Drake and Scull International PJSC

Condensed consolidated interim financial information (Unaudited)
for the three-month period ended 31 March 2017

Drake and Scull International PJSC

Condensed consolidated interim financial information for the three-month period ended 31 March 2017

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

Introduction

We have reviewed the accompanying condensed consolidated interim balance sheet of Drake and Scull International PJSC (the "PJSC") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2017 and the related condensed consolidated interim statement of income, condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

The condensed consolidated interim financial information for the three-months ended 31 March 2017 include AED 104 million of trade receivables and AED 1,165 million of amounts due from customers on contracts relating to unapproved change orders and claims which are under negotiation and discussions. These amounts are stated net of impairment provisions of AED 585 million made during the three-month period ended 31 March 2017. We were not provided with sufficient appropriate evidence to ascertain the extent and timing of the recoverability of these amounts, including the adequacy of the impairment provision of AED 585 million against these amounts, and there were no other alternative procedures that we could perform in respect of this matter.

Qualified conclusion

Except for the adjustments to the condensed consolidated interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: "Interim Financial Reporting".

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

Emphasis of matter

Material uncertainty relating to going concern

We draw attention to Note 2.1 in the condensed consolidated interim financial information, which indicates that the Group has incurred a loss of AED 839 million during the three months ended 31 March 2017 (31 March 2016: profit of AED 9.5 million), and as of that date, its current liabilities exceed its current assets by AED 856 million (2016: AED 119 million). Further the Group had a negative cash and cash equivalents balance of AED 278 million as at 31 March 2017 (31 March 2016: negative AED 234 million). As set out in Note 2.1, these conditions along with other matters set out in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusion is not qualified in respect of the above matter.

PricewaterhouseCoopers
15 May 2017

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

Condensed consolidated interim balance sheet

	Note	As at 31 March 2017 AED'000 (Unaudited)	As at 31 December 2016 AED'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	7	341,762	420,432
Intangible assets		955,757	964,146
Deferred income tax assets		13,934	17,878
Available-for-sale financial assets		551	2,909
Trade and other receivables	8	307,947	331,251
		1,619,951	1,736,616
Current assets			
Inventories		34,504	40,033
Development properties		7,526	8,560
Trade and other receivables	8	4,545,014	5,010,787
Due from related parties	9	93,284	80,887
Financial assets at fair value through profit or loss		3,488	3,488
Cash and bank balances	10	470,840	403,020
		5,154,656	5,546,775
Assets classified as held for sale	17	-	307,855
Total assets		6,774,607	7,591,246
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,285,047	2,285,047
Share premium		3,026	3,026
Statutory reserve		125,760	125,760
Other reserve		24,543	24,543
Accumulated losses		(1,714,059)	(991,553)
Foreign currency translation reserve		(65,395)	(65,686)
		658,922	1,381,137
Non-controlling interests		(248,553)	(132,177)
Net equity		410,369	1,248,960
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	213,341	227,859
Employees' end of service benefits		140,713	140,886
		354,054	368,745
Current liabilities			
Bank borrowings	11	2,444,086	2,399,866
Trade and other payables		3,403,459	3,292,485
Due to related parties	9	162,639	281,190
		6,010,184	5,973,541
Total liabilities		6,364,238	6,342,286
Total equity and liabilities		6,774,607	7,591,246

The condensed consolidated interim financial information was approved by the Board of Directors on 15 May 2017 and signed on its behalf by:

Chairman

Chief Executive Officer

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

Drake and Scull International PJSC

Condensed consolidated interim income statement

	Note	Three months ended 31 March 2017 AED'000 Unaudited	2016 AED'000 Unaudited
Contract revenue	6	795,810	1,030,763
Contract costs		(845,117)	(956,073)
Gross (loss) / profit		(49,307)	74,690
Other income		856	14,285
General and administrative expenses		(763,547)	(65,892)
Operating (loss) / profit		(811,998)	23,083
Finance income		154	260
Finance costs	12	(20,890)	(11,287)
Finance costs – net		(20,736)	(11,027)
(Loss)/profit for the period before tax		(832,734)	12,056
Income tax expense and zakat	13	(6,148)	(2,531)
(Loss)/profit for the period		(838,882)	9,525
Attributable to:			
Owners of the Parent		(722,506)	9,801
Non-controlling interests		(116,376)	(276)
		(838,882)	9,525
Earnings per share			
- Basic and diluted (AED)	14	(0.316)	0.004

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

Condensed consolidated interim statement of comprehensive income

	Three months ended 31 March	
	2017	2016
	AED'000	AED'000
	Unaudited	Unaudited
(Loss)/profit for the period	(838,882)	9,525
Other comprehensive profit/(loss)		
Items that will be reclassified subsequently to profit or loss		
Currency translation differences	291	(2,909)
Other comprehensive income/(loss) for the period	291	(2,909)
Total comprehensive (loss)/income for the period	(838,591)	6,616
Attributable to:		
Owners of the Parent	(722,215)	6,892
Non-controlling interests	(116,376)	(276)
	(838,591)	6,616

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

Condensed consolidated interim statement of changes in equity

	Share capital AED'000	Share premium AED'000	Statutory reserve AED'000	Other reserves AED'000	Accumulated losses AED'000	Foreign currency translation reserve AED'000	Total attributable to equity holders AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2017 (Audited)	2,285.047	3,026	125,760	24,543	(991,553)	(65,686)	1,381,137	(132,177)	1,248,960
Loss for the period	-	-	-	-	(722,506)	-	(722,506)	(116,376)	(838,882)
Other comprehensive income for the period	-	-	-	-	-	291	291	-	291
Total comprehensive loss for the period	-	-	-	-	(722,506)	291	(722,215)	(116,376)	(838,591)
Balance at 31 March 2017 (Unaudited)	2,285.047	3.026	125.760	24,543	(1,714,059)	(65,395)	658,922	(248,553)	410,369
Balance at 1 January 2016 (Audited)	2,285.047	3,026	125,760	24,543	(242,152)	(22,370)	2,173,854	(43,775)	2,130,079
Profit for the period	-	-	-	-	9,801	-	9,801	(276)	9,525
Other comprehensive loss for the period	-	-	-	-	-	(2,909)	(2,909)	-	(2,909)
Total comprehensive profit for the period	-	-	-	-	9,801	(2,909)	6,892	(276)	6,616
Balance at 31 March 2016 (Unaudited)	2,285.047	3,026	125,760	24,543	(232,351)	(25,279)	2,180,746	(44,051)	2,136,695

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

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows

	Note	Three months ended 31 March 2017 AED'000 Unaudited	2016 AED'000 Unaudited
Operating activities			
(Loss)/profit for the period before tax		(832,734)	12,056
Adjustments for:			
Depreciation	7	13,120	12,336
Impairment of property, plant and equipment		54,724	-
Amortisation of intangible assets		8,389	8,389
Provision for employees' end of service benefits		5,994	9,920
Finance cost	12	38,258	32,385
Gain on disposal of property and equipment		-	(9,365)
Fair value loss on available for sale investment		-	202
Provision for impairment of trade receivables and retentions - net		660,049	318
Finance income		(154)	(260)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		(52,354)	65,981
Payment of employees' end of service benefits		(6,167)	(6,008)
Income tax paid		(2,131)	-
Changes in working capital:			
Inventories		5,529	(2,013)
Development properties		1,034	-
Trade and other receivables (before provisions)		87,599	(181,359)
Due from related parties		(12,397)	37,392
Trade and other payables (excluding income tax and interest payable)		97,841	(33,693)
Due to related parties		(118,551)	8,230
Net cash generated from /(used in) operating activities		403	(111,470)
Balance carried forward		403	(111,470)

Condensed consolidated interim statement of cash flows (continued)

	Note	Three months ended 31 March 2017 AED'000 Unaudited	2016 AED'000 Unaudited
Balance brought forward		403	(111,470)
Investing activities			
Purchase of property and equipment	7	(1,733)	(5,695)
Proceeds from disposal of property and equipment		12,559	16,098
Proceeds from disposal of assets held for sale	17	49,371	-
Proceeds from disposal of investments		2,358	18,369
Interest received		67	73
Net cash generated from investing activities		62,622	28,845
Financing activities			
Term deposits under lien		(8,769)	5,579
Proceeds from trust receipts and other borrowings		20,565	33,327
Proceeds from term loans		4,864	66,072
Payment of term loans		(28,216)	(38,927)
Interest paid		(25,198)	(24,552)
Net cash (used in)/generated from financing activities		(36,754)	41,499
Net increase/(decrease) in cash and cash equivalents		26,271	(41,126)
Net foreign currency translation difference		291	(2,909)
Cash and cash equivalents at the beginning of the period		(304,969)	(189,698)
Cash and cash equivalents at the end of the period	10	(278,407)	(233,733)

1 General information

Drake and Scull International PJSC (the "Company" or the "Parent Company") was incorporated on 16 November 2008 and was registered on 21 January 2009 as a Public Joint Stock Company in accordance with the UAE Federal Law No. 8 of 1984, (as amended). The Company is listed on Dubai Financial Market.

The 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 Africa region.

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

Major Subsidiaries	Principal activities	Shareholding % 31 March 2017	2016	Country of incorporation
Drake & Scull International LLC (Abu Dhabi)	Contracting work related to mechanical, electrical and sanitary engineering	100	100	UAE
Gulf Technical Construction Company LLC	Mechanical, electrical and civil construction work	100	100	UAE
Drake & Scull Engineering formerly Drake & Scull Water and Power LLC	Engineering, procurement and construction of Water and Power Infrastructure projects	100	100	UAE
Drake & Scull International (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 relating to mechanical, electrical and sanitary engineering	100	100	Egypt
Drake & Scull International LLC (Oman)	Contracting work related to mechanical, electrical and sanitary engineering	51	51	Oman

1 General information (continued)

The Group, through Gulf Technical Construction Company LLC has a 50% interest in Ranya Test Joint Venture, a joint arrangement with Ranya General Contracting Company LLC under a joint arrangement agreement dated 12 August 2005. This is classified as joint operation in this condensed consolidated interim financial information.

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

The Group, through Drake & Scull International Saudi Co. LLC has a 50% interest in a joint control with Specon Saudi LLC under a joint arrangement agreement dated 14 February 2013. This is classified as joint operation in this condensed consolidated interim financial information.

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

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

The Group, through Drake & Scull Construction LLC has a 50% interest in a joint venture with John Sisk and Sons Construction LLC, (SISK-DSC-SMH-Joint Venture) under a joint arrangement agreement dated 25 November 2012. This is classified as joint operation in this condensed consolidated interim financial information.

Drake and Scull International PJSC has a 50% interest in a joint venture with SICIM S.p.A under joint arrangement agreement dated 11 January 2013. This is classified as joint operation in this condensed consolidated interim financial information.

Drake and Scull International PJSC has a 51% interest in a joint venture with Al Habtoor Specon LLC (DSI-HLS Joint Venture) under a joint arrangement agreement dated 17 April 2013. This is classified as joint operation in this condensed consolidated interim financial information.

Drake & Scull Engineering LLC has a 49% interest in a joint control with Al Habtoor Specon LLC (HLS-DSE Joint Venture) under a joint arrangement agreement dated 1 May 2013. This is classified as joint operation in this condensed consolidated interim financial information.

2 Basis of preparation and accounting policies

2.1 Going concern

At 31 March 2017, the Group's net current liabilities exceeded its current assets by AED 855,528 thousand (2016: AED 118,911 thousand). Further, the Group had negative cash and cash equivalents balance of AED 278,407 thousand as at 31 March 2017 (31 March 2016: negative cash and cash equivalents balance of AED 233,733 thousand). The Board of Directors of the Company in their meeting held in 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 was subject to shareholders' and regulatory approvals (refer to note 18).

On 4 May 2017 at the Annual General Assembly Meeting of Drake and Scull International PJSC, the shareholders approved unanimously the reduction of the paid-up share capital by 75%, and the issuance of 500 million new shares at AED 1 par value offered to Tabarak Investment LLC (refer to note 18).

In accordance with article 302 of the UAE Federal Law No. 2 of 2015, as the losses of the Group exceed half of its issued capital, the Board of Directors intend to call the General Assembly to convene in the next 30 days to vote on a resolution for the continuation of the Company.

At 31 March 2017, 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 condensed consolidated interim financial information has 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. .

2.2 Basis of preparation

This condensed consolidated interim financial information for the three-month period ended 31 March 2017 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards.

2.3 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

2 Basis of preparation and accounting policies (continued)

2.4 Basis of consolidation

The condensed consolidated interim financial information for the three month period ended 31 March 2017 comprises results of the Group.

The condensed interim financial information of the subsidiaries is prepared for the same reporting period as that of the Company, using consistent accounting policies. All inter-company transactions, profits and balances are eliminated on consolidation.

Subsidiaries and joint operations are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

3 Estimates and assumptions

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

3.1 Critical accounting estimates and assumptions

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

(a) Revenue recognition

The percentage-of-completion method is used to account for construction contracts. This method requires estimates of the final revenue and costs of the contract, as well as measurement of progress achieved to date as a proportion of the total work to be performed in accordance with the accounting policy disclosed in the annual consolidated financial statements for the year ended 31 December 2016. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end.

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

3 Estimates and assumptions (continued)

3.1 Critical accounting estimates and assumptions (continued)

(a) 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.

4 Financial risk management and financial instruments

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements; and it should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. The Group's financial risk management objectives and policies are consistent with that disclosed in the annual consolidated financial statements for the year ended 31 December 2016.

There have been no changes in the risk management department or in any risk management policies since the year end.

4 Financial risk management and financial instruments (continued)

4.2 Liquidity risk factors

The Group monitors its risk of a possible shortage of funds using cash flow forecasts. These forecasts consider the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. The Group manages liquidity risk by maintaining adequate bank balances and credit facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Compared to year ended 31 December 2016, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

4.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2017:

	Level 1 AED'000 Unaudited	Level 2 AED'000 Unaudited	Level 3 AED'000 Unaudited	Total AED'000 Unaudited
Assets				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	3,488	-	3,488
Available for sale financial assets				
- Equity securities	-	-	551	551
Total assets	-	3,488	551	4,039

4 Financial risk management and financial instruments (continued)

4.3 Fair value estimation (continued)

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

	Level 1 AED'000 Audited	Level 2 AED'000 Audited	Level 3 AED'000 Audited	Total AED'000 Audited
Assets				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	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 Group has no liabilities measured at fair value as at 31 March 2017 and 31 December 2016.

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

(a) Valuation techniques used to derive Level 2 fair values

(i) Investments carried at fair value through profit or loss

Level 2 investments carried at fair value through profit or loss comprise of investments in funds for which fair value is estimated using net assets value approach. Fair values of investments in funds are determined using the net assets value provided by the Fund Managers based on the observable market prices of the assets managed by the fund.

At 31 December 2016 and 31 March 2017, the fair values of all other financial assets and liabilities, which are measured at amortised cost approximate their carrying values. The fair value of the term loans falls into level 2 of the fair value hierarchy.

(b) Group's valuation processes

Changes in Level 2 and 3 fair values are analysed at each reporting date during quarterly valuation discussions. As part of this discussion, the team presents a report that explains the reasons for the fair value movements.

The Group has subscriptions to brokers information that allow the Group to gather relevant information.

There were no changes in the valuation techniques during the period.

4 Financial risk management and financial instruments (continued)

4.3 Fair value estimation (continued)

(c) Fair value of financial assets and liabilities measured at amortised cost

The fair values of following financial assets and liabilities approximate their carrying value at 31 March 2017:

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

5 Seasonality of operations

The Group's financial results for any three months are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to regional and local economies and market conditions.

6 Segment reporting

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 "Operating Segments". IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the "Executive management" who are the Chief Operating decision-makers in order to allocate resources to the segment and to assess its performance. Executive management assesses the performance of the operating segments based on revenue.

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.

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.

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.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2017
(continued)

6 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Three months ended 31 March 2017 (Unaudited)					Three months ended 31 March 2016 (Unaudited)				
	Engineering	Civil	Others	Inter segment elimination	Total	Engineering	Civil	Others	Inter segment elimination	Total
Revenue										
External customers	454,585	281,892	59,333	-	795,810	685,984	296,295	48,484	-	1,030,763
Inter- segment	25,541	-	8,446	(33,987)	-	74,255	6,531	14,699	(95,485)	-
	480,126	281,892	67,779	(33,987)	795,810	760,239	302,826	63,183	(95,485)	1,030,763
Segment profit/(loss)	(500,779)	(311,956)	(26,147)	-	(838,882)	13,900	(3,614)	(761)	-	9,525
Depreciation and amortisation	6,857	4,931	9,721	-	21,509	8,258	3,556	8,911	-	20,725
Capital expenditure	1,339	371	23	-	1,733	4,675	684	336	-	5,695
	At 31 March 2017 (Unaudited)					At 31 December 2016 (Audited)				
Segment total assets	3,749,891	2,320,943	3,908,373	(3,204,600)	6,774,607	4,174,267	2,694,608	3,948,516	(3,226,145)	7,591,246

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2017 (continued)

6 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	UAE	Saudi Arabia	Others	Inter segment elimination	Total
	Three months ended 31 March 2017 (Unaudited)				
Revenue from external customers	311,543	174,776	309,491	-	795,810
	Three months ended 31 March 2016 (Unaudited)				
Revenue from external customers	347,921	295,831	387,011	-	1,030,763
	Three months ended 31 March 2017 (Unaudited)				
Non-current assets	2,043,560	118,029	150,016	(691,654)	1,619,951
	31 December 2016 (Audited)				
Non-current assets	2,089,565	194,097	146,274	(693,320)	1,736,616

7 Property and equipment

The Group acquired property and equipment during the three-month period ended 31 March 2017 amounting to AED 1,733 thousand (31 March 2016: AED 5,695 thousand). The Group disposed property and equipment during the three month period ended 31 March 2017 amounting to AED 12,559 thousand (31 March 2016: AED 6,733 thousand) and depreciation and impairment charged to the condensed consolidated interim income statement amounted to AED 67,844 thousand (31 March 2016: AED 12,336 thousand).

8 Trade and other receivables

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Non-current		
Trade receivables and retentions	321,126	345,569
Less: provision for retentions	(13,179)	(14,318)
	307,947	331,251
Current		
Trade receivables and retentions	1,450,407	1,467,021
Prepayments and other receivables	878,360	638,763
Amount due from customers on contracts	3,199,724	3,228,431
	5,528,491	5,334,215
Less: provision for impairment on trade and other receivables	(983,477)	(323,428)
	4,545,014	5,010,787

(a) Change orders and claims

Due from customers on contracts include an amount of AED 1,165 million relating to unapproved change orders and claims.

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

At 31 December 2016, balances of trade and other receivables included 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. During the Quarter ended 31 March 2017, management has recorded provisions for impairment losses of AED 13 million related to trade receivables and AED 572 million related to amounts due from customers on contracts on the balances.

9 Related party transactions and balances

Related parties comprise the major shareholders, key management personnel, joint venture partners, directors and businesses which are controlled directly or indirectly by the major shareholders or directors or over which they exercise significant management influence (hereinafter referred as "affiliates").

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

The outstanding balances with related parties are given below:

Due from related parties:

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Joint arrangements	89,969	77,619
Affiliates	3,315	3,268
	93,284	80,887

Due to related parties:

Joint arrangements	54,872	56,225
Affiliates	107,767	224,965
	162,639	281,190

Significant related party transactions:

Significant related party transactions during the period with affiliates amounted to AED Nil (1 January 2016 to 31 March 2016: AED 2,446 thousand) that mainly represent funds received to meet working capital requirements.

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

	Three month period ended (Unaudited)	
	2017 AED'000	2016 AED'000
Short term benefits	5,717	6,755
Employees' end of service benefits	37	373
	5,754	7,128

10 Cash and bank balances

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Cash on hand	9,749	3,012
Cash at bank	213,426	161,153
Term deposits	247,665	238,855
Cash and bank balances	470,840	403,020

Term deposits carry an average interest rate of 1% to 3% (2016: 1% to 3%) per annum.

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

	31 March 2017 AED'000 Unaudited	31 March 2016 AED'000 Unaudited
Cash and bank balances	470,840	465,867
Less: term deposits under lien	(246,431)	(234,459)
Less: bank overdrafts (Note 11)	(502,816)	(465,141)
Cash and cash equivalents	(278,407)	(233,733)

11 Bank borrowings

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

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Non-current		
Term loan	213,341	227,859
Current		
Term loan	925,713	934,547
Trust receipts and other borrowings	1,015,557	994,992
Bank overdrafts	502,816	470,327
	2,444,086	2,399,866

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

11 Bank borrowings (continued)

During the three-month period ended 31 March 2017, the Group has obtained no new term loans (31 December 2016: four 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) and AED 239.5 million) from international and local banks respectively. Term loans payable within twelve months at the date of condensed consolidated interim balance sheet are classified within current liabilities.

Interest rates on the term loans were at variable rates and ranging between 2% to 6.5% (2016: 2% to 6.5%) per annum. Contractual re-pricing dates are set on the basis of 3 months LIBOR/EIBOR.

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

- Lien on motor vehicles and equipment purchased and on certain receivables;
- Mortgage over certain property and equipment;
- Pledge of assets acquired through utilisation of credit facilities; and
- Term deposits of AED 246,431 thousand (2016: AED 234,459 thousand) (Note 10).

The carrying amount of current borrowings approximates their fair value at the reporting date. Long-term borrowings are at market linked variable interest rates and therefore the carrying amounts of non-current borrowings approximate their fair value at the reporting date.

At 31 December 2016, the Group was in breach of the financial covenants in relation to the syndicated Sukuk facility and other borrowing facilities. The Group had reached an agreement with its Sukuk lenders for a conditional waiver up to 31 December 2016 where management needs to comply with certain reporting requirements requested by the Sukuk lenders. As of 31 March 2017, the Group has complied with all requirements requested by the Sukuk lenders. As per the Sukuk Agreement, the testing is required on a semi-annual basis for trailing twelve months and will be applicable in the second quarter of 2017. Accordingly, the testing of the financial covenants for the syndicated Sukuk facility is not required as of 31 March 2017.

These breaches have rendered the loans to be technically payable on demand. In addition to the breach, some related bank borrowings (other than the Sukuk facility) are currently overdue on their principal or interest payments.

As a result, the Group's syndicated Sukuk borrowings and other borrowings are presented as current liabilities as at 31 March 2017. The ability of the Group to continue as a going concern is dependent upon continued availability of external debt financing and/or additional equity.

12 Finance costs

	Three month period ended 31 March (Unaudited)	
	2017	2016
	AED'000	AED'000
Finance costs	38,258	32,385
Charged to cost of sales	(17,368)	(21,098)
	20,890	11,287

13 Income tax expense and Zakat

The major components of income tax expense are:

	Three month period ended 31 March (Unaudited)	
	2017	2016
	AED'000	AED'000
Current income tax expense:		
Current income tax and Zakat charge	(2,204)	(2,952)
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(3,944)	421
	(6,148)	(2,531)

14 Earnings per share

(a) Basic

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

	Three months ended 31 March	
	2017	2016
Earnings (AED'000)	Unaudited	Unaudited
Earnings for the purposes of basic earnings per share being net (loss)/profit attributable to owners of the Parent	(722,506)	9,801
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,285,046,667	2,285,046,667
Basic and diluted earnings per share (AED)	(0.316)	0.004

(b) Diluted

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

15 Guarantees

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Performance bonds	1,503,013	1,516,025
Letter of guarantees	1,338,523	1,372,629
	2,841,536	2,888,654

The various bank guarantees disclosed above were issued by the Group's bankers in the ordinary course of business. In the opinion of the Directors, the above bank guarantees are unlikely to result in any liability to the Group.

16 Expenditure commitments

(a) Operating lease commitments

The Group has various operating lease agreements. The future minimum lease payments payable under operating leases are as follows:

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Future minimum lease payments:		
No later than one year	11,332	13,159
Later than one year but no later than five years	19,941	24,579
Later than five years	9,622	12,929
	40,895	50,667

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	738,691	700,074

17 Assets classified as held for sale

	31 March 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Assets classified as held for sale:		
Investment in joint venture	-	307,855

On 16 February 2017, a memorandum of association was signed to initiate the sale transaction of the investment in joint venture for AED 308 million, resulting in a gain on sale of AED 145 thousand. During the period ended 31 March 2017, an amount of AED 49 million was received on signing of the sale agreement. The remaining AED 258 million is classified under other receivables.

18 Subsequent events

(a) On 4 May 2017 at the Annual General Assembly Meeting of Drake and Scull International PJSC, the shareholders approved unanimously the reduction of the paid-up share capital to cover the Company's accumulated losses (AED 991,553,000) through the cancellation of the corresponding number of shares. In addition, the shareholders approved a subsequent share capital reduction of an amount which is not less than AED 722 million after obtaining the approval of the Securities and Commodities Authority, through the cancelation of the corresponding number of shares. Further, the shareholders authorised the Company's Board of Directors thereafter to duly complete the share capital reduction in accordance with the UAE Commercial Companies law and undertake the required amendments to the Articles of Association of the Company to reflect the share capital reduction.

As a result, the total accumulated losses of the Group of AED 1,714 million as 31 March 2017 have exceeded 50% of the share capital. In accordance with article 302 of the UAE Federal Law No. 2 of 2015, as the losses of the Group exceed half of its issued capital, the Board of Directors intend to call the General Assembly to convene in the next 30 days to vote on a resolution for the continuation of the Company.

(b) The board of directors has offered a share capital increase of AED 500 million through the issuance of 500 million new shares to be subscribed at par value AED 1 per share. The shareholders of the Company expressed unanimously no interest in subscribing to the newly offered shares and conceded to offer the new shares to the strategic investor Tabarak Investment LLC. Tabarak Investment LLC agreed to buy 500 million shares for an amount of AED 500 million subsequent to the approval of the Securities and Commodities Authorities on the further capital reduction, which is not less than AED 722 million. Tabarak Investments LLC will withdraw the offer to buy 500 million shares for AED 500 million in the event of the disapproval of the proposed capital reduction of 75% of the share capital.