

Drake & Scull Announces Q3 2016 Financial Results

Q3 2016 Financial Highlights

- Revenue AED 869 million vs 434 million (Q3 2015)
- Net loss AED 81 million vs net loss AED 985 million (Q3 2015)
- Net Debt AED 2.2 billion vs AED 1.9 billion (Q3 2015)
- Order backlog AED 8.8 billion vs AED 12.3 billion (Q3 2015)

9M 2016 Financial Highlights

- Revenue AED 2.7 billion vs AED 2.8 billion (9M 2015)
- Net loss AED 297 million vs net loss AED 951 million (9M 2015)
- Negative operating cash flow AED 303 million vs negative AED 344 million (9M 2015)

Operational Highlights

- UAE delivers improved revenues 9M 2016, up 20% YoY
- 9M 2016 normalized SG&A reduced by AED 43 million, 19 % decline YoY
- Q3 2016 normalized SG&A lower by AED 11 million, 16% decline YoY

[Dubai, UAE; 13th November, 2016] – Drake & Scull International PJSC (“DSI” or the “Company”), a regional engineering and services leader, reported today its financial results for the third quarter ended 30 September 2016.

Wael Allan, CEO, Drake & Scull International PJSC, commented:

“During the past six months we have embarked on a thorough and detailed review to identify risks and opportunities. We have concluded a series of new management appointments which are critical to the continuity of the business and we have established a performance driven and strong culture with emphasis on cost reduction while maintaining client focus and performance excellence. Concurrently, we have introduced additional corporate governance and compliance policies to foster a culture of ownership, accountability and operational rigour.”

“We maintained our revenues for the two consecutive quarters and continued to decrease our expenditure through our relentless cost-cutting programme. Our order

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backlog is slowly moving towards a higher-value, higher-margin portfolio of projects with a focused geographical diversification, predominately in the UAE. Our disciplined approach over the past six months is shaping a leaner, more adaptable company.”

“However, despite achieving progress in our home market the UAE, the prolonged market headwinds and economic uncertainties, especially in what previously was one of our core markets (Saudi Arabia), has made us realise that it is time to be bold and engage in a real transformation. We have commenced our financial review to assess our working capital and funding requirements with respect to our individual business units and the company as a whole. The outcome will necessitate difficult executive decisions. These may include divestments in non-core geographies, retrenching on civil works mainly in Saudi Arabia as well as taking a more conservative stance on the recoverability of certain receivables across the business. This initiative is a stepping-stone towards the full transformation of DSI. The company will emerge to start the 2017 financial year with a healthier balance sheet and better prospects to tender for new projects with clear strategy to return to profitability.”

Financial

DSI’s third quarter 2016 revenue was AED 869 million versus AED 434 million recorded in Q3 2015. The Company posted a net loss of AED 81 million as compared to a net loss of AED 985 million for the same period last year.

The third quarter 2016 losses reflects the prolonged weakness of the construction sector in key markets such as Saudi Arabia, Qatar, and – to a lesser extent – the broader GCC and Middle East regions. It also highlights the operational delays of certain ongoing projects and a slower backlog execution in the Kingdom of Saudi Arabia (KSA) and the Levant region resulting in cost overruns particularly in the civil sector.

For the first nine months of the year, the Company reported revenues of AED 2.7 billion and a net loss of AED 297 million versus AED 2.8 billion and net loss of AED 951 million reported last year.

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The Company continues to cut costs aggressively with third quarter core SG&A, before accounting for provisions, reduced by AED 11 million, a decline of 16% year-on-year. In the first nine months of 2016, SG&A was reduced by a total of AED 43 million, a decline of 19% year-on-year.

In the third quarter, the management appointed a financial advisor to assist the company on a number of business transformation and strategic initiatives.

Kailash Sadangi, CFO, Drake & Scull International PJSC, commented:

“The appointment of the financial advisor to assist the Company on a number of business transformation & strategic initiatives; to address the current market challenges the Group is facing in its key markets is a timely move in preparation for a stronger future for Drake & Scull.”

Operational

Selectivity in project awards is a strategic focus for the long-term growth of the Company as the management adopts a more robust and prudent approach to business development and new order wins with emphasis on the UAE market and the core engineering business.

The Q3 2016 order backlog declined 28% as compared to the same period last year and stood at AED 8.8 billion as of September 30 2016. The decline is attributed to two project cancellations in KSA adjusted in Q2 2016. The adjustments mitigated the operational and financial risks arising from civil works projects in Saudi Arabia. It has also allowed the Company to reduce its exposure to volatile and low performing segments in the country.

In the third quarter 2016, DSI booked AED 246 million worth of new project awards, which included contracts in India and Palestine in the Waste Water sector. Over the nine months period, the Company has added AED 815 million of projects across Qatar, Iraq, Palestine and India in the Rail, Oil and Gas and Waste Water sectors. This underscores the strategic focus on high margin business targeted to improve operating margins in the long term.

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Revenues from the UAE market reported for Q3 2016 were AED 387 million compared to AED 245 million up 58 % year-on-year, and AED 1,083 million for the nine months period ending 30 September 2016 compared to AED 905 million, up 20% year-on-year. The improvement in revenue was driven by the engineering business on higher margin projects and solid operational performance.

Adjusted revenues from the KSA market for the third quarter was AED 194 million as compared to AED 388 million, a 50% decline on annual comparable basis. Revenues recorded for the 9 months of 2016 were AED 654 million compared to AED 787 million, down 17% year-on-year. The decline in revenue is mainly attributed to the slowdown in the construction sector and project cancelations in KSA.

The Company will continue to maintain its conservative approach in KSA whilst pursuing opportunities in the country's Western Region rail projects. DSI will continue to execute its current projects and order backlog in the kingdom and is also pursuing aggressively its contract receivables and claims.

Qatar, witnessed a moderate decline in revenue generation mainly attributed to a slower execution on key projects.

The Engineering division gathered momentum and continued to be the Company's growth driver contributing 65% of the cumulative group revenue reported for the nine months period ending 30 September 2016. This division reported revenues of AED 519 million in Q3 2016, up 26% year-on-year and AED 1,765 million for the nine months period ending 30 September 2016, down 6% year-on-year. The revenue was sustained despite the slowdown in projects awarded. It is also the result of a shift in business development, with a greater focus on higher-margin projects, which are principally engineering projects.

The Engineering and Civil businesses constituted 71% and 23% of the total order backlog as of 30 September 2016 respectively. The Water business maintained its backlog share and closed at 6%.

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Outlook

The Company believes that it is well positioned to weather the continued challenging market conditions. The newly energized focus on operational excellence and client needs combined with the recently instituted strategic measures will enable the company to emerge stronger and well geared to pursue its growth objectives in 2017.

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About Drake & Scull International PJSC

Drake & Scull International PJSC (DSI) is a regional market leader delivering world-class quality projects via end to end solutions that provide integrated design, engineering and construction disciplines of General Contracting, Engineering (MEP), Rail & Infrastructure, Oil & Gas, and Water & Wastewater Treatment, through People, Innovation, and Passion.

DSI's main business streams include engineering, construction, oil and gas, rail and infrastructure, and water and waste. The company operates across the GCC, Middle East, North Africa and India as well as managing projects in Europe.

DSI has delivered more than 700 projects around the world in the last five decades catering to aviation, residential, mixed use, power plants, district cooling plants, hospitality, healthcare, renewable energy, data centres, petrochemical, rail, commercial, government, leisure, and infrastructure sectors.

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