

DRAKE AND SCULL INTERNATIONAL PJSC

**Condensed consolidated interim financial information
(Unaudited)**

For the nine month period ended 30 September 2018

Condensed consolidated interim financial information
For the nine month period ended 30 September 2018

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Drake and Scull International PJSC (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 September 2018, which comprise the condensed consolidated interim statement of financial position as at 30 September 2018 and the related condensed consolidated interim income statement and statement of comprehensive income for the three month and nine month periods then ended, and the related condensed consolidated interim statements of changes in equity and cash flows for the nine month period then ended and 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

Except as explained in the basis for qualified conclusion paragraphs below, we conduct 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. Consequently, it 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

1. Included in trade and other receivables is an amount of AED 383 million (31 December 2017: AED 265 million) relating to trade receivables and an amount of AED 2,102 million (31 December 2017: AED 1,699 million) relating to amounts due from customers on contracts. These amounts primarily relate to certain receivables, unapproved change orders and claims, which are under negotiation and discussions with customers. We were not provided with sufficient and appropriate evidence to ascertain the extent and timing of the recoverability of these amounts. In the absence of any procedures that we could perform in respect of this matter, we were unable to satisfy ourselves with regard to the recoverability of these outstanding balances.

The audit report on the financial statements of the Group for the year ended 31 December 2017 was also qualified with respect to this matter.

2. The Group has adopted IFRS 15 “Revenue from contracts with customers”, which is effective for periods beginning on or after 1 January 2018, in the preparation of the condensed consolidated interim financial information for the period ended 30 September 2018. A documented impact assessment is not yet complete for all contracts in the Group; however, management does not expect a significant impact on the consolidated financial statements on the completion of this process. In the absence of a documented IFRS 15 impact assessment for all contracts, we are unable to assess whether there are any adjustments that might be required on the revenue recognized and the associated disclosures required for the period ended 30 September 2018.
3. We were not provided with interim financial information of the Group’s subsidiary in Qatar as at 30 September 2018 and, therefore, we have not been able to perform our review procedures on the subsidiary’s interim financial information. The subsidiary has reported total assets of AED 496 million and total liabilities of AED 799 million as at 30 September 2018. We are, accordingly, unable to conclude on the results or balances of subsidiary’s financial information included in the Group’s condensed consolidated interim financial information for the nine months period ended 30 September 2018.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS OF DRAKE AND SCULL INTERNATIONAL PJSC (continued)

Qualified conclusion

Based on our review, except for the possible effects of the matters described in the “Basis for qualified conclusion” paragraphs above, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information are not prepared, in all material respects, in accordance with International Accounting Standard 34: “Interim Financial Reporting”.

Emphasis of matter- 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 had a loss of AED 748 million during the nine month period ended 30 September 2018 (30 September 2017: loss of AED 1,396 million) and has accumulated losses of AED 1,104 million (31 December 2017: accumulated losses of AED 430 million) and, as of that date, its current liabilities exceeded its current assets by AED 1,529 million (31 December 2017 AED 855 million). These conditions along with other matters set out in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The condensed consolidated interim financial information however, have been prepared on a going concern basis. The accompanying condensed consolidated interim financial information do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Our conclusion is not qualified in respect of this matter.

Other matters

The condensed consolidated interim financial information of the Group as of 30 September 2017 were reviewed by another auditor whose report dated 14 November 2017 expressed a qualified conclusion with an emphasis of matter paragraph on those condensed consolidated interim financial information. Also, the consolidated financial statements as of 31 December 2017 were audited by another auditor whose report dated 27 March 2018 expressed a qualified opinion with an emphasis of matter paragraph on those consolidated financial statements.

For Ernst & Young



Signed by:
Ashraf Abu Sharkh
Partner
Registration No. 690

14 November 2018

Dubai, United Arab Emirates

Drake and Scull International PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	7	259,905	282,018
Intangible assets		905,424	930,591
Deferred income tax assets		12,573	12,924
Investment in associate	18	284,480	284,480
Non-current financial assets		551	551
Trade and other receivables	8	287,741	286,594
		<u>1,750,674</u>	<u>1,797,158</u>
Current assets			
Inventories		20,730	28,185
Development properties		7,525	7,525
Trade and other receivables	8	4,064,023	4,492,300
Due from related parties	9	64,124	64,626
Financial assets at fair value through profit or loss		1,887	3,488
Current financial assets		-	30,000
Cash and bank balances	10	188,067	520,201
		<u>4,346,356</u>	<u>5,146,325</u>
TOTAL ASSETS		<u>6,097,030</u>	<u>6,943,483</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1,070,988	1,070,988
Share premium		3,026	3,026
Statutory reserve		125,760	125,760
Other reserve		24,543	24,543
Accumulated losses		(1,103,930)	(430,366)
Foreign currency translation reserve		(61,284)	(67,381)
Equity attributable to equity holders of the parent		<u>59,103</u>	<u>726,570</u>
Non-controlling interests		(460,550)	(374,920)
Total equity		<u>(401,447)</u>	<u>351,650</u>
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	491,439	456,030
Employees' end of service benefits		132,133	134,819
		<u>623,572</u>	<u>590,849</u>
Current liabilities			
Bank borrowings	11	2,495,455	2,430,657
Trade and other payables		3,028,352	3,345,024
Due to related parties	9	351,098	225,303
		<u>5,874,905</u>	<u>6,000,984</u>
Total liabilities		<u>6,498,477</u>	<u>6,591,833</u>
TOTAL EQUITY AND LIABILITIES		<u>6,097,030</u>	<u>6,943,483</u>

The condensed consolidated interim financial information were approved by the Board of Directors on 13 November 2018 and signed on its behalf by:

Group Chief Executive Officer

Chief Finance Officer

The attached notes 1 to 18 form part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the period ended 30 September 2018 (Unaudited)

		<i>Three months period ended 30 September</i>		<i>Nine months period ended 30 September</i>	
	<i>Notes</i>	<i>2018 AED'000</i>	<i>2017 AED'000</i>	<i>2018 AED'000</i>	<i>2017 AED'000</i>
Revenue from contracts with customers	6	(9,391)	590,318	1,033,991	2,046,432
Cost of sales		(430,730)	(815,204)	(1,438,672)	(2,369,425)
Gross loss		(440,121)	(224,886)	(404,681)	(322,993)
Other income		1,146	1,241	16,981	4,772
General and administrative expenses		(94,429)	(114,246)	(257,342)	(999,136)
Operating loss		(533,404)	(337,891)	(645,042)	(1,317,357)
Finance income		450	92	874	360
Finance costs	12	(28,930)	(19,383)	(94,974)	(69,176)
Finance costs – net		(28,480)	(19,291)	(94,100)	(68,816)
Loss for the period before tax		(561,884)	(357,182)	(739,142)	(1,386,173)
Income tax expense and zakat	13	(3,214)	(1,687)	(8,773)	(10,138)
LOSS FOR THE PERIOD		(565,098)	(358,869)	(747,915)	(1,396,311)
Attributable to:					
Equity holders of the parent		(497,344)	(317,640)	(662,285)	(1,222,869)
Non-controlling interests		(67,754)	(41,229)	(85,630)	(173,442)
		(565,098)	(358,869)	(747,915)	(1,396,311)
Earnings per share					
Basic and diluted (AED)	14	(0.46)	(0.14)	(0.62)	(0.54)

*Previous period figure is restated (refer note 14)

Drake and Scull International PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME For the period ended 30 September 2018 (Unaudited)

	<i>Three months period ended 30 September</i>		<i>Nine months period ended 30 September</i>	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Loss for the period	(565,098)	(358,869)	(747,915)	(1,396,311)
Items that will be reclassified Subsequently to profit or loss				
Currency translation differences	2,912	2,393	6,097	8,461
Other comprehensive income for the period	2,912	2,393	6,097	8,461
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(562,186)	(356,476)	(741,818)	(1,387,850)
Attributable to:				
Equity holders of the parent	(494,431)	(315,247)	(656,188)	(1,214,408)
Non-controlling interests	(67,755)	(41,229)	(85,630)	(173,442)
	(562,186)	(356,476)	(741,818)	(1,387,850)

Drake and Scull International PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2018 (Unaudited)

Attributable to the equity holders of the parent

	Share Capital AED '000	Share premium AED '000	Statutory reserve AED '000	Other reserve AED '000	Accumulated losses AED '000	Foreign currency translation reserve AED '000	Total AED '000	Non -controlling interests AED '000	Total AED '000
Balance at 31 December 2017	1,070,988	3,026	125,760	24,543	(460,769)	(67,381)	696,167	(344,517)	351,650
Reclassification (Note 2.3)	-	-	-	-	30,403	-	30,403	(30,403)	-
Balance at 1 January 2018	1,070,988	3,026	125,760	24,543	(430,366)	(67,381)	726,570	(374,920)	351,650
Impact of changes in accounting policies (Note 2.4)	-	-	-	-	(11,279)	-	(11,279)	-	(11,279)
Balance at 1 January 2018 (unaudited)	1,070,988	3,026	125,760	24,543	(441,645)	(67,381)	715,291	(374,920)	340,371
Loss for the period	-	-	-	-	(662,285)	-	(662,285)	(85,630)	(747,915)
Other comprehensive income for the period	-	-	-	-	-	6,097	6,097	-	6,097
Total comprehensive (loss) / profit for the period	-	-	-	-	(662,285)	6,097	(656,188)	(85,630)	(741,818)
Balance at 30 September 2018	1,070,988	3,026	125,760	24,543	(1,103,930)	(61,284)	59,103	(460,550)	(401,447)
Balance at 1 January 2017	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 (loss) / income for the period	-	-	-	-	(1,222,869)	8,461	(1,214,408)	(173,442)	(1,387,850)
Balance at 30 September 2017	2,285,047	3,026	125,760	24,543	(2,214,422)	(57,225)	166,729	(305,619)	(138,890)

The attached notes 1 to 18 form part of this condensed consolidated interim financial information

Drake and Scull International PJSC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the period ended 30 September 2018 (Unaudited)

		<i>Nine months period ended 30 September</i>	
	<i>Note</i>	2018 AED'000	2017 AED'000
Operating activities			
Loss for the period before tax		(739,142)	(1,386,173)
Adjustments for:			
Depreciation	7	24,794	41,401
Impairment of property and equipment		-	61,843
Amortisation of intangible assets		25,167	25,167
Provision for employees' end of service benefits		14,106	21,449
Finance cost	12	156,815	120,230
Fair value loss on financial assets at fair value through profit or loss		(1,601)	-
Loss on disposal of property and equipment		-	911
Fair value loss on financial assets		-	119
Gain on Sale of financial assets		(4,641)	-
Provision for impairment of trade receivables and retentions - net		29,862	698,288
Finance income		(874)	(360)
Operating cash flows before payments of employees' end of service benefits, income tax and changes in working capital		(492,312)	(417,125)
Payment of employees' end of service benefits		(16,792)	(28,837)
Income tax paid		(3,745)	(8,218)
Changes in working capital:			
Inventories		7,455	8,912
Development properties		-	1,034
Trade and other receivables (before provisions)		386,686	78,928
Due from related parties		502	(17,023)
Trade and other payables (excluding income tax and interest payable)		(431,851)	71,019
Due to related parties		125,795	(77,195)
Net cash used in operating activities		(424,262)	(388,505)
Investing activities			
Purchase of property and equipment	7	(3,067)	(7,091)
Proceeds from disposal of property and equipment		386	35,199
Proceeds from disposal of assets held for sale		-	99,085
Proceeds from disposal of financial assets		34,641	2,239
Interest received		177	517
Net cash generated from investing activities		32,137	129,949
Financing activities			
Term deposits under lien		146,411	5,787
Proceeds from trust receipts and other borrowings		153,565	110,198
Proceeds from term loans		186,147	52,631
Payment of term loans		(46,034)	(68,227)
Interest paid		(46,313)	(74,821)
Net cash generated from financing activities		393,776	25,568
Net increase / (decrease) in cash and cash equivalents		1,651	(232,988)
Net foreign currency translation difference		6,097	8,461
Cash and cash equivalents at the beginning of the period		(435,134)	(304,969)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	(427,386)	(529,496)

The attached notes 1 to 18 form part of this condensed consolidated interim financial information.

Drake and Scull International PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

1 CORPORATE 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. (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:

<i>Major Subsidiaries</i>	<i>Principal activities</i>	<i>Shareholding %</i>		<i>Country of incorporation</i>
		<i>30 September 2018</i>	<i>31 December 2017</i>	
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	91	91	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 Saudia Company Limited*	Implementation of construction contracts, operation and maintenance of electrical and mechanical installations and related activities	59	59	Saudi Arabia
Drake & Scull International for Electrical Contracting WLL	Mechanical, Electrical contracting and repairing work relating to the construction industry	100	100	Kuwait
International Center for Contracting Co. Ltd *	Contracting work relating to the construction industry	91	91	Saudi Arabia
Drake & Scull Construction Company LLC	Contracting work relating to the construction industry	91	91	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

* Refer note 2.3

Drake and Scull International PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

1 CORPORATE 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 these condensed consolidated interim financial information

The Group, through Drake and 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 these condensed consolidated interim financial information

The Group, through Drake and 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 these condensed consolidated interim financial information.

The Group, through Drake and 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 these condensed consolidated interim financial information.

The Group, through Drake and 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 these condensed consolidated interim financial information.

The Group, through Drake and 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 these 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 these 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. The joint venture agreements in relation to the DSI-HLS Joint Venture require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

Drake and 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 these 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 these condensed consolidated interim financial information.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 GOING CONCERN

The Group has incurred a loss of AED 748 million during the nine month period ended 30 September 2018 (30 September 2017: 1,396 million), and has accumulated losses of AED 1,104 million (31 December 2017: accumulated losses of AED 430 million) and as of that date, its current liabilities exceed its current assets by AED 1,529 million (31 December 2017: AED 855 million).

As prescribed by paragraph 25 of IAS 1, when management is aware, in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

Drake and Scull International PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.1 GOING CONCERN (continued)

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, these condensed consolidated interim financial information, have been prepared on the going concern basis because management believes that these financial and operating actions are realistic and effective, and based on them the Group would be able to improve its operating results and cash flows. Further, during the extra ordinary general meeting of the Group held on dated 4th October 2018, the shareholders of the Group have agreed to continue to carry out the operations of the company.

The Group has developed plans to improve the results and cash flows to enable it to continue its operations and meet its obligations as they fall due. The Group's success will be based on realising at least the carrying value of the Group's assets and ensure the continuity of the Group's operations into the future.

Should the Group be unable to continue as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any liabilities which might arise, and to reclassify non-current assets as current assets and non-current liabilities as current liabilities. Management believes that these financial and operating actions listed below are realistic and effective, and based on them the Group would be able to improve its operating results and cash flows.

Management has considered the way forward and developed an action plan to improve the results and cash flows of the Group. The action plan includes, but is not limited to:

- The Group has support from major shareholder by way of projects and issuance of corporate guarantees to the Banks.
- Banks have expressed interest to finance new projects and are also considering financing working capital by pledging assets.
- Management has secured new contracts/projects of substantial value.
- The Group has formed a new restructuring committee and restructuring consultants have been appointed.
- Management has taken several initiatives to review and reduce critically the operational costs to minimize the operational losses.
- Ongoing negotiations with clients to reach a payment plan for overdue trade receivables;
- Aligning of manpower resources with utilised capacity;
- Exploring possible expansion into other regional markets;

Agreement with clients, where possible to align the execution of work to payments.

2.2 BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The condensed consolidated interim financial information do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

In addition, results for the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

Drake and Scull International PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION

The condensed consolidated interim financial information for the nine month period ended 30 September 2018 comprises the results of the Group.

The condensed consolidated 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 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. During the period, the Group has made changes to the previously reported shareholding percentages in order to reflect the precise ownership position. Due to such rectification opening balance of non-controlling interest is adjusted with a corresponding impact on the accumulated losses. There is no impact on the profit and loss of the comparative period and total equity.

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

This note explains the impact of the adoption of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” on the Group’s condensed consolidated interim financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

As a result of the changes in the Group’s accounting policies, opening retained earnings in the condensed consolidated interim financial information has been adjusted. IFRS 9 and IFRS 15 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated condensed consolidated interim statement of financial position as at 31 December 2017, but are recognised in the opening retained earnings as at 1 January 2018. The adjustments are explained in more detail below:

2.4.1 IFRS 15 Revenue from contracts with customers

2.4.1.1 Impact of adoption

The IASB has issued a new standard for the recognition of revenue. IFRS 15 “Revenue from contracts with customers” outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes IAS 11 which covers construction contracts and IAS 18 which covers contracts for goods. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has adopted IFRS 15 from 1 January 2018 and applied the modified retrospective approach permitted by IFRS 15 upon adoption. Following practical expedients available under the modified retrospective approach of IFRS 15 have been opted by the Group:

- The requirements of the new standard have been applied to contracts that are not completed as at the date of initial application (1 January 2018); and
- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

Drake and Scull International PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

2.4.1 IFRS 15 Revenue from contracts with customers (continued)

2.4.1.1 Impact of adoption (continued)

The Group has assessed the impact of applying the new standard on the Group's condensed consolidated interim financial information and has identified following areas that were affected:

- Variation orders will have to be accounted for prospectively or as new contracts based on the nature and price of additional products and services requested through these variation orders;
- Incremental costs of obtaining a contract are costs that the Group would not have incurred if the contract had not been obtained and are recognized as an asset if they are expected to be recovered; and
- The Group will have to include variable consideration (including claims, re-measurable contract values and discounts) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group has identified contracts which meet the above criteria. However, the full impact of the above on the condensed consolidated interim financial information based on the review of full contracts is still under progress.

2.4.1.2 IFRS 15 Accounting policies

The application of the new standard required the Group to apply the following new accounting policies:

The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. As part of the impact assessment exercise, Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore, it meets the criteria to recognise revenue over the period of time and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performance obligation.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

2.4.1 IFRS 15 Revenue from contracts with customers (continued)

2.4.1.2 IFRS 15 Accounting policies (continued)

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting a principal or agent. The Group has concluded that it is acting a principal in all of its revenue arrangements.

Variations which are in the nature of extension of existing scope of work are accounted for using cumulative catch up adjustments to the cost of complete method of revenue recognition. Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

A loss is recognised in the statement of comprehensive income when the expected contract costs exceed the total anticipated contract revenue.

The Group combines two or more contracts entered into at or near the same time with the same customer and accounts for the contracts as a single contract if one or more of the following criteria are met:

- The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

If the above criteria is met, the arrangements are combined and accounted for a single arrangement for revenue recognition.

Pre-contract cost of obtaining a contract with a customer is recognised as an asset if those costs are expected to be recovered.

Revenue is recognised in the statement of comprehensive income to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the revenue and costs, if applicable, can be measured reliably.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

2.4.2 IFRS 9 Financial Instruments

2.4.2.1 Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements for the year ended 31 December 2017. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The following table shows the adjustments for each individual line item of the condensed consolidated interim statement of financial position. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated statement of financial position	31 December 2017 AED'000	IFRS 9 AED'000	1 January 2018 AED'000
Non-current assets			
Other financial assets	551	-	551
Current assets			
Trade and other receivables	4,492,300	(11,279)	4,481,021
Equity			
Accumulated losses (after reclassification, refer note 2.3)	(430,366)	(11,279)	(441,645)

* The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of AED 551 thousand were reclassified from available-for-sale financial assets to financial assets at FVOCI. No gain or loss was recognised on such transfer.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. Management has concluded that there are not material reclassifications of financial assets other than disclosed above.

(ii) Impairment of financial assets

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade and other receivables; and
- Contract assets (i.e. retentions and amounts due from construction contract customers).

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

2.4.2 IFRS 9 Financial Instruments (continued)

2.4.2.1 Impact of adoption (continued)

Trade receivables and contract assets

For trade receivables, the Group has applied a combination of the simplified and general approach permitted by IFRS 9. Under general approach, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. However simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on credit risk characteristics and past due delays. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contacts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The loss allowances for the trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	<i>AED '000</i>
As at 31 December 2017 – calculated under IAS 39	990,901
Amounts adjusted	11,279
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1,002,180

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery.

2.4.2.2 IFRS 9 Accounting policies

The application of the new standard required management to apply for the following new accounting policies:

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets that whether the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the cash flows that whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Management determines the classification of its investment at initial recognition.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income (FVOCI) are carried at fair value. After initial measurement, the Group present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to condensed consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment of financial assets

For trade receivables, the Group has applied a combination of the simplified and general approach permitted by IFRS 9. Simplified approach is applied to a portfolio of trade receivables that are homogeneous in nature and carry similar credit risk. Under general approach, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. However, simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

3 USE OF ESTIMATES AND JUDGMENTS

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 judgments 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 2017.

3.1 Critical accounting estimates and assumptions

The preparation of the Group's condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

a) Cost-to-cost (input method) to measure progress of construction contracts

The Group uses the cost-to-cost (input method) in accounting for its construction contracts. At each reporting date, the Group is required to estimate the stage of completion and costs to complete on its construction contracts. This requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claims by subcontractors and the cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the period in which the estimates are revised. When the expected contract costs exceeds the total anticipated contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts. The Group uses its commercial team to estimate the costs to complete of construction contracts. Factors such as delays in expected completion date, changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on a regular basis.

(b) Contract variations and claims

Variation orders will have to be accounted for prospectively or as new contracts based on the nature and price of additional products and services requested through these variation orders. The Group includes variable consideration (including claims, re-measurable contract values and discounts) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(c) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(d) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION At 30 September 2018 (Unaudited)

4 FINANCIAL RISK MANAGEMENT

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 2017. The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2017.

5 SEASONALITY OF OPERATIONS

The Group's financial results for 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; Engineering (Mechanical, Electrical and Plumbing), 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 condensed consolidated interim 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine month period ended 30 September 2018 (Unaudited)

6 SEGMENT REPORTING (continued)

Information about business segments (Unaudited)

All figures in AED'000

	Nine months ended 30 September 2018					Nine months ended 30 September 2017				
	Engineering	Civil	Others	Inter segment elimination	Total	Engineering	Civil	Others	Inter segment elimination	Total
Revenue										
External customers	726,426	185,302	122,263	-	1,033,991	1,276,849	593,269	176,314	-	2,046,432
Inter- segment	23,638	-	296	(23,935)	-	69,238	-	15,838	(85,076)	-
	750,064	185,302	122,559	(23,935)	1,033,991	1,346,087	593,269	192,152	(85,076)	2,046,432
Segment loss	(304,392)	(296,446)	(147,077)	-	(747,915)	(892,363)	(406,226)	(97,722)	-	(1,396,311)
Depreciation and amortisation	9,341	9,014	28,912	-	47,266	20,688	16,224	29,656	-	66,568
Capital expenditure	829	2,270	252	-	3,351	4,567	2,403	121	-	7,091
	At 30 September 2018					At 31 December 2017 (Audited)				
Segment total assets	3,705,382	2,121,158	4,621,653	(4,351,164)	6,097,030	3,789,341	2,384,471	4,425,751	(3,656,080)	6,943,483

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

6 SEGMENT REPORTING (continued)

Information about geographical segments (Unaudited)

All figures in AED'000

	UAE	Saudi Arabia	Others	Inter Segment elimination	Total
<i>Nine months ended 30 September 2018</i>					
Revenue from external customers	<u>397,168</u>	<u>34,115</u>	<u>602,708</u>	<u>-</u>	<u>1,033,991</u>
<i>Nine months ended 30 September 2017</i>					
Revenue from external customers	<u>857,624</u>	<u>324,465</u>	<u>864,343</u>	<u>-</u>	<u>2,046,432</u>
<i>30 September 2018</i>					
Non-current assets	<u>2,269,576</u>	<u>69,008</u>	<u>135,797</u>	<u>(723,707)</u>	<u>1,750,674</u>
<i>31 December 2017 (Audited)</i>					
Non-current assets	<u>2,288,066</u>	<u>96,164</u>	<u>137,129</u>	<u>(724,201)</u>	<u>1,797,158</u>

7 PROPERTY AND EQUIPMENT

The Group acquired property and equipment during the nine-month period ended 30 September 2018 amounting to AED 3,067 thousand (30 September 2017: AED 7,091 thousand). The Group disposed off property and equipment during the nine-month period ended 30 September 2018 amounting to AED 3,87 thousand (30 September 2017: AED 36,110 thousand), depreciation charged to the condensed consolidated interim income statement amounted to AED 24,794 thousand (30 September 2017: AED 41,401 thousand) and impairment charge of Nil thousand (30 September 2017: AED 61,843 thousand)

8 TRADE AND OTHER RECEIVABLES

	<i>30 September 2018</i> <i>AED'000</i> <i>(Unaudited)</i>	<i>31 December 2017</i> <i>AED'000</i> <i>(Audited)</i>
Non-current		
Trade receivables and retentions	301,376	300,248
Less: fair value adjustment	(13,635)	(13,654)
	<u>287,741</u>	<u>286,594</u>
Current		
Trade receivables and retentions	1,423,805	1,495,006
Prepayments and other receivables	624,349	663,303
Amount due from customers on contracts	3,047,911	3,324,892
	<u>5,096,065</u>	<u>5,483,201</u>
Less: provision for impairment on trade and other receivables	(1,032,042)	(990,901)
	<u>4,064,023</u>	<u>4,492,300</u>

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

8 TRADE AND OTHER RECEIVABLES (continued)

(a) Change orders and claims

Due from customers on contracts include an amount of AED 2,102 million (2017: AED 1,699 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 30 September 2018, balances of trade and other receivables included an amount of AED 383 million (2017: AED 265 million) of trade receivables and AED 2,102 million (2017: AED 1,699) of amount due from customers on contracts 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 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Joint arrangements	60,793	61,995
Affiliates	3,331	2,631
	<u>64,124</u>	<u>64,626</u>

Due to related parties:

Joint arrangements	135,159	106,231
Affiliates	215,939	119,072
	<u>351,098</u>	<u>225,303</u>

Significant related party transactions:

Significant related party transactions during the period with affiliates amounted to AED 93 million (1 January 2017 to 30 September 2017: AED 52.5 million) that mainly represent funds received to meet working capital requirements.

During the nine months period ended, the Group has sold financial assets amounting to AED 30 million through a related party (2017: Nil).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant related party transactions: (continued)

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

	<i>Nine month period ended 30 September (Unaudited)</i>	
	2018 AED'000	2017 AED'000
Short term benefits	11,164	18,166
Employees' end of service benefits	368	195
	11,532	18,361

10 CASH AND BANK BALANCES

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Cash on hand	4,631	9,157
Cash at bank	106,481	186,552
Term deposits	76,955	324,492
Cash and bank balances	188,067	520,201

Term deposits carry an average interest rate of 1% to 3% (2017: 1% to 3%) per annum.

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

	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)
Cash and bank balances	188,067	371,601
Less: term deposits under lien	(76,955)	(231,875)
Less: bank overdrafts (Note 11)	(538,498)	(669,222)
Cash and cash equivalents	(427,386)	(529,496)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

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 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Non-current		
Term loan	491,439	456,030
Current		
Term loan	767,212	662,508
Trust receipts and other borrowings	1,189,745	1,036,180
Bank overdrafts (Note 10)	538,498	731,969
	2,495,455	2,430,657

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

During the nine-month period ended 30 September 2018, the Group converted short term facilities (i.e. bank overdrafts and trust receipts) into term loans of AED 177 million. 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 6.5% (2017: 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 76,955 thousand (2017: AED 223,366 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 2017, the Group was in breach of the financial covenants in relation to the syndicated Sukuk facility and certain other borrowing facilities. As of 31 December 2017, the Group has obtained a waiver from the Sukuk lenders where the latter has been obtained on semi – annual basis for the last 2 fiscal years. These breaches have rendered the loans to be technically payable on demand.

As a result, the Group's syndicated Sukuk borrowings and other borrowings are presented as current liabilities as at 30 September 2018. The ability of the Group to continue as a going concern is dependent upon continued availability of external debt financing and/or additional equity.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

12 FINANCE COSTS

	Nine month period ended 30 September (Unaudited)	
	2018 AED'000	2017 AED'000
Finance costs	156,815	120,230
Charged to cost of sales	(61,841)	(51,054)
	<u>94,974</u>	<u>69,176</u>

13 INCOME TAX EXPENSE AND ZAKAT

The major components of income tax expense are:

	Nine month period ended 30 September (Unaudited)	
	2018 AED'000	2017 AED'000
<i>Current income tax expense:</i>		
Current income tax and Zakat charge	8,422	7,320
<i>Deferred income tax expense</i>		
Relating to origination and reversal of temporary differences	351	2,818
	<u>8,773</u>	<u>10,138</u>

14 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit / (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 month period ended 30 September (Unaudited)	
	2018	2017
Loss (AED'000)		
Loss for the purposes of basic earnings per share being net loss attributable to owners of the Parent	<u>(662,285)</u>	<u>(1,222,869)</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>1,070,988,000</u>	<u>570,987,747</u>
Basic and diluted loss per share (AED)	<u>(0.618)</u>	<u>(2.142)</u>

The prior period figure was restated due to capital reduction that took place after period ended 30 September 2017. Three months ended 30 September 2017 was restated at AED (0.556).

(b) Diluted

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

15 GUARANTEES

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Performance bonds	942,955	1,194,544
Letter of guarantees	848,185	1,048,251
	<u>1,791,140</u>	<u>2,242,795</u>

The various bank guarantees disclosed above were issued by the Group's bankers in the ordinary course of business.

16 EXPENDITURE COMMITMENTS

(a) Operating lease commitments

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

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Future minimum lease payments:		
No later than one year	22,088	34,782
Later than one year but no later than five years	104,961	121,593
Later than five years	2,216	2,417
	<u>129,265</u>	<u>158,792</u>

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	<u>112,181</u>	<u>347,978</u>
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17 FAIR VALUES

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances, trade and other receivables, other financial assets, development properties and due from related parties. Financial liabilities consist of bank borrowings, trade and other payables and due to related parties.

The fair values of financial instruments are not materially different from their carrying values. The fair value of the financial assets and liabilities are considered at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and bank balances, trade receivables, other financial assets, due from related parties, bank borrowings, trade and other payables and due to related parties and income tax payable approximate their carrying amounts, largely due to the short-term maturities of these instruments.
- Long term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken to account for the expected losses of these receivables. As at 30 September 2018, the carrying amounts of such receivables, net of provisions, are not materially different from their fair values.
- Fair value of bank borrowings and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debts on similar items, credit risk and remaining maturities.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION For the nine month period ended 30 September 2018 (Unaudited)

17 FAIR VALUES (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table presents the Group's assets and liabilities that are measured at fair value at 30 September 2018:

	<i>Level 1</i> <i>AED'000</i> <i>Unaudited</i>	<i>Level 2</i> <i>AED'000</i> <i>Unaudited</i>	<i>Level 3</i> <i>AED'000</i> <i>Unaudited</i>	<i>Total</i> <i>AED'000</i> <i>Unaudited</i>
Assets				
Financial assets at fair value through profit or loss				
- Investment in real estate fund	-	1,887	-	1,887
Fair Value through OCI				
- Equity securities	-	-	551	551
Development properties	-	-	7,525	7,525
Total assets	-	1,887	8,076	9,963

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2017.

	<i>Level 1</i> <i>AED'000</i> <i>Audited</i>	<i>Level 2</i> <i>AED'000</i> <i>Audited</i>	<i>Level 3</i> <i>AED'000</i> <i>Audited</i>	<i>Total</i> <i>AED'000</i> <i>Audited</i>
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	-	30,000	551	30,551
Investment in associate	-	-	284,480	-
Total assets	-	33,488	285,031	41,564

The Group has no liabilities measured at fair value as at 30 September 2018 and 31 December 2017.

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 2017 and 30 September 2018, the fair values of all other financial assets and liabilities, which are measured at amortised cost approximate their carrying values.

(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.

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

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18 INVESTMENT IN ASSOCIATE

In 2017, the Group acquired a stake in Waha Bay Investment and Real Estate Development- Sole proprietorship LLC (Waha Bay LLC) for AED 70 million. On the date of acquisition, the net assets of the associate were valued by an independent expert and accordingly, the investment in an associate was recorded at total value of AED 284 million with a bargain purchase of AED 214 million.

During the period, Al Mutamad Labour Supply Services (“AMLS”) became a controlled subsidiary of the Group. Pursuant to restructuring done at the Parent level of Waha Bay LLC, shares constituting of 12.1977% of Wahat Al Zaweya Holding Private Joint Stock Company (WAZ), a company listed on Abu Dhabi Exchange as private joint stock company, were allotted to AMLS in lieu of Group’s holding in Waha Bay LLC.

Although the Company holds less than 20% in WAZ, the Group exercises significant influence by virtue of representation on board of directors of the investee and hence consolidated it as an associate in these condensed consolidated interim financial information.

Summarised financial information of WAZ of 30 September 2018 is not available at the date of approval of these condensed consolidated interim financial information. As a result, management has not recognised any share of profit in this associate for the period.

The fair market value of investment in WAZ as of 30 September 2018, based on listed prices, was approximately AED 584 million which is higher than its carrying value of AED 284 million.