Drake and Scull International PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2013

Drake and Scull International PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2013

Drake and Scull International PJSC

Directors' report

Dear Shareholders,

The Board of Directors of Drake & Scull International PJSC ("DSI") or (the "Company") and its Subsidiaries (the "Group") have the pleasure in presenting their consolidated financial statements for the year ended 31 December 2013.

Principal activities

During the year ended 31 December 2013 DSI was preliminary engaged in engineering, integrated design and construction disciplines of Mechanical, Electrical and Plumbing (MEP), Civil Contracting, Water and Power Infrastructure and Oil and Gas Infrastructure.

Financial results

For the year ended 31 December 2013, DSI earned revenues amounting to AED 4,879 million and the profit for the year amounted to AED 181.7 million. The Earnings per share was AED 0.073 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 2014. Our commitment to growth and returns continues to improve value for our shareholders.

DSI has been consistently achieving positive results and we have continued this trend in 2013. 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 7.5 billion in 2013 in comparison to AED 5.4 billion awarded in 2012. The total Order Backlog reached a record high of AED 12 billion representing a year on year increase of 32%, giving us substantial leverage to support the Company's development and expansion plan for 2014.

DSI has successfully met number of targets and objectives that were set at the beginning 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 positive outlook for 2014 as well.

Auditors

PricewaterhouseCoopers were appointed as external auditors of the Group for the year ended 31 December 2013. PricewaterhouseCoopers are eligible for reappointment as auditors for 2014 and have expressed their willingness to continue in office.

Chairman

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 at 31 December 2013 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.

pwc

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 at 31 December 2013, and its financial performance and its 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, as required by the UAE Federal Law No. (8) of 1984, as amended, in respect of the Company, 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;

(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 at 31 December 2013.

PricewaterhouseCoopers
31 March 2014

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

Drake and Scull International PJSC

Consolidated balance sheet

	Note	As at 31 December 2013 AED'000	2012 AED'000
Assets			
Non-current assets			
Property and equipment	6	510,680	504,200
Intangible assets	7	1,098,469	1,136,219
Investment property	10	29,376	-
Investment accounted for using the equity method	32	93,249	-
Deferred income tax assets	9	5,646	17,630
Available-for-sale financial assets	11	75,159	2,384
Trade and other receivables	8	212,503	174,415
		2,025,082	1,834,848
Current assets			
Inventories	15	30,259	26,510
Development properties	14	19,111	64,830
Trade and other receivables	8	4,256,323	3,741,861
Due from related parties	23	268,628	25,990
Financial assets at fair value through profit or loss	12	4,678	4,821
Cash and bank balances	16	558,217	730,700
		5,137,216	4,594,712
Total assets		7,162,298	6,429,560
Equity and Liabilities			
Equity attributable to owners of the parent			
Share capital	17	2,285,047	2,285,047
Share premium	17	3,026	-
Treasury shares	17	-	(28,622)
Statutory reserve	18	93,722	79,219
Other reserve	19	24,543	24,543
Retained earnings		515,801	363,835
Foreign currency translation reserve		(15,685)	(8,346)
		2,906,454	2,715,676
Non-controlling interests		68,372	53,106
Total equity		2,974,826	2,768,782
Liabilities			
Non-current liabilities			
Bank borrowings	20	48,878	119,384
Derivative financial instruments	13	-	21,659
Deferred income tax liabilities	9	2,414	8,835
Employees' end of service benefits	22	110,234	84,669
		161,526	234,547
Current liabilities			
Trade and other payables	21	2,938,909	2,205,158
Bank borrowings	20	1,067,592	1,209,374
Due to related parties	23	19,445	11,699
		4,025,946	3,426,231
Total liabilities		4,187,472	3,660,778
Total equity and liabilities		7,162,298	6,429,560

The consolidated financial statements were approved for issue by the Board of Directors on 31 March 2014 and signed on its behalf by:

....

Chairman Chief Executive Officer

The notes on pages 11 to 62 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated income statement

	Note	Year ended 31 December 2013 AED'000	2012 AED'000
Contract revenue	5	4,879,189	3,321,268
Contract costs	26	(4,382,296)	(2,938,354)
Gross profit		496,893	382,914
Other income	25	20,658	12,123
General and administrative expenses	28	(328,581)	(265,293)
Other losses - net	29	(3,070)	(11,977)
Operating profit		185,900	117,767
Finance income	24	23,147	33,687
Finance costs	24	(36,032)	(17,078)
Finance (costs)/income – net	24	(12,885)	16,609
Share of profit from investment accounted for using the equity method	32	64,043	-
Profit for the year before tax		237,058	134,376
Income tax expense	30	(55,323)	(19,333)
Profit for the year		181,735	115,043
Profit attributable to:			
- Owners of the Parent		166,469	94,293
- Non-controlling interests		15,266	20,750
		181,735	115,043
Earnings per share			
- Basic and diluted (AED)	33	0.073	0.042

The notes on pages 11 to 62 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of comprehensive income

	Year ended 31 December 2013 AED'000	2012 AED'000
Profit for the year	181,735	115,043
Other comprehensive income		
Items that will not be reclassified to profit or loss	-	-
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation	(7,339)	432
Other comprehensive (loss)/ income for the year	(7,339)	432
Total comprehensive income for the year	174,396	115,475
Attributable to:		
- Owners of the Parent	159,130	94,725
- Non-controlling interests	15,266	20,750
	174,396	115,475

The notes on pages 11 to 62 are an integral part of these financial statements.

Drake and Scull International PJSC

Consolidated statement of changes in equity

	Share capital AED'000	Treasury shares AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation Reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2013	2,285,047	(28,622)	-	79,219	24,543	363,835	(8,346)	2,715,676	53,106	2,768,782
Profit for the year	-	-	-	-	-	166,469	-	166,469	15,266	181,735
Other comprehensive income for the year	-	-	-	-	-	-	(7,339)	(7,339)	-	(7,339)
Total comprehensive income for the year	-	-	-	-	-	166,469	(7,339)	159,130	15,266	174,396
Transaction with owners										
Re-issue of treasury shares (Note 17)	-	28,622	3,026	-	-	-	-	31,648	-	31,648
Total transaction with owners	-	28,622	3,026	-	-	-	-	31,648	-	31,648
Transfer from retained earnings to statutory reserve	-	-	-	14,503	-	(14,503)	-	-	-	-
Balance at 31 December 2013	2,285,047	-	3,026	93,722	24,543	515,801	(15,685)	2,906,454	68,372	2,974,826

The notes on pages 11 to 62 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	Share premium AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2012	2,177,778	(28,622)	-	73,753	24,543	446,639	(8,778)	2,685,313	32,244	2,717,557
Profit for the 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
Transaction with owners										
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
Total transaction with owners	107,269	-	-	-	-	(171,631)	-	(64,362)	112	(64,250)
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

The notes on pages 11 to 62 are an integral part of these consolidated financial statements.

Drake and Scull International PJSC

Consolidated statement of cash flows

	Note	Year ended 31 December 2013 AED'000	2012 AED'000
Operating activities			
Profit for the year before tax		237,058	134,376
Adjustments for:			
Share of profits of investment accounted for using the equity method	32	(64,043)	-
Depreciation	6	47,388	42,567
Amortisation of intangible assets	7	37,750	37,750
Provision for employees' end of service benefits	22	41,665	29,537
Management fee expense	28	-	14,800
Gain on sale of available-for-sale financial assets	11	-	(8,815)
Gain on sale of held-to-maturity investments		-	(4,450)
Loss on sale of development properties	29	5,160	-
Impairment (reversal)/loss on available-for-sale financial assets	11	(727)	3,583
Fair value loss on financial assets at fair value through profit or loss	29	143	-
Fair value gain on settlement of share swaps	29	(5,583)	-
Fair value loss on interest rate swaps	29	4,050	21,174
Loss on settlement of equity warrants	29	27	485
Finance income	24	(23,147)	(33,687)
Finance costs	24	36,032	17,078
Gain on disposal of property and equipment	25	(982)	(1,218)
Provision for impairment on trade receivables and retentions - net	28	22,509	12,081
Operating cash flows before payment of employees' end of service benefits, income tax and changes in working capital		337,300	265,261
Employees' end of service benefits paid	22	(16,100)	(14,171)
Income tax paid		(49,760)	(19,596)
Changes in working capital			
Inventories		(3,749)	(347)
Development properties		(1,306)	(13,898)
Trade and other receivables before provisions and excluding interest receivable and loans and advances		(578,182)	(741,122)
Due from related parties		(242,638)	(524)
Trade and other payables excluding income tax, interest and group management fee payable		732,064	107,741
Derivative financial instruments		(20,153)	-
Due to related parties		7,746	(31,395)
Net cash generated from/(used in) operating activities		165,222	(448,051)
Balance carried forward		165,222	(448,051)

Drake and Scull International PJSC

Consolidated statement of cash flows (continued)

	Note	Year ended 31 December 2013 AED'000	2012 AED'000
Balance brought forward		165,222	(448,051)
Investing activities			
Purchase of property and equipment	6	(86,733)	(124,683)
Proceeds from disposal of property and equipment		32,229	2,938
Investment accounted for using the equity method	32	(29,206)	-
(Purchase of)/proceeds from sale of available-for-sale investments	11	(72,048)	271,572
Loans and advances	8	9,683	51,346
Interest received		15,083	33,045
Net cash (used in)/generated from investing activities		(130,992)	234,218
Financing activities			
Term deposits under lien	16	(68,608)	219,745
Dividends paid		-	(64,361)
Proceeds from re-issue of treasury shares	17	31,648	-
Net proceeds from trust receipts and other borrowings		277,477	336,279
Proceeds from term loans	20	24,350	604,817
Payment of term loans	20	(577,659)	(462,633)
Non-controlling interest's contribution to subsidiary's capital		-	112
Interest paid		(21,856)	(16,674)
Net cash (used in)/generated from financing activities		(334,648)	617,285
Net (decrease)/increase in cash and cash equivalents		(300,418)	403,452
Net foreign currency translation difference		(4,217)	79
Movement in restricted cash		444,867	(444,867)
Cash and cash equivalents, at the beginning of the year		182,034	223,370
Cash and cash equivalents, at the end of the year	16	322,266	182,034

1 General information

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

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

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

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

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

1 General information (continued)

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

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

The Group, through Drake & Scull Water & Power LLC, also has a 50% interest in a joint venture with Afghan Electrical Power Corporation under a joint arrangement agreement dated 27 September 2011. This is classified as joint operation in these consolidated financial statements.

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

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

The Group, through Drake & Scull Construction LLC, also has a 90% interest in a joint venture with John Sisk and Sons Construction LLC, (SISK-DSC-SMH-Joint Venture) under a joint arrangement agreement dated 25 November 2012. This is classified as joint operation in these consolidated financial statements.

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

Drake and Scull International PJSC, also has a 51% interest in a joint venture with Al Habtoor Specon LLC (DSI-HLS Joint Venture) under a joint arrangement agreement dated 17 April 2013. This is classified as joint operation in these consolidated financial statements.

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

The Group, through Drake & Scull (Cayman Islands) No. 3 Limited, also has a 50% interest in a joint venture with Omniyat Properties Twenty Seven Limited (DSO Development Limited) under a joint arrangement agreement dated 6 November 2012. This is classified as joint venture in these consolidated financial statements.

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") and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The 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) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the financial year beginning on 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income (effective from 1 July 2012);
- Amendment to IAS 19, 'Employee benefits' regarding elimination of the corridor approach and calculating finance costs on a net funding basis (effective from 1 January 2013). The impact of amendment is not material to these consolidated financial statements;
- IAS 27 (revised 2011), 'Separate financial statements' (effective from 1 January 2013);
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective from 1 January 2013);
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting (effective from 1 January 2013);
- IFRS 10, 'Consolidated financial statements' (effective from 1 January 2013);
- IFRS 11, 'Joint arrangements' (effective from 1 January 2013);
- IFRS 12, 'Disclosures of interests in other entities' (effective from 1 January 2013); and
- IFRS 13, 'Fair value measurement' (effective from 1 January 2013).

(b) *New standards and interpretation not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2 Summary of significant accounting policies (continued)

2.1.2 Changes in accounting policy and disclosures (continued)

- IAS 32 (amendment), 'Financial instruments: Presentation', (effective from 1 January 2014);
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective from 1 January 2014);
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective from 1 January 2014);
- Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives' (effective from 1 January 2014); and
- IFRS 9, 'Financial instruments', As part of the Limited Amendments to IFRS 9 project, the International Accounting Standards Board (IASB) tentatively decided at the July 2013 board meeting to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after 1 January 2015 but rather be left open pending the finalisation of the impairment and classification and measurement requirements. The Group is yet to assess IFRS 9's full impact.

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 structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 applies 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 the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries* (continued)

The excess of the consideration transferred, 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 identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured 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 (Note 2.6).

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) *Joint ventures*

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be both joint ventures and joint operations. Joint ventures are accounted for using the equity method whereas joint operations are consolidated on a proportional line by line basis.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

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

2 Summary of significant accounting policies (continued)

2.5 Property and equipment

Property 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 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. The carrying amount of the replaced part is derecognised. 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 allocate the cost of assets less their estimated residual value over their expected useful lives as follows:

Type of assets	**Years**
Buildings	5 to 10 years
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 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 (Note 2.7).

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

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 Summary of significant accounting policies (continued)

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 net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

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

(b) *Trade names*

Trade names are shown at historical cost. Trade names 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.

(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 Summary of significant accounting policies (continued)

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/depreciation 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 largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal 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. 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 if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting 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 (Notes 8, 23 and 16 respectively).

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

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

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.1 Classification (continued)

(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 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. 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 'other gains/(losses)' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'Gains and losses from investment securities'.

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

2 Summary of significant accounting policies (continued)

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.

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.

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

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

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 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 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 hedged item is more than 12 months and as current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

2 Summary of significant accounting policies (continued)

2.12 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value. The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in the consolidated income statement. Investment properties are derecognised when they have been disposed.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the consolidated income statement within net gain from fair value adjustment on investment property.

If an investment property becomes owner-occupied, it is reclassified as property and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to development properties. A property's deemed cost for subsequent accounting as development properties is its fair value at the date of change in use.

2.13 Development properties

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

2 Summary of significant accounting policies (continued)

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2 Summary of significant accounting policies (continued)

2.17 Share capital (continued)

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.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

2.19 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. The increase 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.

2.20 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 consolidated income statement over the period of the borrowings using the effective interest method.

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 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax

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

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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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.

2 Summary of significant accounting policies (continued)

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production 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.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.23 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 experience adjustments and changes in assumptions are charged or credited to equity in the other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in consolidated statement of comprehensive income.

2.24 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.

2 Summary of significant accounting policies (continued)

2.24 Contract revenue (continued)

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.

2.25 Interest income

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

2.26 Dividend income

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

2.27 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.

2.28 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, fair value interest rate risk, cash flow interest rate risk and price 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, Indian Rupee and Algerian Dinar.

As Saudi Arabian Riyals, Qatari Riyals, Omani Riyals and United Arab Emirates Dirhams (AED) are pegged to US Dollars, the sensitivity considers the effect of a reasonably possible movement of the AED currency rate against the Euro, Kuwaiti Dinars, Indian Rupee, Algerian Dinars 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).
At 31 December 2013, if these five currencies had weakened/strengthened by 5% against the AED, the profit for the year would have been higher/lower by AED 1,478 thousand (2012: AED 237 thousand).

(ii) *Price risk*

The Group is not exposed to equity security price risk. Its investments classified on balance sheet as available-for-sale are carried at cost and investments classified as fair value through profit or loss are not material.

(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 2013, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by AED 1,350 thousand (2012: AED 2,209 thousand).

The Group also earns interest on long-term trade receivables and loans and advances, 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 566 thousand (2012: AED 1,059 thousand).

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2013, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by AED 6,113 (2012: AED 6,643 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 group basis. Credit risk arises from cash and bank balances, available-for-sale financial assets, financial assets carried at fair value through profit or loss, trade and other receivables and amounts due from related parties.

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

	2013		2012	
Counterparty	External rating*	AED'000	External rating*	AED'000
Bank A	A1	497,919	A1	459,886
Bank B	A1	37,129	A1	192,257
Bank C	Baa1	12,667	Baa1	63,701
Bank D	A1	154	A1	6,066
Bank E	BB+	6,188	BB+	5,911
Bank F	A1	-	A1	97

*Based on Moody's ratings

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 2013, the Group had a significant concentration of credit risk with ten customers accounting for 55% of the trade receivables (2012: 57%). 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.

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 and credit facilities 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	**Total** AED'000
At 31 December 2013				
Bank borrowings	1,071,174	22,367	30,161	1,123,702
Trade payables and accruals	2,035,469	-	-	2,035,469
Due to related parties	19,445	-	-	19,445
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

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 shareholders and benefits for other stakeholders 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 dividend paid 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.

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 2013 and 2012 were as follows:

	2013 AED'000	2012 AED'000
Total borrowings (Note 20)	1,116,470	1,328,758
Less: Cash and bank balances (Note 16)	(558,217)	(730,700)
Net debt	558,253	598,058
Total equity	2,974,826	2,768,782
Total capital	3,533,079	3,366,840
Gearing ratio	16%	18%

The gearing ratio has decreased by 2% compared to last year due to the decrease in net debt and increase in total equity.

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.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013. See Note 10 for disclosures of the investment property that are measured at fair value.

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2013				
Assets				
Financial assets at fair value through profit or loss				
- Investment in Real Estate fund	-	4,678	-	4,678
Available-for-sale financial assets				
- Equity securities	2,358	-	753	3,111
Total assets	2,358	4,678	753	7,789
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives financial instruments	-	-	-	-
Total liabilities	-	-	-	-

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	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	1,631	4,821	753	7,205
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivatives financial instruments	-	21,659	-	21,659
Total liabilities	-	21,659	-	21,659

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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

(a) *Financial instruments in Level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value level 2 and level 3 financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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.

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 2013 are as follows:

- Growth rate: 5% to 10%,
- Discount rate: 11.4%,
- Terminal growth rate: 3.55%

The goodwill's value-in-use is higher than its carrying value by AED 1.3 billion. Any sensitivity applied to the key assumptions above will have no significant impact on the value-in-use.

(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 377 million (2012: increasing/decreasing by AED 362 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.

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 ("Engineering"), Civil, Oil and Gas and others (corporate office).

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

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

The Oil & Gas segment carries out contracting services relating to design and engineering, procurement of material, fabrication and construction of complete plant and facilities.

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

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

Geographical segments

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

Drake and Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

5 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Engineering	Civil	Oil and Gas	Other	Inter-segment elimination	Total	Engineering	Civil	Oil and Gas	Other	Inter-segment elimination	Total
	For the year ended 31 December 2013						For the year ended 31 December 2012					
Revenue												
External customers	2,320,896	2,010,900	430,245	117,148	-	4,879,189	2,032,571	1,115,408	41,214	132,075	-	3,321,268
Inter- segment	334,088	5,740		254	(340,082)	-	229,395	82,404	-	2,612	(314,411)	-
	2,654,984	2,016,640	430,245	117,402	(340,082)	4,879,189	2,261,966	1,197,812	41,214	134,687	(314,411)	3,321,268
Segment profit / (loss)	94,167	33,571	54,504	(507)	-	181,735	158,867	4.941	3,289	(52,054)	-	115,043
Depreciation and amortisation	23,116	18,692	1,478	41,852	-	85,138	16,450	22,132	195	41,540	-	80,317
Capital expenditure	29,735	46,600	5,975	4,423	-	86,733	63,009	35,679	1,463	24,532	-	124,683
	At 31 December 2013						At 31 December 2012					
Segment total assets	3,185,972	2,647,117	261,917	2,665,938	(1,598,646)	7,162,298	2,744,103	1,807,879	74,150	3,101,404	(1,297,976)	6,429,560

Revenue from one customer amounting to AED 1,174,361 thousand which exceeded 10% of the Group revenue was earned through the Civil works segment. In 2012, one customer accounted for over 19% of the Group revenue which represents AED 647,708 relating to Civil works.

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

	UAE	Saudi Arabia	Iraq	Others	Inter segment elimination	Total
		For the year ended 31 December 2013				
Revenue from external customers	942,915	2,515,880	397,316	1,023,078	-	4,879,189
		For the year ended 31 December 2012				
Revenue from external customers	950,062	1,568,919	41,214	761,073	-	3,321,268
		At 31 December 2013				
Non-current assets	2,223,251	233,424	16,118	81,756	(529,467)	2,025,082
		At 31 December 2012				
Non-current assets	1,896,175	120,512	3,289	55,420	(240,548)	1,834,848

6 Property and equipment

	Land and buildings AED'000	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 2012	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
Additions	8,626	49,214	17,740	9,051	2,102	86,733
Disposals	(27,856)	(3,979)	(926)	(659)	(670)	(34,090)
Currency translation differences	(1,482)	787	750	350	(769)	(364)
At 31 December 2013	405,577	166,467	56,568	20,177	16,806	665,595
Depreciation						
At 1 January 2012	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
Charge for the year	8,872	23,768	10,252	4,496	-	47,388
Disposals	(276)	(2,072)	(225)	(270)	-	(2,843)
Currency translation differences	(432)	700	686	300	-	1,254
At 31 December 2013	40,477	83,645	28,688	2,105	-	154,915
Net book amount						
At 31 December 2013	365,100	82,822	27,880	18,072	16,806	510,680
At 31 December 2012	393,976	59,196	21,029	13,856	16,143	504,200

6 Property and equipment (continued)

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

	2013 AED'000	2012 AED'000
Contract costs (Note 26)	29,269	31,560
General and administrative expenses (Note 28)	18,119	11,007
	47,388	42,567

During the year, the Group has capitalised specific borrowing costs amounting to AED Nil (2012: 4.4 million) on qualifying assets.

Capital work-in-progress represents ERP license and implementation costs and other assets under construction.

7 Intangible assets

	Goodwill AED'000	Trade name AED'000	Customer relationships AED'000	Orders backlog AED'000	Total AED'000
Cost					
At 31 December 2012 and 2013	844,447	86,246	335,552	16,779	1,283,024
Amortisation					
At 1 January 2012	-	-	104,860	4,195	109,055
Charge for the year	-	-	33,555	4,195	37,750
At 31 December 2012	-	-	138,415	8,390	146,805
Charge for the year	-	-	33,555	4,195	37,750
At 31 December 2013	-	-	171,970	12,585	184,555
Net book amount					
At 31 December 2013	844,447	86,246	163,582	4,194	1,098,469
At 31 December 2012	844,447	86,246	197,137	8,389	1,136,219

Orders backlog are determined to have a finite life of 4 years.

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

7 Intangible assets (continued)

The key assumptions used for value-in-use calculations in 2013 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 11.4% (2012: 11.5%). 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 3.55% (2012: 3%). In management's view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the four year period.

8 Trade and other receivables

	2013 AED'000	2012 AED'000
Non-current		
Trade receivables and retentions	224,257	183,570
Less: fair value adjustment	(11,754)	(9,155)
At 31 December	212,503	174,415
Current		
Trade receivables and retentions	1,632,912	1,410,576
Prepayments and other receivables	339,302	412,366
Amount due from customers on contracts	2,218,370	1,829,550
Loans and advances	132,099	141,782
	4,322,683	3,794,274
Less: provision for impairment	(66,360)	(52,413)
	4,256,323	3,741,861

Amounts due from customers on contracts comprise:

	2013 AED'000	2012 AED'000
Costs incurred to date	10,592,643	8,002,389
Recognised profits	1,217,354	1,077,610
	11,809,997	9,079,999
Less: Progress billings	(9,591,627)	(7,250,449)
	2,218,370	1,829,550

An analysis of trade receivables and retentions is as follows:

	2013 AED'000	2012 AED'000
Fully performing	1,479,653	1,121,486
Past due but not impaired	311,156	420,247
Impaired	66,360	52,413
	1,857,169	1,594,146

8 Trade and other receivables (continued)

Certain non-current receivables bear interest at 5.5% per annum (2012: 4.25% 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 2013, trade receivables and retentions of AED 311,156 thousand (2012: AED 420,247 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:

	2013 AED'000	2012 AED'000
Six months to one year past due	186,553	250,183
Over one year past due	124,603	170,064
	311,156	420,247

As of 31 December 2013, trade receivables and retentions of AED 66,360 thousand (2012: AED 52,413 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:

	2013 AED'000	2012 AED'000
At 1 January	52,413	58,960
Provision for impairment (Note 28)	25,999	53,275
Written off during the year as uncollectible	(8,562)	(18,628)
Reversals (Note 28)	(3,490)	(41,194)
At 31 December	66,360	52,413

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.

8 Trade and other receivables (continued)

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

	2013 AED'000	2012 AED'000
UAE Dirham	845,056	701,014
Saudi Riyal	686,088	427,708
Euro	50,577	72,467
Kuwaiti Dinar	54,264	47,126
US Dollar	31,641	30,944
Others	189,543	314,887
	1,857,169	1,594,146

(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% (2012: 9% per annum).

The above amounts are secured by property units under development 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

During the year ended 31 December 2012, the Group had filed 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 related to projects that were completed and handed over to those customers. At that time, the outcome of the arbitrations was uncertain. Management was of the opinion that the balances were fully recoverable. As at 31 December 2012, no provision for impairment was made against these balances of AED 135.3 million.

During the current year, the Group has reached an amicable resolution with one of the customers for settlement of the receivables, retentions and due from customers on contracts' balances of AED 24 million, AED 10 million and AED 14.3 million respectively. Currently, the remaining receivables, retentions and due from customers on contracts' balances of AED 34 million, AED 26 million and AED 27 million respectively, are still under arbitrations. As at 31 December 2013, no provision for impairment is made against these balances of AED 87 million.

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 is as follows:

	2013 AED'000	2012 AED'000
Deferred income tax assets		
At 1 January	17,630	12,374
Exchange differences	546	255
Deferred income tax assets considered not recoverable (Note 30)	(12,530)	-
Income statement charge (Note 30)	-	5,001
At 31 December	5,646	17,630
Deferred income tax liabilities		
At 1 January	8,835	3,842
Exchange differences	(323)	320
Income statement charge (Note 30)	(6,098)	4,673
At 31 December	2,414	8,835

10 Investment property

During the year, certain development properties were leased out on a long term basis to earn rental yield. The fair value of these properties was equivalent to the carrying value at balance sheet date.

The following table analyses the non-financial assets 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Fair value measurements at 31 December 2013 using			
	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Recurring fair value measurements				
Investment property	-	29,376	-	29,376
Total assets	-	29,376	-	29,376

10 Investment property (continued)

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

Level 2 fair values have been derived using the sales comparison approach. Sales prices of comparable units in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

The rental income net of expenses, earned from investment property is AED 1,020 thousand included in other income.

11 Available-for-sale financial assets

	2013 AED'000	2012 AED'000
At 1 January	2,384	24,707
Additions	72,048	-
Disposals	-	(18,740)
Impairment reversal/(loss) on available-for-sale financial assets (Note 29)	727	(3,583)
At 31 December	75,159	2,384

Available-for-sale financial assets are classified as non-current assets in the consolidated financial statements. These investments except those carried at fair value as disclosed in Note 3.3, 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.

Additions comprise of following investments:

Name of investee company	**Country**	**Percentage held**	**AED (000)**
Lamar investments and real estate development LLC	KSA	10%	53,308
PSK Petrochemicals	Egypt	10%	18,740
			72,048

The Group classified the above investments as available-for-sale financial assets at the date of investment. Management estimates that the cost of these financial assets approximates their respective fair values at balance sheet date.

11 Available-for-sale financial assets (continued)

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

	2013 AED'000	2012 AED'000
US Dollar	18,740	-
Saudi Riyal	53,308	-
Jordanian Dinar	3,111	2,384
	75,159	2,384

12 Financial assets at fair value through profit or loss

	2013 AED'000	2012 AED'000
Investment in a real estate fund	4,678	4,821

The movement in financial assets is as under:

At 1 January	4,821	5,189
Disposal	-	(368)
Fair value loss (Note 29)	(143)	-
At 31 December	4,678	4,821

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 - net" (Note 29).

	2013 AED'000	2012 AED'000
13 Derivative financial instruments		
Non-current liability		
Equity warrants	-	485
Interest rate swaps	-	21,174
	-	21,659
The notional principal amounts outstanding are:		
Equity warrants	-	146,960
Interest rate swaps	-	441,550
	-	588,510

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

	2013 AED'000	2012 AED'000
Principal amount outstanding (in thousands):		
USD denominated (115,000 thousand)	-	422,395
AED	-	166,000

The Group issued equity warrants to Goldman Sachs International ("GSI") during the year ended 31 December 2012. These warrants had a notional value of USD 40 million equivalents to AED 147 million which represented approximately 9% of the Company's market capitalisation.

During the year, the Group settled all the derivative financial liabilities in cash for an amount of AED 20,153 thousand and as a result net fair value gain of AED 1,506 thousand was recognised in the consolidated income statement under "Other losses - net".

14 Development properties

During the year, one of the development properties projects amounting to AED 47,025 thousand was completed. An amount of AED 17,649 thousand represents the total cost of the project units that were sold to third parties and where the Group recognised a loss of AED 5,160 thousand (Refer Note 29) at the time of sale. The remaining units amounting to AED 29,376 thousand have been rented out and classified as investment property (Refer Note 10). During the year, additions of AED 1,306 thousand were made to development properties. The development properties have been classified as current as they are expected to be realised in the Group's operating cycle.

	2013 AED'000	2012 AED'000

15 Inventories

	2013 AED'000	2012 AED'000
Materials and consumables	30,259	26,510

16 Cash and bank balances

	2013 AED'000	2012 AED'000
Cash on hand	4,160	2,782
Cash at bank	281,543	636,941
Term deposits	272,514	90,977
Cash and bank balances	558,217	730,700

Term deposits carry an average interest rate of 1% to 4% (2012: 1% to 5%).

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

	2013 AED'000	2012 AED'000
Cash and bank balances	558,217	730,700
Less: Term deposits under lien	(112,765)	(44,157)
Bank overdrafts (Note 20)	(123,186)	(59,642)
Restricted cash	-	(444,867)
Cash and cash equivalents	322,266	182,034

The movement in restricted cash represents release of cash on repayment of the syndicated facility arrangement (Note 20).

17 Share capital

	2013 AED'000	2012 AED'000
Authorised, issued and fully paid		
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	107,269
980,000,000 shares of AED 1 each paid in kind (See ii below)	980,000	980,000
	2,285,047	2,285,047

17 Share capital (continued)

(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. During the year, these shares were re-issued at an average price of AED 0.977 per share amounting to AED 31,648 thousand, recognising a share premium of AED 3,026 thousand.

(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 had been reflected in the consolidated statement of changes in equity, accordingly.

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. A transfer of AED 14,503 thousand was made from retained earnings to this reserve at balance sheet date.

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 160,000 thousand. The 20% shares were owned equally by two individuals. The Group paid one of the shareholders fully in cash and paid the other shareholder partially in cash and settled the remaining balance for 6% shares in another subsidiary, Drake and Scull Construction LLC (a wholly owned subsidiary of the Parent Company).

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

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 investment requirements.

	2013 AED'000	2012 AED'000
Non-current		
Term loan	48,878	119,384
Current		
Term loan	128,400	611,203
Trust receipts and other borrowings	816,006	538,529
Bank overdrafts (Note 16)	123,186	59,642
31 December	1,067,592	1,209,374

The movement in carrying value of term loan is as follows:

	2013 AED'000	2012 AED'000
At 1 January	730,587	588,403
New term loan during the year	24,350	604,817
Repayment of term loan during the year	(577,659)	(462,633)
31 December	177,278	730,587

The carrying amount of the Group's borrowings is 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 included in Note 3.1.

The Group entered into a syndicated facility agreement dated 13 November, 2012, amounting to USD 75,000 thousand (equivalent to AED 278 million) and AED 166,800 thousand with local and international banks. The facility was 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 had issued promissory notes of AED 178,503 thousand and USD 80,250 thousand.

During the year, the Group repaid all borrowing under this syndicated loan facility of AED 444,867 thousand.

Interest rates on the term loans were at variable rates and ranging between 2% to 6.5% (2012: 2% to 8.5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

20 Bank borrowings (continued)

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

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

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.5% and are within level 2 of the fair value hierarchy. 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.

21 Trade and other payables

	2013 AED'000	2012 AED'000
Trade payables and accruals	2,035,469	1,517,923
Amount due to customers on contracts	104,253	80,112
Advances from customers	799,187	607,123
	2,938,909	2,205,158
Amounts due to customers on contracts comprise:		
Progress billings	1,624,293	912,068
Less: Cost incurred to date	(1,278,104)	(801,749)
Less: Recognised profits	(241,936)	(30,207)
	104,253	80,112

22 Provision for employees' end of service benefits

	2013 AED'000	2012 AED'000
At 1 January	84,669	65,108
Transfer from a related party	-	4,195
Charge for the year	41,665	29,537
Payments during the year	(16,100)	(14,171)
	110,234	84,669

22 Provision for employees' end of service benefits (continued)

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

	2013 AED'000	2012 AED'000
Contract costs (Note 26)	36,542	25,533
General and administrative expenses (Note 28)	5,123	4,004
	41,665	29,537

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 2013 and 2012, 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 3.5% (2012: 3.5%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 4.5% per annum (2012: 3% per annum).

23 Related party transactions and balances

Related parties comprise the majority shareholders, key management personnel, joint arrangements, 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.

From 1 January 2013 to 31 December 2013:

Significant related party transactions with affiliates amount to AED 59,817 thousand and mainly represent sub-contracting charges on contracts.

From 1 January 2012 to 31 December 2012:

Significant related party transactions include management fees charged by Drake & Scull Group ("DSG"), an entity owned by the Chief Executive Officer of the Company, amounting to AED 14,800 thousand.

23 Related party transactions and balances (continued)

The outstanding balances with related parties are given below:

Due from related parties:

	2013 AED'000	2012 AED'000
Joint arrangements	216,548	22,408
Affiliated entities	52,080	3,582
	268,628	25,990

Due to related parties:		
Drake and Scull Group	818	842
Joint arrangements	4,314	-
Affiliated entities	14,313	10,857
	19,445	11,699

Compensation of key management personnel

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

	Year ended 31 December	
	2013 AED'000	2012 AED'000
Salaries and short term benefits	44,008	34,877
Employees' end of service benefits	3,018	2,112
	47,026	36,989

24 Finance (costs)/income – net

Interest income on term deposits	9,908	9,136
Interest income on loans and advances	13,239	20,492
Interest income on held-to-maturity investments	-	4,059
Total Finance income	23,147	33,687
Finance costs - Interest expense on bank borrowings	(36,032)	(17,078)
Finance (costs)/income – net	(12,885)	16,609

	Year ended 31 December 2013 AED'000	2012 AED'000
25 Other income		
Rent income	5,671	1,545
Scrap sale	4,224	6,299
Gain on disposal of property and equipment	982	1,218
Others	9,781	3,061
	20,658	12,123
26 Contract costs		
Material costs	1,740,148	1,098,975
Sub-contracting costs	1,141,128	911,397
Labour and staff costs (Note 27)	737,513	484,577
Overheads	697,696	386,312
Employees' end of service benefits (Note 22)	36,542	25,533
Depreciation (Note 6)	29,269	31,560
	4,382,296	2,938,354
27 Staff cost		
Contract costs (Note 26)	705,360	484,577
General and administrative expenses (Note 28)	155,494	134,261
	860,854	618,838
28 General and administrative expenses		
Staff costs (Note 27)	155,494	134,261
Business development, legal and professional fee	58,385	31,474
Amortisation (Note 7)	37,750	37,750
Depreciation (Note 6)	18,119	11,007
Bank charges	7,978	10,235
Employees' end of service benefits expense (Note 22)	5,123	4,004
Provision for impairment of trade receivables and retentions – net of reversals (Note 8)	22,509	12,081
Management fees (Note 23)	-	14,800
Other expenses	23,223	9,681
	328,581	265,293

	Year ended 31 December	
	2013	2012
	AED'000	AED'000
29 Other losses - net		
Fair value gain on settlement of share swaps	5,583	-
Loss on sale of development properties (Note 14)	(5,160)	-
Impairment reversal/(loss) on available-for-sale financial assets (Note 11)	727	(3,583)
Gain on sale of available-for-sale financial assets (Note 11)	-	8,815
Gain on sale of held-to-maturity investments	-	4,450
Fair value loss on interest rate swaps (Note 13)	(4,050)	(21,174)
Fair value loss on financial assets at fair value through profit or loss (Note 12)	(143)	-
Loss on settlement of equity warrants	(27)	(485)
	(3,070)	(11,977)

30 Income tax expense

The major components of income tax expense are as follows:

	2013	2012
Current income tax expense:		
Current income tax charge	(48,891)	(19,661)
Deferred income tax credit/(expense):		
Relating to origination and reversal of temporary differences	(6,432)	328
	(55,323)	(19,333)

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	Total AED'000
Assets as per balance sheet				
31 December 2013				
Trade and other receivables (excluding advances and prepayments)	4,278,202	-	-	4,278,202
Financial assets at fair value through profit or loss (Note 12)	-	4,678	-	4,678
Available-for-sale financial assets (Note 11)	-	-	75,159	75,159
Due from related parties (Note 23)	268,628	-	-	268,628
Cash and bank balances (Note 16)	558,217	-	-	558,217
Total	5,105,047	4,678	75,159	5,184,884
31 December 2012				
Trade and other receivables (excluding advances and prepayments)	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 Financial instruments by category (continued)

	AED'000
Other financial liabilities at amortised cost	
31 December 2013	
Bank borrowings (Note 20)	1,116,470
Due to related parties (Note 23)	19,445
Trade payables and accruals excluding advances from customers (Note 21)	2,139,722
Other financial liabilities at fair value through profit and loss	
Derivative financial instruments (Note 13)	-
Total	3,275,637

	AED'000
Other financial liabilities at amortised cost	
31 December 2012	
Bank borrowings (Note 20)	1,328,758
Due to related parties (Note 23)	11,699
Trade payables and accruals excluding advances from customers (Note 21)	1,598,035
Other financial liabilities at fair value through profit and loss	
Derivative financial instruments (Note 13)	21,659
Total	2,960,151

32 Investment accounted for using the equity method

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

	2013 AED'000	2012 AED'000
Cost of investment	29,206	-
Share of profit	64,043	-
At 31 December	93,249	-

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

32 Investment accounted for using the equity method (continued)

Nature of investment in joint ventures

Name of entity	Country of incorporation	% of ownership interest	Nature of relationship	Measurement method
DSO Developments Limited	Cayman Islands	50	Note 1	Equity

Note 1: The principal activity of DSO Development Limited is real estate investment and development.

DSO Developments Limited is a private company and there is no quoted market price available for its shares.

Commitments and contingent liabilities in respect of joint venture

The Group has no commitments and contingent liabilities relating to its joint venture.

Summarised financial information for joint venture

The summarised financial information for DSO Developments Limited which is accounted for using the equity method is shown overleaf.

Summarised balance sheet

	2013 AED'000	2012 AED'000
Current assets		
Due from related parties	26,436	-
Cash and cash equivalents	54	-
Total current assets	26,490	-
Current liabilities		
Trade and other payables	40,661	-
Non-current asset		
Investment property	329,354	-
Non-current liability		
Long term payable	128,685	-
Net assets	186,498	

32 Investment accounted for using the equity method (continued)

Summarised statement of comprehensive income

	Period ended 31 December 2013 AED'000	Period ended 31 December 2012 AED'000
General and administrative expenses	(7,802)	-
Operating loss for the period	(7,802)	-
Gain on revaluation of investment property	122,878	-
Gain on fair valuation of long term payables	13,010	-
Profit for the period	128,086	-
Other comprehensive income	-	-
Total comprehensive income for the period	128,086	-

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture

	2013 AED'000	2012 AED'000
Share capital introduced	58,412	-
Profit for the year	128,086	-
Net assets at 31 December	186,498	-
Interest in joint venture at 50%	93,249	-
Carrying value	93,249	-

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.

	Year ended	
	31 December 2013	31 December 2012
Earnings (AED'000)		
Earnings for the purposes of basic earnings per share being profit attributable to owners of the parent	166,469	94,293
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,295,432,420	2,252,646,667
Basic earnings per share (AED)	0.073	0.042

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 0.08 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 consolidated statement of changes in equity.

35 Guarantees

	2013 AED'000	2012 AED'000
Performance bonds	1,004,345	921,909
Letter of guarantees	1,266,331	705,617
	2,270,676	1,627,526

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

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:

	2013 AED'000	2012 AED'000
Future minimum lease payments:		
No later than one year	10,457	26,009
Later than one year but no later than five years	26,551	12,324
Later than five years	1,742	1,633
	38,750	39,966

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	687,121	363,066