Drake & Scull International PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Drake & Scull International PJSC

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Drake & Scull International PJSC

Directors' report

Dear Shareholders,

The Board of Directors of Drake & Scull International PJSC ("DSI") or (the "Company") and its Subsidiaries (the "Group") have the pleasure in presenting their consolidated financial statements for the year ended 31 December 2016.

Principal activities

During the year ended 31 December 2016, DSI was preliminary engaged in engineering, integrated design and construction disciplines of Engineering, Civil Contracting and Water and Power Infrastructure.

Financial results

For the year ended 31 December 2016, DSI recorded revenues amounting to AED 3,259 million (2015: AED 4,198 million). The net loss for the year was AED 815 million (2015: the net loss for the year was AED 939 million).

Due to challenging market conditions, operational challenges and slowdown in the overall construction market, DSI incurred losses in the current year. DSI has seen its backlog decrease from AED 11.9 billion in 2015 to AED 8.1 billion in 2016. Our performance for the full year across all our operating segments was challenging and particularly in our key markets. Delays in collections affected our working capital and led to an increase in our debt level which in turn resulted in higher finance cost for the year ended 31 December 2016.

Looking ahead at our direction for the year ending 31 December 2017, we are confident that the strength of our business model, the changes we have made to our management and the renewed focus on our clients and operational excellence will allow us to overcome the challenging market conditions and to deliver our backlog.

Our main focus will be strengthening our capital structure and reducing our leverage level, securing new profitable work in our focus countries, delivering our orderbook at our forecast margins and recovering our working capital. We remain committed to achieving cost reduction and improving our return on capital to deliver sustainable growth and improved profitability in 2017.

Auditors

PricewaterhouseCoopers were appointed as external auditors of the Group for the year ended 31 December 2016. PricewaterhouseCoopers are eligible for reappointment as auditors for 2017 and have expressed their willingness to continue in office.

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29 March 2017

Chairman

pwc

Independent auditor's report

To the shareholders of Drake & Scull International PJSC

Report on the audit of the consolidated financial statements

Our qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Drake & Scull International PJSC ("the Company") and its subsidiaries (together "the Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for qualified opinion

As explained in note 8 to the consolidated financial statements, the balances of trade and other receivables include AED 117 million of trade receivables and AED 1,737 million of amounts due from customers on contract relating to unapproved change orders and claims which are under negotiation and discussions. We were not provided with sufficient appropriate evidence to ascertain the extent and timing of the recoverability of these amounts and there were no audit procedures that we could perform in respect of this matter. Consequently, we were not able to determine whether any impairment adjustments relating to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of matter

Material uncertainty relating to going concern

We draw attention to Note 2.1.1 in the consolidated financial statements, which indicates that the Group has incurred losses of AED 815,303 thousand during the year ended 31 December 2016 and, as of that date, its current liabilities exceeded its current assets by AED 118,911 thousand. Further, the Group had a negative cash and cash equivalents balance of AED 304,969 thousand as at 31 December 2016. As set out in Note 2.1.1, these conditions along with other matters set out in Note 2.1.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this above matter.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The areas, in our professional judgement, that were of most significance in our audit ('Key audit matters') and where we focussed most audit efforts during the year were:

- Contract revenue and profit recognition
- Goodwill impairment assessment

We have set out below our explanation of each item and a summary of the audit approach.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

As referred above, key audit matters are those matters that, in our professional judgement, were of most significance to the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters discussed in the *Basis for qualified opinion* and *Material uncertainty relating to going concern* sections, we have determined the matters below to be the key audit matters to be communicated in our report.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Contract revenue and profit recognition	
Refer to Note 2.24 and 4.1 (b) of the consolidated financial statements for the details of Revenue Recognition and Contract Accounting. The Group's result for 2016 is significantly influenced by the results of large construction projects many of which are complex and long-term in nature and can span a number of reporting periods. The valuation of these construction projects is subject to uncertainty as a result of the complexity of the underlying contracts as well as the complexity concerning assessment of the costs to complete these projects and the settlement of significant amounts of variation orders and claims on principal customers. The timing of revenue recognition is subject to judgements surrounding the costs expected to be incurred in completing the work, as revenue is recognised on a percentage of completion basis. There is also the risk that the amount of recoverable variations and claims could be misstated. The total amount of revenue and profit or loss to be recognised on a contract can be affected by changes in conditions and circumstances over time, such as: • variations to the original contract terms • cost overruns • scope changes that require further negotiation and agreement. Given the degree of subjectivity involved in determining costs to complete on major, long-running contracts and the potential magnitude of contract variations and claims, there is the possibility of error in the calculation of total revenue and of the allocation of revenue between reporting periods.	To assess whether revenue and profit/loss is accurately recorded, we tested the estimated costs to complete on a sample of contracts by obtaining an understanding from the Group's individual project teams as to how they had estimated these costs, challenging their assumptions, for example by assessing estimated costs against historical and current trends underpinning those estimates, evaluating the outturn of previous estimates and comparing the estimates against the latest estimates made by management after the end of the reporting period. We also recalculated the stage of completion and obtained documentary evidence of approval of variations included in total estimated revenue on the contracts. With respect to claims, we evaluated management's judgement on the advanced stage of negotiation with customers based on the facts and circumstances of particular contracts, documentary evidence and correspondence and the Group's relationship with the customer. We also read and considered the implications of correspondence with customers (both upon the acceptance of work done and relating to disputes). Refer to Note 2.24 and 4.1 (b) of the consolidated financial statements for the details of Revenue Recognition and Contract Accounting. We have tested whether appropriate disclosures in accordance with IFRS have been included in these financial statements.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Contract revenue and profit recognition (continued) We focused on this area as a key audit matter because, for the reasons described above, the timing of revenue recognition, estimates of costs to complete and the recognition of variations and claims on contracts have inherent complexities in the construction industry, are matters of significant estimate and judgement and often take time to resolve.	
Goodwill impairment assessment Refer to Note 7 of the consolidated financial statements for details of goodwill. In accordance with the Group's accounting policy, goodwill is considered to have an indefinite useful life and is not amortised but is subject, instead, to annual review for impairment. At 31 December 2016 goodwill amounted to AED 815 million. The goodwill is allocated to 3 Cash Generating Units ('CGUs). The business units of the Group considered by management to be its CGUs for the purposes of assessment of impairment in the value of goodwill, are Engineering, Water and Power, and Civil. Management assessed each CGU individually for potential impairment and concluded that an impairment charge of AED 29.5 million was required against the goodwill of AED 110.7 million attributed to the Civils CGU. No impairment charge was identified against the other two CGUs.	We evaluated management's future cash flow forecasts, including comparing them to the latest Board approved budgets, and we compared actual historic results to budget as part of our consideration of the likely accuracy of management's forecasting process. In performing our work we paid particular attention to the CGUs with limited headroom. For each of the 3 CGUs, we challenged the management's key trading assumptions. Where available and appropriate we compared the assumptions used by management to externally available data. Our internal valuations experts tested the appropriateness of the discount rate used by the Group by assessing the assumptions used in the weighted average cost of capital calculation against external benchmarks. We also performed sensitivity analysis by changing certain assumptions and considering the likelihood of such changes arising.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Goodwill impairment assessment (continued)	
We focused on this area because the determination of whether or not an impairment charge is required involves significant management judgement, including forecasting the future results of the business by estimating future sales growth rates, profit margins and inflation rates and determining the discount rate for the calculations. The final determination can also be sensitive to small changes in some of the key assumptions used. IFRS requires complex and often detailed disclosure in the financial statements about goodwill and impairment. In addition to reviewing the need for any impairment charge, we focused on these disclosures because they form a valuable communication, enabling users of the consolidated financial statements to understand the basis for any impairment recognised or not recognised.	We considered the related disclosures in Note 7 to the consolidated financial statements and tested whether they were compliant with IFRS and that their presentation was consistent with our understanding of the key issues in this area. We focused specifically on whether or not they appropriately described the inherent degree of subjectivity in the estimates and the potential impact on future periods of revisions to these estimates, including specific disclosures on the key assumptions most sensitive to reasonable possible change.

Other information

Management is responsible for the other information. The other information comprises the Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Group's annual report which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Group's annual report which is expected to be made available to us after that date, if we conclude that there is a material misstatement therein, we are required to communicate the matters to those charged with governance.

Independent auditor's report
To the shareholders of Drake & Scull International PJSC (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

(i) except for the matter referred to in the *Basis for qualified opinion* section, we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the Directors' Report is consistent with the books of account of the Group;

(v) as disclosed in note 33 to the consolidated financial statements the Group has purchased the remaining share of one of its subsidiaries during the year ended 31 December 2016;

(vi) note 20 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2016.

PricewaterhouseCoopers
29 March 2017

Douglas O'Mahony
Registered Auditor Number 834
Dubai, United Arab Emirates

Drake & Scull International PJSC

Consolidated statement of financial position

	Note	As at 31 December 2016 AED'000	2015 AED'000
ASSETS			
Non-current assets			
Property and equipment	6	420,432	509,610
Intangible assets	7	964,146	1,027,164
Deferred income tax assets	9	17,878	17,315
Available-for-sale financial assets	10	2,909	40,753
Trade and other receivables	8	331,251	319,225
		1,736,616	1,914,067
Current assets			
Inventories	12	40,033	36,891
Development properties		8,560	8,560
Trade and other receivables	8	5,010,787	5,073,370
Due from related parties	20	80,887	95,536
Financial assets at fair value through profit or loss	11	3,488	5,368
Cash and bank balances	13	403,020	493,433
		5,546,775	5,713,158
Assets classified as held for sale	32	307,855	450,451
Total assets		7,591,246	8,077,676
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the parent			
Share capital	14	2,285,047	2,285,047
Share premium	14	3,026	3,026
Statutory reserve	15	125,760	125,760
Other reserve	16	24,543	24,543
Accumulated losses		(991,553)	(242,152)
Foreign currency translation reserve		(65,686)	(22,370)
		1,381,137	2,173,854
Non-controlling interests		(132,177)	(43,775)
Net equity		1,248,960	2,130,079
LIABILITIES			
Non-current liabilities			
Bank borrowings	17	227,859	53,204
Employees' end of service benefits	19	140,886	168,430
		368,745	221,634
Current liabilities			
Bank borrowings	17	2,399,866	2,370,959
Trade and other payables	18	3,292,485	3,093,407
Due to related parties	20	281,190	261,597
		5,973,541	5,725,963
Total liabilities		6,342,286	5,947,597
Total equity and liabilities		7,591,246	8,077,676

The consolidated financial statements were approved for issue by the Board of Directors on 29 March 2017 and signed on its behalf by:

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Chairman Chief Executive Officer

The notes on pages 16 to 65 are an integral part of these consolidated financial statements.

Drake & Scull International PJSC

Consolidated statement of income

	Note	Year ended 31 December 2016 AED'000	2015 AED'000
Contract revenue	5	3,258,962	4,197,620
Contract costs	23	(3,623,566)	(4,644,111)
Gross loss		(364,604)	(446,491)
Other income	22	34,551	72,521
General and administrative expenses	24	(409,549)	(526,407)
Operating loss		(739,602)	(900,377)
Finance income	21	344	8,036
Finance costs	21	(62,777)	(50,124)
Finance costs – net	21	(62,433)	(42,088)
Share of loss from investment in joint venture		-	(2,017)
Share of loss from investment in associate		-	(723)
Loss for the year before tax		(802,035)	(945,205)
Income tax (expense) / credit	26	(13,268)	6,382
Loss for the year		(815,303)	(938,823)
Loss attributable to:			
-Owners of the Parent		(732,858)	(826,623)
-Non-controlling interests		(82,445)	(112,200)
		(815,303)	(938,823)
Loss per share			
Basic and diluted (AED)	27	(0.32)	(0.36)

Drake & Scull International PJSC

Consolidated statement of comprehensive income

	Year ended 31 December	
	2016	2015
	AED'000	AED'000
Loss for the year	(815,303)	(938,823)
Other comprehensive loss		
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation - net	(43,316)	(7,084)
Other comprehensive loss for the year	(43,316)	(7,084)
Total comprehensive loss for the year	(858,619)	(945,907)
Attributable to:		
-Owners of the Parent	(776,174)	(833,707)
-Non-controlling interests	(82,445)	(112,200)
	(858,619)	(945,907)

Consolidated statement of changes in equity

	Share capital AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserve AED'000	Accumulated losses AED'000	Foreign currency translation reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2016	2,285,047	3,026	125,760	24,543	(242,152)	(22,370)	2,173,854	(43,775)	2,130,079
Loss for the year	-	-	-	-	(732,858)	-	(732,858)	(82,445)	(815,303)
Other comprehensive loss for the year	-	-	-	-	-	(43,316)	(43,316)	-	(43,316)
Total comprehensive loss for the year	-	-	-	-	(732,858)	(43,316)	(776,174)	(82,445)	(858,619)
Acquisition of non-controlling interest (Note 33)	-	-	-	-	(16,543)	-	(16,543)	(5,957)	(22,500)
Balance at 31 December 2016	2,285,047	3,026	125,760	24,543	(991,553)	(65,686)	1,381,137	(132,177)	1,248,960

The notes on pages 16 to 65 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	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 2015	2,285,047	3,026	116,677	24,543	593,554	(15,286)	3,007,561	68,425	3,075,986
Loss for the year	-	-	-	-	(826,623)	-	(826,623)	(112,200)	(938,823)
Other comprehensive income for the year	-	-	-	-	-	(7,084)	(7,084)	-	(7,084)
Total comprehensive income for the year	-	-	-	-	(826,623)	(7,084)	(833,707)	(112,200)	(945,907)
Transfer from retained earnings to statutory reserve	-	-	9,083	-	(9,083)	-	-	-	-
Balance at 31 December 2015	2,285,047	3,026	125,760	24,543	(242,152)	(22,370)	2,173,854	(43,775)	2,130,079

Drake & Scull International PJSC

Consolidated statement of cash flows

	Note	Year ended 31 December 2016 AED'000	2015 AED'000
Operating activities			
Loss for the year before tax		(802,035)	(945,205)
Adjustments for:			
Share of loss from investment in joint venture		-	2,017
Share of loss from investment in associate		-	723
Depreciation	6	56,662	66,599
Impairment of property, plant and equipment	6	31,794	4,576
Amortisation of intangible assets	7	33,555	33,555
Provision for employees' end of service benefits	19	31,981	37,670
Impairment of intangible assets	7	29,463	-
Impairment of investment in an associate	32	104,845	-
Fair value loss on financial assets at fair value through profit or loss	11	1,880	-
Fair value loss on investment property		-	2,176
Fair value loss on available-for-sale investment	10	1,104	-
Gain on restructuring of investment		-	(1,874)
Finance income	21	(344)	(8,036)
Finance costs	21	146,058	119,108
(Gain) / loss on disposal of property and equipment		(9,740)	138
Provision for impairment on trade receivables and retentions - net	24	30,210	228,523
Operating cash flows before payment of employees' end of service benefits, income tax and changes in working capital		(344,567)	(460,030)
Employees' end of service benefits paid	19	(59,525)	(20,202)
Income tax paid		(5,719)	(37,341)
Changes in working capital			
Inventories		(3,142)	7,926
Trade and other receivables before provisions and excluding interest receivable and loans and advances		(9,390)	32,201
Due from related parties		14,649	(74,870)
Trade and other payables excluding income tax and interest payable		168,201	132,645
Due to related parties		19,593	55,314
Net cash used in operating activities		(219,900)	(364,357)
Balance carried forward		(219,900)	(364,357)

The notes on pages 16 to 65 are an integral part of these consolidated financial statements.

Drake & Scull International PJSC

Consolidated statement of cash flows (continued)

	Note	Year ended 31 December 2016 AED'000	2015 AED'000
Balance brought forward		(219,900)	(364,357)
Investing activities			
Purchase of property and equipment	6	(12,285)	(54,454)
Proceeds from disposal of property and equipment		22,119	4,430
Sale of assets classified as held for sale	32	37,751	-
Proceeds from disposal of available for sale financial assets	10	36,740	-
Loans and advances	8	29,943	55,606
Interest received		138	4,567
Net cash generated from investing activities		114,406	10,149
Financing activities			
Term deposits under lien	13	2,376	(39,145)
Net proceeds from trust receipts and other borrowings		(134,021)	159,130
Proceeds from term loans	17	389,313	263,524
Payment of term loans	17	(78,964)	(291,485)
Acquisition of non-controlling interest		(22,500)	-
Interest paid		(122,665)	(116,875)
Net cash generated from /(used in) from financing activities		33,539	(24,851)
Net decrease in cash and cash equivalents		(71,955)	(379,059)
Net foreign currency translation difference		(43,316)	(7,084)
Cash and cash equivalents, at the beginning of the year		(189,698)	196,445
Cash and cash equivalents, at the end of the year	13	(304,969)	(189,698)

Drake & Scull International PJSC

Notes to the consolidated financial statements for the year ended 31 December 2016

1 General information

Drake & 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 address of 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, oil and gas, air conditioning and sanitation work in the Middle East, Europe, Asia and North African region.

The Company has either directly or indirectly the following major subsidiaries:

Major Subsidiaries	Principal activities	Shareholding %		Country of incorporation
		2016	2015	
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 (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
Drake & Scull International for Electrical Contracting WLL	Mechanical, electrical contracting and repairing work relating to the construction industry	100	75	Kuwait
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 related 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 these consolidated financial statements.

The Group, through Drake & Scull International for Contracting SAE, also has a 50% interest in a joint venture with Hassan Allam Sons (Misr Sons Development S.A.E) under a joint arrangement agreement dated 21 July 2011. This is classified as joint operation in these consolidated financial statements.

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

The Group, through Drake & Scull Construction Company LLC, also has a 50% interest in a joint venture with Consolidated Contractors Group S.A.L (Offshore) (CCC) under a joint arrangement agreement dated 27 September 2011. This is classified as joint operation in these consolidated financial statements.

The Group, through Drake & Scull Construction Company LLC – Saudi Arabia, also has a 50% interest in a joint venture with Saudi Arabia Construction Co (SACC – DSC JV) under a joint arrangement agreement dated 15 October 2012. This is classified as joint operation in these consolidated financial statements.

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 these consolidated financial statements.

Drake & 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 these consolidated financial statements.

Drake & 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 these consolidated financial statements.

Drake & Scull Engineering LLC, also has a 49% interest in a joint venture with Al Habtoor Specon LLC (HLS-DSE Joint Venture) under a joint arrangement agreement dated 1 May 2013. This is classified as joint operation in these consolidated financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Going concern

During the year, the Group has incurred losses of AED 815,303 thousand (2015: AED 938,823 thousand) and, as of that date, the Group's net current liabilities exceeded its current assets by AED 118,911 thousand (2015: net current assets of AED 437,646 thousand). Further, the Group had negative cash and cash equivalents balance of AED 304,969 thousand as at 31 December 2016 (2015: negative cash and cash equivalents balance of AED 189,698 thousand) In addition, the Group was in breach of its financial covenants in relation to the syndicated Sukuk facility and other borrowing facilities (refer note 17). The Board of Directors of the Company in their meeting held of 14 February 2017 announced a recapitalisation program to raise capital for the Group's on-going and future funding requirements. As part of the turnaround and capital restructuring plan, during the first quarter 2017 the Group secured a binding offer from a U.A.E strategic investor "Tabarak Investment LLC" to inject new capital in the Group for a total amount of AED 500 million. The proposed recapitalisation program is subject to shareholders' and regulatory approvals.

At 31 December 2016, the Group has a healthy backlog of existing and committed future projects. Management has prepared detailed cash flow projections covering a five year period that show that the Group will be able to cover the funding gap.

These consolidated financial statements have been prepared on a going concern basis in view of the announced recapitalisation program, commitment from Tabarak Investment LLC to the recapitalisation program and strong future business prospects for the Group.

2.1.2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1.3 Changes in accounting policy and disclosures

(a) New and amendments standards adopted by the Group

Certain new amendments have been issued and are effective from period beginning 1 January 2016, and have no impact on the Group's consolidated financial statements:

- IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2016);
- IAS 16 (amendment), 'Property, plant and equipment' (effective from 1 January 2016);
- IAS 38 (amendment), 'Intangible assets' (effective from 1 January 2016); and
- IAS 19 (amendment), 'Employee benefits' (effective from 1 January 2016)

There are no other IFRSs, amendments or IFRIC interpretations that are effective that would be expected to have a material impact on the Group's consolidated financial statements.

(b) New standards and interpretations not yet adopted

Certain new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2016 or later periods but have not been early adopted by the Group. Management is currently assessing the following standards and amendments which are likely to have an impact on the Group's consolidated financial statements:

- IAS 12 (amendment), 'Income taxes' (effective from 1 January 2017);
- IAS 7 (amendment), 'Statement of cash flow' (effective from 1 January 2017);
- IFRS 9, 'Financial instruments' (effective from 1 January 2018);
- IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018); and
- IFRS 16, 'Leases' (effective from 1 January 2019);

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Group is assessing the impact of the above amendments and new standards, none of which are expected to have a material impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of income (Note 2.6).

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be both joint ventures and joint operations. Joint ventures are accounted for using the equity method whereas joint operations are consolidated on a proportional line by line basis.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associates (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the consolidated statement of income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of income.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating decision-maker. The Chief Operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management that makes strategic decisions. The Chief Operating decision-maker of the Group is the "Executive Management".

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entity operates ('the functional currency'). The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.5 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred.

2 Summary of significant accounting policies (continued)

2.5 Property and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method, at rates calculated to allocate the cost of assets less their estimated residual value over their expected useful lives as follows:

Type of assets	Years
Buildings	5 to 10 years
Machinery	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Motor vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to property and equipment or intangible assets and depreciated or amortised in accordance with Group policies.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated statement of income.

Specific borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the consolidated statement of income in the period in which they are incurred.

2.6 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Parent Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

(a) Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trade names

Trade names are shown at historical cost. Trade names acquired in a business combination are recognised at fair value at the acquisition date. Trade names have infinite lives and are not amortised due to the minimal cost of renewal.

(c) Customer relationships

Acquired contractual customer relationships are initially recognised at fair value at the time of acquisition and subsequently carried at cost less accumulated amortisation. The contractual customer relationships have a finite useful life. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over its estimated useful life of 10 years, which is the estimated period of benefit.

(d) Orders backlog

Acquired orders backlog is arrived at by calculating the present value of the expected future economic benefits to arise from those orders after deducting the contributory asset charge. Subsequently, orders backlog is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of orders backlog over its estimated useful life of 4 years, which is the estimated period of benefit.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2 Summary of significant accounting policies (continued)

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'due from related parties', and 'cash and cash equivalents' in the consolidated balance sheet (Notes 8, 20 and 13 respectively).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of income within 'other gain/(losses)' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of income as part of other income when the Group's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of income as 'Gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of income as part of other income. Dividend on available-for-sale equity instruments are recognised in the consolidated statement of income as part of other income when the Group's right to receive payments is established.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Summary of significant accounting policies (continued)

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability (cash flow hedge).

The Group does not document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group does not also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Accordingly, the derivative is not designated as a hedging instrument.

The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The gain or loss relating to the change in fair value is recognised immediately in the consolidated statement of income within "Other gain/(losses)".

2.12 Development properties

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Such properties are stated at the lower of cost and net realisable value. The cost of development properties includes the cost of land and other related expenditure which are recognised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in completing and selling the property. Any gains or losses on sale of development properties are included in other gain/(losses).

2.13 Assets classified as held for sale

Assets classified as held for sale are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and management expect to complete the sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying amount and the fair value less costs to sell

2 Summary of significant accounting policies (continued)

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade receivables

Trade receivables are amounts due from customers for billing in the ordinary course of business for construction contracts. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income within "General and administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of income.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

2 Summary of significant accounting policies (continued)

2.17 Share capital (continued)

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in provisions due to the passage of time are recognised as interest expense. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.20 Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (continued)

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated statement of income in the period in which they are incurred.

2.23 Employee benefits

A provision is made for the estimated liability for employees' entitlements to annual leave and related benefits as a result of services rendered by the employees up to the balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the Labour Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date.

The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.

Actuarial gains and losses arising from experience adjustments and changes in assumptions are charged or credited to equity in the other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in consolidated statement of income.

2.24 Contract revenue

Contract revenue is recognised under the percentage-of-completion method. When the outcome of the contract can be reliably estimated, revenue is recognised by reference to the proportion that accumulated costs up to the year end bear to the estimated total costs of the contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year end which are considered recoverable.

Revenue related to variation orders is recognised when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

A claim is recognised as contract revenue when settled or when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be measured reliably.

Losses on contracts are assessed on an individual contract basis and provision is made for the full amount of the anticipated losses, including any losses relating to future work on a contract, in the period in which the loss is first foreseen.

2 Summary of significant accounting policies (continued)

2.24 Contract revenue (continued)

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against progress billings at the year end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown under trade and other receivables as amounts due from customers on contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown under trade and other payables as amounts due to customers on contracts.

In determining contract costs incurred up to the year end, any amounts incurred including advances paid to suppliers and advance billings received from subcontractors relating to future activity on a contract are excluded and are presented as amounts due from customers on contracts.

2.25 Interest income

Interest income is recognised in the consolidated statement of income on a time proportion basis using the effective interest method.

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. These risks are evaluated by management on an ongoing basis to assess and manage critical exposure. The Group's liquidity and market risks are managed as part of the Group's treasury activities. Treasury operations are conducted within a framework of established policies and procedures.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign currency monetary assets and liabilities are denominated mainly in Saudi Arabian Riyals, Qatari Riyals, Euro, Kuwaiti Dinars, Omani Riyal, Egyptian Pounds, Indian Rupee, Jordanian Dinar, Iraqi Riyal and Algerian Dinar.

As Saudi Arabian Riyals, Qatari Riyals, Omani Riyals and United Arab Emirates Dirhams (AED) are pegged to US Dollars, the sensitivity considers the effect of a reasonably possible movement of the AED currency rate against the Euro, Kuwaiti Dinars, Indian Rupee, Algerian Dinars, Egyptian Pounds, Iraqi Riyal, Jordanian Dinars with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities).

At 31 December 2016, if these currencies had weakened/strengthened by 5% against the AED, the losses for the year would have been lower/higher by AED 15 thousand (2015: AED 411 thousand).

(ii) Price risk

The Group is not exposed to equity security price risk. Its investments classified on balance sheet as available-for-sale are carried at cost and investments classified as fair value through profit or loss are not material.

(iii) Cash flow and fair value interest rate risk

The Group holds its surplus funds in short term bank deposits. During the year ended 31 December 2016, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by AED 1,208 thousand (2015: AED 1,656 thousand).

The Group also earns interest on loans and advances, which are generally at higher than market rates. A 0.5% shift in these interest rates would have resulted in a higher/lower interest income by AED 75 thousand (2015: AED 289 thousand).

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) *Market risk* (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2016, if interest rates on borrowings had been 0.5% higher/lower, the profit/loss would have been higher/lower by AED 12,631 thousand (2015: AED 11,587 thousand).

(b) *Credit risk*

The Group has a policy for dealing with customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution and this is regularly monitored.

Credit risk is managed on group basis. Credit risk arises from cash and bank balances, available-for-sale financial assets, financial assets carried at fair value through profit or loss, trade and other receivables and amounts due from related parties.

The table below shows the rating and balance of the major counterparties at the balance sheet date:

	2016		2015	
Counterparty	**External rating***	**AED'000**	**External rating***	**AED'000**
Bank A	A1	116	A1	46,818
Bank B	Ba1	35,643	Ba1	-
Bank C	Ba3	1,294	Ba3	-
Bank D	Ba2	17,798	Ba2	11,489
Bank E	Baa1	124,210	Baa1	269,753
Bank F	Baa2	17,586	Baa2	3,900
Bank G	Baa3	39,134	Baa3	44,443
Bank H	Aa2	-	Aa2	2,291
Bank I	Aa3	-	Aa3	2,322
Bank J	A2	14,488	A2	93,354
Bank K	A3	149,739	A3	16,528
Bank L	B3	-	B3	9
Total		**400,008**		**490,907**

*Based on Moody's ratings

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group has a formal procedure of monitoring and follow-up of customers for outstanding trade receivables. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2016, the Group had a significant concentration of credit risk with ten customers accounting for 38% of the trade receivables (2015: 43%). Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

The other categories of financial assets do not result in significant credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business through progress billings, the Group maintains adequate bank balances and credit facilities to fund its operations. Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The Group is currently financed from shareholders' equity and bank borrowings. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Less than 1 year AED'000	**Between 1 year and 2 years** AED'000	**Between 2 years and 5 years** AED'000	**Total** AED'000
At 31 December 2016				
Bank borrowings	2,399,866	40,849	187,010	2,627,725
Trade and other payables (excluding advance)	2,280,116	-	-	2,280,116
Due to related parties	281,190	-	-	281,190
At 31 December 2015				
Bank borrowings	2,370,959	14,611	38,593	2,424,163
Trade and other payables (excluding advance)	1,999,545	-	-	1,999,545
Due to related parties	261,597	-	-	261,597

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend paid to shareholders or manage its working capital requirements. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and bank balances (including short term deposits). Total capital is calculated as 'Total equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 AED'000	2015 AED'000
Total bank borrowings (Note 17)	2,627,725	2,424,163
Less: Cash and bank balances (Note 13)	(403,020)	(493,433)
Net debt	2,224,705	1,930,730
Total equity	1,248,960	2,130,079
Total capital	3,473,665	4,060,809
Gearing ratio	64%	48%

The gearing ratio has increased by 16% compared to last year due to the increase in net debt and losses during the year which resulted in impact on equity.

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The Group's financial assets at fair value through profit or loss are based on net asset values provided by the fund managers. The fair market value of these investments, as indicated by the fund managers are based on:

(a) For listed investments, current bid prices in an active market; and

(b) For unlisted investments, valuations based on fundamentals and rationale of the portfolio performed by independent valuers.

The following table presents the Group's assets that are measured at fair value at 31 December 2016.

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
31 December 2016				
Assets				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	3,488	-	3,488
Available-for-sale financial assets				
- Equity securities	2,358	-	551	2,909
Total assets	2,358	3,488	551	6,397

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

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
31 December 2015				
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 at 31 December 2016 and 2015.

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

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(a) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value level 2 and level 3 financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

Asset recoverability is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of the impairment reviews. The key assumptions on which management has based its cash flow projections when determining the recoverable amount of the assets are as follows:

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(a) Estimated impairment of goodwill (continued)

- Management's projections have been prepared on the basis of strategic plans, knowledge of the market, and management's views on achievable growth in market share over the long term period of five years;
- The discount rates applied to cash flows are based on the Group's weighted average cost of capital with a risk premium reflecting the relative risks in the markets in which the businesses operate; and
- Growth rate estimates are based on a conservative view of the long-term rate of growth.

The below average assumptions are for all three CGUs of the Group. The key assumptions used for value-in-use calculations in 2016 are as follows:

- Growth rate: 5% to 10%,
- Discount rate: 12.5%,
- Terminal growth rate: 4%

The value-in-use of goodwill in regards to the two CGUs (MEP and Engineering) is higher than its carrying value and therefore no impairment loss exists at the year-end. Any sensitivity applied to the key assumptions above will have no significant impact on the value-in-use.

(b) 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 set out in Note 2.24. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end. The application of a 5% sensitivity to management estimates of the total costs to completion of all outstanding projects at 31 December 2016 would result in the revenue and profit increasing/decreasing by AED 438 million (2015: increasing/decreasing by AED 431 million).

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

4 Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Revenue recognition (continued)

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.

(c) Impairment of trade and other receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. Management's judgement is required in evaluating customers' debts to determine if they will be collected. The charge is based on the ageing of the customer accounts, the customer's credit worthiness and the historic write-off experience. Changes to the estimated impairment charge may be required if the financial condition of the customers were to improve or deteriorate. Management considers that the current level of impairment charge is appropriate and consistent with the loss estimated at year end.

5 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.

Business segments

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 (corporate office).

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 the 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 agreed terms. The revenue from external parties reported to the Executive management is measured in a manner consistent with that in the consolidated statement of income.

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; UAE, 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.

5 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Engineering	Civil	Other	Inter-segment elimination	Total	Engineering	Civil	Other	Inter-segment elimination	Total
	For the year ended 31 December 2016					For the year ended 31 December 2015				
Revenue										
External customers	2,175,091	946,301	137,570	-	3,258,962	2,701,555	1,244,727	251,338	-	4,197,620
Inter- segment	196,061	15,494	56,549	(268,104)	-	254,787	25,899	51,690	(332,376)	-
	2,371,152	961,795	194,119	(268,104)	3,258,962	2,956,342	1,270,626	303,028	(332,376)	4,197,620
Segment loss	(163,651)	(477,108)	(174,544)	-	(815,303)	(317,307)	(609,135)	(12,381)	-	(938,823)
Depreciation and amortisation	32,008	22,714	35,495	-	90,217	34,215	29,892	36,047	-	100,154
Capital expenditure	8,383	2,912	990	-	12,285	25,052	27,552	1,850	-	54,454
	At 31 December 2016					At 31 December 2015				
Segment total assets	4,174,267	2,694,608	3,948,516	(3,226,145)	7,591,246	4,183,520	2,902,424	3,945,349	(2,953,617)	8,077,676

5 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	UAE	Saudi Arabia	Others	Inter segment elimination	Total
	For the year ended 31 December 2016				
Revenue from external customers	1,341,458	667,510	1,249,994	-	3,258,962
	For the year ended 31 December 2015				
Revenue from external customers	1,396,217	1,224,061	1,577,342	-	4,197,620
	At 31 December 2016				
Non-current assets	2,089,565	194,097	146,274	(693,320)	1,736,616
	At 31 December 2015				
Non-current assets	2,177,033	211,446	183,231	(657,643)	1,914,067

Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

6 Property and equipment

	Land and buildings AED'000	Machinery AED'000	Furniture, fixtures and office equipment AED'000	Motor vehicles AED'000	Capital work-in-progress AED'000	Total AED'000
Cost						
At 1 January 2015	412,128	193,643	89,927	28,234	28,001	751,933
Additions	1,323	32,207	5,651	14,295	978	54,454
Disposals	(867)	(4,717)	(305)	(2,165)	(132)	(8,186)
Transfers	(6,588)	6,472	614	(26)	(472)	-
Currency translation differences	2,742	(12,926)	5,457	(282)	(670)	(5,679)
At 31 December 2015	408,738	214,679	101,344	40,056	27,705	792,522
Additions	-	7,874	2,125	2,034	252	12,285
Disposals	(16,822)	(11,639)	(2,527)	(3,313)	(2,713)	(37,014)
Transfers	-	(1,087)	13,978	1,601	(14,492)	-
Currency translation differences	-	(1,820)	(707)	(151)	(306)	(2,984)
At 31 December 2016	391,916	208,007	114,213	40,227	10,446	764,809
Accumulated depreciation						
At 1 January 2015	50,271	104,279	56,256	6,589	-	217,395
Charge for the year	9,402	34,827	13,979	8,391	-	66,599
Impairment charge	-	-	-	-	4,576	4,576
Disposals	(218)	(1,761)	(201)	(1,438)	-	(3,618)
Transfers	(1,125)	1,125	-	-	-	-
Currency translation differences	1,646	(4,128)	149	432	(139)	(2,040)
At 31 December 2015	59,976	134,342	70,183	13,974	4,437	282,912
Charge for the year	7,499	29,261	11,605	8,297	-	56,662
Impairment charge	29,119	-	-	-	2,675	31,794
Disposals	(8,895)	(10,529)	(2,469)	(2,742)	-	(24,635)
Currency translation differences	-	(1,794)	(419)	124	(267)	(2,356)
At 31 December 2016	87,699	151,280	78,900	19,653	6,845	344,377
Net book amount						
At 31 December 2016	304,217	56,727	35,313	20,574	3,601	420,432
At 31 December 2015	348,762	80,338	31,161	26,081	23,268	509,610

The depreciation charge has been allocated in the consolidated statement of income as follows:

	2016 AED'000	2015 AED'000
Contract costs (Note 23)	49,401	58,358
General and administrative expenses (Note 24)	7,261	8,241
	56,662	66,599

Capital work-in-progress represents assets under construction.

7 Intangible assets

	Goodwill AED'000	Trade name AED'000	Customer relationships AED'000	Orders backlog AED'000	Total AED'000
Cost					
At 31 December 2015	844,447	86,246	335,552	16,779	1,283,024
As 31 December 2016	844,447	86,246	335,552	16,779	1,283,024
Accumulated amortisation and impairment					
At 1 January 2015	-	-	205,526	16,779	222,305
Charge for the year	-	-	33,555	-	33,555
At 31 December 2015	-	-	239,081	16,779	255,860
Charge for the year	-	-	33,555	-	33,555
Impairment charge for the year	29,463	-	-	-	29,463
At 31 December 2016	29,463	-	272,636	16,779	318,878
Net book amount					
At 31 December 2016	814,984	86,246	62,916	-	964,146
At 31 December 2015	844,447	86,246	96,471	-	1,027,164

The business units considered as Cash Generating Units ("CGUs") of the Group, for the purposes of assessment of impairment in the value of goodwill, are Engineering, Water and Power and Civil.

<u>The key assumptions used for value-in-use calculations in 2016 are as follows:</u>

The recoverable amounts of CGUs have been determined based on their value-in-use, calculated using cash flows projections based on the financial budgets approved by management covering a period of 5 years. The discount rate applied is 12.5% (2015: 11.4%). The above impairment charge is based on the positive operational cash flows.

At 31 December 2016 goodwill amounted to AED 814,984 thousand. Management assessed each CGU individually for potential impairment and concluded that an impairment charge of AED 29,463 thousand was required against the goodwill of AED 110,768 thousand attributed to the Civils CGU. No impairment charge was identified against the other two CGUs.

<u>The other key assumptions used in the value-in-use calculations are as follows:</u>

(A) Budgeted gross margins:

The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year, adjusted for expected efficiency improvements, price fluctuations and manpower costs.

(B) Discount rate:

These represent the weighted average cost of capital for the cash generating units adjusted for the respective geographical risk factors.

7 Intangible assets (continued)

(C) Cost inflation:

The basis used to determine cost inflation is the forecast general price index during the budget year for the cash generating units.

(D) Terminal growth rate:

The terminal growth rate has been assumed to be 4% (2015: 4%). In management's view, the terminal growth rate is the minimum growth rate expected to be achieved beyond the five year period.

8 Trade and other receivables

	2016 AED'000	2015 AED'000
Non-current		
Trade receivables and retentions	345,569	332,860
Less: fair value adjustment	(14,318)	(13,635)
At 31 December	331,251	319,225
Current		
Trade receivables and retentions	1,467,021	1,493,842
Prepayments and other receivables	638,763	633,132
Amount due from customers on contracts	3,228,431	3,242,546
Loans and advances	-	29,943
	5,334,215	5,399,463
Less: provision for impairment	(323,428)	(326,093)
	5,010,787	5,073,370
Amounts due from customers on contracts comprise:		
Costs incurred to date	20,663,461	18,308,174
Recognised profits	350,106	850,964
	21,013,567	19,159,138
Less: Progress billings	(17,785,136)	(15,916,592)
	3,228,431	3,242,546

An analysis of trade receivables and retentions is as follows:

	2016 AED'000	2015 AED'000
Fully performing	1,269,097	1,230,597
Past due but not impaired	220,065	270,012
Impaired	323,428	326,093
	1,812,590	1,826,702

8 Trade and other receivables (continued)

As at 31 December 2016, trade receivables and retentions of AED 1,269,097 thousand (2015: AED 1,230,597 thousand) were fully performing.

As at 31 December 2016, trade receivables and retentions of AED 220,065 thousand (2015: AED 270,012 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables and retentions is as follows:

	2016 AED'000	2015 AED'000
Six months to one year past due	62,073	97,846
Over one year past due	157,992	172,166
	220,065	270,012

As of 31 December 2016, trade receivables and retentions of AED 323,428 thousand (2015: AED 326,093 thousand) were impaired and provided for. The individually impaired receivables are over one year old and mainly relate to customers who are in a difficult financial situation.

Movement in the provision for impairment of trade receivables and retentions is as follows:

	2016 AED'000	2015 AED'000
At 1 January	326,093	103,645
Provision for impairment (Note 24)	30,210	228,523
Written off during the year as uncollectible	(32,875)	(6,075)
At 31 December	323,428	326,093

The creation and release of provision for impaired receivables have been included in 'General and administrative expenses' in the consolidated statement of income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The gross carrying amount of the Group's trade receivables and retentions are denominated in the following currencies:

	2016 AED'000	2015 AED'000
UAE Dirham	774,387	792,663
Saudi Riyal	518,416	526,931
US Dollar	77,325	49,793
Euro	53,622	59,427
Kuwaiti Dinar	52,630	68,254
Others	336,210	329,634
	1,812,590	1,826,702

8 Trade and other receivables (continued)

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above which approximates the fair value at the balance sheet date.

Change order and claims

Due from customers on contracts include an amount of AED 1,737 million relating to unapproved change orders and claims.

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

At 31 December 2016, balances of trade and other receivables include an amount of AED 117 million of trade receivables and AED 1,737 million of amount due from customers on contracts which are under discussion and negotiation. These discussions and negotiations are continuing and contingent upon successful results. However, management is of the opinion that balances are fully recoverable and as at 31 December 2016, no provision for impairment has been made against these balances.

9 Deferred tax

The gross movement on the deferred income tax assets is as follows:

	2016 AED'000	2015 AED'000
Deferred income tax assets		
At 1 January	17,315	5,811
Exchange differences	(499)	(480)
Income statement credit (Note 26)	1,062	11,984
At 31 December	17,878	17,315
Deferred income tax liabilities		
At 1 January	-	2,153
Exchange differences	-	-
Income statement charge (Note 26)	-	(2,153)
At 31 December	-	-

The deferred tax asset is recoverable over a period of five years.

10 Available-for-sale financial assets

	2016 AED'000	2015 AED'000
At 1 January	40,753	40,753
Fair value loss on available for sale investment	(1,104)	-
Disposals	(36,740)	-
At 31 December	2,909	40,753

Available-for-sale financial assets are classified as non-current assets in the consolidated financial statements. These investments, except those carried at fair value as disclosed in Note 3.3, are carried at cost as their fair value cannot be reliably determined. Part of the available-for-sale financial assets comprise shares in unlisted companies.

The Group classified the above investment as available-for-sale financial assets at the date of investment.

During the year, financial assets amounting to AED 37,107 thousand were sold to a related party (Note 20) for a consideration of AED 36,740 thousand, resulting in a loss of AED 367 thousand.

Available-for-sale financial assets are denominated in the following currencies:

	2016 AED'000	2015 AED'000
US Dollar	551	37,642
Jordanian Dinars	2,358	3,111
	2,909	40,753

11 Financial assets at fair value through profit or loss

	2016 AED'000	2015 AED'000
Investment in a real estate fund	3,488	5,368

The movement in financial assets at fair value through profit or loss is as follows:

	2016	2015
At 1 January	5,368	5,368
Fair value loss	(1,880)	-
At 31 December	3,488	5,368

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated statement of income within "General and administrative expenses" (Note 24).

12 Inventories

	2016 AED'000	2015 AED'000
Materials and consumables	40,033	36,891

13 Cash and bank balances

	2016 AED'000	2015 AED'000
Cash on hand	3,012	2,526
Cash at bank	161,153	246,759
Term deposits	238,855	244,148
Cash and bank balances	403,020	493,433

Term deposits carry an average interest rate of 1% to 3% (2015: 1% to 3.5%).

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

	2016 AED'000	2015 AED'000
Cash and bank balances	403,020	493,433
Less: Term deposits under lien	(237,662)	(240,038)
Bank overdrafts (Note 17)	(470,327)	(443,093)
Cash and cash equivalents	(304,969)	(189,698)

14 Share capital

	2016 AED'000	2015 AED'000
Authorised, issued and fully paid		
1,197,777,778 shares of AED 1 each paid in cash	1,197,778	1,197,778
980,000,000 shares of AED 1 each paid in kind (see i below)	980,000	980,000
Bonus shares (see ii below)	107,269	107,269
	2,285,047	2,285,047

(i) Assets and liabilities of Drake & Scull International (LLC) and its subsidiaries, were transferred to Drake & Scull International PJSC as in-kind contribution for a 45% shareholding in the Company.

(ii) During the Annual General Meeting held on 26 April 2012, the shareholders approved the cash dividend of 3% of the face value of the issued shares and 5% bonus shares. The increase in share capital was formally approved by the Ministry of Economy on 25 June 2012. These dividends had been reflected in the consolidated statement of changes in equity, accordingly.

(iii) During the year ended 31 December 2009, the Company obtained necessary regulatory approval to undertake a share buy-back program. A total of 32,400 thousand shares were purchased from the market at an average price of AED 0.8834 per share amounting to AED 28,622 thousand. During the year ended 31 December 2013, these shares were re-issued at an average price of AED 0.977 per share amounting to AED 31,648 thousand, recognising a share premium of AED 3,026 thousand.

15 Statutory reserve

In accordance with the Commercial Companies Law of the respective countries in which the group operates and the articles of association of the limited liability companies forming a part of the Group, a certain percentage of the annual profit is required to be transferred to a statutory reserve. Once the reserve equals a certain percentage of the capital the annual transfers can be discontinued. The entities have resolved to discontinue the annual transfers where the percentage has been achieved. No transfers have been made where a loss has been incurred during the year or where an accumulated deficit exists. This reserve is not available for distribution except as stipulated by the law. During the year there was AED Nil (2015: AED 9,083 thousand) transfer from retained earnings to statutory reserve.

16 Other reserve

During the third quarter of the year ended 31 December 2011, the Group acquired the remaining 20% of the shares relating to the non-controlling interest in one of its subsidiaries, Gulf Technical Construction Company LLC ("GTCC"). The fair value of the total net identifiable assets of GTCC was AED 160,000 thousand. The 20% shares were owned equally by two individuals. The Group paid one of the shareholders fully in cash and paid the other shareholder partially in cash and settled the remaining balance for 6% shares in another subsidiary, Drake & Scull Construction LLC (a wholly owned subsidiary of the Parent Company).This was subsequently increased to 9.3%.

16 Other reserve (continued)

The difference of AED 24,543 thousand between the total consideration paid/equity transferred and contingent liability assumed of AED 26,862 thousand and the carrying amount of non-controlling interest of AED 51,405 thousand had been credited to other reserves under the consolidated statement of changes in equity.

17 Bank borrowings

The Group has obtained bank borrowings (including bank overdrafts) from several commercial banks, mainly to fund the acquisition of new businesses and to meet other working capital and investment requirements.

	2016 AED'000	2015 AED'000
Non-current		
Term loans	227,859	53,204
Current		
Term loans	934,547	798,853
Trust receipts and other borrowings	994,992	1,129,013
Bank overdrafts (Note 13)	470,327	443,093
31 December	2,399,866	2,370,959

The movement in carrying value of term loans including Sukuk bonds is as follows:

	2016 AED'000	2015 AED'000
At 1 January	852,057	880,018
New term loans during the year	389,313	263,524
Repayment of term loans during the year	(78,964)	(291,485)
31 December	1,162,406	852,057

The carrying amount of the Group's borrowings is primarily denominated in AED, USD or currencies pegged to USD. The maturity profile of borrowings based on the remaining period at the balance sheet date is included in Note 3.1.

During the year, the Group has obtained four (2015: two) new term loans amounting to AED 185.3 million and converted short term facilities (i.e. - bank overdrafts and trust receipts) into a term loan of AED 204 million (QAR 202 million) (2015: AED 24 million (Omani Rial 2.5 million) and AED 239.5 million) from international and local banks respectively. Term loans payable within twelve months at the date of consolidated 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.

17 Bank borrowings (continued)

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

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

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.5% and are within level 2 of the fair value hierarchy. 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 balance sheet date.

The Group had reached an agreement with its lenders for a conditional waiver up to 31 December 2016 where management needs to comply with certain reporting requirements requested by the lenders. The Group was not able to comply with the requirements requested by the lender, therefore, the Group is 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 and interest payments.

As a result, the Group's bank borrowings are presented as current liabilities as at 31 December 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.

18 Trade and other payables

	2016 AED'000	2015 AED'000
Trade payables and accruals	2,190,476	1,894,867
Amount due to customers on contracts	89,640	104,678
Advances from customers	1,012,369	1,093,862
	3,292,485	3,093,407
Amounts due to customers on contracts comprise:		
Progress billings	3,056,202	1,587,481
Less: Cost incurred to date	(2,767,891)	(1,368,555)
Less: Recognised profits	(198,671)	(114,248)
	89,640	104,678

19 Provision for employees' end of service benefits

	2016 AED'000	2015 AED'000
At 1 January	168,430	150,962
Charge for the year	31,981	37,670
Payments during the year	(59,525)	(20,202)
At 31 December	140,886	168,430

Employees end of service benefits' charge has been allocated in the consolidated statement of income as follows:

	2016 AED'000	2015 AED'000
Contract costs (Note 23)	27,818	32,417
General and administrative expenses (Note 24)	4,163	5,253
	31,981	37,670

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2016 and 2015, using actuarial techniques, in respect of employees' end of service benefits payable under the UAE labour Law and the Laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date.

Under this method an assessment has been made of the employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Future salary increases have been estimated on a basis consistent with the natural progression of an employees' salary in line with the Group's salary scales, past experience and market conditions. Management has assumed average increment/promotion cost of 4% (2015: 5%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 2.52 % per annum (2015: 3.18% per annum).

20 Related party transactions and balances

Related parties comprise the majority shareholders, key management personnel, joint arrangements, directors and businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates"). In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Group management, or its Board of Directors.

Significant related party transactions

Significant related party transactions with affiliates amounted to AED 15,608 thousand (2015: 34,258 thousand) and that mainly represent funds received from a related party to meet working capital requirements.

During the year, available-for-sale financial assets amounting to AED 36,740 thousand (Note 10) and investment property classified as held for sale amounting to AED 27,200 thousand (Note 32) were sold to a related party.

On 20 December 2016, the Group signed an agreement with the seller in lieu of the seller exercising the said option to sell the remaining 25% of Drake & Scull International for Electrical Contracting WLL for AED 22,500 thousand. The book value of the 25% share acquired as a part of the consideration paid was AED 5,957 thousand resulting in a loss of AED 16,543 thousand which has been transferred to accumulated losses. The legal requirements for the transfer of shares were completed subsequently to the year end. (Note 33)

Advances received against the sale of an investment in a joint venture classified as held for sale asset from a related party amounted to AED 15 million.

Related party balances

The outstanding balances with related parties are given below:

Due from related parties:	2016 AED'000	2015 AED'000
Joint arrangements	77,619	83,002
Affiliates	3,268	12,534
	80,887	95,536
Due to related parties:		
Joint arrangements	56,225	79,694
Affiliates	224,965	181,903
	281,190	261,597

20 Related party transactions and balances (continued)

Compensation of key management personnel

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

	2016 AED'000	2015 AED'000
Salaries and short term benefits	29,893	35,385
Employees' end of service benefits	2,116	3,065
	32,009	38,450

The fees accrued for the members of Board of Directors during the year was AED 1,250 thousand (2015: AED 1,250 thousand).

21 Finance costs - net

	2016 AED'000	2015 AED'000
Finance income	344	8,036
Finance costs	(62,777)	(50,124)
Finance costs – net	(62,433)	(42,088)

Finance costs have been allocated in the consolidated statement of income as follows:

	2016 AED'000	2015 AED'000
Interest expense on bank borrowings	146,058	119,108
Less: charged to contract costs (Note 23)	(83,281)	(68,984)
	62,777	50,124

22 Other income

	2016 AED'000	2015 AED'000
Legal settlement *	-	51,371
Scrap sale	4,488	4,716
Rental income	2,332	3,631
Gain on investment restructuring	-	1,874
Dividend income from trading securities	464	1,648
Gain/(loss) on disposal of property and equipment	9,740	(138)
Others	17,527	9,419
	34,551	72,521

*During 2015, the Group reversed provisions accrued in prior years against a subcontractor after signing a settlement agreement.

23 Contract costs

	2016 AED'000	2015 AED'000
Material costs	1,224,708	1,671,605
Labour and staff costs (Note 25)	1,171,903	1,421,571
Sub-contracting costs	721,053	934,720
Overheads	345,402	456,456
Finance cost (Note 21)	83,281	68,984
Depreciation (Note 6)	49,401	58,358
Employees' end of service benefits (Note 19)	27,818	32,417
	3,623,566	4,644,111

24 General and administrative expenses

	2016 AED'000	2015 AED'000
Staff costs (Note 25)	104,996	147,717
Business development, legal and professional fees	40,119	40,563
Provision for impairment of trade receivables and – net of reversals (Note 8)	30,210	228,523
Impairment of investment in an associate (Note 32)	104,845	-
Impairment of intangible assets (Note 7)	29,463	-
Amortisation (Note 7)	33,555	33,555
Depreciation (Note 6)	7,261	8,241
Rent	6,566	10,213
Bank charges	6,024	7,787
Employees' end of service benefits (Note 19)	4,163	5,253
Repair and maintenance	5,965	6,346
Fair value loss on investment property	-	2,176
Utilities	2,450	5,277
Other expenses	33,932	30,756
	409,549	526,407

25 Staff costs

	2016 AED'000	2015 AED'000
Contract costs (Note 23)	1,171,903	1,421,571
General and administrative expenses (Note 24)	104,996	147,717
	1,276,899	1,569,288

26 Income tax credit

The major components of income tax expense are as follows:

	2016 AED'000	2015 AED'000
Current income tax expense:		
Current income tax charge	(14,330)	(7,755)
Deferred income tax credit:		
Relating to origination and reversal of temporary differences	1,062	14,137
	(13,268)	6,382

27 Loss per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the group by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased and held as treasury shares.

	2016	2015
Earnings (AED'000)		
Earnings for the purposes of basic earnings per share being loss attributable to owners of the parent	(732,858)	(826,623)
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 earnings per share (AED)	(0.32)	(0.36)

Diluted

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

28 Guarantees

	2016 AED'000	2015 AED'000
Performance bonds	1,516,025	1,438,950
Letter of guarantees	1,372,629	1,535,443
	2,888,654	2,974,393

The various bank guarantees 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.

29 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:

	2016 AED'000	2015 AED'000
Future minimum lease payments:		
No later than one year	13,159	19,116
Later than one year but no later than five years	24,579	25,278
Later than five years	12,929	1,404
	50,667	45,798

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	700,074	1,391,840

Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

30 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line items below:

	Loans and receivables AED'000	Financial assets at fair value through profit or loss AED'000	Available -for- sale financial assets AED'000	Total AED'000
Assets as per consolidated balance sheet				
At 31 December 2016				
Trade and other receivables (excluding advances and prepayments) (Note 8)	4,703,275	-	-	4,703,275
Financial assets at fair value through profit or loss (Note 11)	-	3,488	-	3,488
Available-for-sale financial assets (Note 10)	-	-	2,909	2,909
Due from related parties (Note 20)	80,887	-	-	80,887
Cash and bank balances (Note 13)	403,020	-	-	403,020
Total	5,187,182	3,488	2,909	5,193,579
Assets as per consolidated balance sheet				
At 31 December 2015				
Trade and other receivables (excluding advances and prepayments) (Note 8)	4,729,520	-	-	4,729,520
Financial assets at fair value through profit or loss (Note 11)	-	5,368	-	5,368
Available-for-sale financial assets (Note 10)	-	-	40,753	40,753
Due from related parties (Note 20)	95,536	-	-	95,536
Cash and bank balances (Note 13)	493,433	-	-	493,433
Total	5,318,489	5,368	40,753	5,364,610

30 Financial instruments by category (continued)

Other financial liabilities at amortised cost	AED'000
At 31 December 2016	
Bank borrowings (Note 17)	2,627,725
Due to related parties (Note 20)	281,190
Trade payables and accruals excluding advances from customers (Note 18)	2,280,116
	5,189,031

Other financial liabilities at amortised cost	
At 31 December 2015	
Bank borrowings (Note 17)	2,424,163
Due to related parties (Note 20)	261,597
Trade payables and accruals excluding advances from customers (Note 18)	1,999,545
	4,685,305

31 Summarised financial information on subsidiary with material non-controlling interests

Set out below are the summarised financial information for subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	Drake & Scull International KSA	
	2016 AED'000	2015 AED'000
Current		
Assets	1,094,054	1,165,611
Liabilities	1,166,545	1,188,500
Total net current liabilities	(72,491)	(22,889)
Non-current		
Assets	74,562	73,152
Liabilities	22,354	30,773
Total net non-current assets	52,208	42,379
Net assets	(20,283)	19,490

31 Summarised financial information on subsidiary with material non-controlling interests (continued)

Summarised statement of income

	2016 AED'000	2015 AED'000
Revenue	399,077	587,526
Net loss	(39,783)	(197,280)

Summarised cash flows

	2016 AED'000	2015 AED'000
Cash flows from operating activities		
Net cash (used in) / generated from operations	(1,804)	40,749
Net cash generated / (used) in investing activities	3,033	(1,402)
Net cash (used in) / generated from financing activities	(107,213)	50,984
Net (decrease) / increase in cash and cash equivalents	(105,984)	90,331
Cash and cash equivalents at beginning of year	32,674	(57,824)
Exchange gains on cash and cash equivalents	9	167
Cash and cash equivalents at end of year	(73,301)	32,674

The information above is the amount before inter-company eliminations.

32 Assets classified as held for sale

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

*Subsequently, on 16 February 2017, a memorandum of understanding was signed to initiate the sale transaction of the investment in joint venture for AED 308 million.

**During the year ended 31 December 2016, the Group has fully impaired an investment in an associate amounting to AED 104.8 million.

***During the year ended 31 December 2016, the Group has also disposed of their investment property and development property amounting to AED 27.2 million and 10.5 million, respectively.

33 Business combination

In December 2009, the Group formalised the acquisition of 75% interest in Drake & Scull International for Electrical Contracting WLL effective 1 January 2009. As per the sale and purchase agreement, the seller had an option to sell the remaining shares to the Group.

On 20 December 2016, the Group signed an agreement with the seller in lieu of the seller exercising the said option to sell the remaining 25% of Drake & Scull International for Electrical Contracting WLL for AED 22,500 thousand. The book value of the 25% share acquired as a part of the consideration paid was AED 5,957 thousand resulting in a loss of AED 16,543 thousand which has been transferred to accumulated losses. The legal requirements for the transfer of shares were completed subsequently to the year end.