Drake and Scull International PJSC

Condensed consolidated interim financial information (Unaudited)

For the nine-month period ended 30 September 2017

Drake and Scull International PJSC

Condensed consolidated interim financial information
For the nine-month period ended 30 September 2017

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Drake and Scull International PJSC (the "PJSC") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2017 and the related condensed consolidated interim statements of income and comprehensive income for the three-month and nine-month periods then ended, and the condensed interim consolidated statements of changes in equity and cash flows for the nine-month period then ended and notes, comprising a summary of significant accounting policies 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 nine-month period ended 30 September 2017 includes AED 175 million (31 December 2016: AED 117 million) of trade and other receivables and AED 1,317 million (31 December 2016: AED 1,737 million) of amounts due from customers on contracts 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. Consequently, we were unable to perform the procedures we considered necessary.

Qualified conclusion

Based on our review, except for the possible effects of the matter described in the basis of qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: "Interim Financial Reporting".

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

Material uncertainty relating to going concern

We draw attention to Note 2.1 to the condensed consolidated interim financial information, which indicates that the Group has incurred a loss of AED 1,396 million during the nine month period ended 30 September 2017 (30 September 2016: loss of AED 297 million), and as of that date, its current liabilities exceeded its current assets by AED 1,424 million (31 December 2016: AED 119 million). 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 this matter.

PricewaterhouseCoopers
14 November 2017

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

Drake and Scull International PJSC

Condensed consolidated interim statement of financial position

	Note	As at 30 September 2017 AED'000 (Unaudited)	As at 31 December 2016 AED'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	7	288,169	420,432
Intangible assets		938,979	964,146
Deferred income tax assets		15,060	17,878
Available-for-sale financial assets		551	2,909
Trade and other receivables	8	300,327	331,251
		1,543,086	1,736,616
Current assets			
Inventories		31,121	40,033
Development properties		7,526	8,560
Trade and other receivables	8	4,499,108	5,010,787
Due from related parties	9	71,910	80,887
Financial assets at fair value through profit or loss		3,488	3,488
Cash and bank balances	10	371,601	403,020
		4,984,754	5,546,775
Assets classified as held for sale	17	-	307,855
Total assets		6,527,840	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		(2,214,422)	(991,553)
Foreign currency translation reserve		(57,225)	(65,686)
		166,729	1,381,137
Non-controlling interests		(305,619)	(132,177)
Net equity		(138,890)	1,248,960
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	124,075	227,859
Employees' end of service benefits		133,498	140,886
		257,573	368,745
Current liabilities			
Due to related parties	9	203,995	281,190
Bank borrowings	11	2,797,147	2,399,866
Trade and other payables		3,408,015	3,292,485
		6,409,157	5,973,541
Total liabilities		6,666,730	6,342,286
Total equity and liabilities		6,527,840	7,591,246

The condensed consolidated interim financial information was approved by the Board of Directors on 14 November 2017 and signed on its behalf by:

.... Chief Financial Officer

.... Chairman

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

Drake and Scull International PJSC

Condensed consolidated interim income statement

	Note	Three months ended 30 September 2017 AED'000 Unaudited	Three months ended 30 September 2016 AED'000 Unaudited	Nine months ended 30 September 2017 AED'000 Unaudited	Nine months ended 30 September 2016 AED'000 Unaudited
Contract revenue	6	590,318	868,563	2,046,432	2,704,853
Contract costs		(815,204)	(878,111)	(2,369,425)	(2,659,976)
Gross (loss)/profit		(224,886)	(9,548)	(322,993)	44,877
Other income		1,241	2,819	4,772	28,717
General and administrative expenses		(114,246)	(58,720)	(999,136)	(324,188)
Operating loss		(337,891)	(65,449)	(1,317,357)	(250,594)
Finance income		92	702	360	1,325
Finance costs	12	(19,383)	(13,529)	(69,176)	(39,758)
Finance costs – net		(19,291)	(12,827)	(68,816)	(38,433)
Loss for the period before tax		(357,182)	(78,276)	(1,386,173)	(289,027)
Income tax expense and zakat	13	(1,687)	(2,643)	(10,138)	(8,224)
Loss for the period		(358,869)	(80,919)	(1,396,311)	(297,251)
Attributable to:					
Owners of the Parent		(317,640)	(46,295)	(1,222,869)	(244,130)
Non-controlling interests		(41,229)	(34,624)	(173,442)	(53,121)
		(358,869)	(80,919)	(1,396,311)	(297,251)
Loss per share					
Basic and diluted (AED)	14	(0.14)	(0.020)	(0.54)	(0.107)

Drake and Scull International PJSC

Condensed consolidated interim statement of comprehensive income

	Three months ended 30 September		Nine months ended 30 September	
	2017	**2016**	**2017**	**2016**
	AED'000	**AED'000**	**AED'000**	**AED'000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Loss for the period	(358,869)	(80,919)	(1,396,311)	(297,251)
Other comprehensive Loss				
Items that will be reclassified subsequently to profit or loss				
Currency translation differences	2,393	163	8,461	(2,695)
Other comprehensive (loss)/income for the period	2,393	163	8,461	(2,695)
Total comprehensive loss for the period	(356,476)	(80,756)	(1,387,850)	(299,946)
Attributable to:				
Owners of the Parent	(315,247)	(46,132)	(1,214,408)	(246,825)
Non-controlling interests	(41,229)	(34,624)	(173,442)	(53,121)
	(356,476)	(80,756)	(1,387,850)	(299,946)

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	-	-	-	-	(1,222,869)		(1,222,869)	(173,442)	(1,396,311)
Other comprehensive income for the period	-	-	-	-	-	8,461	8,461	-	8,461
Total comprehensive income/(loss) for the period	-	-	-	-	(1,222,869)	8,461	(1,214,408)	(173,442)	(1,387,850)
Balance at 30 September 2017 (Unaudited)	2,285,047	3,026	125,760	24,543	(2,214,422)	(57,225)	166.729	(305.619)	(138.890)
Balance at 1 January 2016 (Audited)	2,285,047	3,026	125,760	24,543	(242,152)	(22,370)	2,173,854	(43,775)	2,130,079
Loss for the period	-	-	-	-	(244,130)	-	(244,130)	(53,121)	(297,251)
Other comprehensive loss for the period	-	-	-	-	-	(2.695)	(2,695)	-	(2,695)
Total comprehensive loss for the period	-	-	-	-	(244,130)	(2.695)	(246,825)	(53,121)	(299,946)
Balance at 30 September 2016 (Unaudited)	2,285,047	3,026	125,760	24,543	(486,282)	(25,065)	1,927,029	(96,896)	1,830,133

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

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows

	Note	Nine months ended 30 September 2017 AED'000 Unaudited	2016 AED'000 Unaudited
Operating activities			
Loss for the period before tax		(1,386,173)	(289,027)
Adjustments for:			
Depreciation	7	41,401	41,577
Impairment of property, plant and equipment	7	61,843	-
Amortisation of intangible assets		25,167	25,167
Provision for employees' end of service benefits		21,449	25,885
Gain/(Loss) on financial assets at fair value through profit or loss		-	1,244
Finance cost	12	120,230	96,673
Loss / (Gain) on disposal of property and equipment		911	(9,591)
Impairment for investment		-	104,845
Fair value loss on available for sale investment		119	1,104
Provision for impairment of trade receivables, retentions, work-in-progress and other receivables		698,288	20,492
Finance income		(360)	(1,325)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		(417,125)	17,044
Payment of employees' end of service benefits		(28,837)	(30,470)
Income tax paid		(8,218)	(7,587)
Changes in working capital:			
Inventories		8,912	(14,291)
Development properties		1,034	-
Trade and other receivables (before provisions)		78,928	(433,523)
Due from related parties (before provisions)		(17,023)	10,446
Trade and other payables (excluding income tax and interest payable)		71,019	109,070
Due to related parties		(77,195)	46,248
Net cash used in operating activities		(388,505)	(303,063)
Balance carried forward		(388,505)	(303,063)

Drake and Scull International PJSC

Condensed consolidated interim statement of cash flows (continued)

	Note	Nine months ended 30 September 2017 AED'000 Unaudited	2016 AED'000 Unaudited
Balance brought forward		(388,505)	(303,063)
Investing activities			
Purchase of property and equipment	7	(7,091)	(8,498)
Proceeds from disposal of property and equipment		35,199	16,469
Proceeds from disposal of assets held for sale	17	99,085	37,751
Proceeds from disposal of investments		2,239	36,740
Loans and advances		-	29,943
Interest received		517	410
Net cash generated from investing activities		129,949	112,815
Financing activities			
Term deposits under lien		5,787	9,514
Proceeds from trust receipts and other borrowings		110,198	(83,642)
Proceeds from term loans		52,631	374,170
Payment of term loans		(68,227)	(70,178)
Interest paid		(74,821)	(93,558)
Net cash generated from financing activities		25,568	136,306
Net decrease in cash and cash equivalents		(232,988)	(53,942)
Net foreign currency translation difference		8,461	(2,695)
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	(529,496)	(246,335)

Notes to the condensed consolidated interim financial information for the nine - month period ended 30 September 2017

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), and is now operating in accordance with the UAE Federal Law No. (2) of 2015. 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 % 30 September 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	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.

The Group, through Drake and Scull Construction Company LLC has a 33% interest in a joint control with Consolidated Contractors Group S.A.L (Offshore) and Arabtec Construction LLC under a joint arrangement agreement dated 10 June 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

The Group has incurred a loss of AED 1,396 million during the nine months ended 30 September 2017 (30 September 2016: loss of AED 297 million), and as of that date, its current liabilities exceed its current assets by AED 1,424 million (31 December 2016: AED 119 million). 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.

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 who agreed to buy 500 million shares for an amount of AED 500 million subsequent to the approval of the Securities and Commodities Authorities (SCA).

On 9 September 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 1,714,058,920) through the cancellation of the corresponding number of shares. Moreover, the shareholders also resolved to ratify the validity and continuity of the resolutions of the Annual General Assembly of the company dated 4 May 2017 regarding the capital increase by AED 500 million through the issuance of AED 500 million new shares to be subscribed at par value AED 1 per share. The shareholders also authorised the Company's Board of Directors thereafter to duly complete the share capital reduction and increase 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 and increase.

The total accumulated losses of the Group of AED 2,214 million as 30 September 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 has to call for the General Assembly to vote on a resolution for the continuation of the Company. Subsequent to the period end, the Group obtained the approval from Securities and Commodities Authority on the capital reduction of AED 1,714,058,920 through the cancellation of 1,714,058,920 of the Company's shares and on the capital increase of AED 500 million through the issuance of new shares. (Refer to note 18)

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 future business prospects for the Group.

2 Basis of preparation and accounting policies (continued)

2.2 Basis of preparation

This condensed consolidated interim financial information for the nine-month period ended 30 September 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.

2.4 Basis of consolidation

The condensed consolidated interim financial information for the nine month period ended 30 September 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.

3 Estimates and assumptions (continued)

3.1 Critical accounting estimates and assumptions (continued)

(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.

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.

4.2 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).

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 at 30 September 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

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 30 September 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.

4 Financial risk management and financial instruments (continued)

4.3 Fair value estimation (continued)

At 31 December 2016 and 30 September 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.

(a) 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.

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

The fair values of following financial assets and liabilities approximate their carrying value at 30 September 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 the nine months are not necessarily indicative of results to be expected for the full year. Interim period revenues and earnings are typically sensitive to regional and local economies and market conditions.

6 Segment reporting

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

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 nine-month period ended 30 September 2017
(continued)

6 Segment reporting (continued)

Information about business segments

All figures in AED'000

	Nine months ended 30 September 2017 (Unaudited)					Nine months ended 30 September 2016 (Unaudited)				
	Engineering	Civil	Others	Inter segment elimination	Total	Engineering	Civil	Others	Inter segment elimination	Total
Revenue										
External customers	1,276,849	593,269	176,314	-	2,046,432	1,765,490	809,067	130,296	-	2,704,853
Inter- segment	69,238	-	15,838	(85,076)	-	152,142	15,493	51,229	(218,864)	-
	1,346,087	593,269	192,152	(85,076)	2,046,432	1,917,632	824,560	181,525	(218,864)	2,704,853
Segment profit/(loss)	(892,363)	(406,226)	(97,722)		(1,396,311)	(5,727)	(253,970)	(37,554)	-	(297,251)
Depreciation and amortisation	20,688	16,224	29,656		66,568	24,246	15,324	27,174	-	66,744
Capital expenditure	4,567	2,403	121		7,091	7,293	772	433	-	8,498
	At 30 September 2017 (Unaudited)					At 31 December 2016 (Audited)				
Segment total assets	3,589,536	2,410,441	3,888,332	(3,360,469)	6,527,840	4,174,267	2,694,608	3,948,516	(3,226,145)	7,591,246

6 Segment reporting (continued)

Information about geographical segments

All figures in AED'000

	Nine months ended 30 September 2017 (Unaudited)					Nine months ended 30 September 2016 (Unaudited)				
	UAE	Saudi Arabia	Others	Inter segment elimination	Total	UAE	Saudi Arabia	Others	Inter segment elimination	Total
Revenue from external customers	857,624	324,465	864,343	-	2,046,432	1,083,789	653,699	967,365	-	2,704,853
	Nine months ended 30 September 2017 (Unaudited)					31 December 2016 (Audited)				
Non-current assets	2,019,942	94,421	151,978	(723,255)	1,543,086	2,089,565	194,097	146,274	(693,320)	1,736,616

7 Property and equipment

The Group acquired property and equipment during the nine-month period ended 30 September 2017 amounting to AED 7,091 thousand (30 September 2016: AED 8,498 thousand). The Group disposed property and equipment during the nine month period ended 30 September 2017 amounting to AED 36,110 thousand (30 September 2016: AED 6,878 thousand) and depreciation charged to the condensed consolidated interim income statement amounted to AED 41,401 thousand (30 September 2016: AED 41,577 thousand) and impairment charge of AED 61,843 thousand (30 September 2016: AED Nil)

8 Trade and other receivables

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Non-current		
Trade receivables and retentions	313,445	345,569
Less: provision for retentions	(13,118)	(14,318)
	300,327	331,251
Current		
Trade receivables and retentions	1,407,407	1,467,021
Prepayments and other receivables	875,579	638,763
Amount due from customers on contracts	3,211,838	3,228,431
	5,494,824	5,334,215
Less: provision for impairment of trade receivables and retentions	(334,528)	(323,428)
Less: provision for impairment of amount due from customers on contracts	(640,406)	-
Less: provision for impairment of prepayments and other receivables	(20,782)	-
	4,499,108	5,010,787

(a) 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 30 September 2017, balances of trade and other receivables included an amount of AED 175 million of trade and other receivables (31 December 2016: AED 117 million) and AED 1,317 million (31 December 2016: AED 1,737 million) of amount due from customers on contracts relating to unapproved change orders and claims which are under discussion and negotiation. These discussions and negotiations are continuing and contingent upon successful results.

9 Related party transactions and balances

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

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

The outstanding balances with related parties are given below:

Due from related parties:

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Joint arrangements	69,162	77,619
Affiliates	2,748	3,268
	71,910	80,887

Due to related parties:

Joint arrangements	48,140	56,225
Affiliates	155,855	224,965
	203,995	281,190

Significant related party transactions:

Significant related party transactions during the period with shareholders amounted to AED 52.5 million (30 September 2016: Significant related party transactions during the period with affiliates amounted to AED 14 million) that mainly represent funds received to meet working capital requirements.

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

	Nine month period ended (Unaudited)	
	2017 AED'000	2016 AED'000
Short term benefits	18,166	20,954
Employees' end of service benefits	195	1,133
	18,361	22,087

10 Cash and bank balances

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Cash on hand	6,479	3,012
Cash at bank	130,478	161,153
Term deposits*	234,644	238,855
Cash and bank balances	371,601	403,020

*These term deposits are margins against bank overdraft and other facilities. Refer to Note 11

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

	30 September 2017 AED'000 Unaudited	30 September 2016 AED'000 Unaudited
Cash and bank balances	371,601	443,383
Less: term deposits under lien	(231,875)	(230,524)
Less: bank overdrafts (Note 11)	(669,222)	(459,194)
Cash and cash equivalents	(529,496)	(246,335)

11 Bank borrowings

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

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Non-current		
Term loan	124,075	227,859
Current		
Term loan	1,022,735	934,547
Trust receipts and other borrowings	1,105,190	994,992
Bank overdrafts	669,222	470,327
	2,797,147	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 nine-month period ended 30 September 2017, the Group has obtained one (2016: four) new term loan amounting to AED 5 million (2016: AED 185.3 million) and converted short term facilities (i.e. – bank overdrafts and trust receipts) into a term loan of AED 34.5 million (OMR 3.6 million) (31 December 2016: 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 statement of financial position are classified within current liabilities.

Interest rates on the term loans were at variable rates and ranging between 2% to 7% (2016: 2% to 7%) 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 231,875 thousand (31 December 2016: AED 237,662 thousand)

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 needed to comply with certain reporting requirements requested by the Sukuk lenders.

As per the Sukuk Agreement, the testing for the financial covenants is required on a semi-annual basis for trailing twelve months and was applicable in the second quarter of 2017. However, the Group has reached an agreement with its lenders for a conditional waiver of the breach up to 30 September 2017.

The covenant breaches have rendered the borrowing facilities (other than the Sukuk facility) 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 30 September 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.

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2017 (continued)

12 Finance costs

	Nine month period ended 30 September (Unaudited)	
	2017	2016
	AED'000	AED'000
Finance costs	120,230	96,673
Charged to cost of sales	(51,054)	(56,915)
	69,176	39,758

13 Income tax expense and Zakat

The major components of income tax expense are:

	Nine month period ended 30 September (Unaudited)	
	2017	2016
	AED'000	AED'000
Current income tax expense:		
Current income tax and Zakat charge	7,320	8,532
Deferred income tax expense		
Relating to origination and reversal of temporary differences	2,818	(308)
	10,138	8,224

14 Loss per share

(a) Basic

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

	Nine months ended 30 September	
	2017	2016
Loss (AED'000)	Unaudited	Unaudited
Loss for the purposes of basic earnings per share being net (loss) attributable to owners of the Parent	(1,222,869)	(244,130)
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 loss per share (AED)	(0.54)	(0.107)

(b) Diluted

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

15 Guarantees

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Performance bonds	1,449,670	1,516,025
Letter of guarantees	1,207,360	1,372,629
	2,657,030	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 and contingencies

(a) Operating lease commitments

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

	30 September 2017 AED'000 Unaudited	31 December 2016 AED'000 Audited
Future minimum lease payments:		
No later than one year	10,382	13,159
Later than one year but no later than five years	22,967	24,579
Later than five years	8,223	12,929
	41,572	50,667

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	516,077	700,074

(c) Contingencies

The Group is engaged as a claimant in a long standing arbitration on a construction contract. Following arbitration proceedings, the Dubai International Arbitration Centre's Tribunal appointed an expert to advise on the complex structural aspects of the case. The matter is currently being assessed by the appointed expert; a process that is expected to span a period of several months. The Group expects a subsequent hearing in 2018. Following a review of the Respondent's pleaded case and supporting documents, the legal counsel considers a maximum upside of AED 58 million and a maximum downside of AED 119 million.

Notes to the condensed consolidated interim financial information for the nine-month period ended 30 September 2017 (continued)

17 Assets classified as held for sale

	30 September 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 understanding 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 30 September 2017, an amount of AED 99 million was received on signing of the sale agreement. The remaining AED 209 million is classified under other receivables.

18 Subsequent events

- In October 2017, the Group obtained the approval from Securities and Commodities Authority on the capital reduction of AED 1,714,058,920 through the cancellation of 1,714,058,920 of the Company's shares and on the capital increase of AED 500 million through the issuance of new shares.

- During October 2017, the Group received from Tabarak Investment LLC AED 500 million capital injection in return of issuance of 500 million new shares that were subscribed at par value AED 1 per share.

- During October 2017, the Group settled with Tabarak Investment LLC the balance of AED 52.5 million interest free 'Qard Hasan' loan which was provided to the Group in August 2017 as part of the turnaround and capital restructuring plan. The loan was extended to help the Group meeting the immediate working capital requirements until the completion of the capital restructuring plan.