Drake and Scull International PJSC

Condensed consolidated interim financial information (Unaudited) for the nine-month period ended 30 September 2016

Drake and Scull International PJSC

Condensed consolidated interim financial information for the nine-month period ended 30 September 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 30 September 2016 and the related condensed consolidated interim income statement, statements of comprehensive income for the three-month and nine-month periods then ended, the condensed consolidated interim 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.

Basis for qualified conclusion

As at 30 September 2016, the balances of trade and other receivables include an amount of AED 49 million of trade receivables and AED 564 million of amount due from customers on contracts. We were not provided with sufficient appropriate evidence to ascertain the extent and timing of the recoverability of these outstanding amounts.

Conclusion

Based on our review, with the exception of the matters described in the preceding paragraph, 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".

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

Emphases of matters

We draw attention to the following notes to the condensed consolidated interim financial information:

1. 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; and

2. Further to what is explained in the basis for qualified conclusion paragraph and Note 3.1, we also draw attention that as at 30 September 2016, the Group has a negative cash and cash equivalents balance of AED 246 million (30 September 2015: negative AED 145 million). In the event that management is unable to generate sufficient cash flows within the next 12 months from the balance sheet date, the Group may not be able to meet its financial obligations when they fall due. This represents a material uncertainty which casts a significant doubt about the ability of the Group to continue as a going concern.

Our conclusion is not qualified in respect of the previous two matters.

PricewaterhouseCoopers
13 November 2016

Paul Suddaby

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

Drake and Scull International PJSC

Condensed consolidated interim balance sheet

	Note	As at 30 September 2016 AED'000 Unaudited	at 31 December 2015 AED'000 Audited
ASSETS			
Non-current assets			
Property and equipment	7	469,653	509,610
Intangible assets		1,001,997	1,027,164
Deferred income tax assets		17,623	17,315
Available-for-sale financial assets		2,909	40,753
Trade and other receivables	8	284,637	319,225
		1,776,819	1,914,067
Current assets			
Inventories		51,182	36,891
Development properties		8,560	8,560
Trade and other receivables	8	5,491,961	5,073,370
Due from related parties	9	85,090	95,536
Financial assets at fair value through profit or loss		4,124	5,368
Cash and bank balances	10	443,383	493,433
		6,084,300	5,713,158
Assets classified as held for sale	17	307,855	450,451
Total assets		8,168,974	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		(486,282)	(242,152)
Foreign currency translation reserve		(25,065)	(22,370)
		1,927,029	2,173,854
Non-controlling interests		(96,896)	(43,775)
Net equity		1,830,133	2,130,079
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	302,420	53,204
Employees' end of service benefits		163,845	168,430
		466,265	221,634
Current liabilities			
Trade and other payables		3,206,537	3,093,407
Bank borrowings	11	2,358,194	2,370,959
Due to related parties	9	307,845	261,597
		5,872,576	5,725,963
Total liabilities		6,338,841	5,947,597
Total equity and liabilities		8,168,974	8,077,676

The condensed consolidated interim financial information was approved by the Board of Directors on 13 November 2016 and signed on its behalf by:

....
Chairman

....
Chief Executive Officer

The notes on pages 9 to 26 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 30 September 2016 AED'000 Unaudited	Three months ended 30 September 2015 AED'000 Unaudited	Nine months ended 30 September 2016 AED'000 Unaudited	Nine months ended 30 September 2015 AED'000 Unaudited
Contract revenue	6	868,563	433,795	2,704,853	2,829,607
Contract costs		(878,111)	(1,116,577)	(2,659,976)	(3,310,359)
Gross (loss)/profit		(9,548)	(682,782)	44,877	(480,752)
Other income		2,819	4,822	28,717	17,499
General and administrative expenses		(58,720)	(294,111)	(324,188)	(451,206)
Operating loss		(65,449)	(972,071)	(250,594)	(914,459)
Finance income		702	899	1,325	7,961
Finance costs	12	(13,529)	(13,848)	(39,758)	(36,840)
Finance costs – net		(12,827)	(12,949)	(38,433)	(28,879)
Share of loss from investments		-	(219)	-	(2,594)
Loss for the period before tax		(78,276)	(985,239)	(289,027)	(945,932)
Income tax expense and zakat	13	(2,643)	(233)	(8,224)	(5,525)
Loss for the period		(80,919)	(985,472)	(297,251)	(951,457)
Attributable to:					
Owners of the Parent		(46,295)	(877,810)	(244,130)	(842,458)
Non-controlling interests		(34,624)	(107,662)	(53,121)	(108,999)
		(80,919)	(985,472)	(297,251)	(951,457)
Earnings per share					
- Basic and diluted (AED)	14	(0.020)	(0.384)	(0.107)	(0.369)

The notes on pages 9 to 26 are an integral part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

Condensed consolidated interim statement of comprehensive income

	Three months ended 30 September		Nine months ended 30 September	
	2016 AED'000 Unaudited	2015 AED'000 Unaudited	2016 AED'000 Unaudited	2015 AED'000 Unaudited
Loss for the period	(80,919)	(985,472)	(297,251)	(951,457)
Other comprehensive loss				
Items that will be reclassified subsequently to profit or loss				
Currency translation differences	163	377	(2,695)	(4,810)
Other comprehensive loss for the period	163	377	(2,695)	(4,810)
Total comprehensive loss for the period	(80,756)	(985,095)	(299,946)	(956,267)
Attributable to:				
Owners of the Parent	(46,132)	(877,433)	(246,825)	(847,268)
Non-controlling interests	(34,624)	(107,662)	(53,121)	(108,999)
	(80,756)	(985,095)	(299,946)	(956,267)

Condensed consolidated interim statement of changes in equity

	Share capital AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserves AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Total attributab-le to equity holders 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
Loss for the period	-	-	-	-	(244,130)	-	(244,130)	(53,121)	(297,251)
Other comprehensive loss for the period	-	-	-	-	-	(2,695)	(2,695)	-	(2,695)
Total comprehensive loss for the period	-	-	-	-	(244,130)	(2,695)	(246,825)	(53,121)	(299,946)
Balance at 30 September 2016 (Unaudited)	2,285,047	3,026	125,760	24,543	(486,282)	(25,065)	1,927,029	(96,896)	1,830,133
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
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 9 to 26 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 2016 AED'000 Unaudited	2015 AED'000 Unaudited
Operating activities			
Net loss for the period before tax		(289,027)	(945,932)
Adjustments for:			
Share of loss from investments		-	722
Depreciation	7	41,577	47,713
Amortisation of intangible assets		25,167	25,167
Provision for employees' end of service benefits		25,885	31,555
Loss on financial assets at fair value through profit or loss		1,244	-
Fair value loss on available for sale investment		1,104	-
Finance costs	12	96,673	80,613
Impairment of investment		104,845	-
(Gain)/loss on disposal of property and equipment		(9,591)	2,919
Provision for impairment of trade receivables and retentions - net		20,492	220,579
Finance income		(1,325)	(7,961)
Share of loss from investment in joint venture using the equity method		-	1,872
Gain on restructuring of investment in joint venture using the equity method		-	(1,874)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		17,044	(544,627)
Payment of employees' end of service benefits		(30,470)	(14,825)
Income tax paid		(7,587)	(37,632)
Changes in working capital:			
Inventories		(14,291)	5,251
Trade and other receivables (before provisions)		(433,523)	182,501
Due from related parties		10,446	(100,533)
Trade and other payables (excluding income tax and interest payable)		109,070	131,726
Due to related parties		46,248	34,041
Net cash used in operating activities		(303,063)	(344,098)
Balance carried forward		(303,063)	(344,098)

Condensed consolidated interim statement of cash flows (continued)

	Note	Nine months ended 30 September 2016 AED'000 Unaudited	2015 AED'000 Unaudited
Balance brought forward		(303,063)	(344,098)
Investing activities			
Purchase of property and equipment	7	(8,498)	(36,514)
Sale of assets classified as held for sale		37,751	-
Proceeds from sale of property and equipment		16,469	-
Proceeds from disposal of investments		36,740	-
Loans and advances		29,943	55,606
Interest received		410	788
Net cash generated from investing activities		112,815	19,880
Financing activities			
Term deposits under lien		9,514	(42,806)
Proceeds from trust receipts and other borrowings		(83,642)	143,051
Proceeds from term loans		374,170	215,322
Payment of term loans		(70,178)	(243,998)
Interest paid		(93,558)	(83,581)
Net cash generated from/(used in) financing activities		136,306	(12,012)
Net decrease in cash and cash equivalents		(53,942)	(336,230)
Net foreign currency translation differences		(2,695)	(4,810)
Cash and cash equivalents at the beginning of the period		(189,698)	196,445
Cash and cash equivalents at the end of the period	10	(246,335)	(144,595)

The notes on pages 9 to 26 are an integral part of this condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information for the nine - month period ended 30 September 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 % 30 September 2016	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	91	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 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 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 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 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 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 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 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 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 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 nine-month period ended 30 September 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.

Management disposed some of its non-core assets and believes that they will recover the carrying values of the assets classified as assets held for sale as at 30 September 2016 through its disposal before the year end. In addition, the management is actively pursuing collection of its trade and other receivables as at 30 September 2016 through the continuance certification and delivery of projects. Further, management will continue to maintain sufficient level of funding from the banks and will consider other strategic options. Accordingly, the condensed consolidated interim financial information has been prepared on the going concern basis.

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 twenty four 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 nine month period ended 30 September 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.

(a) Revenue recognition

The percentage-of-completion method is used to account for construction contracts. This method requires estimates of the final revenue and costs of the contract, as well as measurement of progress achieved to date as a proportion of the total work to be performed in accordance with the accounting policy disclosed in the annual consolidated financial statements for the year ended 31 December 2015. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end.

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 with written instructions from the client 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.

3 Estimates and assumptions (continued)

3.1 Critical accounting estimates and assumptions (continued)

(a) Revenue recognition (continued)

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, three 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 projects is currently scheduled to occur during the first quarter of 2017.

These projects are delayed and costs have increased due to, among other factors, delayed payments, certification delays, 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 Financial risk management and financial instruments (continued)

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).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 September 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	-	4,124	-	4,124
Available for sale financial assets				
- Equity securities	2,358	-	551	2,909
Total assets	2,358	4,124	551	7,033

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 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 30 September 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 30 September 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.

(b) Group's valuation processes

Changes in Level 2 and 3 fair values are analysed at each reporting date during 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.

4 Financial risk management and financial instruments (continued)

4.3 Fair value estimation (continued)

(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 30 September 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/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 three reportable business segments; Mechanical, Electrical and Plumbing ("Engineering"), Civil 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.

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 three main segments; United Arab Emirates, Saudi Arabia and Others. The Group is presently engaged in carrying out contracting work relating to the construction industry mainly in the United Arab Emirates, Saudi Arabia, Kuwait, Qatar, Egypt, Oman, Germany, Algeria, India, Iraq, and Jordan.

Drake and Scull International PJSC

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2016 (continued)

6 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Nine months ended 30 September 2016 (Unaudited)					Nine months ended 30 September 2015 (Unaudited)				
	Engineering	Civil	Others	Inter segment elimination	Total	Engineering	Civil	Others	Inter segment elimination	Total
Revenue										
External customers	1,765,490	809,067	130,296	-	2,704,853	1,870,838	762,741	196,028	-	2,829,607
Inter-segment	152,142	15,493	51,229	(218,864)	-	190,840	19,122	6,404	(216,366)	-
	1,917,632	824,560	181,525	(218,864)	2,704,853	2,061,678	781,863	202,432	(216,366)	2,829,607
Segment loss	(5,727)	(253,970)	(37,554)	-	(297,251)	(331,802)	(605,036)	(14,619)	-	(951,457)
Depreciation and amortisation	24,246	15,324	27,174	-	66,744	25,103	20,728	27,049	-	72,880
Capital expenditure	7,293	772	433	-	8,498	16,791	19,426	297	-	36,514
	At 30 September 2016 (Unaudited)					At 31 December 2015 (Audited)				
Segment total assets	4,306,698	2,954,702	4,013,376	(3,105,802)	8,168,974	4,183,520	2,902,424	3,945,349	(2,953,617)	8,077,676

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2016
(continued)

6 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	Nine months ended 30 September 2016 (Unaudited)					Nine months ended 30 September 2015 (Unaudited)				
	UAE	**Saudi Arabia**	**Others**	**Inter segment elimination**	**Total**	**UAE**	**Saudi Arabia**	**Others**	**Inter segment elimination**	**Total**
Revenue from external customers	1,083,789	653,699	967,365	-	2,704,853	905,673	787,536	1,136,398	-	2,829,607
	Nine months ended 30 September 2016 (Unaudited)					31 December 2015 (Audited)				
Non-current assets	2,096,111	201,968	152,380	(673,640)	1,776,819	2,177,033	211,446	183,231	(657,643)	1,914,067

7 Property and equipment

The Group acquired property and equipment during the nine-month period ended 30 September 2016 amounting to AED 8,498 thousand (30 September 2015: AED 36,514 thousand). The Group disposed property and equipment during the nine month period ended 30 September 2016 amounting to AED 6,878 thousand (30 September 2015: AED 2,919 thousand) and depreciation charged to the condensed consolidated interim income statement amounted to AED 41,577 thousand (30 September 2015: AED 47,713 thousand).

8 Trade and other receivables

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Non-current		
Trade receivables and retentions	298,435	332,860
Provision for retentions	(13,798)	(13,635)
	284,637	319,225
Current		
Trade receivables and retentions	1,573,177	1,493,842
Prepayments and other receivables	648,338	633,132
Amount due from customers on contracts	3,617,031	3,242,546
Loans and advances	-	29,943
	5,838,546	5,399,463
Provision for impairment on trade receivables	(346,585)	(326,093)
	5,491,961	5,073,370

(a) Change orders and claims

Due from customers on contracts include an amount of AED 1,159 million relating to unapproved change orders recorded in the condensed consolidated statement of income as contract revenue and contract cost in respect of three 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.

During the period ended 30 September 2016, balances of trade and other receivables include an amount of AED 49 million of trade receivables and AED 564 million of amount due from customers on contracts are under discussion and negotiation. The outcome of these discussion and negotiations are continuing and contingent upon successful results. However, management is of the opinion that balances are fully recoverable and as at 30 September 2016, no provision for impairment has been made against these balances.

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").

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:

Due from related parties:

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Joint arrangements	79,993	83,002
Affiliates	5,097	12,534
	85,090	95,536

Due to related parties:

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Joint arrangements	92,499	79,694
Affiliates	215,346	181,903
	307,845	261,597

Significant related party transactions:

Significant related party transactions during the period with affiliates amounted to AED 14 million (1 January 2015 to 30 September 2015: AED 34,274 thousand) that mainly represent funds received to meet working capital requirements.

Sale of assets to related parties during the nine month period ended 30 September 2016 amounted to AED 64 million. Advance received against sale of assets from related party amounted to AED 15 million.

The remuneration of key members of the management are as follows:

	Nine month period ended (Unaudited)	
	2016 AED'000	2015 AED'000
Short term benefits	20,954	25,148
Employees' end of service benefits	1,133	1,912
	22,087	27,060

10 Cash and bank balances

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Cash on hand	15,315	2,526
Cash at bank	197,248	246,759
Term deposits	230,820	244,148
Cash and bank balances	443,383	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:

	30 September 2016 AED'000 Unaudited	30 September 2015 AED'000 Unaudited
Cash and bank balances	443,383	475,819
Term deposits under lien	(230,524)	(243,699)
Bank overdrafts (Note 11)	(459,194)	(376,715)
Cash and cash equivalents	(246,335)	(144,595)

11 Bank borrowings

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

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Non-current		
Term loan	302,420	53,204
Current		
Term loan	853,629	798,853
Trust receipts and other borrowings	1,045,371	1,129,013
Bank overdrafts	459,194	443,093
	2,358,194	2,370,959

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

11 Bank borrowings (continued)

During the nine-month period ended 30 September 2016, the Group has obtained two new term loans amounting to AED 151.2 million (31 December 2015: two new term loans amounting to OMR 2.5 million and AED 10.7 million) from 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 7 % (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 assets acquired through utilisation of credit facilities; and
- Term deposits of AED 230,524 thousand (Note 10).

The carrying amount of current borrowings approximates their fair value at the reporting 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 reporting 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. In addition to the breach, the related bank borrowings are currently overdue on their principal or interest payments.

The Group has reached an agreement with its lenders for a conditional waiver of the breach up to 31 December 2016 where management needs to comply with certain reporting requirements requested by the lenders.

As a result, the Group's bank borrowings are presented as current liabilities as at 30 September 2016. The ability of the Group to continue as a going concern is dependent upon continued availability of external debt financing and/or additional equity.

12 Finance costs

	Nine month period ended 30 September (Unaudited)	
	2016	2015
	AED'000	AED'000
Finance costs	96,673	80,613
Charged to cost of sales	(56,915)	(43,773)
	39,758	36,840

13 Income tax expense

The major components of income tax expense are:

	Nine month period ended 30 September (Unaudited)	
	2016 AED'000	2015 AED'000
Current income tax expense:		
Current income tax and Zakat charge	8,532	5,337
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(308)	188
	8,224	5,525

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.

	Nine months ended 30 September	
	2016 Unaudited	2015 Unaudited
Earnings (AED'000)		
Earnings for the purposes of basic earnings per share being net loss attributable to owners of the Parent	(244,130)	(842,458)
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)	(0.107)	(0.369)

(b) Diluted

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

15 Guarantees

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Performance bonds	1,527,593	1,438,950
Letter of guarantees	1,419,774	1,535,443
	2,947,367	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:

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Future minimum lease payments:		
No later than one year	13,774	19,116
Later than one year but no later than five years	26,287	25,278
Later than five years	13,336	1,404
	53,397	45,798

(b) Other commitments

	30 September 2016 AED'000 Unaudited	31 December 2015 AED'000 Audited
Letters of credit for purchase of materials and operating equipment	759,905	1,391,840

17 Assets classified as held for sale

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

During the period ended 30 September 2016, the Group has fully impaired their investment in associate amounting to AED 104.8 million. They have also disposed-off their investment property and development property amounting AED to 27.2 million and AED 10.5 million, respectively.