Drake and Scull International PJSC

Condensed consolidated interim financial information for the nine-month period ended 30 September 2015

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Drake and Scull International PJSC (the "PJSC") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2015 and the related condensed consolidated interim income statement and statement of comprehensive income for the three-month and nine-month periods then ended, and condensed consolidated interim statements of changes in equity and cash flows for the nine-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

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

Emphasis of Matters

We draw attention to Note 3.1 and Note 9 to this condensed consolidated interim financial information, which describes a critical accounting estimate and judgement on revenue recognition relating to unapproved change orders and claims.

Further, we draw attention to Note 12 to this condensed consolidated interim financial information, which states that as of 30 September 2015, the Group was in breach of the financial covenants of the borrowing facilities with its lenders.

Our conclusion is not qualified in respect of these matters.

PricewaterhouseCoopers
12 November 2015

Paul Suddaby

Paul Suddaby
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Drake and Scull International PJSC

Condensed consolidated interim balance sheet

	Note	As at 30 September 2015 Unaudited AED'000	As at 31 December 2014 Audited AED'000
ASSETS			
Non-current assets			
Property and equipment	7	520,420	534,538
Intangible assets		1,035,552	1,060,719
Investment property	8	29,376	29,376
Investments accounted for using the equity method	18	412,846	264,812
Deferred income tax assets		5,461	5,811
Available-for-sale financial assets		40,753	40,753
Trade and other receivables	9	253,375	227,650
		2,297,783	2,163,659
Current assets			
Inventories		39,566	44,817
Development properties		19,111	19,111
Trade and other receivables	9	4,996,930	5,474,175
Due from related parties	10	121,199	91,479
Financial assets at fair value through profit or loss		5,368	5,368
Cash and bank balances	11	475,819	758,120
		5,657,993	6,393,070
Total assets		7,955,776	8,556,729
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		2,285,047	2,285,047
Share premium		3,026	3,026
Statutory reserve		116,677	116,677
Other reserve		24,543	24,543
(Accumulated losses)/retained earnings		(248,904)	593,554
Foreign currency translation reserve		(20,096)	(15,286)
		2,160,293	3,007,561
Non-controlling interests		(40,574)	68,425
Total equity		2,119,719	3,075,986
LIABILITIES			
Non-current liabilities			
Bank borrowings	12	513,725	534,084
Deferred income tax liabilities		1,991	2,153
Employees' end of service benefits		167,692	150,962
		683,408	687,199
Current liabilities			
Trade and other payables		3,085,058	2,988,595
Bank borrowings	12	1,827,266	1,676,599
Due to related parties	10	240,325	128,350
		5,152,649	4,793,544
Total liabilities		5,836,057	5,480,743
Total equity and liabilities		7,955,776	8,556,729

The condensed consolidated interim financial information was approved by the Board of Directors on 12 November 2015 signed on its behalf by:

.... Chairman

.... Chief Executive Officer

The notes on pages 8 to 25 are an integral part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

Condensed consolidated interim income statement

		Nine months ended 30 September		Three months ended 30 September	
		2015	2014	2015	2014
	Note	AED'000	AED'000	AED'000	AED'000
		Unaudited	Unaudited	Unaudited	Unaudited
Contract revenue	6	2,829,607	3,593,693	433,795	1,240,309
Contract costs		(3,310,359)	(3,246,970)	(1,116,577)	(1,105,183)
Gross (loss/)profit		(480,752)	346,723	(682,782)	135,126
Other income		17,499	11,473	4,822	4,625
General and administrative expenses		(451,206)	(248,475)	(294,111)	(109,226)
Operating (loss)/profit		(914,459)	109,721	(972,071)	30,525
Finance income		7,961	8,582	899	3,842
Finance costs	13	(36,840)	(9,503)	(13,848)	(4,475)
Finance costs – net		(28,879)	(921)	(12,949)	(633)
Share of (loss)/profit from investments		(2,594)	13,235	(219)	985
(Loss)/profit for the period before tax		(945,932)	122,035	(985,239)	30,877
Income tax expense and zakat	14	(5,525)	(25,159)	(233)	(5,717)
(Loss)/profit for the period		(951,457)	96,876	(985,472)	25,160
Attributable to:					
Owners of the Parent		(842,458)	87,557	(877,810)	21,373
Non-controlling interests		(108,999)	9,319	(107,662)	3,787
		(951,457)	96,876	(985,472)	25,160
Earnings per share					
- Basic and diluted (AED)	15	(0.369)	0.0383	(0.384)	0.0094

Drake and Scull International PJSC

Condensed consolidated interim statement of comprehensive income

	Nine months ended 30 September		Three months ended 30 September	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
	Unaudited	Unaudited	Unaudited	Unaudited
(Loss)/profit for the period	(951,457)	96,876	(985,472)	25,160
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss				
Currency translation differences	(4,810)	4,072	377	(2,590)
Other comprehensive (loss)/income for the period	(4,810)	4,072	377	(2,590)
Total comprehensive (loss)/income for the period	(956,267)	100,948	(985,095)	22.570
Attributable to:				
Owners of the Parent	(847,268)	91,629	(877,433)	18,783
Non-controlling interests	(108,999)	9,319	(107,662)	3,787
	(956,267)	100,948	(985,095)	22,570

Drake and Scull International PJSC

Condensed consolidated interim statement of changes in equity

	Share capital AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserve AED'000	Retained earnings / (Accumulated losses) AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2014	2,285,047	3,026	93,722	24,543	515,801	(15,685)	2,906,454	68,372	2,974,826
Profit for the period	-	-	-	-	87,557	-	87,557	9,319	96,876
Other comprehensive income for the period	-	-	-	-	-	4,072	4,072	-	4,072
Total comprehensive income for the period	-	-	-	-	87,557	4,072	91,629	9,319	100,948
Amount contributed by non-controlling interests	-	-	-	-	-	-	-	89	89
Balance at 30 September 2014 (Unaudited)	2,285,047	3,026	93,722	24,543	603,358	(11,613)	2,998,083	77,780	3,075,863
Balance at 1 January 2015	2,285,047	3,026	116,677	24,543	593,554	(15,286)	3,007,561	68,425	3,075,986
Loss for the period	-	-	-	-	(842,458)	-	(842,458)	(108,999)	(951,457)
Other comprehensive loss for the period	-	-	-	-	-	(4,810)	(4,810)	-	(4,810)
Total comprehensive loss for the period	-	-	-	-	(842,458)	(4,810)	(847,268)	(108,999)	(956,267)
Balance at 30 September 2015 (Unaudited)	2,285,047	3,026	116,677	24,543	(248,904)	(20,096)	2,160,293	(40,574)	2,119,719

The notes on pages 8 to 25 are an integral part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows

	Note	Nine months ended 30 September 2015 AED'000 Unaudited	2014 AED'000 Unaudited
Operating activities			
(Loss)/profit for the period before tax		(945,932)	122,035
Adjustments for:			
Depreciation	7	47,713	39,372
Amortisation of intangible assets		25,167	28,313
Provision for employees' end of service benefits		31,555	32,315
Finance costs	13	80,613	62,973
Loss on disposal of property and equipment		2,919	1,093
Provision for impairment of trade receivables and retentions - net		220,579	24,573
Finance income		(7,961)	(8,582)
Share of loss/(profit) from investment in joint venture using the equity method		1,872	(13,235)
Gain on investment		(1,874)	-
Share of loss from investment in an associate		722	-
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		(544,627)	288,857
Payment of employees' end of service benefits		(14,825)	(9,557)
Income tax paid		(37,632)	(9,483)
Changes in working capital:			
Inventories		5,251	(18,149)
Trade and other receivables before provisions and excluding interest receivable and loans and advances		182,501	(1,117,363)
Due from related parties		(100,533)	176,657
Trade and other payables excluding income tax and interest payable		131,726	(103,331)
Due to related parties		34,041	152,196
Net cash used in operating activities		(344,098)	(640,173)
Balance carried forward		(344,098)	(640,173)

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows (continued)

	Note	Nine months ended 30 September 2015 AED'000 Unaudited	2014 AED'000 Unaudited
Balance brought forward		(344,098)	(640,173)
Investing activities			
Purchase of property and equipment	7	(36,514)	(61,854)
Purchase of available-for-sale financial assets		-	(18,902)
Loans and advances		55,606	26,675
Interest received		788	4,199
Net cash generated from/(used in) investing activities		19,880	(49,882)
Financing activities			
Term deposits under lien		(42,806)	(84,398)
Net proceeds from trust receipts and other borrowings		143,051	284,087
Proceeds from term loans		215,322	429,198
Payment of term loans		(243,998)	(165,120)
Interest paid		(83,581)	(66,979)
Amount contributed by non-controlling interests		-	89
Net cash (used in)/generated from financing activities		(12,012)	396,877
Net decrease in cash and cash equivalents		(336,230)	(293,178)
Net foreign currency translation differences		(4,810)	4,072
Cash and cash equivalents, beginning of the period		196,445	322,266
Cash and cash equivalents, end of the period	11	(144,595)	33,160

Drake and Scull International PJSC

Notes to the condensed consolidated interim financial information for the nine month period ended 30 September 2015

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 % 30 September		Country of incorporation
		2015	2014	
Drake & Scull International LLC (Abu Dhabi)	Contracting work related to mechanical, electrical and sanitary engineering	100	100	UAE
Gulf Technical Construction Company LLC	Mechanical, electrical and civil construction work	100	100	UAE
Drake & Scull Engineering formerly Drake & Scull Water and Power LLC	Engineering, procurement and construction of Water and Power Infrastructure projects	100	100	UAE
Drake & Scull International for Electrical Contracting WLL	Mechanical, Electrical contracting and repairing work relating to the construction industry	75	75	Kuwait
Drake & Scull International (Qatar) WLL	Mechanical, electrical and plumbing activities	100	100	Qatar
Passavant Energy & Environment and its subsidiaries (a subsidiary of Passavant Engineering Limited)	Developing waste water, water and sludge treatment plants	100	100	Germany
Drake & Scull International WLL	Implementation of construction contracts, operation and maintenance of electrical and mechanical installations and related activities	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 mechanical, electrical and sanitary engineering	100	100	Egypt
Drake & Scull International LLC (Oman)	Contracting work related to mechanical, electrical and sanitary engineering	51	51	Oman

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 this condensed consolidated interim financial information.

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 this condensed consolidated interim financial information.

The Group, through Drake & Scull International Saudi Co.LLC, also has a 50% interest in a joint venture with Specon Saudi LLC under a joint arrangement agreement dated 14 February 2013. This is classified as joint operation in this condensed consolidated interim financial information.

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 this condensed consolidated interim financial information.

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 this condensed consolidated interim financial information.

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

Drake and Scull International PJSC, also 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 this condensed consolidated interim financial information.

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 this condensed consolidated interim financial information.

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 this condensed consolidated interim financial information.

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 (One Palm Jumeirah Investment Limited). This is classified as joint venture in this condensed consolidated interim financial information.

2 Basis of preparation and accounting policies

2.1 Basis of preparation

This condensed consolidated interim financial information for the nine months ended 30 September 2015 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards.

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

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014.

2.3 Basis of consolidation

The condensed consolidated interim financial information at and for the nine months period ended 30 September 2015 comprises results of the Group. The condensed interim financial information of the subsidiaries is prepared for the same reporting period as that of the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

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

3 Estimates and assumptions

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

In preparing this condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

3.1 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.

Revenue recognition

The main uncertainty when assessing contract revenue is related to recoverable amounts from variation orders, claims and incentive payments which are recognised when, in the group's judgement, it is probable that they will result in revenue and are measurable. This assessment is adjusted upon management's evaluation of liquidated damages to be imposed by customers typically relating to contractual delivery terms. In many projects there are frequent changes in scope of work resulting in a number of variation orders. Normally contracts with customers include procedures for presentation of an agreement of variation orders. At any point in time, there will be unapproved variation orders and claims included in the project revenue where recovery is assessed as probable and other criteria are met. Even though management has extensive experience in assessing the outcome of such negotiations, uncertainties exist.

Cost to complete depends on productivity factors and the cost of inputs. The performance of subcontractors and others with an impact on schedules, commodity prices and currency rates can all affect cost estimates. Experience, systematic use of the project execution model and focus on core competencies reduces but does not eliminate the risk that estimates may change significantly. A risk contingency is included in project cost based on the risk register that is prepared for every project.

Progress measurement based on costs has an inherent risk related to the cost estimate as described above. In situations where cost is not seen to properly reflect actual progress, alternative measures such as hours or plan progress are used to achieve more precise revenue recognition.

The estimation uncertainty during the early stages of a contract is mitigated by a policy of normally not recognising revenue in excess of costs on large projects before the contract reaches 20% completion. However, management can on a project-by-project basis give approval of earlier recognition if cost estimates are considered reliable. Cost estimates can be considered reliable in situations of repeat projects, proven technology, proven execution model or when committed costs are high so there is low risk of material changes to the cost estimates.

The application of these policies requires management to apply judgement in estimating the total revenue and total costs expected on each project. Such estimates are revised as a project progresses to reflect the current status of the project and the latest information available to management. Project management teams perform regular reviews to ensure the latest estimates are appropriate.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

Revenue recognition (continued)

In the management's view, one of the projects awarded to a subsidiary of the Group is subject to estimation uncertainty, the outcome of which could have a material impact on the condensed consolidated interim financial information. The completion of the project is currently scheduled to occur during the fourth quarter of 2015. The project is delayed and costs have increased due to, among other factors, changes to the project, and third party actions in furnishing design, equipment and materials, all of which have directly and adversely impacted the cost and timing of work on the project.

4 Financial risk management and financial instruments

4.1 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.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements; it should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2014. The Group's financial risk management objectives and policies are consistent with that disclosed in the annual consolidated financial statements at and for the year ended 31 December 2014.

There have been no changes in the risk management department or in any risk management policies since the year end.

4.2 Liquidity risk factors

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

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

Compared to year ended 31 December 2014, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

4.3 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

4 Financial risk management and financial instruments (continued)

4.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 30 September 2015.

	Level 1 AED'000 Unaudited	Level 2 AED'000 Unaudited	Level 3 AED'000 Unaudited	Total AED'000 Unaudited
Assets				
Financial assets at fair value through profit or loss				
- Investment in Real Estate fund	-	5,368	-	5,368
Available for sale financial assets				
- Equity securities	2,358	-	753	3,111
Total assets	2,358	5,368	753	8,479

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 AED'000 Audited	Level 2 AED'000 Audited	Level 3 AED'000 Audited	Total AED'000 Audited
Assets				
Financial assets at fair value through profit or loss				
- Investment in Real Estate fund	-	5,368	-	5,368
Available for sale financial assets				
- Equity securities	2,358	-	753	3,111
Total assets	2,358	5,368	753	8,479

The Group has no liabilities measured at fair value at 30 September 2015 and 31 December 2014.

4 Financial risk management and financial instruments (continued)

4.3 Fair value measurements and disclosures (continued)

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

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

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

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

At 30 September 2015 and 31 December 2014, the fair values of financial assets and liabilities measured at amortised cost approximate their carrying values.

(b) *Group's valuation processes*

The Group's finance department includes a team of financial analysts that performs the valuations of financial assets required for financial reporting purposes. This team reports to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and the valuation team at least once every quarter, in line with the Group's quarterly reporting dates.

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

The Group has subscriptions to brokers information that allow the Group to gather relevant information.

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

(c) *Fair value of financial assets and liabilities measured at amortised cost*

The fair value of following financial assets and liabilities approximate their carrying value at 30 September 2015:

- Trade and other receivables;
- Other current financial assets;
- Cash and cash equivalents (excluding bank overdrafts);
- Trade and other payables; and
- Bank borrowings.

5 Seasonality of operations

The Group's financial results for any nine months are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to regional and local economies and market conditions.

6 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.

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

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

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 and 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 a subsidiary carrying out contracting work in energy and environment industry and 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 mutually agreed terms. The revenue from external parties reported to the Executive management is measured in a manner consistent with that in the condensed consolidated interim 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 four 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, Algeria, India, Iraq, and Jordan.

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2015 (continued)

6 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Nine months ended 30 September 2015 (Unaudited)						Nine months ended 30 September 2014 (Unaudited)					
	Engineering	Civil	Oil and Gas	Other	Inter segment elimination	Total	Engineering	Civil	Oil and Gas	Other	Inter Segment elimination	Total
Revenue												
External customers	1,842,119	762,741	28,719	196,028	-	2,829,607	1,778,857	1,462,699	226,491	125,646	-	3,593,693
Inter- segment	190,840	19,122	-	6,404	(216,366)	-	358,185	-	-	18,122	(376,307)	-
	2,032,959	781,863	28,719	202,432	(216,366)	2,829,607	2,137,042	1,462,699	226,491	143,768	(376,307)	3,593,693
Segment (loss)/profit	(326,615)	(605,036)	(5,187)	(14,619)	-	(951,457)	37,578	16,085	45,676	(2,463)	-	96,876
Depreciation and amortisation	23,438	20,728	1,665	27,049	-	72,880	21,816	14,278	1,048	30,543	-	67,685
Capital expenditure	16,763	19,426	28	297	-	36,514	32,966	23,784	203	4,901	-	61,854
	At 30 September 2015 (Unaudited)						At 31 December 2014 (Audited)					
Segment total assets	4,043,387	2,655,787	171,659	3,858,107	(2,773,164)	7,955,776	3,927,012	3,120,308	201,942	3,621,297	(2,313,830)	8,556,729

During the nine month period ended 30 September 2015, there was no customer that exceeded 10% the total revenue of the Group. (Nine month period ended 30 September 2014: AED 707,551 thousand relating to civil works).

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2015 (continued)

6 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	Nine months ended 30 September 2015 (Unaudited)						Nine months ended 30 September 2014 (Unaudited)					
	UAE	Saudi Arabia	Iraq	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Iraq	Others	Inter segment elimination	Total
Revenue from external customers	905,673	787,536	26,807	1,109,591	-	2,829,607	906,798	1,580,812	202,310	903,773	-	3,593,693
	At 30 September 2015 (Unaudited)						At 31 December 2014 (Audited)					
Non-current assets	2,478,444	325,076	7,865	131,319	(644,921)	2,297,783	2,324,168	313,445	8,260	109,991	(592,205)	2,163,659

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2015 (continued)

7 Property and equipment

The Group acquired property and equipment during the nine-month period ended 30 September 2015 amounting to AED 36,514 thousand (2014: AED 61,854 thousand). The Group disposed property and equipment during the nine-month period ended 30 September 2015 amounting to AED 2,919 thousand (2014: AED 1,093 thousand) and depreciation charged to the condensed consolidated interim income statement amounted to AED 47,713 thousand (2014: AED 39,372 thousand).

8 Investment property

The fair value of investment property was equivalent to the carrying value at condensed consolidated interim balance sheet date.

	Fair value measurements at 30 September 2015 (Unaudited) and 31 December 2014 (Audited) 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

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

9 Trade and other receivables

	30 September AED'000 Unaudited	31 December AED'000 Audited
Non-current		
Trade receivables and retentions	264,214	239,766
Less: fair value adjustment	(10,839)	(12,116)
	253,375	227,650
Current		
Trade receivables and retentions	1,503,583	1,751,067
Prepayments and other receivables	557,747	453,622
Amount due from customers on contracts	3,229,881	3,287,582
Loans and advances	29,943	85,549
	5,321,154	5,577,820
Less: provision for impairment	(324,224)	(103,645)
	4,996,930	5,474,175

9 Trade and other receivables (continued)

Change orders and claims

Due from customers on contracts include an amount of AED 846 million relating to unapproved change orders and claims recorded in the consolidated statement of income as contract revenue and contract cost to date.

The Group has recognised these costs and revenues at no profit margin as management believes that the unapproved change orders are fully recoverable and that the amount of the claims element included in the aforesaid amount will be at least recoverable at cost. Previous change orders and variations were approved to the extent of 80% of the change orders submitted. In determining the revenue recognised management has considered a conservative estimate of change orders will be approved. The cost to complete has been reasonably estimated by management at the original price of contracts taking into account previously agreed contractual rates.

10 Related party transactions and balances

Related parties comprise the major shareholders, key management personnel, joint venture partners, directors and businesses which are controlled directly or indirectly by the 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 2015 to 30 September 2015:

The outstanding balances with related parties are given below:

	30 September 2015 AED'000 Unaudited	31 December 2014 AED'000 Audited
Due from related parties:		
Joint arrangements	113,073	90,610
Affiliates	8,126	869
	121,199	91,479
Due to related parties:		
Joint arrangements	90,596	28,560
Affiliates	149,729	99,790
	240,325	128,350

10 Related party transactions and balances (continued)

Significant related party transactions:

Significant related party transactions with affiliates amounted to AED 34,274 thousand (1 January 2014 to 30 September 2014: AED 6,361 thousand) that mainly represent funds received from a related party to meet working capital requirements.

Compensation of key management personnel

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

	Nine months ended		Three months ended	
	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited
Short term benefits	25,148	29,552	4,083	9,473
Employees' end of service benefits	1,912	2,601	474	762
	27,060	32,153	4,557	10,235

11 Cash and bank balances

	30 September 2015 AED'000 Unaudited	31 December 2014 AED'000 Audited
Cash on hand	6,487	4,116
Cash at bank	209,131	335,592
Term deposits	260,201	418,412
Cash and bank balances	475,819	758,120

Term deposits carry an average interest rate of 1% to 4% (2014: 1% to 4%).

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

	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited
Cash and bank balances	475,819	600,306
Less: term deposits under lien	(243,699)	(197,163)
Bank overdrafts (Note 12)	(376,715)	(369,983)
Cash and cash equivalents	(144.595)	33,160

12 Bank borrowings

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

	30 September 2015 AED'000 Unaudited	31 December 2014 AED'000 Audited
Non-current		
Term loan	513,725	534,084
Current		
Term loan	337,617	345,934
Trust receipts and other borrowings	1,112,934	969,883
Bank overdrafts	376,715	360,782
	1,827,266	1,676,599

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

During the nine month period ended 30 September 2015, the Group has obtained two new term loans amounting to OMR (Omani Rial) 2.5 million and AED 10.7 million (2014: USD 20 million and AED 275 million) from an international and local banks respectively. Term loans payable within twelve months at the date of condensed consolidated interim balance sheet are classified within current liabilities.

Interest rates on the term loans were at variable rates and ranging between 2% to 6.5% (2014: 2% to 5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

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

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

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

At 30 September 2015, the Group was not in compliance with the financial covenants in relation to the syndicated Sukuk facility and other borrowing facilities.

As per the term of the syndicated Sukuk facility agreement, Management is required to give notice to the lenders about the breach in covenants and remediate the breach within 90 days of giving the notice. Management is expected to notify the lenders on 12 November 2015. In addition, management is required to notify the lenders of the other borrowing facilities regarding the breach and arrange to remediate the breaches before 31 December 2015.

13 Finance costs

	Nine months ended		Three months ended	
	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited
Finance costs	80,613	62,973	26,109	25,618
Less: charged to cost of sales	(43,773)	(53,470)	(12,261)	(21,143)
	36,840	9,503	13,848	4,475

14 Income tax expense

The major components of income tax expense are:

	Nine months ended		Three months ended	
	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited	30 September 2015 AED'000 Unaudited	30 September 2014 AED'000 Unaudited
Current income tax expense:				
Current income tax charge	5,337	24,576	267	5,077
Deferred income tax expense				
Relating to origination and reversal of temporary differences	188	583	(34)	640
	5,525	25,159	233	5,717

15 Earnings per share

(a) *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 period excluding ordinary shares purchased and held as treasury shares.

	Nine months ended		Three months ended	
	30 September 2015	30 September 2014	30 September 2015	30 September 2014
	Unaudited	Unaudited	Unaudited	Unaudited
Earnings (AED'000)				
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Parent	(842,458)	87,557	(877,810)	21,373
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,285,046,667	2,285,046,667	2,285,046,667	2,285,046,667
Basic and diluted earnings per share (AED)	(0.369)	0.0383	(0.384)	0.0094

(b) *Diluted*

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

16 Guarantees

	30 September 2015	31 December 2014
	AED'000	AED'000
	Unaudited	Audited
Performance bonds	1,653,006	1,438,543
Letter of guarantees	1,222,259	1,503,315
	2,875,265	2,941,858

The various bank guarantees disclosed 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.

17 Expenditure commitments

(a) *Operating lease commitments*

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

	30 September 2015 AED'000 Unaudited	31 December 2014 AED'000 Audited
Future minimum lease payments:		
No later than one year	16,641	15,976
Later than one year but no later than five years	23,602	24,103
Later than five years	1,731	1,753
	41,974	41,832

(b) *Other commitments*

Letters of credit for purchase of materials and operating equipment	1,074,114	1,115,223

18 Investments accounted for using the equity method

During the quarter ended 30 September 2015, the Group has increased its investments in its joint venture through the conversion of an existing balance due from the joint venture into share capital.