the provision for doubtful debts.

11 INVESTMENT PROPERTIES

	2012 AED'000	*2011 AED'000*
Cost		
At 1 January	-	-
Transfer from property, plant and equipment (Note 12)	**97,535**	-
At 31 December	**97,535**	-
Accumulated depreciation		
Opening balance at 1 January	-	-
Charge for the year	(1,668)	-
At 31 December	**(1,668)**	-
Net book value	**95,867**	-

Transfer from property, plant and equipment of AED 97,535 thousand to investment properties represents land and a building in Dubai Silicon Oasis, Dubai, UAE. The land and building have been designated for rental activities and, accordingly, classified as an investment property. The Group has completed the construction of the building during the year.

The fair value of the investment property as at 31 December 2012 is AED 96 million which was determined by management based on a valuation performed by a qualified and independent property consultant. The property consultant is a specialist in valuing these types of investment properties. The fair value of above property is determined using transactions observable in the market.

Land in Dubai Silicon Oasis with a carrying value of AED 17,726 thousand is not depreciated.

12 PROPERTY AND EQUIPMENT

	Land *AED'000*	*Leasehold land* *AED'000*	*Plant machinery and office equipment* *AED'000*	*Vehicles* *AED'000*	*Labour camps buildings* *AED'000*	*Furniture* *AED'000*	*Scaffolding cabins and tunnel forms* *AED'000*	*Properties under construction* *AED'000*	*Total* *AED'000*
Cost:									
At 1 January 2012	70,727	6,512	1,010,241	248,722	463,357	74,345	183,817	155,220	2,212,941
Additions	-	-	145,584	20,475	24,982	18,092	17,570	61,649	288,352
Transfers	-	-	11,839	6,186	95	351	-	(18,471)	-
Transfers to investment properties	(17,726)	-	-	-	-	-	-	(79,809)	(97,535)
Disposals	-	-	(68,783)	(19,875)	(503)	(809)	(11,494)	(6,291)	(107,755)
At 31 December 2012	**53,001**	**6,512**	**1,098,881**	**255,508**	**487,931**	**91,979**	**189,893**	**112,298**	**2,296,003**
Accumulated depreciation:									
At 31 January 2012	-	1,150	553,043	153,669	146,460	58,295	119,412	-	1,032,029
Charge for the year	-	261	119,637	29,422	43,936	9,565	27,013	-	229,834
Relating to disposals	-	-	(51,370)	(10,328)	(232)	(720)	(11,455)	-	(74,105)
At 31 December 2012	**-**	**1,411**	**621,310**	**172,763**	**190,164**	**67,140**	**134,970**	**-**	**1,187,758**
Net carrying value									
At 31 December 2012	**53,001**	**5,101**	**477,571**	**82,745**	**297,767**	**24,839**	**54,923**	**112,298**	**1,108,245**

The depreciation charge has been allocated in the consolidated statement of comprehensive income to direct costs and general and administrative expenses.

Transfer to investment property has been made during the year and is shown in note 11.

12 PROPERTY AND EQUIPMENT (continued)

	Land *AED'000*	*Leasehold land* *AED'000*	*Plant machinery and office equipment* *AED'000*	*Vehicles* *AED'000*	*Labour camps buildings* *AED'000*	*Furniture* *AED'000*	*Scaffolding cabins and tunnel forms* *AED'000*	*Properties under construction* *AED'000*	*Total* *AED'000*
Cost:									
At 1 January 2011	70,727	5,288	1,066,050	252,611	405,123	68,869	110,132	193,484	2,172,284
Additions	-	509	80,205	2,004	26,002	7,148	16,062	63,343	195,273
Transfers	-	-	18,616	1,036	77,521	219	-	(97,392)	-
Reclassification	-	715	(85,491)	-	(715)	-	85,491	-	-
Disposals	-	-	(69,139)	(6,929)	(44,574)	(1,891)	(27,868)	(4,215)	(154,616)
At 31 December 2011	70,727	6,512	1,010,241	248,722	463,357	74,345	183,817	155,220	2,212,941
Accumulated depreciation:									
At 1 January 2011	-	460	509,797	127,280	135,313	51,373	75,628	-	899,851
Charge for the year	-	324	122,436	29,665	34,275	8,225	28,173	-	223,098
Reclassification	-	366	(42,603)	-	(366)	-	42,603	-	-
Relating to disposals	-	-	(36,587)	(3,276)	(22,762)	(1,303)	(26,992)	-	(90,920)
At 31 December 2011	-	1,150	553,043	153,669	146,460	58,295	119,412	-	1,032,029
Net carrying value									
At 31 December 2011 (Restated)	70,727	5,362	457,198	95,053	316,897	16,050	64,405	155,220	1,180,912
Net carrying value									
As at 31 December 2010 (Restated)	70,727	4,828	556,253	125,331	269,810	17,496	34,504	193,484	1,272,433

The depreciation charge has been allocated in the consolidated statement of comprehensive income to direct costs and general and administrative expenses.

13 INTANGIBLE ASSETS

31 December 2012	*Leasehold property benefits AED'000*	*Arabtec brand AED'000*	*Customer contracts AED'000*	*Other intangibles AED'000*	*Total AED'000*
Carrying amount:					
At 1 January and 31 December 2012	5,700	110,000	195,056	9.000	319,756
Accumulated amortisation:					
At 1 January 2012	5,265	77,000	138,780	4,500	225.545
Charge for the year	343	11,000	37,228	900	49,471
At 31 December 2012	**5,608**	**88,000**	**176,008**	**5,400**	**275,016**
Net carrying value as at 31 December 2012	**92**	**22,000**	**19,048**	**3,600**	**44,740**

31 December 2011	*Leasehold property benefits AED'000*	*Arabtec brand AED'000*	*Customer contracts AED'000*	*Other intangibles AED'000*	*Total AED'000*
Carrying amount:					
At 1 January and 31 December 2011	5,700	110,000	195,056	9.000	319,756
Accumulated amortisation:					
At 1 January 2011	4,863	66,000	101,552	3,600	176.015
Charge for the year	402	11,000	37,228	900	49,530
At 31 December 2011	5,265	77,000	138,780	4.500	225,545
Net carrying value as at 31 December 2011	435	33,000	56,276	4,500	94,211

13 INTANGIBLE ASSETS (continued)

The intangible assets included above, arising on business combinations, have finite useful lives, over which the assets are amortised.

Amortisation of the leasehold property benefits is based on the underlying leases which have periods of between 18 to 21 years.

The Arabtec brand value is amortised over the expected period of benefit of 10 years, following which continuing brand value will be deemed to have been internally generated and not recognisable as an asset under IFRS.

The value of customer contracts acquired as a result of the acquisition of Target Engineering Construction Company LLC are amortised over the estimated useful life of 10 years.

Other intangibles are amortised over the estimated useful lives of 10 years and represent technological expertise, the trade name and the special historic and beneficial working relationship between the companies, that together form a set of complementary assets described as 'technological expertise' and which has been valued based on the price and quality differential for electro-mechanical services available to the Group.

The Group has tested its intangible assets for impairment thorough an external independent expert. The management has concurred to the expert's conclusion that these intangible assets suffered no impairment.

14 INVESTMENTS IN ASSOCIATES

DEPA Limited
On 21 November 2012, the Group acquired shares in Depa Limited ("DEPA") for AED 239,681 thousand representing 24.329% interest in the Company's share capital upon acquisition. The investment in DEPA was classified as an associate as the Group obtained influence over the operating and financial policies of the company.

The company operates in the luxury fit-out sector, focusing primarily on hospitality, commercial and residential property developments. Through a combination of multiple subsidiaries, joint ventures and associates across a number of countries and market segments. The Company operates in the Middle East/North Africa region and Asia.

During the year, an indirect related party to one of DEPA's customers publicly announced its intention to file a claim against DEPA and its JV partner for compensation of USD 600 million in connection with a contract cancelled by the customer. Based on legal advice, the Group and its associate are confident that such a possible claim will have no grounds for jurisdiction as the third party was not a direct party to the contract. No legal proceedings have been initiated by the third party as of the date of issue of these financial statements.

Summarised financial information of DEPA as of 31 December 2012 is not available as DEPA has not declared its results at the date of approval of these financial statements. DEPA is listed in the Dubai International Financial Center (DIFC) on the NASDAQ Dubai.

Management has assessed the Group's share of loss in this associate using projections and estimations based on the previously published financial statements and analysts' reports. The share of loss of the Group for the period from acquisition date until 31 December 2012 is AED 2,025 thousand. Management believes that the actual financial information, once released, would not be materially different from the projections used.

The fair market value of the investment in Depa as of 31 December 2012, based on listed bid prices, was approximately AED 192 million. Management is of the opinion that the investment in associate is not impaired as its carrying value is lower than the net asset value of the company.

Polypod Middle East LLC
On 6 May 2009, Polypod Middle East LLC ("Polypod"), Abu Dhabi was incorporated with the Company holding a 40% interest in Polypod at cost of AED 3.2 million, being equivalent to the Company's share of the issued share capital. On 7 March 2012, the Board of Directors approved to write off the investment in Polypod, as of 31 December 2011, due to continuous losses incurred. Management is in the process of restructuring this business with a view to allowing the business to positively trade out of its existing deficits.

14 INVESTMENTS IN ASSOCIATES (continued)

Polypod Middle East LLC (continued)
Summarised financial information in respect of the Company's associates is set out below:

	2012 AED'000 (Unaudited)	*2011 AED'000 (Unaudited)*
Total assets	**11,972**	13,210
Total liabilities	**(17,731)**	(16,847)
Net assets	**(5,759)**	(3,637)
Company's share of associate's net assets	**(2,304)**	(1,455)
Total revenue	**21,690**	7,012
Total loss for the year	**(622)**	(11,633)

Other investments
During the period, the Group entered into an investment arrangement with Gulf Capital PJSC, Kingdom of Saudi Arabia to acquire a 24% interest in the Salboukh project. The Group advanced an amount of AED 29,057 thousand and expects to have a significant influence on the special purpose entity being formed to hold the project. The legal formalities and the final ownership agreement are yet to be completed and agreed.

15 GOODWILL

Goodwill arising on acquisition of:

	2012 AED'000	*2011 AED'000*
a) Arabtec Construction LLC	**87,963**	87,963
b) Emirates Falcon Electro Mechanical Co. (LLC)	**9,086**	9,086
c) Target Engineering Construction Company LLC	**134,945**	134,945
d) Gulf Steel Industries FZC	**14,842**	14,842
e) Idrotec Srl (Note 35)	**1,830**	1,793
f) Powercon Switchgears Factory (Note 35)	**1,786**	-
	250,452	248,629
Less: Impairment loss	**(1,786)**	-
	248,666	248,629

Goodwill acquired in a business combination is allocated, on acquisition, to the CGUs that are expected to benefit from the business combination. Management has allocated goodwill as follows:

	2012 AED'000	*2011 AED'000*
Cash generating unit		
Building construction	**89,793**	89,756
Drainage and electro-mechanical works	**9,086**	9,086
Marine construction	**134,945**	134,945
Trading	**14,842**	14,842
	248,666	248,629

15 GOODWILL (continued)

Management has carried out an impairment test for goodwill at the year-end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each CGU has been estimated by an independent external expert, and is based on a value-in-use calculation using cash flow projections approved by senior management and covering a five-year period. Cash flows beyond the 5-year period are extrapolated using a growth rate, which management believes approximates the long-term average growth rate for the industries in which the CGU operate.

Except for Powercon's goodwill write off, management concurred to the expert's calculation of the value in use of goodwill at 31 December 2012 and concluded that no other impairment loss exists for the financial year 2012 (2011: Nil).

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

- Growth rate
- Profit margins, and
- Discount rate

Growth rate: Estimates are based on forecasted growth rates in the industry and historical performance of each CGU. An growth rate of 21% per annum has been applied.

A reduction of 10% in growth rates would result in a reduction of AED 615,144 thousand of the value-in-use for all CGU, but will not impact the recoverable amount or goodwill of the CGU.

Profit margins: Estimates are based on assumption of achieving a stabilised level of performance based on the contracts in hand and expected orders. The effect of changes in economic conditions and the level of activity in the construction industry would impact the profit margins.

Discount rate: discount rates used throughout the assessment period was 22.5% per annum, reflecting the CGU's estimated weighted average cost of capital and specific market risk profile and cost of debt. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available marked data.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions (growth rate, profit margin and discount rate) would cause the carrying value of the CGU, including goodwill, to materially exceed its recoverable amount.

16 TRADE AND OTHER RECEIVABLES

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

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

16 TRADE AND OTHER RECEIVABLES (continued)

	Current			Non-current		
	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*	*2012 AED'000*	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Trade and other receivables	**290,472**	324,874	310,575	-	-	-
Contract receivables	**1,829,022**	2,164,545	2,403,356	**365,807**	387,592	615,257
Amounts due from customers for contract work (Note 29)	**1,270,072**	752,103	650,221	-	-	-
	3,389,566	3,241,522	3,364,152	**365,807**	387,592	615,257
Provision for doubtful debts	**(47,230)**	(57,213)	(117,905)	-	-	(146,649)
	3,342,336	3,184,309	3,246,247	**365,807**	387,592	468,608
Retentions receivable	**343,349**	312,835	600,209	**302,428**	410,127	305,916
Advances paid to suppliers and sub contractors	**333,885**	349,755	335,256	-	-	-
Contract work in progress	**125,024**	9,164	20,148	-	-	-
Total	**4,144,594**	3,856,063	4,201,860	**668,235**	797,719	774,524

Included in the above are amounts totalling AED 552.4 million (2011 restated: AED 552.4 million) receivable from Meydan LLC in connection with the contract dispute described in Note 30. The remaining balance of contract receivables includes four customers' balances totalling AED 1,042 million individually representing more than 15% of the total balance of contract receivables.

Of the contract and trade receivables balance at the end of the year, AED 401 million (2011: AED 538 million) is due from the Group's largest customer.

A provision has been made for the estimated impairment amounts of trade and other receivables of AED 47.2 million (2011: AED 57.2 million). This provision has been determined based on collection history and past experience of management and on management's assessment of current economic conditions, project completion, negotiations underway, future recoverability of these balances and potential offsetting arrangements with customers and subcontractors.

Movement in the provision for doubtful debts netted off from trade and other receivables:

	2012 AED'000	*2011 AED'000*
Balance at the beginning of the year	**57,213**	264,554
Write off to trade receivables	**(722)**	(297)
Reversal of provision during the year	**(21,163)**	(117,643)
Derecognition of financial assets	**-**	(97,804)
Increase in provision recognised during the year	**11,902**	8,403
Balance at the end of the year	**47,230**	57,213

16 TRADE AND OTHER RECEIVABLES (continued)

Contract receivables
The average credit period on contract and trade receivables is 90 days. No interest is charged on the contract receivables overdue. The contract and trade receivables above 90 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience and on management's assessment of current economic conditions as to the future recoverability of these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

Included in the Group's contract and trade receivables balance are debtors with a carrying amount of AED 1,923 million (2011: AED 1,349 million) which are past due at the reporting date for which the Group has not recorded any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired:

	2012 AED'000	*2011 AED'000 (Restated)*
Past due for less than 3 months	**518,562**	277,606
Past due for more than 3 months	**1,404,621**	1,071,060
	1,923,183	1,348,666

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

Ageing of impaired contract and trade receivables against which the provision for doubtful debts has been made:

	2012 AED'000	*2011 AED'000*
Current	**5,174**	13,468
Past due for less than 3 months	**48,337**	59,002
Past due for more than 3 months	**133,513**	266,989
	187,024	339,459

17 OTHER FINANCIAL ASSETS

	Current		Non-current	
	2012 AED'000	*2011 AED'000 (Restated)*	*2012 AED'000*	*2011 AED'000 (Restated)*
Financial assets at fair value				
Available-for-sale investments				
Quoted debt securities (a)	-	-	-	175,020
Quoted equity shares (b)	-	-	6,093	8,428
	-	-	6,093	183,448
Financial assets at cost				
Available-for-sale investments				
Unquoted equity shares (c)	-	-	17,282	18,392
Total available-for-sale investments	-	-	23,375	201,840
Financial assets at amortised cost				
Fixed deposits under lien	93,470	144,486	-	-
Margin deposits	11,255	6,542	-	-
Loans to related parties	-	-	1,662	5,525
	-	-	1,662	5,525
Total other financial assets	104,725	151,028	25,037	207,365

a) Quoted debt securities represent Anka 'a Sukuk Bonds issued by Anka'a Sukuk Limited (Nakheel PJSC). This investment carries guaranteed interest rates of 10% p.a. redeemable upon maturity on 31 August 2015. As explained in Note 39, in the previously reported financial statements of 2011 these quoted debt securities were classified as held to maturity investments. During 2011, the Group sold some of these securities resulting in reclassification of these securities to available-for-sale investments. The fair value of the quoted debt security is determined by reference to published price quotation in an active market.

b) Quoted equity securities represent investments in listed equity securities and non-listed shares that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities is based on the quoted market prices where available.

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

Impairment on quoted available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Based on these criteria, the Group identified an impairment of AED 1,289 thousand (2011 restated: AED 5,002 thousand) on available-for-sale investments in quoted shares. The impairment on available-for-sale financial investments is in net investment income (Note 8).

18 INVENTORIES

	2012 AED'000	*2011 AED'000*
Steel inventories required for specific projects	**67,607**	201,182
General steel inventories	**504**	1,915
Trading goods	**47,542**	27,884
Other construction materials	**91,104**	89,609
Ready mix concrete and other related materials	**9,831**	6,734
Work in progress	**3,298**	7,823
	219,886	335,147
Less: Impairment losses	**(17,155)**	(16,131)
	202,731	319,016

Movement in impairment losses on inventories:

	2012 AED'000	*2011 AED'000*
Balance at the beginning of the year	**16,131**	3,557
Impairment losses	**2,399**	15,882
Write off	**-**	(378)
Reversal	**(1,375)**	(2,930)
Balance at the end of the year	**17,155**	16,131

19 RELATED PARTY TRANSACTIONS

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

b) At the end of the reporting period, due from related parties comprise the following:

	2012 AED'000	*2011 AED'000*
Joint ventures		
Amounts due from joint venture partners	**525,038**	370,081
Other related parties		
Entities with common ownership and management		
Al Waab City W.L.L., Doha, Qatar	**152,073**	248,889
Nasser Bin Khaled Al-Thani and Sons Group and its related parties, Qatar	**12,154**	11,611
Saudi Bin Laden Group, Kingdom of Saudi Arabia	**234,071**	323,119
Advance Vision Co., Kingdom of Saudi Arabia	**44,979**	85,117
Ready Mix Company Limited (PREMCO)	**26,696**	-
Aabar Investments PJSC	**60,395**	-
Others	**5,318**	18,989
	535,686	687,725
	1,060,724	1,057,806

19 RELATED PARTY TRANSACTIONS (continued)

c) At the end of the reporting period, due to related parties comprise the following:

	2012 AED'000	*2011 AED'000 (Restated)*
Joint ventures		
Amounts due to joint venture partners	**386,139**	238,668
Other related parties		
Entities with common ownership and management		
Nasser Bin Khaled Al-Thani and Sons Group and its related parties, Qatar	**49,594**	46,402
Saudi Bin Laden Group, Kingdom of Saudi Arabia	**-**	456,000
Depa Interiors LLC, Dubai, UAE	**91,160**	-
WCT Engineering Berhad, Malaysia	**-**	8,105
Others	**10,652**	8,150
Current account of a director and major shareholder of the parent company		
Mr. Riad Kamal - a Director and a shareholder	**10,703**	22,930
Current accounts of shareholders in subsidiaries	**22,906**	36,880
	185,015	578,467
	571,154	817,135

d) The nature of significant related party transactions and the amounts involved were as follows:

	2012 AED'000	*2011 AED'000*
Joint ventures		
Manpower and other charges to joint ventures	**17,332**	36,545
Other related parties		
Contract and other revenue	**1,316,829**	601,786
Subcontracting costs	**38,141**	32,163
Equipment hire	**1,355**	2,763
Purchase of property, plant and equipment	**134,233**	12,140
Rent income	**36,052**	2,055
Wages and salaries	**-**	12,168
Provision for impairment of amounts due from related parties (Note 9)	**7,377**	-
Fair Value decrease on investments held in trust by a director/shareholder	**-**	(3,895)
Sale of property, plant and equipment	**-**	23

e) The Group provided a loan of AED 1.7 million (2011: AED 1.6 million) to a minority shareholder in House of Equipment Co. LLC and AED 4.1 million (2011: AED 3.9 million) to the shareholders of Polypod Middle East LLC. Interest on the loan is charged at 6-7% per annum.

19 RELATED PARTY TRANSACTIONS (continued)

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

	2012 AED'000	*2011 AED'000*
Attendance fees to Board of Directors	**3,630**	2,000
Short term benefits	**23,465**	23,059
End of service indemnity	**716**	583
Discretionary bonus accrued	**1,126**	20,362

The remuneration of key executives and attendance fees of the Board of Directors are determined by the Board of Directors, after taking into account the recommendations of the Remuneration Committee having regard to individual performance and market trends.

g) Included in trade and other payables is an amount of AED 24.3 million (2011 restated: AED 23.1 million) representing contributions from employees and directors towards an employee benefit scheme. Assets of the scheme are included in the consolidated statement of financial position under cash and cash equivalents of AED 13.5 million (2011: AED 13.4 million) and other current assets of AED 10.8 million (2011 restated: AED 9.7 million).

20 CASH AND CASH EQUIVALENTS

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

	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Cash and bank balances	**671,700**	316,110	248,348
Short term bank deposits	**140,700**	371,947	344,397
Balance at the end of the year	**812,400**	688,057	592,745
Bank overdrafts (Note 25)	**(467,214)**	(274,029)	(357,035)
Cash and cash equivalents	**345,186**	414,028	235,710

As at 31 December 2011, cash and cash equivalents include advances which were received from customers to fund certain projects in progress.

Bank balances and cash located in:

	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Within UAE	**662,375**	410,701	479,972
Outside UAE	**150,025**	277,356	112,773
Balance at the end of the year	**812,400**	688,057	592,745

20 CASH AND CASH EQUIVALENTS (continued)

	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Bank balances and cash denominates in following currencies:			
United Arab Dirhams (AED)	**662,375**	367,845	452,908
United States Dollars (USD)	**14,017**	8,330	16,700
Kuwait Dinars (KWD)	**16,366**	36,402	-
Qatar Riyals (QAR)	**24,637**	62,573	60,768
Pakistan Rupees (PKR)	**8,527**	10,420	11,538
Saudi Riyals (SAR)	**72,791**	187,768	47,364
Other currencies	**13,687**	14,719	3,467
	812,400	688,057	592,745

21 INCOME TAX

The Group is subject to taxation on its operations except in the United Arab Emirates and Bahrain. Income in these countries is subject to tax at rates ranging between 10% and 35%.

Income tax recognised in the consolidated financial statements

	2012 AED'000	*2011 AED'000 (Restated)*
Tax expense comprises:		
Current tax expense	**2,898**	1,841
Deferred tax expense/ (income) relating to the origination and reversal of temporary differences	**(1,392)**	447
Total income tax expense	**1,506**	2,288

The total charge for the year can be reconciled to the accounting profit for entities subject to taxation as follows:

	2012 AED'000	*2011 AED'000 (Restated)*
Profit before tax	**139,733**	265,820
Income tax expense recognised in the consolidated statement of comprehensive income	**1,506**	2,288

The effective tax rate on profit for the year ended 31 December 2012 is 1.08% (2011 restated: 0.86%).

21 INCOME TAX (continued)

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

	2012 AED'000	*2011 AED'000*
Opening balance asset	**331**	331
Credited to the consolidated statement of comprehensive income	**(1,392)**	-
Closing balance (liability) / asset	**(1,061)**	331

Deferred tax assets and liabilities will be utilised within 12 months

Current tax liability

Current tax liability included in the statement of financial position	**488**	2,034

22 OTHER CURRENT ASSETS

	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Prepaid expenses	**47,213**	47,971	57,282
Due from employees	**7,502**	13,405	17,938
Other receivables	**107,158**	49,253	53,104
	161,873	110,629	128,324

23 SHARE CAPITAL

The share capital as at 31 December 2012 comprises 1,569 million (2011: 1,495 million) authorised, issued and fully paid shares of AED 1 each.

24 STATUTORY RESERVE

In accordance with United Arab Emirates Federal Companies law number 8 of 1984, as amended, and the Company's Articles of Association, the Company is required to establish a statutory reserve by appropriation of a minimum of 10% of net profit for each year until the reserve equals a minimum of 50% of the share capital, for which purposes the Group uses the net profit attributable to the equity holders of the parent. This reserve is not available for distribution except in the circumstances stipulated by the Law.

25 BANK BORROWINGS

	Current		*Non-current*	
	2012 AED'000	*2011 AED'000*	*2112 AED'000*	*2011 AED'000*
Bank overdrafts	**467,214**	274,029	-	-
Acceptances	**44,249**	57,958	-	-
Trust receipts assets	**47,943**	54,120	-	-
Term loans	**87,809**	82,201	**152,707**	55,650
Total	**647,215**	468,308	**152,707**	55,650

The term loans are repayable as follows:

	2012 AED'000	*2011 AED'000*
On demand or within one year	**87,809**	82,201
In the second year	**100,686**	40,274
In the third year to fifth year (inclusive)	**52,021**	15,376
	240,516	137,851
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(87,809)**	(82,201)
Amount due for settlement after 12 months	**152,707**	55,650

The term loans are repayable over the period of 1-5 years and carry fixed interest rates originally set at rates ranging between EIBOR + 3.00% and EIBOR + 3.50% (2011: EIBOR + 2%)

Variable interest rate loan is subject to EIBOR + 3.00% and EIBOR + 3.50% (2011: EIBOR + 2%) and was taken for the purchase of inventories and property, plant and equipment. This is secured by a charge over the Group's inventory and tangible assets.

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

- Irrevocable assignment of project proceeds to the financing banks to be confirmed by the customers.
- Irrevocable undertaking by a subsidiary to deposit the proceeds of projects financed by banks into the specific accounts maintained with the financing banks.
- In one of the subsidiaries, minimum net worth of AED 200 million and minimum net gearing of less than 1.
- Assignment of sub-contractors' performance bonds in favour of the financing banks for specific contracts.
- Corporate guarantee of the Company.

The Group has complied with all bank covenants during the year.

26 PROVISION FOR EMPLOYEES' END OF SERVICE INDEMNITY

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

The following tables summarise the components of net benefit expense recognised in the consolidated statement of comprehensive income:

	2012 AED'000	*2011 AED'000 (Restated)*
Net benefit expense		
Current service cost	**30,652**	27,680
Interest cost	**7,235**	6,589
Net expense recognised in the statement of income	**37,887**	34,269
Net actuarial losses / (gains) recognised in other comprehensive income	**16,457**	(2,649)

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

	2012 AED'000	*2011 AED'000 (Restated)*
At 1 January	**126,729**	113,867
Current service cost	**30,652**	27,680
Interest cost	**7,235**	6,589
Benefits paid during the year	**(15,565)**	(18,758)
Actuarial loss / (gain) recognised in other comprehensive income	**16,457**	(2,649)
At 31 December	**165,508**	126,729

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

	2012	*2011*
Discount rate per annum compound	**5%**	5%
Salary increase rate per annum compound		
Staff	**5%**	5%
Workers	**3.25%**	3.25%

27 RETENTIONS PAYABLE - NON-CURRENT PORTION

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

	2012 AED'000	*2011 AED'000*
Total retentions payable	**445,944**	486,251
Less: Retentions payable - current portion (Note 28)	**(307,386)**	(394,491)
Retentions payable - non-current portion at amortised cost	**138,558**	91,760

28 TRADE AND OTHER PAYABLES

	2012 AED'000	*2011 AED'000 (Restated)*	*2010 AED'000 (Restated)*
Trade payables	**607,924**	476,808	660,503
Advances received from customers for contract work	**1,072,138**	1,030,867	526,188
Advances from customers for trading	**3,842**	6,203	1,272
Amounts due to subcontractors	**650,280**	563,035	471,944
Subcontractors' retentions payable - current portion	**307,386**	394,491	351,709
Refundable deposits	**4,961**	4,299	26,834
Amounts due to customers for contract work (Note 29)	**100,633**	194,621	332,136
Subcontractor and other accruals and other payables	**1,182,468**	1,195,621	1,812,370
	3,929,632	3,865,945	4,182,956

Included in trade and other payables are amounts totalling to AED 345.2 million (2011: AED 337.2 million) that are payable to third parties in connection with the Nad Al Sheba racecourse project which is subject to a contractual dispute described in Note 30.

29 AMOUNTS DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORK

	2012 AED'000	*2011 AED'000 (Restated)*
Amounts due from customers for contract work included in trade and other receivables (Note 16)	**1,270,072**	752,103
Amounts due to customers for contract work included in trade and other payables (Note 28)	**(100,633)**	(194,621)
	1,169,439	557,482
Contract costs incurred plus recognised profit less recognised losses to date on projects in progress	**16,700,586**	16,061,090
Less: Progress billings	**(15,531,147)**	(15,503,608)
	1,169,439	557,482

30 CONTRACT DISPUTE

On 25 December 2008, Arabtec Construction LLC WCT Engineering Berhad (Dubai Branch) Joint Venture (the "Joint Venture") for the construction of the Nad Al Sheba racecourse in Dubai, in which the Group has a 50% share, received notice from the customer, Meydan LLC ("Meydan") purporting to terminate the contract on 9 January 2009 for reasons which management consider did not justify such termination. Subsequently, by way of its notice dated 10 January 2009, the Joint Venture purported to terminate the contract on 24 January 2009 on a number of grounds including failure to pay certified amounts, the Joint Venture's exclusion from the site and Meydan's wrongful calls on the Performance Security and Advance Payment Guarantee.

30 CONTRACT DISPUTE (continued)

Notice of the call of the Performance Security amounting to AED 461.3 million (Group's share: AED 230.65 million) and the Advance Payment Guarantee amounting to AED 77.3 million (Group's share: AED 38.6 million) was received by the Joint Venture on 29 December 2008. Both securities were payable on demand and, on payment by the banks concerned, management has recorded a receivable for the net amount due from Meydan, pending resolution of the dispute. The corresponding liability recorded at the 31 December 2008 year end has since been converted into a loan taken from a bank in 2009 on which Arabtec Construction LLC is paying interest, which is being expensed and will form part of the claim.

On 11 January 2009, the Joint Venture served its request for arbitration. Since then, the arbitration proceedings have commenced and the amount claimed by the Joint Venture is approximately AED 2.69 billion (Group's share: AED 1.35 billion). In June 2012, Meydan has further lodged a claim before Dubai Court contesting the validity of the arbitration tribunal and claiming a sum of AED 3.5 billion plus interest.

Management believes, based on continuing legal opinion received, that the prospects of success in the arbitration and legal case are good and that no additional provisions for the dispute are required at the end of the reporting period.

Subsequent to year-end 31 December 2012, the arbitration process was suspended in order to allow for the civil and penal cases in connection with the parties to proceed.

Subsequently also, the Board of Directors approved, based on discussions with the customer's management, without prejudice to their respective rights and obligations, to withdraw from arbitral proceedings and engage in direct amicable discussions to resolve all outstanding issues, claims and counter claims.

31 JOINT VENTURES

The Group had the following significant interests in joint ventures ("JV"):

		Share in JV
a)	Samsung/Arabtec joint venture project	40%
b)	Six Construct/Arabtec joint venture projects	50%
c)	Samsung/Six Construct/Arabtec joint venture project	30%
d)	Arabtec/MaxBogl joint venture projects	50%
e)	Arabtec/Al Mukawilon joint venture project	60%
f)	Arabtec/Aktor joint venture project	50%
g)	Arabtec/Emirates Sunland joint venture project	50%
h)	Arabtec/WCT Engineering joint venture project	50%
i)	Arabtec/Engineering Enterprises Company joint venture project	50%
j)	Arabtec/AMN Holdings joint venture project	60%
k)	Arabtec/Dubai Contracting Company joint venture project	50%
l)	Target Engineering and Construction Company LLC/Marintek Middle East and Asia FZE joint venture project	65%
m)	Arabtec Engineering Services/WCT Engineering joint venture project	50%
n)	Arabian Construction Company/Arabtec joint venture project	50%
o)	Arabtec/National Projects and Construction joint venture project	50%
p)	Arabtec/Al Saad joint venture project	66.66%
q)	Arabtec/Combined Group Contracting Company joint venture project	60%
r)	TAV/CCC/Arabtec Joint Venture	33%

31 JOINT VENTURES (continued)

The Group is entitled to a proportionate share of the joint ventures' assets and revenues and bears a proportionate share of the liabilities and expenses.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the joint ventures:

	2012 AED'000	*2011 AED'000 (Restated)*
Current assets	**1,269,004**	1,125,087
Non-current assets	**87,491**	89,990
Current liabilities	**(1,096,146)**	1,073,877
Non-current liabilities	**(215,520)**	55,099
Contingent liabilities	**1,670,508**	724,048
Revenue	**598,718**	770,721
Expenses	**(589,423)**	740,717

32 SEGMENT INFORMATION

The Group has five reportable segments:

- Building construction
- Precast and concrete production
- Drainage and electromechanical works
- Marine construction
- Equipment trading

The building construction segment primarily engages in the construction of high-rise towers, buildings and residential villas. The precast and concrete production segment produces ready mix concrete and precast mainly to serve the building construction segment. The drainage and electromechanical segment is involved in the execution of drainage, electrical and mechanical works. The marine segment is involved in marine construction. The trading segment is involved in the trading of heavy equipment and steel.

The Group also has investments in associates and available-for-sale investments. However, those are not considered by the chief decision maker as significant to the Group's operations, as they comprise less than 5% of the total assets of the Group.

The accounting policies of the operating segments are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011. The Group evaluates performance on the basis of profit or loss from operations before tax.

Inter-segment sales and transfers are accounted for as if the sales or transfers were to third parties, i.e. at current market prices.

The reportable segments described above are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired/formed as individual units, and the management at the time of the acquisition was retained.

32 SEGMENT INFORMATION (continued)

Information about reportable segment profit or loss, assets and liabilities

	Building construction AED'000	*Precast and concrete production AED'000*	*Drainage and electromechanical works AED'000*	*Marine construction AED'000*	*Equipment Trading AED'000*	*Total AED'000*
31 December 2012						
Revenues from external customers	**4,065,923**	**199,019**	**1,137,226**	**198,871**	**58,905**	**5,659,944**
Inter-segment revenues	**29,191**	**131,212**	**550,395**	**-**	**1,483**	**712,281**
Other income	**49,415**	**1,483**	**-81**	**-181**	**486**	**51,122**
Interest expense	**10,996**	**-**	**24,878**	**3,417**	**2,240**	**41,531**
Depreciation	**82,734**	**8,600**	**11,132**	**7,447**	**1,255**	**111,168**
Reportable segment profit / (loss) before tax	**203,229**	**(18,344)**	**62,472**	**11,121**	**(7,445)**	**251,033**
Income tax expense	**816**	**447**	**243**	**-**	**-**	**1,506**
Reportable segment assets	**6,985,955**	**383,458**	**1,370,822**	**177,048**	**106,367**	**9,023,650**
Expenditures for reportable segment non-current assets	**105,762**	**11,668**	**5,058**	**9,269**	**3,930**	**135,687**
Reportable segment liabilities	**5,184,014**	**244,096**	**1,084,476**	**159,960**	**62,653**	**6,735,199**

	Building construction AED'000	*Precast and concrete production AED'000*	*Drainage and electromechanical works AED'000*	*Marine construction AED'000*	*Equipment Trading AED'000*	*Total AED'000*
31 December 2011						
Revenues from external customers (restated)	3,548,506	68,815	1,040,640	215,024	50,573	4,923,558
Inter-segment revenues	72,927	73,737	380,150	-	1,518	528,332
Other income	177,159	1,694	5,291	962	2,149	187,255
Interest expense (restated)	10,524	412	16,950	2,892	3,470	34,248
Depreciation	147,584	35,848	30,045	1,429	2,983	217,889
Reportable segment profit / (loss) before tax (restated)	254,146	-40,589	115,094	13,890	-8,296	334,245
Income tax expense (restated)	2,279	-	-44	53	-	2,288
Reportable segment assets (restated)	7,155,076	362,464	1,209,700	175,596	93,362	8,996,198
Expenditures for reportable segment non- current assets	125,622	8,188	19,411	40,329	1,684	195,234
Reportable segment liabilities (restated)	4,972,543	204,309	781,435	157,502	42,302	6,158,091

32 SEGMENT INFORMATION (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities:

	2012 AED'000
Revenues	
Total revenues for reportable segments	**6,372,225**
Elimination of inter-segment revenues	**(712,281)**
Group's revenues	**5,659,944**
Profit	
Total profit for reportable segments	**251,033**
Other corporate expenses	**(61,300)**
Group's profit before income tax expense	**189,733**
Assets	
Total assets for reportable segments	**9,023,650**
Corporate assets	**1,158,929**
Elimination of inter-segment receivables	**(1,230,911)**
Group's assets	**8,951,668**
Liabilities	
Total liabilities for reportable segments	**6,735,199**
Corporate liabilities	**102,035**
Elimination of inter-segment payables	**(1,230,911)**
Group's liabilities	**5,606,323**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities:

	2011 AED'000
Revenues	
Total revenues for reportable segments	5,451,890
Elimination of inter-segment revenues	(528,332)
Group's revenues	4,923,558
Profit	
Total profit for reportable segments	334,245
Other corporate expenses	(68,425)
Group's profit before income tax expense	265,820
Assets	
Total assets for reportable segments	8,996,198
Corporate assets	470,699
Elimination of inter-segment receivables	(745,206)
Group's assets	8,721,691

32 SEGMENT INFORMATION (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued):

	2011 AED'000
Liabilities	
Total liabilities for reportable segments	6,158,091
Corporate liabilities	14,676
Elimination of inter-segment payables	(745,206)
Group's liabilities	5,427,561

Geographical information

	2012		*2011*	
	Revenues AED'000	***Non-current Assets AED'000***	*Revenues AED'000*	*Non-current assets AED'000*
GCC Countries	**5,402,243**	**2,453,473**	4,712,152	2,516,095
Pakistan	**-**	**76**	-	43
Levant	**17,245**	**2,580**	122,887	15,645
Egypt	**125,833**	**5,980**	83,889	6,837
Russia	**114,623**	**2,512**	4,630	472
	5,659,944	**2,464,621**	**4,923,558**	**2,539,092**

a) Revenues are attributed to countries on the basis of the construction projects' location.
b) Non-current assets exclude financial instruments and corporate assets.

Information about major customers
Revenues from the largest 4 customers of the building construction segment represent approximately AED 1.3 billion (31 December 2011: AED 1.2 billion) of the Group's total revenues.

33 OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2012 AED'000	*2011 AED'000*
Minimum lease payments under operating leases recognised as expense in the consolidated statement of comprehensive income for the year	**34,936**	58,116

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

	2012 AED'000	*2011 AED'000*
Within one year	**27,181**	31,018
Two to five years	**7,710**	9,125
More than five years	**11,466**	-
	46,357	40,143

Operating lease payments represents rentals payable by the Group for land, certain labour camps and rented vehicles.

34 DIVIDENDS PAID AND PROPOSED

At the Annual General Meeting held on 28 April 2012, the shareholders approved the issue of bonus shares @ 5% of share capital (1 bonus share for each 20 shares held totalling 74,750 thousand shares) (2011: issue of bonus shares @ 25% of share capital - 1 bonus share for each 4 shares held totalling 299,000 thousand shares) and the distribution of cash dividends at AED 0.05 per share totalling AED 74,750 thousand (2011: Nil).

At the Board of Directors meeting on 27 February 2013, the directors resolved to not propose a dividend for the financial year 2012 (2011: bonus share of AED 74,750 thousand and cash dividend of AED 74,750 thousand). This resolution is subject to approval at the forthcoming Annual General Meeting of the Company.

35 BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTERESTS

Acquisition in 2012

Acquisition of Powercon Switchgear Factory
In April 2012, one of the Group's subsidiaries acquired 75% of the voting shares of Powercon Switchgear Factory, an unlisted limited liability company registered in the UAE and engaged in manufacturing of and trading in switchgears. This transaction has been accounted for using the acquisition method of accounting. The carrying and fair values of the assets, liabilities and contingencies liabilities acquired on business combination (with fair values estimated by the directors of the subsidiary) and the goodwill arising thereon, are as follows:

	Provisional fair values recognised on acquisition AED'000 (Unaudited)
Assets	
Property, plant and equipment	**3**
Inventories	**1,936**
Trade and other receivables	**1,200**
Due from related parties	**4,163**
Bank and cash balances	**181**
	7,483
Liabilities	
Employees' end of service indemnity provision	**(643)**
Trade, notes and other payables	**(8,007)**
Bank borrowings	**(1,214)**
	(9,864)
Total identifiable net liabilities acquired	**(2,381)**
Less: Non-controlling interests	**595**
	1,786
Consideration transferred	**-**
Goodwill arising on acquisition	**1,786**
Movement in goodwill	
Arising on acquisition	**1,786**
Impairment at closing date	**(1,786)**
	-

35 BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

Since its acquisition, Powercon has negatively contributed to the Group results by AED 2,477 thousand. At the closing of 2012, the Group's management has fully written-off the goodwill arising on this acquisition (Note 15).

Assessment if the fair values of assets, liabilities and contingent liabilities acquired was only provisional. Assessment of fair values will be completed within twelve months from the date of acquisition.

Acquisition of additional interests in subsidiaries

Idrotec Srl

During the period, the Group acquired an additional shareholding in Idrotec from its non-controlling interests, increasing its ownership interest from 48% to 96%. A cash consideration of AED 1.9 million (Euro 400 thousand) was paid to the non-controlling interests.

Gulf Steel Industries FZC

During the period, the Group acquired the remaining shareholding of 45% in Gulf Steel Industries FZC (including its subsidiary, GSI Steel Construction Contracting LLC) from its non-controlling interests, increasing its ownership interest to 100%. A cash consideration of AED 18 million was paid to the non-controlling interests. The difference between the consideration paid and the carrying value of the interest acquired has been recognised in other reserves for AED 2,201 thousand.

Acquisition in 2011

On 19 April 2011, the Group acquired 48% of the issued share capital of Idrotec Srl for a cash consideration of AED 2.078 million (EUR 450,000). This transaction has been accounted for using the acquisition method of accounting.

The carrying and the fair values of the assets, liabilities and contingent liabilities acquired in the business combination (with fair values estimated by the directors of the Group), and the goodwill arising thereon, are as follows:

	2012 AED'000
Net assets acquired at fair value:	
Property, plant and equipment	**209**
Inventories	**1,085**
Trade and other receivables	**1,824**
Bank and cash balances	**1**
Trade and other payables	**(2,509)**
Provision for taxation	**(321)**
	289
Less: Non-controlling interests	**(58)**
	231
Consideration transferred	**2,078**
Goodwill arising on acquisition	**1,847**
Movement in goodwill	
Arising on acquisition	**1,847**
Foreign exchange differences	**(54)**
	1,793

36 COMMITMENTS AND CONTINGENCIES

	2012 AED'000	*2011 AED'000*
Commitments		
Commitments for the acquisition of property, plant and equipment	**46,357**	35,237
Contingent liabilities		
Performance and bid bonds	**2,757,068**	2,528,861
Advance payment bonds	**1,062,431**	992,288
Financial guarantees	**53,284**	58,042
Retention bonds	**454,347**	462,681
Labour guarantees	**99,911**	33,731
Letters of credit	**418,721**	123,457

Political unrest in Syria
The Group has a project in Syria that has been suspended after to the commencement of the current political events and civil unrest in this country. The Group's management has taken proactive measures by entering into negotiations with its Syrian client in order to realise its assets and ensure that any exposure on its financial statements is covered.

While it is difficult to quantify the effect of these events on the future financial statements, the significance of this impact will depend on the extent and the length until which these events and their effect will last. In the management's opinion, the events in Syria will not materially affect the Group's financial position or performance in the future.

37 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, trade and other receivables, other financial assets, other current assets and due from related parties. Financial liabilities consist of bank borrowings, trade and other payables, due to related parties and income tax payable.

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:

- Bank balances and cash, trade receivables, other financial assets, other current assets, due from related parties bank borrowings, trade and other payables, 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, 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 2012, 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.

37 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument 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.

As at 31 December, the Group held the following financial instrument measured at fair value:

At 31 December 2012	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Available-for-sale investments	**6,093**	**-**	**-**	**6,093**
	6,093	**-**	**-**	**6,093**

At 31 December 2011	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Available-for-sale investments	183,448	-	-	183,448
	183,448	-	-	183,448

38 RISK MANAGEMENT

The Group's principal financial liabilities comprise bank borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade and other receivables, other current assets and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments and investments in associates.

The Group is exposed to interest rate risk, market risk, credit risk, equity price risk and liquidity risk. The Group's Board of directors and senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

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

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

The following table demonstrates the sensitivity of the consolidated statement of comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

38 RISK MANAGEMENT (continued)

Interest rate risk (continued)
The sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the Group's profit for a year, based on the floating rate financial assets and financial liabilities held at 31 December. There is no impact on the Group's equity.

	Increase/ Decrease in basis points	*Effect on profit for the year AED'000*
2012		
AED	**±50**	**1,470**
2011		
AED	±50	2,600

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

The Group is only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management regularly and the Group maintains an provision for doubtful accounts receivable based on expected collectability of all accounts receivable.

The Group does not have any additional significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 15% of gross monetary assets at any time during the year. The concentration of credit risk is disclosed in Note 16.

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

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price 2012 %	***Effect on equity 2012 AED'000***	*Change in equity price 2011 %*	*Effect on equity 2011 AED'000*
Singapore Stock Exchange	**+10**	**432**	+10	561
Dubai Financial Market	**+10**	**177**	+10	149

38 RISK MANAGEMENT (continued)

Equity price risk (continued)
Unquoted investments in shares carried at cost where the impact of changes in prices will only be reflected when the investment is sold or deemed to be impaired and, accordingly, at that time the consolidated statement of comprehensive income will be impacted.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group limits its liquidity risk by ensuring adequate bank facilities are available and by maintaining adequate reserves, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. The Group's terms of executing contracts and sales require amounts to be paid as specified in the contracts and in case of sales within 120 days of the date of invoice. Trade payables are normally settled within 120 days of the date of purchase.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2012, based on contractual payment dates and current market interest rates.

Year ended 31 December 2012

	Less than 3 months AED'000	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*>5 years AED'000*	*Total AED'000*
Accounts payable and accruals	**447,598**	**2,300,460**	-	-	**2,748,058**
Due to related parties	**571,154**	-	-	-	**571,154**
Income tax payable	-	**488**	-	-	**488**
Retentions payable	-	-	**138,558**	-	**138,558**
Bank overdrafts, trust receipt and acceptances	**470,718**	**95,649**	-	-	**566,367**
Term loans	**37,409**	**64,595**	**157,585**	-	**259,589**
Total	**1,526,879**	**2,461,192**	**296,143**	-	**4,284,214**

Year ended 31 December 2011

	Less than 3 months AED'000	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*>5 years AED'000*	*Total AED'000*
Accounts payable and accruals	418,107	2,211,848	-	-	2,629,955
Due to related parties	817,135	-	-	-	817,135
Income tax payable	-	2,034	-	-	2,034
Retentions payable	-	-	91,760	-	91,760
Bank overdrafts, trust receipt and acceptances	276,084	4,203	-	-	280,287
Term loans	25,981	61,753	57,761	-	145,495
Total	1,537,307	2,279,838	149,521	-	3,966,666

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The analysis calculates the effect of a reasonably possible movement of foreign currencies in relation to the functional currencies of the Group's entities with all the other variables held constant, on the consolidated statement of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

38 RISK MANAGEMENT (continued)

Currency risk

		2012 AED'000	*2011 AED'000*
Euro	±10%	**274**	348
UK Pounds Sterling	±10%	**-**	20
Pakistani Rupee	±10%	**1,888**	715
Jordanian Dinar	±10%	**-**	458
Syrian Pound	±10%	**70**	1,635
Russian Roubles	±10%	**624**	3,786

Balances in US Dollar are not considered to represent significant risk as the UAE Dirham is pegged to the US Dollar.

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio 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. To maintain or adjust the capital structure, the Group may adjust the dividend payment or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2012. Capital comprises share capital, retained earnings and non-controlling interests, and is measured at AED 3,345,345 thousand as at 31 December 2012 (2011: AED 3,294,130 thousand).

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION

The Group has restated its consolidated financial statements as previously reported for the years ended 31 December 2011 and 31 December 2010 in order to adjust for prior period errors. These prior period errors, as explained below, represent omissions from, and misstatements in, the Group's consolidated financial statements arising from a failure to use reliable information that:

- was available when the consolidated financial statements for the years ended 31 December 2011 and 2010 were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those consolidated financial statements.

The correction of errors consists of correcting the recognition, measurement and disclosure of amounts in the consolidated financial statements for the years ended 31 December 2011 and 2010 as if the prior period errors had never occurred. The reconciliation of the amounts restated in the consolidated statement of financial position at 31 December 2011 and 2010 and in the consolidated statement of comprehensive income for the year ended 31 December 2011 is as following:

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (continued)

a) Reconciliation of restated and previously reported amounts in the consolidated statement of financial position as at 31 December 2010:

	As previously reported AED '000	*Adjustment 1* AED '000	*Adjustment 2* AED '000	*Adjustment 3* AED '000	*Adjustment 4* AED '000	*Adjustment 5* AED '000	*Adjustment 6* AED '000	*Balance as restated* AED '000
Non- current assets								
Property, plant and equipment	1,272,230	-	203	-	-	-	-	1,272,433
Current assets								
Trade and other receivables	4,171,772	-	30,088	-	-	-		4,201,860
Other current assets	154,294	-	175	-	(27,925)	1,780	-	128,324
Cash and cash equivalents	588,130	-	4,615	-	-	-	-	592,745
	4,914,196	-	34,878	-	(27,925)	1,780	-	4,922,929
Total adjusted assets	6,186,426	-	35,081	-	(27,925)	1,780	-	6,195,362
Non-current liabilities								
Provision for employees' end of service indemnity	128,286	-	-	(14,418)	-	-	-	113,868
Current liabilities								
Trade and other payables	4,155,334	-	25,842	-	-	1,780	-	4,182,956
Income tax payable	5,194	-	372	-	-	-	-	5,566
	4,160,528	-	26,214	-	-	1,780	-	4,188,522
Total adjusted liabilities	4,288,814	-	26,214	(14,418)	-	1,780	-	4,302,390
Equity								
Fair value adjustment reserve	(7,494)	7,563	-	-	-	-	-	69
Retained earnings at 31 December 2010	1,241,549	(6,502)	-	12,767	(27,925)	-	(4,025)	1,215,864
Total adjusted equity attributable To equity holders of the Parent	1,234,055	1,061	-	12,767	(27,925)	-	(4,025)	1,215,933
Equity attributable to equity holders of the Parent	2,697,874	1,061	-	12,767	(27,925)	-	(4,025)	2,679,752
Non-controlling interests	404,444	(1,061)	8,867	1,651	-	-	4,025	417,926
Total adjusted equity	3,102,318	-	8,867	14,418	(27,925)	-	-	3,097,678

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (continued)

b) Reconciliation of restated and previously reported amounts in the consolidated statement of financial position as at 31 December 2011:

	As previously reported AED '000	*Adjustment 1* AED '000	*Adjustment 2* AED '000	*Adjustment 3* AED '000	*Adjustment 4* AED '000	*Adjustment 5* AED '000	*Adjustment 6* AED '000	*Adjustment 7* AED '000	*Adjustment 8* AED '000	*Balance as restated* AED '000
Non- current assets										
Property, plant and equipment	1,180,895	-	17	-	-	-	-	-	-	1,180,912
Current assets										
Trade and other receivables	3,907,107	-	28,866	-	-	-	-	(79,910)	-	3,856,063
Other current assets	138,114	-	173	-	(29,566)	1,908	-	-	-	110,629
Cash and cash equivalents	683,889	-	4,168	-	-	-	-	-	-	688,057
	4,729,110	-	33,207	-	(29,566)	1,908	-	(79,910)	-	4,654,749
Total adjusted assets	5,910,005	-	33,224	-	(29,566)	1,908	-	(79,910)	-	5,835,661
Non-current liabilities										
Provision for employees' end of service indemnity	157,810	-	-	(31,081)	-	-	-	-	-	126,729
Current liabilities										
Trade and other payables	3,831,639	-	24,634	3,924	-	1,908	-	-	3,840	3,865,945
Due to related parties	821,371	-	-	-	(5,397)	-	-	-	1,161	817,135
Income tax payable	1,585	-	335	-	-	-	-	-	114	2,034
	4,654,595	-	24,969	3,924	(5,397)	1,908	-	-	5,115	4,685,114
Total adjusted liabilities	4,812,405	-	24,969	(27,157)	(5,397)	1,908	-	-	5,115	4,817,240
Equity										
Fair value adjustment reserve	(12,549)	12,565	-	-	-	-	-	-	-	16
Retained earnings at 31 December 2011	1,177,035	(10,932)	-	23,386	(24,169)	-	(11,205)	(43,951)	(3,092)	1,107,072
Total adjusted equity attributable To equity holders of the Parent	1,164,486	1,633	-	23,386	(24,169)	-	(11,205)	(43,951)	(3,092)	1,107,088
Equity attributable to equity holders of the Parent	2,953,095	1,633	-	23,386	(24,169)	-	(11,205)	(43,951)	(3,092)	2,895,697
Non-controlling interests	414,818	(1,633)	8,255	3,771	-	-	11,205	(35,959)	(2,024)	398,433
Total adjusted equity	3,367,913	-	8,255	27,157	(24,169)	-	-	(79,910)	(5,116)	3,294,130

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (CONTINUED)

c) Reconciliation of restated and previously reported amounts in the consolidated statement of comprehensive income for year ended 31 December 2011:

	As previously reported AED '000	*Adjustment 1 AED '000*	*Adjustment 2 AED '000*	*Adjustment 3 AED '000*	*Adjustment 4 AED '000*	*Adjustment 7 AED '000*	*Adjustment 8 AED '000*	*Adjustments 10 AED '000*	*Balance as restated AED '000*
Income statement:									
Revenues	5,003,468	-	-	-	-	(79,910)	-	-	4,923,558
Direct costs	(4,374,156)	-	-	-	-	-	(1,161)	-	(4,375,317)
Gross profit	629,312	-	-	-	-	(79,910)	(1,161)		548,241
Other operating income	36,545	-	-	-	-	-	-	-	36,545
General and administrative expenses	(347,586)	-	(612)	16,679	(1,641)	-	(3,840)	(109,240)	(446,240)
Other income	33067	-	-	-	-	-	-	109,240	142,307
Gain on derecognition of financial statement	19,707	-	-	-	-	-	-	-	19,707
Interest income expense on non-current receivables and payables	(11,518)	-	-	-	-	-	-	-	(11,518)
Investment income	16,028	(5,002)	-	-	-	-	-	-	11,026
Finance costs	(33,055)	-	-	(6,589)	5,396	-	-	-	(34,248)
Profit before tax	342,500	(5,002)	(612)	10,090	3,755	(79,910)	(5,001)	-	265,820
Income tax expense	(2,174)	-	-	-	-	-	(114)	-	(2,288)
Profit for the year	340,326	(5,002)	(612)	10,090	3,755	(79,910)	(5,115)	-	263,532
Attributable to:									
Equity holders of the parent	260,540	(4,430)	-	8,273	3,755	(43,951)	(3,092)	-	221,095
Non-controlling interests	79,786	(572)	(612)	1,817	-	(35,959)	(2,023)	-	42,437
	340,326	(5,002)	(612)	10,090	3,755	(79,910)	(5,115)	-	263,532
Other comprehensive loss:									
Actuarial gains and losses	-	-	-	2,649	-	-	-	-	2,649
Net unrealised loss on revaluation of available-for-sale investments	(5,055)	5,002	-	-	-	-	-	-	(53)
Total comprehensive income for the year	335,271	-	(612)	12,739	3,755	(79,910)	(5,115)	-	266,128
Total comprehensive income attributable to:									
Equity holders of the parent	255,485	-	-	10,619	3,755	(43,951)	(2,813)	-	223,095
Non-controlling interests	79,786	-	(612)	2,120	-	(35,959)	(2,302)	-	43,033
	335,271	-	(612)	12,739	3,755	(79,910)	(5,115)	-	266,128

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (continued)

The adjustments to prior period errors are as following:

1) Adjustment no 1: Record an impairment provision on available-for-sale investments

The Group did not record impairment on one of its available-for-sale investments as of 31 December 2011 and 2010 despite the availability of evidence of significant and prolonged decline in fair value at the closing dates. In accordance with IFRSs and the Group's accounting policies, a significant or prolonged decline in the fair value of an available-for-sale investment below its cost is considered as an objective evidence of impairment and, hence, any loss previously reported through other comprehensive income in the fair value change reserve shall be included in the consolidated statement of income.

To correct this error:

- fair value adjustment reserve as of 31 December 2011 was reduced by AED 12,565 thousand and as of 31 December 2010 by AED 7,563 thousand,
- investment income and net profit for the year ended 31 December 2011 were decreased by AED 5,002 thousand each. In this regard, retained earnings attributable to the Parent and non-controlling interests as of 31 December 2011 were reduced by AED 4,430 thousand and AED 572 thousand, respectively, and
- investment income and net profit prior to 31 December 2011 were decreased by AED 7,563 thousand each. In this regard, retained earnings attributable to the Parent and non-controlling interests as of 31 December 2010 (and consequently 31 December 2011) were reduced by AED 6,502 thousand and AED 1,061 thousand, respectively.

2) Adjustment no 2: Consolidation of Arabtec Pakistan (Pvt) Limited

In previous years, the Group consolidated Arabtec Pakistan (Pvt) Limited on a proportionate basis assuming joint control. Being a subsidiary fully controlled by the Group since its inception, the Group should have fully consolidated its investment and recognised non-controlling interests accordingly. This adjustment had no impact on the equity or profits attributable to the equity holders of the Parent but resulted in adjustments to the consolidated statement of financial position and the consolidated statement of comprehensive income as following:

- as of 31 December 2011, total assets and total liabilities were increased, respectively, by AED 33,224 thousand (2010: AED 35,081 thousand) and AED 24,969 thousand (2010: AED 26,214 thousand) as detailed in the reconciliation statements 39 a) and 39 b),
- Net profit for the year and the share of profit attributable to non-controlling interests of the year ended 31 December 2011 were decreased by AED 612 thousand, and
- Non-controlling interests was increased by AED 8,255 thousand (2010: AED 8,867 thousand).

3) Adjustment no 3: Valuation of the employees' end of service indemnity liability in accordance with IAS 19

In previous years, the Group did not assess its provision for employees' end of service indemnity in accordance with IAS 19 "Employee Benefits". The adjustments represent the differences between the liabilities and services costs previously reported and the actuarial valuation of the employees' benefit liabilities, their service costs, service interest costs and actuarial gains and losses. The impact of correcting this error on the consolidated statement of financial position and the consolidated statement of comprehensive income for the year ended 31 December 2011 is as following:

- Provision for employees' end of service indemnity was decreased by AED 27,157 thousand (2010: AED 14,418 thousand),
- Retained earnings and non-controlling interests were increased, respectively, by AED 23,386 thousand (2010: AED 12,767 thousand) and AED 3,771 thousand (2010: AED 1,651 thousand), and
- Profit of the year ended 31 December 2011 and other comprehensive income were increased, respectively, by AED 10,090 thousand and AED 2,649 thousand. These amounts were attributed to the equity holders of the Parent and non-controlling interests in the proportions shown in the reconciliation statements 39 a) and 39 b).

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (continued)

4) Adjustment no 4: Capitalisation of amounts incurred on Meydan arbitration and receivables

As explained in Note 30, the Group judged that the recoverability of the contract receivables and securities called by Meydan is certain. Any expenses or interest incurred connection with the case are included in the statement of claims submitted by the Group for arbitration but, in accordance with IFRS and the Group's accounting policies, cannot be capitalised or recorded as a receivables until the final arbitration award is granted.

However, in previous years, the Group capitalised legal expenses, interests and other costs incurred after the termination of the contract and have included these amounts under receivables. In addition, the Group accrued for interests charged to its joint venture which were not in line with its contractual agreement.

These errors were adjusted as following:

- Other current assets, due to related parties and total equity were decreased, by AED 29,566 thousand (2010 AED: 27,925 thousand), AED 5,397 thousand (2010: nil) and AED 24,169 thousand (2010: AED 27,925 thousand), and
- Finance costs were decreased and general and administrative expenses were increased, by AED 5,396 thousand and AED 1,641 thousand respectively. The profit of the year ended 31 December 2011 was, accordingly, increased by AED 3,755 thousand.

5) Adjustment no 5: Shares not included in the employee welfare fund

As shown in Note 19f, the Group maintains assets and liabilities relating to an employees' welfare fund that is managed for the benefit of employees. As of 31 December 2011 and 2010, the Group had omitted to include quoted shares which were attributable to this fund. The impact of this error is that other assets and other liabilities as of 31 December 2011 were understated by AED 1,908 thousand (2010: AED 1,780 thousand).

6) Adjustment no 6: Correction of prior years non-controlling interests

The Group has omitted to allocate the share of non-controlling interest in the net assets of some of its subsidiaries in 2011 and 2010. The impact of this error is that non-controlling interests and retained earnings attributing to the equity holders of the Parent were understated and overstated, respectively, by AED 11,205 thousand (2010: AED 4,025 thousand).

7) Adjustment no 7: Calculation of contract percentage of completion

One of the Group's subsidiaries had made errors in the calculation of the percentage of completion of some of its contracts. These errors include: the inclusion of general and administrative expenses, which are not directly attributable to specific projects, in the cost incurred and the cost to complete; and omission to consider events and circumstances existing at the closing of 2011 that had significantly changed the percentage of completion. These resulted in the overstatement of the percentage of completion on these contracts for 2011.

The impact of correcting these errors as of 31 December 2011 is as following:

- Revenues and profit of the year were reduced by AED 79,910 thousand, and work in progress as at year-end was reduced by the same amount, and
- Retained earnings and non-controlling interests as at year-end were reduced by AED 43,951 thousand and AED 35,959 thousand, respectively.

8) Adjustment no 8: Other prior years errors

Other prior years errors represent costs and expenses incurred in 2011 by one of the Group's subsidiaries, but not recorded in prior year's consolidated statement of income. To adjust these omissions, the Group restated its previously reported consolidated financial statements for the year ended 31 December 2011 by decreasing the net profit and total equity by AED 5,115 thousand and increasing the liabilities by the same amount.

39 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE INFORMATION (continued)

9) Adjustment no 9: Tainting and reclassification of held to maturity investments

At 31 December 2011, the Group had held to maturity investment amounting to AED 175 million (2010: AED nil) represents *Anka'a Sukuk Bonds issued by Anka'a Sukuk Limited (Nakheel PJSC).* As stated in note 10 of its consolidated financial statement for the year ended 31 December 2011, management's intention was to redeem such investments upon maturity, which is 31 August 2015. However, before the end of 2011, one of the Group's subsidiaries utilised a more than an insignificant portion of these investments to settle some of its liabilities and pay dividends. This is a "tainting" event under IAS 39 "Financial Instruments: recognition and measurement" as a result of which and the Group is not allowed to classify financial assets as held to maturity for a period of two years.

10) Adjustment no 10: Reclassification of write-back of provision for doubtful debt

Write-back of provision for doubtful debt of AED 109,240 thousand has been wrongly classified as a deduction in general and administrative expenses for the year ended 31 December 2011. This amount is now shown in other income.

11) Reclassification of certain assets and liabilities carried at amortised cost

Included in the previously reported financial statements for the year ended 31 December 2011 were non-current trade receivables, non-current retentions receivable, non-current retentions payable, fixed deposits under lien and margin deposits that were classified as at fair value. Although the fair values of such financial assets and liabilities were deemed by management to approximate their amortised cost, such assets and liabilities were accounted for at amortised cost due to the lack of fair valuations. Accordingly, those assets and liabilities have been reclassified as at amortised cost with no impact on the previously reported carrying values, profit for the year or equity.

12) Cash and cash equivalents

Bank overdrafts, which are repayable on demand and form part of the Group's cash management, were not considered in cash and cash equivalents in the consolidated financial statements - consolidated statement of cash flows for the year ended 31 December 2011. Such an error has been corrected in the comparative amounts in the current year's consolidated statement of cash flows by decreasing cash and cash equivalents as of 1 January and 31 December 2011 by AED 357,035 thousand and AED 274,029 thousand, respectively. Proceeds/repayments of borrowings and cash flows used in financing activities have also changed by the relevant movements during the year.