

DSI announces its un-audited preliminary financial results for 2016

Company confirms progress on turnaround & capital restructuring plan, secures a binding offer from a UAE strategic investor to inject new capital in the company for a total amount of AED 500 million

Capital Restructuring

- As part of the turnaround and capital restructuring plan, DSI secured in Q1 2017 a binding offer from a UAE strategic investor “Tabarak Investment LLC” to inject new capital in the company for a total amount of AED 500 million
- The offer is subject to the approval of DSI’s shareholders and the Emirates Securities and Commodities Authority (SCA)
- The company is also concurrently seeking to engage with the Emirates Securities and Commodities Authority (SCA) to obtain approval for a 50% capital reduction
- The capital reduction through the cancellation of shares will be on a pro-rata basis at a ratio of 2:1 and applies to all DSI shareholders; the Annual General Meeting of the shareholders is scheduled to convene during the month of April 2017 to vote and approve the capital restructuring plan

FY 2016 Highlights

- Cost overruns & revenue reversals on disputed legacy projects primarily in the civil sector & in the KSA impacted the Group’s result
- Senior Management appointment completed to steer the company’s journey towards recovery & sustainable growth
- CEO appointed in Q4 2016 as the company prepares for a new phase of financial & operational recovery

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- The company is working on a turnaround strategy that includes operational & organisational restructuring, mandating PricewaterhouseCoopers (PWC) in Q4 2016 to assist the management on a number of business transformation & strategic initiatives
- Key parts of the turnaround plan include capital raising, de-risking the business, divestments of non-performing / distressed subsidiaries, disposal & monetization of non-core assets, cost-cutting measures, deleveraging and capitalization of profitable business segments (MEP) to achieve a rapid improvement in financial performance & stabilize the company in terms of acceptable levels of profitability & liquidity
- Ongoing efforts to settle all legacy issues to improve the balance sheet
- Renewed focus on key clients in the UAE market in the MEP segment
- New project wins in the MEP sector, amounting to AED 815 million

Dubai, UAE; 13th February, 2017 – Drake & Scull International PJSC (“DSI” or the “Company”), a regional engineering and services leader, reported today, its preliminary un-audited financial results for the fiscal year ended December 31st 2016.

Financial

Against the backdrop of the significant liquidity challenges in the regional construction sector, the Groups’ results for the fiscal year 2016 were impacted by major revenue reversals, profit adjustments, cost overruns, and investment impairments, emanating primarily from several disputed legacy projects in the construction business in the KSA.

The revenue and gross profit adjustments reflected in the fiscal year are against uncertified variation orders and claims, disputed extensions of time claims, and accrued uncertified work across key projects primarily in the civil sector.

The adjustments diluted the revenue target of the company for the year and impacted the profitability of the group. As a result, the company reported AED 3.2 billion in revenue for FY 2016, compared to AED 4.2 billion reported for FY 2015. The net loss for the period was AED 787 million, compared to a net loss of AED 939 million reported for fiscal 2015.

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In the last quarter of the fiscal year 2016, the company undertook most of the revenue reversals and profit adjustments as negotiations with key distressed clients on several projects drew to closure.

DSI's Q4 2016 revenue was AED 540 million and the net loss for the period was AED 490 million.

DSI's ongoing order backlog reached AED 8.1 billion as of December 31st 2016 and the total value of project awards secured in FY 2016 stood at AED 815 million. The UAE and the Engineering business accounted for 23% and 72% of the backlog, respectively, reflecting the company's strategic and ongoing focus on its home market and core engineering business.

Operational

DSI's new management announced the initial steps of the company's turnaround plan with the appointment of PWC in Q4 2016.

Key parts of the turnaround plan include capital raising, de-risking the business, divestments of non-performing / distressed subsidiaries, disposal and monetization of non-core assets, cost-cutting measures, deleveraging and capitalization of profitable business segments (Engineering) to achieve a rapid improvement in financial performance, and stabilizing the company in terms of acceptable levels of profitability, solvency, liquidity, and cash flow.

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

"Today, we are announcing the initial steps to stabilize and turn around our business. The capital reduction is an important milestone in our recapitalization program and is a strategic move to improve the balance sheet and the capital structure."

"I am pleased to see that Tabarak Investment has made a commitment to our business. This is clear evidence that DSI has solid foundation and confirms our strategy of being the leading MEP contractor in the region."

"Tabarak Investment will add great support to the new management team and will assist the company on a number of financial and operational initiatives. The fresh capital will be earmarked to pursue our growth plans in the MEP sector and to shore-up our working capital."

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"Now we can see a clear path forward that is beneficial to all our stakeholders. Our employees and clients should feel assured that their future and projects are our utmost priority."

"The recapitalization program is imperative to the success of our turnaround plan and we are confident that the proposed measures will steer the company's journey towards recovery & sustainable growth."

"I would like to reiterate that we are dedicating our efforts to regain business momentum and to restore our leadership position in the regional Engineering sector. Our focus has shifted to building a clear path of sustainable growth, driven mainly by our core MEP business."

"Our objective is to renew our focus on our clients with emphasis on operational excellence and selective bidding. We are qualified for key opportunities in the region and we believe that we are well-positioned to conclude on some of these prospects in the MEP segment during the first half of the year."

"Whilst we continue to be impacted by various legacy issues, we are confident that our operations and financial position will gradually improve as 2017 unfolds."

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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 manage projects in Europe.

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

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