

Drake and Scull International PJSC

**Directors' report and consolidated financial statements
for the year ended 31 December 2012**

Drake and Scull International PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2012

	Pages
Directors' report	1
Independent auditor's report	2 - 4
Consolidated balance sheet	5
Consolidated income statement	6
Consolidated statement of comprehensive income	7
Consolidated statement of changes in equity	8 - 9
Consolidated statement of cash flows	10 - 11
Notes to the consolidated financial statements	12 – 58

Directors Report

Dear Shareholders,

The Board of Directors of Drake & Scull International PJSC ("DSI") or (the "Company") and its Subsidiaries (the "Group") has the pleasure in presenting their consolidated financial statements for the year ended 31 December 2012.

Principal activities

During the year ended 31 December 2012 DSI was preliminary engaged in engineering, integrated design and construction disciplines of Mechanical, Electrical and Plumbing (MEP), Civil Contracting, Water and Power Infrastructure, Oil and Gas Infrastructure.

Financial Results

For the year ended 31 December 2012, DSI earned revenues amounting to AED 3,321 million and the profit for the year amounted to AED 115 million. The Earnings per share was AED 0.04 for the year.

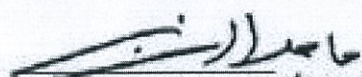
We continue to deliver good financial results and a healthy statement of financial position. We are satisfied with our strong earnings performance for the full year across our operating segments and look forward to continued improvements in our key markets in 2013. Our commitment to growth and returns continues to improve value for our shareholders as we have successfully managed in 2012 to add to our service portfolio Rail and Oil & Gas and to expand our operations reach into Iraq, Algeria and India while maintaining profitability.

DSI has been consistently achieving positive results and we have continued this trend 2012. DSI has a strong project portfolio and managed to achieve a substantial increase in its Order backlog across the region. DSI has announced total project awards of AED 5.4 billion in 2012 in comparison to AED 4.4 billion awarded in 2011. The total Order backlog reached a record high of AED 9.1 billion representing a year on year increase of 30 %, giving us substantial leverage to support the Company's development and expansion plan for 2013.

DSI has successfully met number of the targets and aims that were set before the start of the financial year mainly through expanding the business streamlines and services and increasing the company's geographical reach. With a successful year behind us, DSI has a positive outlook for 2013 as well.

Auditors

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



On behalf of board of directors

30 March 2013

P O Box 65794

Dubai, United Arab Emirates



Independent auditor's report to the shareholders of Drake and Scull International PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Drake and Scull International PJSC ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated balance sheet as of 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 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.

Auditor's 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 consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Independent auditor's report to the shareholders of Drake and Scull International PJSC (continued)

Opinion

In our opinion, the accompanying 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 cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 8 to these consolidated financial statements, which describes the uncertainty related to the outcome of the arbitrations with certain customers. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

Further in respect of the Company, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that:

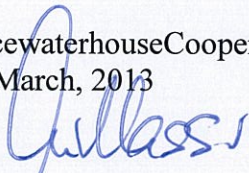
- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Company;
- (iii) the Company has maintained proper books of account and has carried out physical verification of inventories in accordance with properly established procedures;

**Independent auditor's report to the shareholders of
Drake and Scull International PJSC (continued)**

Report on other legal and regulatory requirements (continued)

- (iv) the financial information included in the Directors' report is consistent with the books of account of the Company; and
- (v) nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as of 31 December 2012.

PricewaterhouseCoopers
30 March, 2013



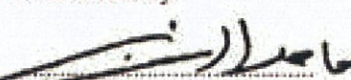
Amin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

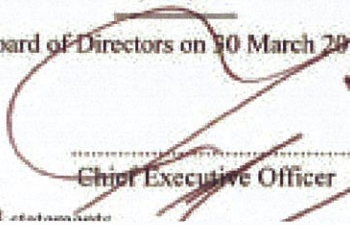
Drake and Scull International PJSC

Consolidated balance sheet

		As at 31 December	
	Note	2012 AED'000	2011 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	504,200	423,412
Intangible assets	7	1,136,219	1,173,969
Deferred income tax assets	9	17,630	12,374
Available-for-sale financial assets	11	2,384	24,707
Held-to-maturity investments	10	-	27,978
Trade and other receivables	8	174,415	332,674
		<u>1,834,848</u>	<u>1,995,114</u>
Current assets			
Inventories	15	26,510	26,163
Development properties	14	64,830	50,932
Trade and other receivables	8	3,741,861	2,901,110
Due from related parties	23	25,990	25,466
Held-to-maturity investments	10	-	211,221
Financial assets at fair value through profit or loss	12	4,821	5,189
Cash and bank balances	16	730,700	525,487
		<u>4,594,712</u>	<u>3,745,568</u>
Total assets		<u>6,429,560</u>	<u>5,740,682</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent			
Share capital	17	2,285,047	2,177,778
Treasury shares	17	(28,622)	(28,622)
Statutory reserve	18	79,219	73,753
Other reserve	19	24,543	24,543
Retained earnings		363,835	446,639
Foreign currency translation reserve		(8,346)	(8,778)
		<u>2,715,676</u>	<u>2,685,313</u>
Non-controlling interests		53,106	32,244
Total equity		<u>2,768,782</u>	<u>2,717,557</u>
LIABILITIES			
Non-current liabilities			
Bank borrowings	20	119,384	106,398
Deferred income tax liabilities	9	8,835	3,842
Employees' end of service benefits	22	84,669	65,108
Derivative financial instruments	13	21,659	-
Other payables		-	1,329
		<u>234,547</u>	<u>176,677</u>
Current liabilities			
Trade and other payables	21	2,205,158	2,080,884
Bank borrowings	20	1,209,374	722,470
Due to related parties	23	11,699	43,094
		<u>3,426,231</u>	<u>2,846,448</u>
Total liabilities		<u>3,660,778</u>	<u>3,023,125</u>
Total equity and liabilities		<u>6,429,560</u>	<u>5,740,682</u>

The consolidated financial statements were approved for issue by the Board of Directors on 30 March 2013 and signed on its behalf by:


Chairman


Chief Executive Officer

The notes on pages 13 to 49 are an integral part of these consolidated financial statements.

(5)

Drake and Scull International PJSC

Consolidated income statement

	Note	Year ended 31 December	
		2012 AED'000	2011 AED'000
Contract revenue	5	3,321,268	3,109,618
Contract costs	26	(2,938,354)	(2,680,906)
Gross profit		382,914	428,712
Other income	25	12,123	18,494
General and administrative expenses	28	(265,293)	(246,501)
Other (losses)/gains	29	(11,977)	(1,486)
Operating profit		117,767	199,219
Finance income	24	33,687	44,335
Finance costs	24	(17,078)	(24,067)
Finance income – net	24	16,609	20,268
Profit for the year before tax		134,376	219,487
Income tax expense	30	(19,333)	(11,189)
Profit for the year		115,043	208,298
Attributable to:			
Owners of the Parent		94,293	193,164
Non-controlling interests		20,750	15,134
		115,043	208,298
Earnings per share			
- Basic and diluted (AED)	33	0.042	0.090

Drake and Scull International PJSC

Consolidated statement of comprehensive income

	<u>Year ended 31 December</u>	
	2012	2011
	AED'000	AED'000
Profit for the year	115,043	208,298
Other comprehensive income/(loss):		
Foreign currency translation	432	(335)
Other comprehensive income/(loss) for the year	432	(335)
Total comprehensive income for the year	115,475	207,963
Attributable to:		
Owners of the Parent	94,725	192,829
Non-controlling interests	20,750	15,134
	115,475	207,963

Drake and Scull International PJSC

Consolidated statement of changes in equity

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2011	2,177,778	(28,622)	49,116	-	279,838	(8,443)	2,469,667	72,097	2,541,764
Profit for the year	-	-	-	-	193,164	-	193,164	15,134	208,298
Other comprehensive loss	-	-	-	-	-	(335)	(335)	-	(335)
Total comprehensive income for the year	-	-	-	-	193,164	(335)	192,829	15,134	207,963
Dividend	-	-	-	-	-	-	-	(8,568)	(8,568)
Non-controlling interest arising on business combinations	-	-	-	-	-	-	-	1,988	1,988
Non-controlling interests contribution to subsidiary's capital	-	-	-	-	-	-	-	672	672
Non-controlling interest acquired in a subsidiary	-	-	-	24,543	-	-	24,543	(51,405)	(26,862)
Interest in subsidiary transferred to non-controlling interest	-	-	-	-	-	-	-	600	600
Transfer from retained earnings to statutory reserve	-	-	24,637	-	(26,363)	-	(1,726)	1,726	-
Balance at 31 December 2011	2,177,778	(28,622)	73,753	24,543	446,639	(8,778)	2,685,313	32,244	2,717,557

The notes on pages 12 to 58 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of changes in equity (continued)

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2012	2,177,778	(28,622)	73,753	24,543	446,639	(8,778)	2,685,313	32,244	2,717,557
Profit for the year	-	-	-	-	94,293	-	94,293	20,750	115,043
Other comprehensive income for the year	-	-	-	-	-	432	432	-	432
Total comprehensive income for the year	-	-	-	-	94,293	432	94,725	20,750	115,475
Dividends (Note 34)	-	-	-	-	(171,631)	-	(171,631)	-	(171,631)
Bonus shares issued to shareholders (Note 34)	107,269	-	-	-	-	-	107,269	-	107,269
Non-controlling interests contribution to subsidiary's capital	-	-	-	-	-	-	-	112	112
Transfer from retained earnings to statutory reserve	-	-	5,466	-	(5,466)	-	-	-	-
Balance at 31 December 2012	2,285,047	(28,622)	79,219	24,543	363,835	(8,346)	2,715,676	53,106	2,768,782

Drake and Scull International PJSC

Consolidated statement of cash flows

		Year ended 31 December	
	Note	2012 AED'000	2011 AED'000
Operating activities			
Profit for the year before tax		134,376	219,487
Adjustments for:			
Depreciation	6	42,567	35,182
Amortisation of intangible assets	7	37,750	37,750
Provision for employees' end of service benefits	22	29,537	26,212
Management fee expense	28	14,800	14,800
Gain on sale of available-for-sale financial assets	29	(8,815)	-
Gain on sale of held-to-maturity investments	29	(4,450)	-
Fair value loss on financial assets at fair value through profit or loss	29	-	1,486
Impairment loss on available-for-sale financial assets	29	3,583	-
Fair value loss on interest rate swaps	29	21,174	-
Fair value loss on equity warrants	29	485	-
Finance income	24	(33,687)	(44,335)
Finance costs	24	17,078	24,067
Gain on disposal of property, plant and equipment	25	(1,218)	(4,314)
Provision for impairment on trade receivables and retentions - net	28	12,081	19,997
Operating cash flows before payment of employees' end of service benefits, income tax and changes in working capital		265,261	331,818
Employees' end of service benefits paid	22	(14,171)	(18,445)
Income tax paid		(19,596)	(10,948)
Changes in working capital (excluding the effects of business combinations):			
Inventories		(347)	(1,274)
Development properties		(13,898)	(5,617)
Trade and other receivables before provisions and excluding interest receivable and loans and advances		(741,122)	(802,384)
Due from related parties		(524)	3,630
Trade and other payables excluding income tax, interest and group management fee payable		107,741	528,708
Due to related parties		(31,395)	(146,614)
Net cash used in operating activities		(448,051)	(121,126)
Investing activities			
Purchase of property, plant and equipment	6	(124,683)	(134,607)
Proceeds from disposal of property, plant and equipment		2,938	10,271
Net proceeds from disposal of investments	10,11	271,572	144,141
Loans and advances	8	51,346	28,275
Interest received		33,045	42,653
Net cash outflow on business combination		-	(44,032)
Non-controlling interests acquired in a subsidiary		-	(21,380)
Net cash provided by investing activities		234,218	25,321

The notes on pages 12 to 58 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of cash flows (continued)

	Note	<u>Year ended 31 December</u>	
		2012 AED'000	2011 AED'000
Financing activities			
Term deposits under lien	16	219,745	208,777
Dividends paid		(64,361)	(8,568)
Net proceeds from trust receipts and other borrowings excluding effects of business combinations		336,279	80,464
Proceeds from term loans		604,817	371,463
Payment of term loans		(462,633)	(352,806)
Non-controlling interest's contribution to subsidiary's capital		112	672
Interest paid		(16,674)	(23,698)
Net cash provided by financing activities		617,285	276,304
Net increase in cash and cash equivalents		403,452	180,499
Net foreign currency translation difference		79	2,751
Restricted cash		(444,867)	-
Cash and cash equivalents, beginning of the year		223,370	40,120
Cash and cash equivalents, end of the year	16	182,034	223,370

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012

1 General information

Drake and Scull International PJSC (“the Company” or “the Parent Company”) was incorporated on 16 November 2008 and was registered on 21 January 2009 as a Public Joint Stock Company in accordance with the UAE Federal Law No. 8 of 1984, (as amended). The Company is listed on Dubai Financial Market.

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

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

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

<i>Major Subsidiaries</i>	<i>Principal activities</i>	<i>Shareholding %</i>		<i>Country of incorporation</i>
		<i>2012</i>	<i>2011</i>	
Drake & Scull International LLC (Abu Dhabi)	Contracting work relating to the construction industry	100	100	UAE
Gulf Technical Construction Company LLC	Mechanical, electrical and civil construction work	100	80	UAE
Drake & Scull Water and Power LLC	Developing waste water, water and sludge treatment plants	100	100	UAE
Drake & Scull International for Electrical Contracting WLL	Electrical contracting and repairing work relating to the construction industry	75	75	Kuwait
Drake & Scull International (Qatar) WLL	Contracting work relating to the construction industry	100	100	Qatar
Passavant Engineering Limited	Holding company	100	100	British Virgin Island
Passavant Roediger GmbH and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International (Thailand) Limited	Contracting work relating to the construction industry	100	100	Thailand
Drake & Scull International WLL	Contracting work relating to the construction industry	65	65	Saudi Arabia
International Center for Contracting Co. Ltd	Contracting work relating to the construction industry	100	100	Saudi Arabia
Drake & Scull Construction Company LLC	Contracting work relating to the construction industry	94	94	Saudi Arabia
Drake & Scull International for Contracting SAE	Contracting work relating to the construction industry	100	100	Egypt
Drake & Scull Water & Energy India Private Limited	Developing waste water, water and sludge treatment plants	100	-	India
Drake & Scull International LLC (Oman)	Contracting work relating to the construction industry	51	51	Oman

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

1 General information (continued)

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

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

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

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

2 Summary of significant accounting policies

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

2.1.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.2 Changes in accounting policy and disclosures

(a) *Amended standards adopted by the Group*

- IFRS 7, Financial instruments: Disclosures (amendment) effective on or after 1 July 2011, the amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures; and

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.1.2 Changes in accounting policies and disclosures (continued)

(b) *New standards, amendments and interpretation issued but not effective for the financial year beginning 1 January 2012 and not early adopted by the Group*

- IAS 1 (amendment), 'Financial statement presentation', (effective for periods beginning on or after 1 July 2012);
- IAS 19 (amendment), 'Employee benefits', (effective from 1 January 2013);
- IAS 27 (amendment), 'Separate financial statements', (effective from 1 January 2013);
- IAS 28 (amendment), 'Associates and joint ventures', (effective from 1 January 2013);
- IAS 32 (amendment), 'Financial instruments: Presentation', (effective from 1 January 2014);
- IFRS 7, 'Financial instruments: Disclosures' (amendment), (effective from 1 January 2013);
- IFRS 9, 'Financial instruments', (effective from 1 January 2015);
- IFRS 10, 'Consolidated Financial Statements', (effective from 1 January 2013);
- IFRS 11, 'Joint Arrangements', (effective from 1 January 2013);
- IFRS 12, 'Disclosure of Interests in Other Entities', (effective from 1 January 2013);
- IFRS 13, 'Fair Value Measurement', (effective from 1 January 2013); and

Under the new standard IFRS 11, 'Joint Arrangements', proportionate consolidation of joint ventures is no longer allowed. This might impact the presentation of the consolidated balance of the Group, given that the joint-ventures are currently being consolidated on a proportional line by line basis (Note 33).

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

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries* (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed or adjustments have been made to the financial statements of subsidiaries, where necessary, to ensure consistency with the policies adopted by the Group.

(b) *Joint ventures*

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase or sale of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating decision-maker. The Chief Operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management that makes strategic decisions. The Chief Operating decision-maker of the Group is the "Executive Management".

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group entities

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(c) Group entities (continued)

- (iii) all resulting exchange differences are recognised in other comprehensive income.

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

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

Type of assets	Years
Buildings	5 to 10 years
Plant and machinery	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Motor vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to property, plant and equipment or Intangible assets and depreciated or amortised in accordance with Group policies.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within in the consolidated income statement.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Specific borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.6 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Parent Company's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

(b) *Trade names*

Trade names are shown at historical cost. Trade names acquired in a business combination are recognised at fair value at the acquisition date. Trade names have infinite lives and are not amortised due to the minimal cost of renewal.

(c) *Customer relationships*

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(d) Orders backlog

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.1 Classification (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'due from related parties', and 'cash and cash equivalents' in the balance sheet.

(c) Available-for-sale financial assets

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

(d) Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets. The Group assesses at each balance sheet date where there is objective evidence that a financial asset or Group of financial assets is impaired.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'Finance costs' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.2 Recognition and measurement (continued)

Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sales investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. Upon impairment any loss, or derecognition any gain or loss, previously reported as “cumulative changes in fair value” within equity is included in the consolidated income statement for the period.

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

2.9 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

(a) *Assets carried at amortised cost* (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability (cash flow hedge).

The Group does not document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group does not also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Accordingly, the derivative is not designated as a hedging instrument

The fair values of various derivative instruments used for are disclosed in note 13. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the host contract is more than 12 months, and as current asset or liability when the remaining maturity of the host contract is less than 12 months.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.10 Derivative financial instruments and hedging activities (continued)

The gain or loss relating to the change in fair value is recognised immediately in the consolidated income statement within “Other (losses)/gains”.

2.11 Development properties

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

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade receivables

Trade receivables are amounts due from customers for billing in the ordinary course of business for construction contracts. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within “General and administrative expenses”. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. Increases in provisions due to the passage of time are recognised as interest expense. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.18 Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.18 Bank borrowings (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.19 Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.20 Employee benefits

A provision is made for the estimated liability for employees' entitlements to annual leave and related benefits as a result of services rendered by the employees up to the balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the Labour Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date. The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.

Actuarial gains and losses arising from changes in assumptions are charged or credited in the consolidated income statement in the period in which they arise.

2.21 Contract revenue

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

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

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

Losses on contracts are assessed on an individual contract basis and provision is made for the full amount of the anticipated losses, including any losses relating to future work on a contract, in the period in which the loss is first foreseen.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against progress billings at the year end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown under trade and other receivables as amounts due from customers on contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown under trade and other payables as amounts due to customers on contracts.

In determining contract costs incurred up to the year end, any amounts incurred including advances paid to suppliers and advance billings received from subcontractors relating to future activity on a contract are excluded and are presented as amounts due from customers on contracts.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Summary of significant accounting policies (continued)

2.22 Interest income

Interest income is recognised in the consolidated income statement on a time proportion basis using the effective interest method.

2.23 Dividend income

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

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. These risks are evaluated by management on an ongoing basis to assess and manage critical exposure. The Group's liquidity and market risks are managed as part of the Group's treasury activities. Treasury operations are conducted within a framework of established policies and procedures.

(a) Market risk

(i) *Foreign exchange risk*

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

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) *Foreign exchange risk (continued)*

At 31 December 2012, if these three currencies had weakened/strengthened by 5% against the AED, the profit for the year would have been higher/lower by AED 237 thousand (2011: AED 309 thousand).

(ii) *Price risk*

The Group is not exposed to equity security price risk since its investments in available-for-sale financial assets are carried at cost.

(iii) *Cash flow and fair value interest rate risk*

The Group holds its surplus funds in short term bank deposits. During the year ended 31 December 2012, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by AED 2,209 thousand (2011: AED 1,740 thousand).

The Group also earns interest on long-term trade and other receivables, which are generally at higher than market rates. A 0.5% shift in these interest rates would have resulted in a higher/lower interest income by AED 1,059 thousand (2011: AED 205 thousand).

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2012, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by AED 6,643 thousand (2011: AED 4,465 thousand).

(b) Credit risk

The Group has a policy for dealing with customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution and this is regularly monitored.

Credit risk is managed on a Group basis. Credit risk arises from cash and bank balances, held-to-maturity investments, available-for-sale financial assets, bank balances, financial assets carried at fair value through profit or loss, trade and other receivables and amounts due from related parties.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The table below shows the rating and balance of the major counterparties at the balance sheet date:

Counterparty	2012		2011	
	External rating*	AED'000	External rating*	AED'000
Bank A	A1	459,886	A1	36,197
Bank B	A1	192,257	A1	230,413
Bank C	Baa1	63,701	Baa1	16,520
Bank D	A1	6,066	A1	20,397
Bank E	BB+	5,911	BB+	41,352
Bank F	A1	97	A1	177,102

*Based on Moody's ratings

The table below shows the rating and balance of the held-to-maturity investments at the balance sheet date:

	2012 AED'000	2011 AED'000
A1	-	232,244
A2	-	6,955
	<u>-</u>	<u>239,199</u>

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

At 31 December 2012, the Group had a significant concentration of credit risk with ten customers accounting for 57% of the trade receivables (2011: 61%). Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The Group is currently financed from shareholders' equity and bank borrowings. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year AED'000	Between 1 year and 2 years AED'000	Between 2 years and 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2012					
Bank borrowings	1,209,374	70,505	48,879	-	1,328,758
Trade payables and accruals	1,517,923	-	-	-	1,517,923
Due to related parties	11,699	-	-	-	11,699
Derivative financial instrument	-	-	-	21,659	21,659
At 31 December 2011					
Bank borrowings	722,470	58,551	47,847	-	828,868
Trade payables and accruals	1,398,959	-	-	-	1,398,959
Due to related parties	43,094	-	-	-	43,094
Other payables	-	1,329	-	-	1,329

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for partners and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of profit distributed to shareholders or manage its working capital requirements. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Capital management (continued)

Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and bank balances (including short term deposits). Total capital is calculated as 'Total equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 AED'000	2011 AED'000
Total borrowings (Note 20)	1,328,758	828,868
Less: Cash and bank balances (Note 16)	(730,700)	(525,487)
Net debt	598,058	303,381
Total equity	2,772,382	2,717,557
Total capital	3,370,440	3,020,938
Gearing ratio	18%	10%

The gearing ratio increased by 8% compared to last year due to the increase in total borrowings percentage compared to the increase in cash bank balances percentage.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets at fair value through profit or loss is based on net asset values provided by the fund managers. The fair market value of these investments, as indicated by the fund managers are based on:

- a) For listed investments, current bid prices in an active market; and
- b) For unlisted investments, valuations based on fundamentals and rationale of the portfolio performed by independent valuers.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Financial assets at fair value through profit or loss				
- Investment in Real Estate fund	-	4,821	-	4,821
Available for sale financial assets				
- Equity securities	1,631		753	2,384
Total assets	<u>1,631</u>	<u>4,821</u>	<u>753</u>	<u>7,205</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives financial instruments	-	21,659	-	21,659
Total liabilities	<u>-</u>	<u>21,659</u>	<u>-</u>	<u>21,659</u>

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

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

(a) *Estimated impairment of goodwill*

Asset recoverability is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(a) *Estimated impairment of goodwill (continued)*

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of the impairment reviews. The key assumptions on which management has based its cash flow projections when determining the recoverable amount of the assets are as follows:

- Management's projections have been prepared on the basis of strategic plans, knowledge of the market, and management's views on achievable growth in market share over the long term period of four years;
- The discount rates applied to cash flows are based on the Group's weighted average cost of capital with a risk premium reflecting the relative risks in the markets in which the businesses operate; and
- Growth rate estimates are based on a conservative view of the long-term rate of growth.

The key assumptions used for value-in-use calculations in 2012 are as follows:

- Growth rate: 5% to 10%
- Discount rate: 11.5%
- Terminal growth rate: 3%

(b) *Revenue recognition*

The Group uses the percentage-of-completion method in accounting for its contract revenue. Use of the percentage-of-completion method requires the Group to estimate the stage of completion of the contract to date as a proportion of the total contract work to be performed in accordance with the accounting policy set out in Note 2.20. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end. The application of a 5% sensitivity to management estimates of the total costs to completion of all outstanding projects at the year end would result in the revenue and profit increasing/decreasing by AED 362 million (2011: increasing/decreasing by AED 444 million).

(c) *Impairment of trade and other receivables*

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. Management's judgement is required in evaluating customers' debts to determine if they will be collected. The charge is based on the ageing of the customer accounts, the customer's credit worthiness and the historic write-off experience. Changes to the estimated impairment charge may be required if the financial condition of the customers were to improve or deteriorate. Management considers that the current level of impairment charge is appropriate and consistent with the loss estimated at year end.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment reporting

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

Business segments

For management purpose, the Group is organised into business units based on their services and has three reportable business segments; Mechanical, Electrical and Plumbing ("MEP"), Infrastructure, Water and Power ("IWP"), Civil and other (corporate office).

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

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

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

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

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

Geographical segments

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

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

Information about business segments

	For the year ended 31 December 2012					For the year ended 31 December 2011						
	MEP	IWP	Civil	Other	Inter segment elimination	Total	MEP	IWP	Civil	Other	Inter segment elimination	Total
Revenue												
External customers	1,684,024	480,622	1,115,408	41,214	-	3,321,268	1,456,441	533,314	1,119,863	-	-	3,109,618
Inter- segment	225,051	6,956	82,404	-	(314,411)	-	159,585	17,357	171,711	-	(348,653)	-
	<u>1,909,075</u>	<u>487,578</u>	<u>1,197,812</u>	<u>41,214</u>	<u>(314,411)</u>	<u>3,321,268</u>	<u>1,616,026</u>	<u>550,671</u>	<u>1,291,574</u>	<u>-</u>	<u>(348,653)</u>	<u>3,109,618</u>
Segment profit / (loss)	<u>149,994</u>	<u>(7,226)</u>	<u>3,184</u>	<u>(30,909)</u>	<u>-</u>	<u>115,043</u>	<u>174,857</u>	<u>20,575</u>	<u>19,434</u>	<u>(6,568)</u>	<u>-</u>	<u>208,298</u>
Depreciation and amortisation	<u>16,438</u>	<u>2,587</u>	<u>22,132</u>	<u>39,160</u>	<u>-</u>	<u>80,317</u>	<u>15,240</u>	<u>2,506</u>	<u>16,428</u>	<u>38,758</u>	<u>-</u>	<u>72,932</u>
Capital expenditure	<u>73,830</u>	<u>3,344</u>	<u>35,679</u>	<u>11,830</u>	<u>-</u>	<u>124,683</u>	<u>97,259</u>	<u>5,915</u>	<u>30,038</u>	<u>1,395</u>	<u>-</u>	<u>134,607</u>
Segment total assets	<u>2,249,977</u>	<u>704,452</u>	<u>1,807,879</u>	<u>2,965,228</u>	<u>(1,297,976)</u>	<u>6,429,560</u>	<u>1,797,402</u>	<u>640,488</u>	<u>1,400,219</u>	<u>2,825,171</u>	<u>(922,598)</u>	<u>5,740,682</u>

(35)

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

5 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	For the year ended 31 December 2012					For the year ended 31 December 2011			
	UAE	Saudi Arabia	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Others	Inter segment elimination Total
Revenue from external customers	950,062	1,568,919	802,287	-	3,321,268	1,183,680	1,277,911	648,027	- 3,109,618
Non-current assets	1,896,175	120,512	58,709	(240,548)	1,834,848	2,057,461	111,811	30,926	(205,084) 1,995,114
	At 31 December 2012					At 31 December 2011			

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

6 Property, plant and equipment

	Land and buildings AED'000	Plant and machinery AED'000	Furniture, fixtures and office equipment AED'000	Motor vehicles AED'000	Capital work-in- progress AED'000	Total AED'000
Cost						
At 1 January 2011	170,432	55,091	12,661	12,635	56,632	307,451
Acquisition on business combinations	63,359	10,209	4,835	2,041	-	80,444
Additions	8,687	27,115	12,180	4,458	82,167	134,607
Disposals	-	(7,327)	(3,399)	(5,582)	(1,817)	(18,125)
Transfers from capital work-in-progress	-	898	-	-	(898)	-
Currency translation differences	(16)	(178)	(69)	(66)	(7)	(336)
At 31 December 2011	242,462	85,808	26,208	13,486	136,077	504,041
Additions	14,731	40,465	14,788	5,587	49,112	124,683
Disposals	-	(6,054)	(2,204)	(7,802)	-	(16,060)
Transfers from capital work-in-progress	169,064	34	-	-	(169,098)	-
Currency translation differences	32	192	212	164	52	652
At 31 December 2012	426,289	120,445	39,004	11,435	16,143	613,316
Depreciation						
At 1 January 2011	16,765	29,843	8,451	2,703	-	57,762
Charge for the year	8,980	18,287	5,528	2,387	-	35,182
Disposals	-	(7,187)	(1,479)	(3,502)	-	(12,168)
Currency translation differences	(2)	(94)	(38)	(13)	-	(147)
At 31 December 2011	25,743	40,849	12,462	1,575	-	80,629
Charge for the year	6,567	25,271	7,137	3,592	-	42,567
Disposals	-	(4,963)	(1,752)	(7,625)	-	(14,340)
Currency translation differences	3	92	128	37	-	260
At 31 December 2012	32,313	61,249	17,975	(2,421)	-	109,116
Net book amount						
At 31 December 2012	393,976	59,196	21,029	13,856	16,143	504,200
At 31 December 2011	216,719	44,959	13,746	11,911	136,077	423,412

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

6 Property, plant and equipment (continued)

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

	2012 AED'000	2011 AED'000
Contract costs (Note 26)	31,560	27,368
General and administrative expenses (Note 28)	11,007	7,814
	<u>42,567</u>	<u>35,182</u>

During the year, the Group has capitalised specific borrowing costs amounting to AED 4.4 million (2011: 1.3 million) on qualifying assets.

Capital work-in-progress of AED 169,064 thousand related to construction cost of a labour camp in Abu Dhabi which was completed during the year ended 31 December 2012 was transferred to land and building. The remaining balance represents ERP license and implementation costs amounting to AED 10,367 and other assets under construction amounting to AED 5,776.

7 Intangible assets

	Goodwill AED'000	Trade name AED'000	Customer relationships AED'000	Orders backlog AED'000	Total AED'000
Cost					
As at 1 January 2011	798,942	86,246	335,552	-	1,220,740
Acquisition on business combinations	58,306	-	-	6,851	65,157
Transfers	(9,928)	-	-	9,928	-
Currency translation differences	(2,873)	-	-	-	(2,873)
At 31 December 2011 and 2012	<u>844,447</u>	<u>86,246</u>	<u>335,552</u>	<u>16,779</u>	<u>1,283,024</u>
Amortisation					
At 1 January 2011	-	-	71,305	-	71,305
Charge for the year	-	-	33,555	4,195	37,750
At 31 December 2011	-	-	104,860	4,195	109,055
Charge for the year	-	-	33,555	4,195	37,750
At 31 December 2012	<u>-</u>	<u>-</u>	<u>138,415</u>	<u>8,390</u>	<u>146,805</u>
Net book amount					
At 31 December 2012	<u>844,448</u>	<u>86,245</u>	<u>197,137</u>	<u>8,389</u>	<u>1,136,219</u>
At 31 December 2011	<u>844,447</u>	<u>86,246</u>	<u>230,692</u>	<u>12,584</u>	<u>1,173,969</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

7 Intangible assets (continued)

The adjustment to the provisional values during 2011 related to the acquisition of Drake & Scull International WLL - Saudi Arabia resulted in the identification of other intangible assets “orders backlog” with a carrying amount of AED 9,928 thousand. Orders backlog were determined to have a finite life of 4.

The Group is organised into business units based on their services and has three reportable business segments; Mechanical, Electrical and Plumbing (“MEP”), Infrastructure, Water and Power (“IWP”) and Civil. These business units are the Cash Generating Units (“CGUs”) of the Group.

The key assumptions used for value-in-use calculations in 2012 are as follows:

The recoverable amounts of CGUs have been determined based on their value-in-use, calculated using cash flows projections based on the financial budgets approved by management covering a period of 4 years. The discount rate applied is 11.5% (2011: 12.5%). The other key assumptions used in the value-in-use calculations are as follows:

Budgeted gross margins:

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

Discount rates:

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

Cost inflation:

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

Terminal growth rate:

The terminal growth rate has been assumed to be 3% (2011: 3%). In management’s view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the four year period.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

	2012 AED'000	2011 AED'000
8 Trade and other receivables		
Non-current		
Trade receivables and retentions	183,570	211,829
Loans and advances	-	123,132
Prepayments	-	2,713
	<u>183,570</u>	<u>337,674</u>
Less: fair value adjustment	(9,155)	(5,000)
	<u>174,415</u>	<u>332,674</u>
At 31 December		
Current		
Trade receivables and retentions	1,410,576	1,499,014
Prepayments and other receivables	412,366	346,638
Amount due from customers on contracts	1,829,550	1,044,422
Loans and advances	141,782	69,996
	<u>3,794,274</u>	<u>2,960,070</u>
Less: provision for impairment	(52,413)	(58,960)
	<u>3,741,861</u>	<u>2,901,110</u>
Amounts due from customers on contracts comprise:		
Costs incurred to date	8,002,389	5,725,488
Recognised profits	1,077,610	889,734
	<u>9,079,999</u>	<u>6,615,222</u>
Less: Progress billings	(7,250,449)	(5,570,800)
	<u>1,829,550</u>	<u>1,044,422</u>
An analysis of trade receivables and retentions is as follows:		
Fully performing	1,121,486	1,274,328
Past due but not impaired	420,247	377,555
Impaired	52,413	58,960
	<u>1,594,146</u>	<u>1,710,843</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

8 Trade and other receivables (continued)

Non-current receivables bear interest at 4.25% per annum (2011: 5.5% per annum) and are expected to be collected in equal monthly instalments over a period of 4 years.

Trade receivables that are less than six months past due are generally not considered impaired. As of 31 December 2012, trade receivables and retentions of AED 420,247 thousand (2011: AED 377,555 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables and retentions is as follows:

	2012 AED'000	2011 AED'000
Six months to one year past due	250,183	276,133
Over one year past due	170,064	101,422
	<u>420,247</u>	<u>377,555</u>

As of 31 December 2012, trade receivables and retentions of AED 52,413 thousand (2011: AED 58,960 thousand) were impaired and provided for. The individually impaired receivables are over one year old and mainly relate to customers who are in a difficult financial situation.

Movement in the provision for impairment of trade receivables and retentions is as follows:

	2012 AED'000	2011 AED'000
At 1 January	58,960	29,790
Acquisition on business combination	-	9,173
Provision for impairment (Note 28)	53,275	27,298
Written off during the year as uncollectible	(18,628)	-
Reversals (Note 28)	(41,194)	(7,301)
At 31 December	<u>52,413</u>	<u>58,960</u>

The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the consolidated income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

8 Trade and other receivables (continued)

The gross carrying amount of the Group's trade receivables and retentions are denominated in the following currencies:

	2012 AED'000	2011 AED'000
UAE Dirham	701,014	970,485
Saudi Riyal	427,708	561,422
Euro	72,467	68,643
Kuwaiti Dinar	47,126	43,661
US Dollar	30,944	5,916
Others	314,887	60,716
	<u>1,594,146</u>	<u>1,710,843</u>

Loans and advances are classified as follows:

Current (i)	141,782	69,996
Non-current (ii)	-	123,132
	<u>141,782</u>	<u>193,128</u>

- (i) Amounts due from one particular customer for construction contracts was converted into a twelve month receivable. Certain balances due during the year have been rolled over for another twelve months at interest rate of 9% (2011: 12% per annum).
- (ii) These amounts are due from an entity controlled by the same customer (Refer to i above). They carry interest rates ranging from 9% to 10% (2011: from 10% to 12% per annum) and have maturity dates beyond one year.

The above amounts are secured by property units under development in Thailand and the Group also has an option to purchase those units.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above which approximates the fair value at the balance sheet date. Except for those held against loans and advances, the Group does not hold any collateral as security.

Arbitrations

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

9 Deferred tax

Deferred tax assets and liabilities are to be recovered after one year from the balance sheet date.

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

	2012 AED'000	2011 AED'000
Deferred income tax assets		
At 1 January	12,374	12,132
Exchange differences	255	242
Income statement charge (Note 30)	5,001	-
	<u>17,630</u>	<u>12,374</u>
At 31 December	<u>17,630</u>	<u>12,374</u>
Deferred income tax liabilities		
At 1 January	3,842	-
Exchange differences	320	-
Income statement charge (Note 30)	4,673	3,842
	<u>8,835</u>	<u>3,842</u>
At 31 December	<u>8,835</u>	<u>3,842</u>

10 Held-to-maturity investments

Non-current

Investment in bonds	-	6,955
Fixed income bonds	-	21,023
	<u>-</u>	<u>27,978</u>
At 31 December	<u>-</u>	<u>27,978</u>

Current

Investments in fixed maturity funds	-	143,568
Investment in a structured product linked to S&P 500 index	-	25,000
Investment in a structured product linked to USD/JPY spot rate	-	40,000
Fixed income bonds	-	2,653
	<u>-</u>	<u>211,221</u>
At 31 December	<u>-</u>	<u>211,221</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

10 Held to maturity investments (continued)

There is no provision for impairment against the held-to-maturity investments (2011: Nil).

The held-to-maturity investments are denominated in the following currencies:

	2012 AED'000	2011 AED'000
USD	-	174,199
UAE Dirhams	-	65,000
	<u>-</u>	<u>239,199</u>

During the year, the Group sold held to maturity investments with a carrying value of AED 104,352 thousand for an amount of AED 108,802 thousand which resulted in the gain on sale of investment amounting to AED 4,450 thousand, which is recognised in "Other (losses)/gains" (Note 29). The remaining balance of AED 134,847 thousand was matured during the year.

11 Available-for-sale financial assets

	2012 AED'000	2011 AED'000
At 1 January	24,707	5,967
Additions	-	18,740
Disposals	(18,740)	-
Impairment loss on available-for-sale investments (Note 29)	(3,583)	-
At 31 December	<u>2,384</u>	<u>24,707</u>

Available-for-sale financial assets are classified as non-current assets in the consolidated financial statements.

These investments are carried at cost as their fair value cannot be reliably determined.

Available-for-sale financial assets comprise shares in unlisted companies and shown net of impairment charge.

The Group sold an available-for-sale financial asset during the year with a carrying amount of AED 18,740 thousand for an amount of AED 27,555 thousand which resulted in gain on sale of available-for-sale investments amounting to AED 8,815 thousand (Note 29).

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

11 Available-for-sale financial assets (continued)

Available-for-sale financial assets are denominated in the following currencies:

	2012 AED'000	2011 AED'000
US Dollar	-	18,740
UAE Dirham	2,384	5,967
	<u>2,384</u>	<u>24,707</u>

12 Financial assets at fair value through profit or loss

	2012 AED'000	2011 AED'000
Investment in a real estate fund	<u>4,821</u>	<u>5,189</u>
The movement in financial assets is as under:		
At 1 January	5,189	6,675
Disposal	(368)	-
Fair value loss (Note 29)	-	(1,486)
At 31 December	<u>4,821</u>	<u>5,189</u>

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

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated income statement within "Other (losses)/gains" (Note 29).

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

	2012 AED'000	2011 AED'000
13 Derivative financial instruments		
Non-current liability		
Equity warrants	485	-
Interest rate swaps	21,174	-
	<u>21,659</u>	<u>-</u>

The notional principal amounts outstanding are:

Equity warrants	146,960	-
Interest rate swaps	441,550	-
	<u>588,510</u>	<u>-</u>

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

	2012 AED'000	2011 AED'000
Principal amount outstanding (in thousands):		
USD denominated (115,000 thousand)	422,395	-
AED	166,000	-

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

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

Fair value loss on interest rate swaps and equity warrants amounting to AED 21,174 thousand and 485 thousand respectively were recognised in the consolidated income statement under "Other (losses)/gains" (Note 29).

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

14 Development properties

Development properties amounting to AED 64,830 thousand (2011: 50,932 thousand) comprise parcels of land acquired and held for future development and sale and the related development cost. An amount of AED 13,898 thousand (2011: AED 5,617 thousand) represents development expenditure incurred during the year on these properties. These projects are likely to be completed and sold during the year 2013. These properties are held in the name of a shareholder on behalf of the Group, which were subsequently transferred into the name of the Group. To date, no revenue has been recognised on development properties. The development properties have been classified as current as they are expected to be realised in the Group's operating cycle.

	2012 AED'000	2011 AED'000
15 Inventories		
Materials and consumables	26,510	26,163

16 Cash and bank balances

Cash on hand	2,782	3,506
Cash at bank	636,941	173,872
Term deposits	90,977	348,109
Cash and bank balances	730,700	525,487

Term deposits carry an average interest rate of 1% to 5% (2011: 1% to 5%).

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

	2012 AED'000	2011 AED'000
Cash and bank balances	730,700	525,487
Less: Term deposits under lien	(44,157)	(263,902)
Bank overdrafts (Note 20)	(59,642)	(38,215)
Restricted cash	(444,867)	-
Cash and cash equivalents	182,034	223,370

Restricted cash represents the proceeds from the new syndicated facility agreement (Note 20) that is available for use by the Group based on the terms and conditions of the aforesaid agreement and subject to pre-approvals by the lenders.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

17 Share capital

	2012 AED'000	2011 AED'000
<i>Authorised, issued and fully paid</i>		
1,197,777,778 shares of AED 1 each paid in cash	1,197,778	1,197,778
Bonus shares (See iii below)	107,269	-
980,000,000 shares of AED 1 each paid in kind (See ii below)	980,000	980,000
	<u>2,285,047</u>	<u>2,177,778</u>

- (i) During the year ended 31 December 2009, the Company obtained necessary regulatory approval to undertake a share buy-back program. A total of 32,400 thousand shares were purchased from the market at an average price of AED 0.8834 per share amounting to AED 28,622 thousand.
- (ii) Assets and liabilities of Drake & Scull International (LLC) and its subsidiaries, were transferred to Drake & Scull International PJSC as in-kind contribution for a 45% shareholding in the Company.
- (iii) During the Annual General Meeting held on 26 April 2012, the shareholders approved the cash dividend of 3% of the face value of the issued shares and 5% bonus shares. The increase in share capital was formally approved by the Ministry of Economy on 25 June 2012. These dividends have been reflected in the consolidated statement of changes in equity

18 Statutory reserve

In accordance with the applicable laws of the relevant jurisdictions and the Company's Articles of Association, 10% of the profit for the year in each limited liability registered Company is required to be transferred to a statutory reserve. This reserve is not available for distribution except as stipulated by the law. Transfers to this reserve are required to be made until such times as it equals at least 50% of the paid up share capital of the respective companies.

19 Other reserve

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

19 Other reserve (continued)

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

20 Bank borrowings

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

	2012 AED'000	2011 AED'000
Non-current		
Term loan	119,384	106,398
Current		
Term loan	611,203	482,005
Trust receipts and other borrowings	538,529	202,250
Bank overdrafts (Note 16)	59,642	38,215
31 December	1,209,374	722,470

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

The maturity profile of borrowings based on the remaining period at the balance sheet date is follows:

	2012 AED'000	2011 AED'000
Less than 1 year	1,209,374	722,470
1-2 years	70,505	58,551
2-5 years	48,879	47,847
	1,328,758	828,868

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

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

20 Bank Borrowings (continued)

Interest rates on the term loans were at variable rates and ranging between 2% to 6.5% (2011: 2% to 8.5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

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

- Lien on motor vehicles and equipment purchased and on certain receivables;
- Mortgage over certain property, plant and equipment; and
- Pledge of all assets acquired through utilisation of credit facilities.

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

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

21 Trade and other payables

	2012 AED'000	2011 AED'000
Trade payables and accruals	1,517,923	1,398,959
Amount due to customers on contracts	80,112	71,070
Advances from customers	607,123	610,855
	<u>2,205,158</u>	<u>2,080,884</u>
Amounts due to customers on contracts comprise:		
Progress billings	912,068	929,611
Less: Cost incurred to date	(801,749)	(770,998)
Less: Recognised profits	(30,207)	(87,543)
	<u>80,112</u>	<u>71,070</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

22 Provision for employees' end of service benefits

	2012 AED'000	2011 AED'000
At 1 January	65,108	49,679
Transfer from a related party	4,195	-
Acquired through business combinations	-	7,662
Charge for the year	29,537	26,212
Payments	(14,171)	(18,445)
	<u>84,669</u>	<u>65,108</u>

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

	2012 AED'000	2011 AED'000
Contract costs (Note 26)	25,533	22,618
General and administrative expenses (Note 28)	4,004	3,594
	<u>29,537</u>	<u>26,212</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2012 and 2011, using actuarial techniques, in respect of employees' end of service benefits payable under the UAE labour Law and the Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date. Under this method an assessment has been made of the employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Future salary increases have been estimated on a basis consistent with the natural progression of an employees' salary in line with the Group's salary scales, past experience and market conditions. Management has assumed average increment/ promotion cost of 0% to 3.5% (2011: 0% to 3%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3% per annum (2011: 4.25% per annum).

23 Related party transactions and balances

Related parties comprise the majority shareholders, key management personnel, joint ventures, directors and businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group management, or its Board of Directors.

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

23 Related party transactions and balances (continued)

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

From 1 January 2012 to 31 December 2012:

Significant related party transactions include management fees charged by DSG amounting to AED 14,800 thousand.

From 1 January 2011 to 31 December 2011:

- The Company has acquired 50% of International Centre for Contracting Co. from DSG and the remaining 50% has been acquired from third parties.

The other significant related party transactions primarily include management fees charged by DSG amounting to AED 14,800 thousand.

The outstanding balances with related parties are given below:

Due from related parties:

	2012 AED'000	2011 AED'000
Joint venture	22,408	23,786
Affiliated entities	3,582	1,680
	<u>25,990</u>	<u>25,466</u>

Due to related parties:

Drake and Scull Group	842	24,484
Other affiliated entities	10,857	18,610
	<u>11,699</u>	<u>43,094</u>

Compensation of key management personnel

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

	<u>Year ended 31 December</u>	
	2012 AED'000	2011 AED'000
Salaries and short term benefits	34,877	42,448
Employees' end of service benefits	2,112	2,473
	<u>36,989</u>	<u>44,921</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

	Year ended 31 December	
	2012	2011
	AED'000	AED'000
24 Finance income – net		
Interest income on term deposits	9,136	4,941
Interest income on loans and advances	20,492	36,938
Interest income on held-to-maturity investments	4,059	2,456
Total Finance income	33,687	44,335
Finance costs - Interest expense on bank borrowings	17,078	24,067
Finance income – net	16,609	20,268
25 Other income		
Scrap sale	6,299	1,005
Rent income	1,545	1,147
Gain on disposal of property, plant and equipment	1,218	4,314
Labour supply	-	5,003
Others	3,061	7,025
	12,123	18,494
26 Contract costs		
Material costs	1,098,975	1,071,351
Sub-contracting costs	911,397	825,522
Labour and staff costs	484,577	388,694
Overheads	386,312	345,353
End of service benefits (Note 22)	25,533	22,618
Depreciation (Note 6)	31,560	27,368
	2,938,354	2,680,906
27 Staff cost		
Contract costs (Note 26)	484,577	388,694
General and administrative expenses (Note 28)	134,261	111,090
	618,838	499,784

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

	<u>Year ended 31 December</u>	
	2012	2011
	AED'000	AED'000
28 General and administrative expenses		
Staff costs (Note 27)	134,261	111,090
Amortisation (Note 7)	37,750	37,750
Business development	17,809	4,506
Management fees (Note 23)	14,800	14,800
Depreciation (Note 6)	11,007	7,814
Professional services fees	13,665	6,957
Bank charges	10,235	4,399
Employees' end of service benefits expense (Note 22)	4,004	3,594
Provision for impairment of trade receivables and retentions (net) (Note 8)	12,081	19,997
Other expenses	9,681	35,594
	<u>265,293</u>	<u>246,501</u>
29 Other (losses)/gains		
Gain on sale of available-for-sale financial assets (Note 11)	8,815	-
Gain on sale of held-to-maturity investments (Note 10)	4,450	-
Equity warrants (Note 13)	(485)	-
Fair value loss on financial assets at fair value through profit or loss (Note 12)	-	(1,486)
Impairment loss on available-for-sale financial assets (Note 11)	(3,583)	-
Fair value loss on interest rate swaps (Note 13)	(21,174)	-
	<u>(11,977)</u>	<u>(1,486)</u>
30 Income tax expense		
The major components of income tax expense are as follows:		
<i>Current income tax expense:</i>		
Current income tax charge	(19,661)	(7,613)
<i>Deferred income tax credit / (expense):</i>		
Relating to origination and reversal of temporary differences	328	(3,576)
	<u>(19,333)</u>	<u>(11,189)</u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

31 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line items below:

	Loans and receivables AED'000	Assets at fair value through profit or loss AED'000	Available -for- sale financial assets AED'000	Held-to- maturity investments AED'000	Total AED'000
Assets as per balance sheet					
31 December 2012					
Trade and other receivables (excluding advances and prepayments) (Note 8)	3,774,494	-	-	-	3,774,494
Financial assets at fair value through profit or loss (Note 12)	-	4,821	-	-	4,821
Available-for-sale financial assets (Note 11)	-	-	2,384	-	2,384
Due from related parties (Note 23)	25,990	-	-	-	25,990
Cash and bank balances (Note 16)	730,700	-	-	-	730,700
Total	4,531,184	4,821	2,384	-	4,538,389
31 December 2011					
Trade and other receivables (excluding advances and prepayments) (Note 8)	2,358,631	-	-	-	2,358,631
Held-to-maturity investments (Note 10)	-	-	-	239,199	239,199
Financial assets at fair value through profit or loss (Note 12)	-	5,189	-	-	5,189
Available-for-sale financial assets (Note 11)	-	-	24,707	-	24,707
Due from related parties (Note 23)	25,466	-	-	-	25,466
Cash and bank balances (Note 16)	525,487	-	-	-	525,487
Total	2,909,584	5,189	24,707	239,199	3,178,679

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

31 Financial instruments by category (continued)

Other financial liabilities at amortised cost	AED'000
31 December 2012	
Bank borrowings (Note 20)	1,328,758
Due to related parties (Note 23)	11,699
Trade payables and accruals (Note 21)	1,515,849
Other financial liabilities at fair value through profit and loss	
Derivative financial instruments (Note 13)	21,659
Total	<u><u>2,877,965</u></u>

Other financial liabilities at amortised cost	
31 December 2011	
Bank borrowings (Note 20)	828,868
Due to related parties (Note 23)	43,094
Trade payables and accruals (Note 21)	1,398,959
Total	<u><u>2,270,921</u></u>

32 Investment in a joint venture

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

	2012 AED'000	2011 AED'000
Current assets	124,394	54,168
Non-current assets	36,908	7
Current liabilities	(126,516)	(40,643)
Non-current liabilities	(131)	-
Net assets	<u><u>34,655</u></u>	<u><u>13,532</u></u>

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

32 Investment in a joint venture (continued)

The Group's share of operating results of the joint venture included in the consolidated financial statements is as follows:

	2012 AED'000	2011 AED'000
Revenue	74,152	5,333
Expenses (net of other income)	(588)	(6,250)
Profit/(Loss) for the year	10,308	(917)

33 Earnings per share

Basic

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

	<u>Year ended</u>	
	31 December 2012	31 December 2011
Earnings (AED'000)		
Earnings for the purposes of basic earnings per share being profit attributable to owners of the parent	97,831	193,164
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,252,646,667	2,145,377,778
Basic earnings per share (AED)	0.042	0.090

Diluted

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

34 Dividend

During the Annual General Meeting held on 26 April 2012, the shareholders approved the cash dividend of 3% of the face value of the issued shares and 5% bonus shares (AED 0.8 per share). The increase in share capital was formally approved by the Ministry of Economy on 25 June 2012. These dividends have been reflected in the interim consolidated statement of changes in equity

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

35 Guarantees

	2012 AED'000	2011 AED'000
Performance bonds	921,909	831,894
Letter of guarantees	705,617	1,099,198
	<u>1,627,526</u>	<u>1,931,092</u>

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

36 Expenditure commitments

(a) Operating lease commitments

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

	2012 AED'000	2011 AED'000
Future minimum lease payments:		
No later than one year	26,009	24,593
Later than one year but no later than five years	12,324	1,917
Later than five years	1,633	-
	<u>39,966</u>	<u>26,510</u>

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	363,066	646,425
Capital commitments for construction of facilities	-	41,214
	<u>363,066</u>	<u>687,639</u>