Drake and Scull International PJSC

Condensed consolidated interim financial information (Unaudited) for the three-month period ended 31 March 2016

Drake and Scull International PJSC

Condensed consolidated interim financial information for the three-month period ended 31 March 2016

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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 31 March 2016 and the related condensed consolidated interim income statement, statements of comprehensive income, changes in equity and cash flows for the three-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 matter

We draw attention to Note 3.1 and Note 8 to this condensed consolidated interim financial information, which describe a critical accounting estimate and judgement on revenue recognition relating to unapproved change orders and claims.

Our conclusion is not qualified in respect of this matter.

PricewaterhouseCoopers
12 May 2016

Paul Suddaby

Paul Suddaby
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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

Drake and Scull International PJSC

Condensed consolidated interim balance sheet

	Note	As at 31 March 2016 AED'000 Unaudited	As at 31 December 2015 AED'000 Audited
ASSETS			
Non-current assets			
Property and equipment	7	496,236	509,610
Intangible assets		1,018,775	1,027,164
Deferred income tax assets		17,736	17,315
Available-for-sale financial assets		22,182	40,753
Trade and other receivables	8	309,264	319,225
		1,864,193	1,914,067
Current assets			
Inventories		38,904	36,891
Development properties		8,560	8,560
Trade and other receivables	8	5,264,559	5,073,370
Due from related parties	9	58,144	95,536
Financial assets at fair value through profit or loss		5,368	5,368
Cash and bank balances	10	465,867	493,433
		5,841,402	5,713,158
Assets classified as held for sale	17	450,451	450,451
Total assets		8,156,046	8,077,676
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,285,047	2,285,047
Share premium		3,026	3,026
Statutory reserve		125,760	125,760
Other reserve		24,543	24,543
Accumulated losses		(232,351)	(242,152)
Foreign currency translation reserve		(25,279)	(22,370)
		2,180,746	2,173,854
Non-controlling interests		(44,051)	(43,775)
Net equity		2,136,695	2,130,079
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	114,427	53,204
Employees' end of service benefits		172,342	168,430
		286,769	221,634
Current liabilities			
Trade and other payables		3,070,499	3,093,407
Bank borrowings	11	2,392,256	2,370,959
Due to related parties	9	269,827	261,597
		5,732,582	5,725,963
Total liabilities		6,019,351	5,947,597
Total equity and liabilities		8,156,046	8,077,676

The condensed consolidated interim financial information was approved by the Board of Directors on 12 May 2016, and signed on its behalf by:

.... Chairman

.... Chief Executive Officer

The notes on pages 8 to 23 are an integral part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

Condensed consolidated interim income statement

	Note	Three months ended 31 March 2016 AED'000 Unaudited	2015 AED'000 Unaudited
Contract revenue	6	1,030,763	1,110,729
Contract costs		(956,073)	(1,007,763)
Gross profit		74,690	102,966
Other income		14,285	6,888
General and administrative expenses		(65,892)	(68,160)
Operating profit		23,083	41,694
Finance income		260	4,441
Finance costs	12	(11,287)	(15,380)
Finance costs – net		(11,027)	(10,939)
Share of loss from investments		-	(2,035)
Profit for the period before tax		12,056	28,720
Income tax expense and zakat	13	(2,531)	(867)
Profit for the period		9,525	27,853
Attributable to:			
Owners of the Parent		9,801	25,086
Non-controlling interests		(276)	2,767
		9,525	27,853
Earnings per share			
- Basic and diluted (AED)	14	0.004	0.011

Drake and Scull International PJSC

Condensed consolidated interim statement of comprehensive income

	Three months ended 31 March	
	2016	**2015**
	AED'000	**AED'000**
	Unaudited	**Unaudited**
Profit for the period	9,525	27,853
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Currency translation differences	(2,909)	(4,038)
Other comprehensive loss for the period	(2,909)	(4,038)
Total comprehensive income for the period	6,616	23,815
Attributable to:		
Owners of the Parent	6,892	21,048
Non-controlling interests	(276)	2,767
	6,616	23,815

The notes on pages 8 to 23 are an integral part of this condensed consolidated interim financial information.

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 AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2016 (Audited)	2,285,047	3,026	125,760	24,543	(242,152)	(22,370)	2,173,854	(43,775)	2,130,079
Profit for the period	-	-	-	-	9,801	-	9,801	(276)	9,525
Other comprehensive loss for the period	-	-	-	-	-	(2,909)	(2,909)	-	(2,909)
Total comprehensive income for the period	-	-	-	-	9,801	(2,909)	6,892	(276)	6,616
Balance at 31 March 2016 (Unaudited)	2,285,047	3,026	125,760	24,543	(232,351)	(25,279)	2,180,746	(44,051)	2,136,695
Balance at 1 January 2015 (Audited)	2,285,047	3,026	116,677	24,543	593,554	(15,286)	3,007,561	68,425	3,075,986
Profit for the period	-	-	-	-	25,086	-	25,086	2,767	27,853
Other comprehensive loss for the period	-	-	-	-	-	(4,038)	(4,038)	-	(4,038)
Total comprehensive income for the period	-	-	-	-	25,086	(4,038)	21,048	2,767	23,815
Balance at 31 March 2015 (Unaudited)	2,285,047	3,026	116,677	24,543	618,640	(19,324)	3,028,609	71,192	3,099,801

The notes on pages 8 to 23 are an integral part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows

	Note	Three months ended 31 March 2016 AED'000 Unaudited	2015 AED'000 Unaudited
Operating activities			
Profit for the period before tax		12,056	28,720
Adjustments for:			
Share of loss from investments		-	2,035
Depreciation	7	12,336	14,288
Amortisation of intangible assets		8,389	8,389
Provision for employees' end of service benefits		9,920	10,240
Finance costs	12	32,385	32,089
Gain on disposal of property and equipment		(9,365)	-
Loss on available for sale investment		202	-
Provision for impairment of trade receivables and retentions - net		318	(613)
Finance income		(260)	(4,441)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		65,981	90,707
Payment of employees' end of service benefits		(6,008)	(4,771)
Income tax paid		-	(601)
Changes in working capital:			
Inventories		(2,013)	4,769
Trade and other receivables (before provisions)		(181,359)	(41,759)
Due from related parties		37,392	(73,116)
Trade and other payables (excluding income tax and interest payable)		(33,693)	46,958
Due to related parties		8,230	27,516
Net cash (used in)/ generated from operating activities		(111,470)	49,703
Balance carried forward		(111,470)	49,703

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows (continued)

	Note	Three months ended 31 March 2016 AED'000 Unaudited	2015 AED'000 Unaudited
Balance brought forward		(111,470)	49,703
Investing activities			
Purchase of property and equipment	7	(5,695)	(13,066)
Proceeds from sale of property and equipment		16,098	-
Proceeds from disposal of investments		18,369	-
Interest received		73	176
Net cash generated from /(used in) investing activities		28,845	(12,890)
Financing activities			
Term deposits under lien		5,579	(5,904)
Proceeds from trust receipts and other borrowings		33,327	2,370
Proceeds from term loans		66,072	139,213
Payment of term loans		(38,927)	(173,960)
Interest paid		(24,552)	(27,015)
Net cash generated from / (used in) financing activities		41,499	(65,296)
Net decrease in cash and cash equivalents		(41,126)	(28,483)
Net foreign currency translation differences		(2,909)	(4,038)
Cash and cash equivalents, beginning of the period		(189,698)	196,445
Cash and cash equivalents, end of the period	10	(233,733)	163,924

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2016

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 % 31 March 2016	Shareholding % 31 March 2015	Country of incorporation
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 control 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 control 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 control 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 control 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 control 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.

2 Basis of preparation and accounting policies

2.1 Basis of preparation

This condensed consolidated interim financial information for the three month period ended 31 March 2016 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 2015, 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 profits already recognised.

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Group has come into effect from 1 July 2015. The Group has assessed and evaluated the relevant provisions of the Companies Law. It has twelve months from the effective date of the Companies Law to fully comply with the transitional provisions set out therein.

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 2015.

2.3 Basis of consolidation

The condensed consolidated interim financial information for the three month period ended 31 March 2016 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 2015.

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 overleaf.

3 Estimates and assumptions (continued)

3.1 Critical accounting estimates and assumptions (continued)

(a) 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 virtually certain 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 virtually certain and in advanced stages of negotiations. 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.

In management's view, two of the projects awarded to the subsidiaries of the Group are 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 second quarter of 2016. The project is delayed and costs have increased due to, among other factors, changes to the project, and third party inaction in furnishing design, equipment and materials, all of which have directly and adversely impacted the cost and timing of work on the project. Details of the change order and claims are set out in Note 8.

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; and it should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015. The Group's financial risk management objectives and policies are consistent with that disclosed in the annual consolidated financial statements for the year ended 31 December 2015.

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 2015, 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 31 March 2016

	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	2,156	-	20,026	22,182
Total assets	2,156	5,368	20,026	27,550

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2015.

	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	-	38,395	40,753
Total assets	2,358	5,368	38,395	46,121

The Group has no liabilities measured at fair value as at 31 March 2016 and 31 December 2015.

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 of 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 31 December 2015 and 31 March 2016, the fair values of all other financial assets and liabilities, which are measured at amortised cost approximate their carrying values. The fair value of the term loans falls into level 2 of the fair value hierarchy.

4 Financial risk management and financial instruments (continued)

4.4 Fair value measurements and disclosures

(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 values of following financial assets and liabilities approximate their carrying value at 31 March 2016:

- Trade and other receivables (Level 2);
- Other current financial assets (Level 2);
- Cash and cash equivalents (excluding bank overdrafts) (Level 2);
- Trade and other payables (Level 2); and
- Bank borrowings (Level 2).

5 Seasonality of operations

The Group's financial results for any three 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.

6 Segment reporting (continued)

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 three-month period ended 31 March 2016 (continued)

6 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Three months ended 31 March 2016 (Unaudited)						Three months ended 31 March 2015 (Unaudited)					
	Engineering	Civil	Oil and Gas	Others	Inter segment elimination	Total	Engineering	Civil	Oil and Gas	Others	Inter segment elimination	Total
Revenue												
External customers	684,967	296,295	1,017	48,484	-	1,030,763	645,100	406,619	16,425	42,585	-	1,110,729
Inter- segment	74,255	6,531	-	14,699	(95,485)	-	92,665	5,863	-	2,231	(100,759)	-
	759,222	302,826	1,017	63,183	(95,485)	1,030,763	737,765	412,482	16,425	44,816	(100,759)	1,110,729
Segment profit/ (loss)	15,129	(3,614)	(1,229)	(761)	-	9,525	32,286	(4,943)	(168)	678	-	27,853
Depreciation and amortisation	7,828	3,556	430	8,911	-	20,725	7,563	5,445	616	9,053	-	22,677
Capital expenditure	4,675	684	-	336	-	5,695	6,002	6,524	-	540	-	13,066
	At 31 March 2016 (Unaudited)						At 31 December 2015 (Audited)					
Segment total assets	4,183,081	2,953,097	149,861	3,971,698	(3,101,691)	8,156,046	4,027,541	2,902,424	155,979	3,945,349	(2,953,617)	8,077,676

6 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	Three months ended 31 March 2016 (Unaudited)						Three months ended 31 March 2015 (Unaudited)					
	UAE	Saudi Arabia	Iraq	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Iraq	Others	Inter segment elimination	Total
Revenue from external customers	347,921	295,831	980	386,031	-	1,030,763	283,135	456,427	16,149	355,018	-	1,110,729
	Three months ended 31 March 2016 (Unaudited)						31 December 2015 (Audited)					
Non-current assets	2,152,328	212,661	485	162,337	(663,618)	1,864,193	2,177,033	211,446	8,818	174,413	(657,643)	1,914,067

7 Property and equipment

The Group acquired property and equipment during the three-month period ended 31 March 2016 amounting to AED 5,695 thousand (31 March 2015: AED 13,066 thousand). The Group disposed property and equipment during the three-month period ended 31 March 2016 amounting to AED 6,733 thousand (31 March 2015: Nil) and depreciation charged to the condensed consolidated interim income statement amounted to AED 12,336 thousand (31 March 2015: AED 14,288 thousand).

8 Trade and other receivables

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Non-current		
Trade receivables and retentions	324,272	332,860
Provision for retentions	(15,008)	(13,635)
At 31 March	309,264	319,225
Current		
Trade receivables and retentions	1,407,482	1,493,842
Prepayments and other receivables	705,765	633,132
Amount due from customers on contracts	3,477,723	3,242,546
Loans and advances	-	29,943
	5,590,970	5,399,463
Provision for impairment on trade receivables	(326,411)	(326,093)
	5,264,559	5,073,370

(a) Change orders and claims

Due from customers on contracts include an amount of AED 908 million relating to unapproved change orders recorded in the consolidated statement of income as contract revenue and contract cost in respect of two contracts.

The Group has recognised the cost attributable to unapproved change orders at no profit margin as management believes that the unapproved change orders are fully recoverable and no cost overruns are expected. Previous change orders and variations were approved to the extent of 80% for one of the key contracts. In determining the revenue recognised management has considered a conservative estimate of change orders which will be approved based on historical trend and previously agreed contractual data.

9 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 major shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates").

9 Related party transactions and balances (continued)

In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group management, or its Board of Directors.

The outstanding balances with related parties are given below:

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Due from related parties:		
Joint arrangements	52,964	83,002
Affiliates	5,180	12,534
	58,144	95,536
Due to related parties:		
Joint arrangements	86,287	79,694
Affiliates	183,540	181,903
	269,827	261,597

Significant related party transactions:

Significant related party transactions with affiliates amounted to AED 2,446 thousand (1 January 2015 to 31 March 2015: AED 31,869 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:

	Three months ended 31 March (Unaudited)	
	2016 AED'000	2015 AED'000
Short term benefits	6,755	9,558
Employees' end of service benefits	373	900
	7,128	10,458

10 Cash and bank balances

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Cash on hand	7,629	2,526
Cash at bank	221,824	246,759
Term deposits	236,414	244,148
Cash and bank balances	465,867	493,433

Term deposits carry an average interest rate of 1% to 3.5% (2015: 1% to 3.5%) per annum.

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

	31 March 2016 AED'000 Unaudited	31 March 2015 AED'000 Unaudited
Cash and bank balances	465,867	663,033
Term deposits under lien	(234,459)	(206,797)
Bank overdrafts (Note 11)	(465,141)	(292,312)
Cash and cash equivalents	(233,733)	163,924

11 Bank borrowings

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

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Non-current		
Term loan	114,427	53,204
Current		
Term loan	764,775	798,853
Trust receipts and other borrowings	1,162,340	1,129,013
Bank overdrafts	465,141	443,093
	2,392,256	2,370,959

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

11 Bank borrowings (continued)

During the three month period ended 31 March 2016, the Group has obtained one new term loan amounting to AED 60 million (31 December 2015: two new term loans amounting to USD 2.5 million and AED 10.7 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% (2015: 2% to 6.5%) 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;
- Pledge of all assets acquired through utilisation of credit facilities; an
- Term deposits of AED 234,459 thousand (2015: AED 206,797 thousand) (Note 10).

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 31 December 2015, the Group was in breach of the financial covenants in relation to the syndicated Sukuk facility and other borrowing facilities. These breaches have rendered the loans to be technically payable on demand. Notwithstanding the breach, the related bank borrowings are currently fully serviced, with no default on principal or interest payments. The Group has reached an agreement with its lenders for a conditional waiver of the breach up to 30 June 2016 where management needs to comply with certain reporting requirements requested by the lenders.

Meantime, the Group's bank borrowings are presented as current liabilities as at 31 March 2016. The ability of the Group to continue as a going concern is reliant upon continued availability of external debt financing and/or additional equity.

12 Finance costs

	Three months ended 31 March	
	2016	2015
	AED'000	AED'000
	Unaudited	Unaudited
Finance costs	32,385	32,089
Charged to cost of sales	(21,098)	(16,709)
	11,287	15,380

13 Income tax expense

The major components of income tax expense are:

	Three months ended 31 March	
	2016	2015
	AED'000	AED'000
	Unaudited	Unaudited
Current income tax expense:		
Current income tax and Zakat charge	(2,952)	(601)
Deferred income tax expense		
Relating to origination and reversal of temporary differences	421	(266)
	(2,531)	(867)

14 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.

	Three months ended 31 March	
	2016	2015
Earnings (AED'000)	Unaudited	Unaudited
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Parent	9,801	25,086
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
Basic and diluted earnings per share (AED)	0.004	0.011

(b) Diluted

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

15 Guarantees

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Performance bonds	1,553,503	1,438,950
Letter of guarantees	1,560,036	1,535,443
	3,113,539	2,974,393

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.

16 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:

	31 March 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Future minimum lease payments:		
No later than one year	15,665	19,116
Later than one year but no later than five years	22,679	25,278
Later than five years	860	1,404
	39,204	45,798

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	1,246,582	1,391,840

17 Assets classified as held for sale

	31 March 2016 AED'000	31 December 2015 AED'000
Assets classified as held for sale:		
Investment in joint venture	307,855	307,855
Investment in associate	104,845	104,845
Investment property	27,200	27,200
Development property	10,551	10,551
Total assets classified as held for sale	450,451	450,451