Arabtec Holding PJSC and its Subsidiaries

Reports and consolidated financial statements for the year ended 31 December 2011

Arabtec Holding PJSC and its Subsidiaries

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DIRECTORS' REPORT

The Board of Directors of Arabtec Holding PJSC (the 'Company') has pleasure in submitting the consolidated statement of financial position of the Company and its subsidiaries (the 'Group') as at 31 December 2011, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year ended 31 December 2011.

Principal activities

During the year ended 31 December 2011 the Group was primarily engaged in the construction of high-rise towers, other buildings and residential villas and related activities through Arabtec Construction LLC and other contracting related subsidiaries and joint ventures both in the UAE and Overseas.

Financial results

The Group has reported a net profit for the year, attributable to the shareholders of the Company, of AED 260 million (2010: AED 307 million) representing a 15% decrease from the previous year. The 2011 result is arrived at after a net write back of allowances for doubtful debts amounting to AED 215 million.

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law, an appropriation of AED 26 million (2010: AED 30.7 million) is made to statutory reserve from the distributable profit of AED 260 million (2010: AED 307 million).

Total equity attributable to the shareholders of the Company as at 31 December 2011 amounted to AED 2,953 million (2010: AED 2,698 million) an increase of 9%. The directors are proposing a bonus share dividend of 74.75 million shares and a cash dividend of AED 74.75 million, which is subject to approval at the forthcoming Annual General Meeting of the Company.

Directors

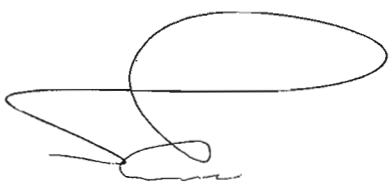
Mr. Ibrahim Belselah	Chairman
Sheikh Butti Bin Maktoum Bin Juma Al Maktoum (resigned)	
Sheikh Sultan Bin Saqer Al Qassimi (resigned)	
Sheikh Nawaf Bin Naser Al Thani	
Mr. Riad Burhan Kamal	
Mr. Adel Hassan Al-Nawais	
Mr. Raja Hani Ghanma	
Dr. Henry Azzam	
Mr. Mutaz Sawaf	
Mr. Iyad Duwaji	
Mr. Abdullah Kalban	

During September 2011, Sheikh Butti Bin Maktoum Bin Juma Al Maktoum and Sheikh Sultan Bin Saqer Al Qassimi resigned and Mr. Ibrahim Belselah has been appointed as Chairman.

Auditors

Deloitte & Touche (M.E.) were appointed as external auditors of the Group for the year ended 31 December 2011. Deloitte & Touche (M.E.) are eligible for reappointment for 2012 and have expressed their willingness to continue in office.

On behalf of the Board



Riad Burhan Kamal
Chief Executive and Board Member

Dubai
7 March 2012

Deloitte & Touche (M.E.)
1001 City Tower 2
Sheikh Zayed Road
P.O. Box 4254
Dubai, United Arab Emirates

Tel: +971(0) 4 331 3211
Fax:+971(0) 4 331 4178
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Arabtec Holding PJSC
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Arabtec Holding PJSC** (the "Company") **and its Subsidiaries** (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

cont'd....

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Arabtec Holding PJSC and its Subsidiaries** as at 31 December 2011, and the Group's consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion we draw attention to Note 16 to the consolidated financial statements, which describes, a contractual dispute that continues to be subject to arbitration proceedings, the probable outcome of which cannot currently be determined with reasonable certainty at the date of this report.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account, the information included in the Directors' Report relating to these consolidated financial statements is in agreement with the accounting records and the physical inventory was properly conducted. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), or the Articles of Association of the Group companies, which might have materially affected the financial position of the Group or its financial performance for the year.

Deloitte & Touche (M.E.)

Samir Madbak
Registration Number 386
7 March 2012

Consolidated statement of financial position as at 31 December 2011

	Note	2011 AED'000	2010 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,180,895**	1,272,230
Intangible assets	6	**94,211**	143,741
Investment in associate	7	**-**	3,200
Goodwill	8	**248,629**	246,836
Trade and other receivables - non-current portion	9	**797,719**	774,524
Other financial assets	10	**207,365**	43,958
Other non-current assets		**9,926**	10,396
Total non-current assets		**2,538,745**	2,494,885
Current assets			
Trade and other receivables	9	**3,907,107**	4,171,772
Other financial assets	10	**151,028**	178,106
Inventories	11	**319,016**	369,009
Other current assets	12	**138,114**	154,294
Due from related parties	13b	**1,057,806**	723,563
Cash and cash equivalents	14	**683,889**	588,130
Deferred tax	31	**331**	331
Total current assets		**6,257,291**	6,185,205
Total Assets		**8,796,036**	8,680,090
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	**1,495,000**	1,196,000
Statutory reserve	19	**293,873**	267,819
Fair value adjustment reserve		**(12,549)**	(7,494)
Foreign currency translation reserve		**(264)**	-
Retained earnings		**1,177,035**	1,241,549
Equity attributable to equity holders of the Parent		**2,953,095**	2,697,874
Non-controlling interests		**414,818**	404,444
Total Equity		**3,367,913**	3,102,318
Non-current liabilities			
Bank borrowings	20	**55,650**	110,379
Provision for employees' end of service indemnity	21	**157,810**	128,286
Retentions payable - non-current portion	22	**91,760**	203,832
Total non-current liabilities		**305,220**	442,497
Current liabilities			
Bank borrowings	20	**468,308**	626,672
Trade and other payables	23	**3,831,639**	4,155,334
Due to related parties	13c	**821,371**	348,075
Income tax payable		**1,585**	5,194
Total current liabilities		**5,122,903**	5,135,275
Total Liabilities		**5,428,123**	5,577,772
Total Equity and Liabilities		**8,796,036**	8,680,090

Riad Burhan Kamal
Chief Executive and Board Member

Consolidated income statement
for the year ended 31 December 2011

	Note	2011 AED'000	2010 AED'000
Revenues	24	**5,003,468**	5,463,698
Direct costs	25	**(4,374,156)**	(4,636,675)
Gross profit		**629,312**	827,023
Other operating income	26	**36,545**	46,508
General and administrative expenses	27	**(347,586)**	(448,988)
Gain on derecognition of financial assets		**19,707**	-
Other income	28	**33,067**	34,176
Net changes in fair value of non-current retentions and trade receivables	29	**(11,518)**	2,140
Investment income	30	**16,028**	18,573
Finance costs		**(33,055)**	(41,701)
Profit before tax		**342,500**	437,731
Income tax expense	31	**(2,174)**	(6,131)
Profit for the year		**340,326**	431,600
Attributable to:			
Equity holders of the parent		**260,540**	307,118
Non-controlling interests		**79,786**	124,482
		340,326	431,600
Basic earnings per share (AED) [Based on profit for the year attributable to equity holders of the parent and 1,495 million shares in issue throughout the year (bonus shares of 299 million shares approved on 3 April 2011, have also been considered in the calculation for 2010)]		**AED 0.17**	AED 0.21

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2011

	2011 AED'000	2010 AED'000
Profit for the year	**340,326**	431,600
Other comprehensive loss		
Net unrealised loss on revaluation of available for sale investments	**(5,055)**	(5,152)
Total comprehensive income for the year	**335,271**	426,448
Total comprehensive income attributable to:		
Equity holders of the parent	**255,485**	301,966
Non-controlling interests	**79,786**	124,482
	335,271	426,448

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011

	Attributable to equity holders of the parent							
	Share capital AED'000	Statutory reserve AED'000	Fair value adjustment reserve AED'000	Foreign currency translation reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 31 December 2009	1,196,000	237,107	(2,342)	-	960,962	2,391,727	336,291	2,728,018
Dividends paid to non-controlling interests	-	-	-	-	-	-	(31,335)	(31,335)
Non-controlling interests (reducing)/arising on,				-				
- Change in ownership	-	-	-	-	4,181	4,181	(25,851)	(21,670)
- Capital contribution	-	-	-	-	-	-	857	857
Unrealised loss on available-for-sale investments recognised directly in equity	-		(5,152)	-	-	(5,152)	-	(5,152)
Profit for the year	-	-	-	-	307,118	307,118	124,482	431,600
Total comprehensive income for the year	-	-	-	-	-	301,966	124,482	426,448
Transfer to statutory reserve	-	30,712	-	-	(30,712)	-	-	-
Balance at 31 December 2010	1,196,000	267,819	(7,494)	-	1,241,549	2,697,874	404,444	3,102,318
Capitalisation shares issued (Note 34)	299,000	-	-	-	(299,000)	-	-	-
Dividends paid to non-controlling interests							(69,990)	(69,990)
Non-controlling interests arising on,								
- Acquisition and incorporation of subsidiaries	-	-	-	-	-	-	578	578
Unrealised loss on available-for-sale investments recognised directly in equity	-		(5,055)	-		(5,055)	-	(5,055)
Profit for the year	-	-	-	-	260,540	260,540	79,786	340,326
Total comprehensive income for the year						255,485	79,786	335,271
Exchange differences arising on translation of foreign operations				(264)	-	(264)	-	(264)
Transfer to statutory reserve	-	26,054	-	-	(26,054)	-	-	-
Balance at 31 December 2011	**1,495,000**	**293,873**	**(12,549)**	**(264)**	**1,177,035**	**2,953,095**	**414,818**	**3,367,913**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2011

	2011 AED'000	2010 AED'000
Operating activities		
Profit before tax	**342,500**	437,731
Adjustments for:		
Depreciation of property, plant and equipment	**222,912**	246,614
Amortization of intangible assets	**49,530**	50,241
Impairment loss on intangibles	**-**	1,434
Provision for employees' end of service indemnity	**48,245**	24,325
Accrued discretionary bonus	**18,044**	7,873
Accrued bonus for staff	**56,199**	(19,176)
Reversal of provision for doubtful debts	**(117,643)**	(114,596)
Increase in allowance for doubtful receivables	**8,403**	82,532
Goodwill recognized on acquisition of a subsidiary	**(1,793)**	-
Impairment of Goodwill	**-**	5,429
Allowance and impairment for slow - moving inventories	**15,504**	3,557
Gain on sale of property, plant and equipment	**(6,217)**	(11,285)
Gain on sale of investments	**(1,304)**	-
Gain on derecognition of financial assets	**(19,707)**	-
Gain on derecognition of financial liabilities	**(5,595)**	-
Interest income	**(11,010)**	(18,573)
Amortisation of discount on Held to Maturity Investments	**(5,018)**	-
Finance costs	**33,055**	41,701
Changes in fair value of non-current retentions and trade receivables	**11,518**	(2,140)
Operating movement in working capital before changes in operating assets and liabilities	**637,623**	735,667
Decrease in other financial assets	**25,385**	9,102
Decrease in trade and other receivables	**211,386**	538,593
Increase in due from related parties	**(334,243)**	(3,171)
Decrease in inventories	**34,489**	275,076
Decrease/(increase) in other current assets	**16,180**	(4,973)
Decrease in trade and other payables	**(338,716)**	(661,871)
Increase/(decrease) in due to related parties	**473,296**	(27,567)
Decrease/(increase) in retentions and trade receivables - non-current portion	**(31,010)**	(559,480)
(Decrease)/increase in retentions payable - non-current portion	**(115,776)**	145,456
Decrease/(increase) in other non-current assets	**470**	(1,007)
Cash generated from operations	**579,084**	445,825
Employees' end of service indemnity paid	**(18,721)**	(33,765)
Interest income received	**11,010**	18,573
Interest paid	**(33,056)**	(41,701)
Tax paid	**(5,784)**	(9,724)
Bonus paid	**(40,571)**	(18,094)
Net cash generated from operating activities	**491,962**	361,114
Cash flows from investing activities		
Repayment of loan to a related party	**(2,236)**	1,059
Purchase of property, plant and equipment	**(195,273)**	(221,892)
Impairment of investment in associate	**3,200**	-
Exchange differences on translation foreign operations	**(264)**	-
Proceeds from disposal of property, plant and equipment	**69,913**	77,047
Proceeds from disposal of available-for-sale investments	**10,963**	8,731
Net cash used in investing activities	**(113,697)**	(135,055)
Cash flows financing activities		
Repayments of borrowings (net)	**(213,094)**	(219,832)
Capital contribution from non-controlling interests	**578**	857
Additional investment in subsidiary	**-**	(21,670)
Cash dividends paid - non-controlling interest	**(69,990)**	(31,335)
Net cash used in financing activities	**(282,506)**	(271,980)
Net increase/(decrease) in cash and cash equivalents	**95,759**	(45,921)
Cash and cash equivalents at the beginning of the year	**588,130**	634,051
Cash and cash equivalents at the end of the year (Note 14)	**683,889**	588,130

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2011

1. General information

Arabtec Holding PJSC (the "Company") is a Public Joint Stock Company established under the laws of the United Arab Emirates pursuant to the resolution of the Department of Economic Development, Dubai, number 71 dated 2 July 2004. The Company commenced operations on 20 September 2004.

The principal object of the Company is to invest in the construction sector through the acquisition of contracting and related companies.

The Company's shares are listed on the Dubai Financial Market (DFM).

The registered office of the Company is P.O. Box 72122, Dubai, UAE.

The Company and its subsidiaries, referred to collectively in this consolidated financial information as the "Group" are primarily engaged in the construction of high-rise towers, buildings and residential villas, in addition to the execution of related services such as drainage, electrical and mechanical works, provision of ready mix concrete and construction equipment supply and rental.

The Company has the following subsidiaries over which it exercises effective control:

Name of subsidiary and domicile	Percentage of beneficial holding (including indirect holdings)	Principal activities
Arabtec Construction LLC, Dubai, UAE	100%	Civil construction and related works
Austrian Arabian Ready Mix Concrete Co. LLC, Dubai, UAE	100%	Manufacture and transportation of ready mix concrete products
House of Equipment Co. LLC, Dubai, UAE	66.67%	Trading and leasing of construction equipment
Arabtec Construction W.L.L., Doha, Qatar	49%	Civil construction and related works
Arabtec Precast LLC, Dubai, UAE	100%	Manufacture of precast panels
Nasser Bin Khaled Factory Ready Mix Concrete Co. LLC, Doha, Qatar	49%	Manufacture and transportation of ready mix concrete products
Emirates Falcon Electromechanical Co. EFECO LLC, Dubai, UAE	55%	Electrical mechanical and plumbing contracts
Arabtec Engineering Services LLC, Dubai, UAE	80%	Infrastructure construction works
Arabtec International Company, Limited, Republic of Mauritius	100%	Civil construction and related works
Arabtec Construction Syria LLC, Syrian Arab Republic	100%	Civil construction and related works
Arabtec Pakistan (Pvt) Limited, Pakistan	60%	Civil construction and related works
Target Engineering Construction Company LLC, Abu Dhabi, UAE	60%	Civil construction and related works
Gulf Steel Industries FZC, Sharjah, UAE	55%	Fabrication of steel structures and profiles

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

1. General information (continued)

Name of subsidiary and domicile	Percentage of beneficial holding (including indirect holdings)	Principal activities
Arabtec Saudi Arabia LLC, Kingdom of Saudi Arabia	45%	Civil construction and related works
Arabtec Egypt for Construction SAE, Arab Republic of Egypt	55%	Civil construction and related works
Arabtec Construction LLC (Foreign Company), State of Palestine	100%	Civil construction and related works
Arabtec – Musawa W.L.L., Kingdom of Bahrain (under formation)	75%	Civil construction and related works
Arabtec Angola, Republic of Angola (under formation)	49%	Civil construction and related works
EFECO Saudi LLC, Kingdom of Saudi Arabia	39%	50% Electrical, mechanical and plumbing contracts
EFECO Qatar W.L.L., Doha, Qatar	27%	Electrical, mechanical and plumbing contracts
EFECO LLC, Palestine	100%	Electrical, mechanical and plumbing contracts
Arabtec Construction Machinery LLC, Kingdom of Saudi Arabia	58%	Trading and leasing of construction equipment
Saudi Austrian Arabian Ready Mix Co LLC, Kingdom of Saudi Arabia	62%	Manufacture and transportation of ready mix concrete products
Idrotec Srl, Italy	48%	Civil construction and related works
Arabtec Construction LLC, State of Kuwait (under formation)	100%	Civil construction and related works
Arabtec-Envirogreen Facility Management Services LLC, Dubai, U.A.E	51%	Building maintenance and cleaning services, facilities management and security services

The investment in Arabtec Pakistan (Pvt) Limited is held by third parties in trust and for the benefit of the Company. The investment in Arabtec Engineering LLC, Dubai is held by two of the shareholders on trust and for the benefit of the Company.

The Company has the following associate over which it exercises significant influence:

Name of associate and domicile	Percentage of beneficial holding	Principal activities
Polypod Middle East LLC, Abu Dhabi, UAE	40%	Assembly of bathroom pods and other types of pods on the same concept.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised standards and interpretations have been adopted in the current period with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 24 Related Party Disclosures modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in profit or loss.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS34; IFRIC 13.

2.2 New and revised IFRSs in issue but not yet effective

The Group has not chosen early adoption of the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.	1 July 2011
IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective (continued)

	Effective for annual periods beginning on or after
Amendments to IAS 1 – *Presentation of Other Comprehensive Income.* The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
Amendments to IFRS 7 *Financial Instruments: Disclosures* enhancing disclosures about offsetting of financial assets and liabilities	1 January 2013
Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities	1 January 2013
Amendments to IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.	1 January 2013
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	1 January 2015 (or otherwise when IFRS 9 is first applied)

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipates that the application of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group in the period of initial application.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3.2 Basis of preparation

These consolidated financial statements are presented in United Arab Emirates Dirhams (AED) since that is the currency of the country in which the Company is domiciled.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain assets. The principal accounting policies adopted are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Although the Group owns less than 50% of the equity shares in Arabtec Construction LLC, Doha, Nasser Bin Khaled Factory Ready Mix Concrete Co. LLC, Doha, Arabtec Saudi Arabia LLC, Kingdom of Saudi Arabia, EFECO Saudi LLC, Kingdom of Saudi Arabia, EFECO Qatar W.L.L., Doha, Qatar and Arabtec Angola, Republic of Angola, the Group has the power to govern the strategic operating and financial decisions of these companies and therefore treats them as subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interests share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests share in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.4 Business combinations (continued)

Goodwill arising on acquisition, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, is recognised as an asset and initially measured at cost. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess, representing a gain on bargain purchase, is recognised immediately in profit or loss.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.5 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where the group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly-controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly-controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

3.6 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Where material, the results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.6 Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3.7 Intangible assets

Intangible assets arising on business combinations are recognised only if all of the following conditions are met:

- The assets can be identified and are separable;
- It is probable that the asset will generate future economic benefits; and
- The fair value of the asset can be reliably measured.

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated period of benefit from the intangible assets.

3.8 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly-controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly-controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly-controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, those costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated by using the weighted average method.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

3.10 Property, plant and equipment

Property, plant and equipment except for land are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets other than land and properties under construction, over their estimated useful lives, using the straight-line method as follows:

	Years
Plant machinery and office equipment	3 - 15
Vehicles	5 - 7
Labour camps and buildings	10 - 20
Furniture	5
Scaffolding, cabins and tunnel forms	3 - 7
Leasehold land	Period of lease

The estimated useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the pattern of economic benefits expected to flow to the Group through the use of items of property, plant and equipment.

Labour camps built on leased plots of land are depreciated over the shorter of their estimated useful lives or the periods of the leases.

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

Properties under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.11 Impairment of tangible and intangible assets, excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or the cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

Construction revenue

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see 3.13 below).

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.12 Revenue recognition (continued)

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3.13 Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, which is determined based on the proportion of contract costs incurred to date to the estimated total contract costs. Variations in contract work are recognised to the extent that it is probable that they will result in revenue and such revenue can be reliably measured, while contract claims and incentive payments are included only to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred where the recoverability is probable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised immediately, as soon as foreseen.

3.14 Contract costs

Contract costs comprise direct contract costs and other costs relating to the contracting activity in general and which can be allocated to contracts. In addition, contract costs include other costs that are specifically chargeable to the customer under the terms of the contracts.

Costs that cannot be related to contract activity or cannot be allocated to a contract are excluded from the costs of the construction contracts and are included in general and administrative expenses.

3.15 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.15 Income tax (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.16 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.18 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.18 Foreign currencies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.20 Due from/to customers for contract work

Due from/to customers for contract work is the difference between the amount recognised based on the percentage of completion of a contract and the actual amount certified by the contract employer represented by payment certificates. Where the difference is positive, the amount is classified as due from customers for contract work and when the difference is negative, the amount is classified as due to customers for contract work.

3.21 Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, banks current accounts, demand deposits and short term highly liquid deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Other financial assets

Investments are recognised and de-recognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.21 Financial instruments (continued)

Trade and other receivables

Trade and other receivables (excluding due from customers for contract work, advances paid to suppliers for contract work and prepaid expenses) are measured at amortised cost as reduced by appropriate allowance for estimated doubtful debts.

Other current assets

Other current assets are measured at amortised cost.

Available-for-sale (AFS) financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market and other non-listed shares that are acquired to provide the opportunity for a return through dividend income and fair value gains are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value adjustments reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Held to maturity

Investments which have fixed or determinable payments with fixed maturities which the Group has the intention and ability to hold to maturity, are classified as held to maturity investments and are included in other financial assets (non current assets). Held to maturity investments are carried at amortized cost, using effective interest rate method less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

3. Significant accounting policies (continued)

3.21 Financial instruments (continued)

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Trade and other payables

Trade and other payables (excluding advances received from customers and amounts due to customers for contract work) are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost.

Due from/to related parties

Amounts due from/to related parties are stated at their amortised cost.

4. Critical accounting judgments and key sources of estimation uncertainty

4.1 Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgments that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Contract variations

Contract variations are recognised as revenues only to the extent that it is probable that they will result in revenue which can be reliably measured. This requires the exercise of judgment by management based on prior experience, application of contract terms and the relationship with the contract owners.

Contract claims

Contract claims are recognized as revenue only when management believes that an advanced stage of negotiation has been reached and the revenue can be estimated with reasonable certainity.

Percentage-of-completion

The Group uses the percentage-of-completion method in accounting for its construction contracts services. Use of the percentage-of-completion method requires the Group to reliably estimate the proportion of work performed to date as a proportion of the total work to be performed and it is management's judgment that the consistent use of costs to date in proportion to total estimated costs provides the most appropriate measure of percentage of completion.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying the Group's accounting policies (continued)

Contract dispute

Note 16 describes a contract dispute that is currently in process with one of the Group's customers. The calling of the Performance Security and Advance Payment Guarantee "the Securities" by the contract owner and their encashment, and the claim presented, raises questions about the accounting treatment for the transaction. In light of the contract dispute arising, the directors were required to consider whether it was appropriate to recognize the amount of the encashed securities as expenses or, alternatively, as amounts receivable from the contract owner pending resolution of the dispute.

In making this judgment, management considered the criteria in The Framework for the Preparation and Presentation of Financial Statements in conjunction with IAS 37 Provisions, Contingent Liabilities and Contingent Assets in determining whether the amounts payable can be recognised as an asset of the Group. In particular, consideration was given to whether it is probable that recognition of the asset will result in future economic benefits flowing to the Group. In view of management's judgment that the contract termination and call on the Securities was not justified, and, in the light of continuing legal opinion on the arbitration proceedings initiated by the Joint Venture, management continues to consider that the outcome of the proceedings will be favourable to the Group and continues to recognize the amount of the Securities as a receivable and not as an expense.

Management has continued to obtain legal advice related to the arbitration proceedings and, based on this advice, considers that the Group continues to have a strong case which will ultimately result in the full recovery - as a minimum - of all related amounts included in receivables in these consolidated financial statements.

Taxation

The Group is subject to tax in a number of jurisdictions and judgment is required in determining the provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods, and such provisions are based upon management's assessment of exposures. Deferred tax is accounted for on temporary differences using the liability method, with deferred tax assets being recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Joint ventures

The Group reports its interest in joint ventures/jointly controlled entities using the proportional consolidation method which management considers appropriately recognizes the substance of the business arrangements.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Construction cost estimates

The Group uses internal quantity surveyors together with project managers to estimate the costs to complete construction contracts. Factors such as changes in the scope of work, changes in material prices, labor costs and other costs are included in the construction cost estimates based on best estimates updated on a regular basis.

Allowance for slow-moving inventories

Inventories are stated at the lower of cost or net realisable value. Adjustments to reduce the cost of inventory to its realizable value, if required are made at the product level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and apply a suitable discount rate in order to calculate present value. During the year under review, based on the value in use calculations, management impaired the goodwill of two cash generating units and are confident that the remaining goodwill is represented by appropriate value in use valuations.

Allowance for doubtful debts on trade receivables

Allowance for doubtful debts is determined using a combination of factors, including the overall quality and ageing of receivables, continuing credit evaluation of the customers' financial strength and collateral requirements from customers in certain circumstances. Management makes allowance for doubtful debts based on its best estimates at the end of the reporting period.

At the end of the reporting period the Group has significant receivables from entities related to the Dubai Government. Management has carefully considered these receivables in light of current economic circumstances and the status of negotiations with customers, signed and draft memorandum of understanding, agree payment plans, together with potential offsetting arrangements with advances received from contract owners and amounts due to subcontractors in order to determine a reasonable provision for potential impairment losses which may occur in finalizing collection of contract receivables, amounts due from customers for contract work and retentions receivable.

Where payment plans exceed one year from the financial position date, these are reclassified as non-current and are measured at amortised cost.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

Property, plant and equipment

Property, plant and equipment is depreciated over its estimated useful life, which is based on estimates for expected usage of the asset and expected physical wear and tear which are dependent on operational factors. Management has not considered any residual value as it is deemed immaterial.

During the year management performed assessments of both the fair value and value in use of property, plant and equipment and determined that no impairment losses arose.

Recoverability of intangible assets

During the year, management reconsidered the recoverability of the intangible assets arising from the Group's business combinations and recorded impairments where required. Management is confident that the remaining carrying amount of the assets will be recovered in full, over the defined amortisation periods. This situation will be closely monitored, and adjustments made in future periods, if future assessments indicate that such adjustments are appropriate.

Non-current retentions and contract receivables

Non-current retentions receivable and contract receivables and payable are restated at their fair value at each period end by discounting at the Group's effective deposit and borrowing rates respectively, which management considers to be the appropriate discount rates for these assets and liabilities.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

5. Property, plant and equipment

	Land AED'000	Leasehold land AED'000	Plant, machinery and office equipment AED'000	Vehicles AED'000	Labour camps and buildings AED'000	Furniture AED'000	Scaffolding, cabins and tunnel forms AED'000	Properties under construction AED'000	Total AED'000
Cost or valuation									
At 31 December 2009	70,727	5,288	1,100,164	247,105	383,244	55,401	118,950	124,148	2,105,027
Additions	-	-	92,391	12,883	27,028	13,944	4,917	70,729	221,892
Transfers	-	-	551	-	-	285	-	(836)	-
Disposals	-	-	(127,056)	(7,377)	(5,149)	(964)	(13,735)	(557)	(154,838)
At 31 December 2010	70,727	5,288	1,066,050	252,611	405,123	68,666	110,132	193,484	2,172,081
Additions	-	509	80,205	2,004	26,002	7,148	16,062	63,343	195,273
Transfers	-	-	18,616	1,036	77,521	219	-	(97,392)	-
Reclassification	-	715	(85,491)	-	(715)	-	85,491	-	-
Disposals	-	-	(69,139)	(6,929)	(44,574)	(1,891)	(27,868)	(4,215)	(154,616)
At 31 December 2011	**70,727**	**6,512**	**1,010,241**	**248,722**	**463,357**	**74,142**	**183,817**	**155,220**	**2,212,738**
Accumulated depreciation									
At 31 December 2009	-	345	436,628	95,212	98,551	41,053	70,524	-	742,313
Charge for the year	-	115	142,497	35,741	41,051	10,723	16,487	-	246,614
Eliminated on disposals	-	-	(69,328)	(3,673)	(4,289)	(403)	(11,383)	-	(89,076)
At 31 December 2010	-	460	509,797	127,280	135,313	51,373	75,628	-	899,851
Charge for the year	-	324	122,436	29,665	34,275	8,039	28,173	-	222,912
Reclassification	-	366	(42,603)	-	(366)	-	42,603	-	-
Eliminated on disposals	-	-	(36,587)	(3,276)	(22,762)	(1,303)	(26,992)	-	(90,920)
At 31 December 2011	**-**	**1,150**	**553,043**	**153,669**	**146,460**	**58,109**	**119,412**	**-**	**1,031,843**
Carrying amount									
At 31 December 2011	**70,727**	**5,362**	**457,198**	**95,053**	**316,897**	**16,033**	**64,405**	**155,220**	**1,180,895**
At 31 December 2010	70,727	4,828	556,253	125,331	269,810	17,293	34,504	193,484	1,272,230

Note: The Group head office in Dubai is situated on land owned jointly by Arabtec Construction LLC (Arabtec) and a shareholder.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

6. Intangible assets

	Leasehold property benefit AED'000	Arabtec brand AED'000	Customer contracts AED'000	Other intangibles AED'000	Total AED'000
Cost					
At 31 December 2009, 2010 and 2011	**5,700**	**110,000**	**195,056**	**9,000**	**319,756**
Accumulated amortization					
At 31 December 2009	1,844	55,000	64,796	2,700	124,340
Charge for the year	1,585	11,000	36,756	900	50,241
Impairment loss for the year	1,434	-	-	-	1,434
At 31 December 2010	4,863	66,000	101,552	3,600	176,015
Charge for the year	402	11,000	37,228	900	49,530
At 31 December 2011	**5,265**	**77,000**	**138,780**	**4,500**	**225,545**
Carrying amount					
At 31 December 2011	**435**	**33,000**	**56,276**	**4,500**	**94,211**
At 31 December 2010	837	44,000	93,504	5,400	143,741

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

6. Intangible assets (continued)

The intangible assets included above, arising on business combinations, have finite useful lives, over which the assets are amortised.

Amortization of the leasehold property benefits are based on the underlying leases over periods of 18 and 21 years respectively.

The Arabtec brand value is amortised over the expected period of 10 years, following which continuing brand value will be deemed to have been internally generated and not recognisable as an asset under IFRS.

The value of customer contracts acquired as a result of the acquisition of Target Engineering Construction Company L.L.C. are amortised over the estimated useful life of 10 years.

Other intangibles are amortised over the estimated useful lives of 10 years and represent technological expertise, the trade name and the special historic and beneficial working relationship between the companies, that together form a set of complementary assets described as 'technological expertise' and which has been valued based on the price and quality differential for electro-mechanical services available to the Group.

7. Investment in associate

On 6 May 2009, Polypod Middle East LLC ('Polypod'), Abu Dhabi was incorporated with Arabtec Holding PJSC holding a 40% interest in Polypod at cost of AED 3.2 million, being equivalent to the Company's share of the issued share capital. On 7 March 2012, the Board of Directors approved to write-off the investment in Polypod due to continuous losses incurred. Management are in the process of restructuring this business with a view to allowing the business to positively trade out of its existing deficits.

Summarized financial information in respect of the Company's associates is set out below:

	2011 AED'000	2010 AED'000
Total assets	**13,210**	15,004
Total liabilities	**(16,847)**	(9,099)
Net assets	**(3,637)**	5,905
Company's share of associates' net assets	**1,455**	2,362
Total revenue	**7,012**	43,019
Total loss for the year	**(11,633)**	(956)
Share of associate's loss (not recognised) for the year	**(4,653)**	(382)

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

8. Goodwill

Goodwill arising on acquisition of:

	2011 AED'000	2010 AED'000
a) Arabtec Construction L.L.C	**87,963**	87,963
b) Arabian Austrian Ready Mix Concrete Co. L.L.C	**-**	933
c) Emirates Falcon Electro Mechanical Co. (L.L.C.)	**9,086**	9,086
d) Target Engineering Construction Company L.L.C.	**134,945**	134,945
e) Gulf Steel Industries FZC	**14,842**	19,338
f) Idrotec Srl (Note 35)	**1,793**	-
	248,629	252,265
Less: Impairment loss	**-**	(5,429)
	248,629	246,836

Goodwill acquired in a business combination is allocated, on acquisition, to the cash generating units (CGU's) that are expected to benefit from the business combination. Management has allocated goodwill as follows:

	2011 AED'000	2010 AED'000
CGU:		
Building construction	**89,756**	87,963
Drainage and electro-mechanical works	**9,086**	9,086
Marine construction	**134,945**	134,945
Trading	**14,842**	14,842
	248,629	246,836

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding growth rates, discount rates and expected profitability.

The Group prepares cash flow forecasts derived from most recent experience for a minimum of the next 5 years and discounts these to present value using discount rates based on market risk free rates and premiums for risk and uncertainty calculated for each CGU individually. The resultant value in use calculation provides the basis for determining whether an impairment in the value of goodwill has occurred.

Management's calculation of the value in use of goodwill at 31 December 2011 resulted in no impairment losses for the financial year (2010: AED 5.4 million).

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

9. Trade and other receivables

Contract receivables represent amounts due from customers for construction work rendered by the Group and certified by the customers' consultants.

Retentions receivable represent amounts withheld by the customers in accordance with contract terms and conditions. These amounts are to be released upon fulfillment of contractual obligations.

	Current		Non-current	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
Trade and other receivables	**296,008**	280,487	**-**	-
Contract receivables	**2,164,545**	2,403,356	**387,592**	615,257
Amounts due from customers for contract work (Note 15)	**832,013**	650,221	**-**	-
	3,292,566	3,334,064	**387,592**	615,257
Allowance for doubtful debts	**(57,213)**	(117,905)	**-**	(146,649)
	3,235,353	3,216,159	**387,592**	468,608
Retentions receivable	**312,835**	600,209	**410,127**	305,916
Advances paid to suppliers and sub contractors	**349,755**	335,256	**-**	-
Contract work in progress	**9,164**	20,148	**-**	-
Total	**3,907,107**	4,171,772	**797,719**	774,524

Included in the above are amounts totalling AED 650.3 million (2010: AED 648.6 million) receivable from Meydan L.L.C. in connection with the contract dispute described in Note 16. In addition, of the contract and trade receivables balance at the end of the year, AED 538 million (2010: AED 592 million) is due from the Group's largest customer. There are no other customers who represent more than 15% of the total balance of contract receivables.

An allowance has been made for estimated irrecoverable amounts for trade and other receivables of AED 57.2 million (2010: AED 264.6 million). This allowance has been determined based on collections history and past experience of management and on management's assessment of current economic conditions as to project completion, negotiations underway, future recoverability of these balances and potential offsetting arrangements with contract owners and subcontractors.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

9. Trade and other receivables (continued)

Movement in the allowances for doubtful debts netted off from trade and other receivables:

	2011 AED'000	2010 AED'000
Balance at the beginning of the year	**264,554**	299,288
Write off to trade receivables	**(297)**	(2,670)
Reversal of allowances during the year	**(117,643)**	(114,596)
Derecognition of financial assets	**(97,804)**	-
Increase in allowances recognised during the year	**8,403**	82,532
Balance at the end of the year	**57,213**	264,554

Contract receivables

The average credit period on contract and trade receivables is 90 days. No interest is charged on the contract receivables overdue. The contract and trade receivables above 90 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience and on management's assessment of current economic conditions as to the future recoverability of these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

Included in the Group's contract and trade receivables balance are debtors with a carrying amount of AED 1,349 million (2010: AED 701 million) which are past due (exceeding 90 days) at the reporting date for which the Group has not recorded any allowance as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired:

	2011 AED'000	2010 AED'000
Past due for less than 3 months	**277,606**	553,856
Past due for more than 3 months	**1,071,060**	147,376
Total	**1,348,666**	701,232

In determining the recoverability of contract and trade receivables, the Group considers any change in the credit quality of the contract and trade receivables from the date the credit was initially granted up to the reporting date. At the reporting date, management has taken the current market conditions into account when assessing the credit quality of contract and trade receivables. The project directors also hold regular meetings with contract customers to renegotiate payment terms and to ensure the credit-worthiness of the ultimate end-users. In addition, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, taking all of the above into account, the directors believe that there is no further credit provision required in excess of the current allowance for doubtful debts discussed above.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

9. Trade and other receivables (continued)

Ageing of impaired contract and trade receivables against which the allowance for doubtful debts has been provided:

	2011 AED'000	2010 AED'000
Current	**13,468**	116,003
Past due for more than 3 months	**59,002**	126,732
Past due for more than 6 months	**266,989**	1,311,169
Total	**339,459**	1,553,904

10. Other financial assets

	Current		**Non-current**	
	2011 AED'000	2010 AED'000	**2011 AED'000**	2010 AED'000
Financial assets carried at fair value				
Fixed deposits under lien	**144,486**	164,624	**-**	-
Margin deposits	**6,542**	13,482	**-**	-
	151,028	178,106	**-**	-
Available for sale financial assets	-	-	**26,820**	40,670
Loans carried at amortised cost				
Held to maturity investment	-	-	**175,020**	-
Loan to related parties [Note 13 (e)]	-	-	**5,525**	3,288
Total	**151,028**	178,106	**207,365**	43,958

a) Investments classified as available for sale financial assets, are carried at fair value, and represent investments in listed equity securities and non-listed shares that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities is based on the quoted market prices where available.

At 31 December 2011, available-for-sale investments amounting to AED 5.6 million (2010: AED 9.5 million) were registered in the name of a director/shareholder and a general manager of the Group, on trust and for the benefit of the Group.

b) Held to maturity investment amounting to AED 175.02 million (2010: AED nil) represents *Anka'a Sukuk Bonds issued by Anka'a Sukuk Limited (Nakheel PJSC).* This investment carries guaranteed interest rates of 10% p.a. It is Group management's intention that the investment will be redeemed upon maturity, which is 31 August 2015.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

11. Inventories

	2011 AED'000	2010 AED'000
Steel inventories required for specific projects	**201,182**	241,393
General steel inventories	**1,915**	3,258
Trading goods	**27,884**	24,316
Other construction materials	**89,609**	95,734
Ready mix concrete and other related materials	**6,734**	2,449
Work in progress	**7,823**	5,416
	335,147	372,566
Less: Impairment losses	**(16,131)**	(3,557)
	319,016	369,009

Movement in impairment losses on inventories:

	2011 AED'000	2010 AED'000
Balance at the beginning of the year	**(3,557)**	(238)
Impairment losses during the year	**(15,882)**	(3,557)
Write off to general steel inventories	**378**	238
Reversal of provision for inventories	**2,930**	-
Balance at the end of the year	**(16,131)**	(3,557)

12. Other current assets

	2011 AED'000	2010 AED'000
Prepaid expenses	**47,971**	57,282
Due from employees	**13,405**	17,938
Other receivables	**76,738**	79,074
	138,114	154,294

13. Related party transactions

a) The Group entered into a variety of transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard No. 24: *Related Party Disclosures*. Related parties comprise the Group's directors and entities related to them, companies under common ownership and/or common management and control, their partners and key management personnel. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

13. Related party transactions (continued)

b) At the end of the reporting period, due from related parties comprised the following:

	2011 AED'000	2010 AED'000
Joint ventures		
Amounts due from joint venture partners	**370,081**	395,151
Other related parties		
Entities with common ownership and management		
Al Waab City W.L.L., Doha, Qatar	**248,889**	256,094
Nasser Bin Khaled Al-Thani and Sons Group and its related parties, Qatar	**11,611**	11,002
Saudi Bin Laden Group, Kingdom of Saudi Arabia	**323,119**	-
Advance Vision Co., Kingdom of Saudi Arabia	**85,117**	53,541
Others	**18,989**	7,775
	687,725	328,412
	1,057,806	723,563

c) At the end of the reporting period, due to related parties comprised the following:

	2011 AED'000	2010 AED'000
Joint ventures		
Amounts due to joint venture partners	**244,065**	221,379
Other related parties		
Entities with common ownership and management		
Nasser Bin Khaled Al-Thani and Sons Group its related parties, Qatar	**46,402**	54,008
Saudi Bin Laden Group, Kingdom of Saudi Arabia	**456,000**	-
WCT Engineering Berhad, Malaysia	**8,105**	8,890
Others	**6,989**	17,634
Current account of a director and major shareholder of the parent company		
Mr. Riad Kamal - a Director and a shareholder	**22,930**	20,815
Current accounts of shareholders in subsidiaries	**36,880**	25,349
	577,306	126,696
	821,371	348,075

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

13. Related party transactions (continued)

d) The nature of significant related party transactions and the amounts involved were as follows:

	2011 AED'000	2010 AED'000
Joint ventures		
Manpower and other charges to joint ventures	**36,545**	46,508
Other related parties		
Contract and other revenue	**601,786**	849,103
Subcontracting costs	**32,163**	27,793
Equipment hire	**2,763**	1,031
Purchase of property, plant and equipment	**12,140**	34,390
Rent income	**2,055**	10,294
Wages and salaries	**12,168**	25,126
Fair Value decrease on investments held in trust by a director/shareholder	**(3,895)**	(4,413)
Sale of property, plant and equipment	**23**	1,899

e) The Group has provided a loan of AED 1.6 million (2010: AED 1.5 million) to a minority shareholder in House of Equipment Co. LLC and AED 3.9 million (2010: AED 1.8 million) to the shareholders of Polypod Middle East LLC. Interest on the loan is charged at 6-7% per annum.

f) The remuneration of directors and other members of key management during the year was as follows:

	2011 AED'000	2010 AED'000
Attendance fees to Board of Directors	**2,000**	2,200
Short term benefits	**23,059**	22,881
End of service indemnity	**583**	1,285
Discretionary bonus accrued	**20,362**	15,904

The remuneration of key executives and attendance fees of the Board of Directors are determined by the Board of Directors, after taking into account the recommendations of the Remuneration Committee having regard to individual performance and market trends.

g) Included in trade and other payables is an amount of AED 21.2 million (2010: AED 22.3 million) representing contributions from employees and directors towards an employee benefit scheme. Assets of the scheme are included in the consolidated statement of financial position under cash and cash equivalents AED 13.4 million (2010: AED 13 million) and other current assets AED 7.8 million (2010: AED 9.3 million).

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

14. Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash and short-term deposits held by the Group. The details are as follows:

	2011 AED'000	2010 AED'000
Cash and bank balances	**311,942**	243,733
Short term bank deposits	**371,947**	344,397
	683,889	588,130

As at December 31, 2011, cash and cash equivalents include advances which were received from project owners to fund certain projects in progress.

Bank balances and cash located:

	2011 AED'000	2010 AED'000
Within UAE	**410,701**	479,972
Outside UAE	**273,188**	108,158
	683,889	588,130

Bank balances and cash denominates in following currencies:-		
United Arab Dirham (AED)	**367,845**	452,908
United States Dollar (USD)	**8,330**	16,700
Kuwait Dinars (KWD)	**36,402**	-
Qatar Riyals (QAR)	**62,573**	60,768
Pakistan Rupees (PKR)	**6,252**	6,923
Saudi Riyals (SAR)	**187,768**	47,364
Other currencies	**14,719**	3,467
	683,889	588,130

15. Amounts due from/(to) customers for contract work

	2011 AED'000	2010 AED'000
Amounts due from customers for contract work included in trade and other receivables (Note 9)	**832,013**	650,221
Amounts due to customers for contract work included in trade and other payables (Note 23)	**(194,621)**	(332,136)
	637,392	318,085
Contract costs incurred plus recognised profit less recognised losses to date on projects in progress	**16,141,000**	19,168,567
Less: Progress billings	**(15,503,608)**	(18,850,482)
	637,392	318,085

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

16. Contract dispute

On 25 December 2008, the Arabtec Construction L.L.C./ WCT Engineering Berhad (Dubai Branch) Joint Venture (the "Joint Venture") for the construction of the Nad Al Sheba racecourse in Dubai, in which the Group has a 50% share, received notice from the contract owner, Meydan L.L.C. ("Meydan") purporting to terminate the contract on 9 January 2009 for reasons which management consider did not justify such termination. Subsequently, by way of its notice dated 10 January 2009, the Joint Venture purported to terminate the contract on 24 January 2009 on a number of grounds including failure to pay certified amounts, the Joint Venture's exclusion from the site and Meydan's wrongful calls on the Performance Security and Advance Payment Guarantee.

Notice of the call of the Performance Security amounting to AED 461.3 million (Group's share: AED 230.65 million) and the Advance Payment Guarantee amounting to AED 77.3 million (Group's share: AED 38.6 million) was received by the Joint Venture on December 29, 2008. Both securities were payable on demand and, on payment by the banks concerned, management has recorded the amounts paid as a receivable from Meydan, pending resolution of the dispute. The corresponding liability recorded at the 31 December 2008 year end has since been converted into a loan taken from a bank in 2009 on which Arabtec Construction L.L.C. is paying interest, which will form part of the claim.

On 11 January 2009, the Joint Venture served its request for arbitration. Since then, the arbitration proceedings have commenced and the amount claimed by the Joint Venture is approximately AED 2.8 billion (Group's share: AED 1.4 billion). Management believes, based on continuing legal opinion received, that the prospects of success in the arbitration are good and that no additional provisions for the dispute are required at the end of the reporting period.

Management anticipates that the arbitration will be concluded by 31 December 2012.

In accordance with the Group's accounting policy relating to contracts where the outcome cannot be estimated reliably, revenue has been recognised only to the extent of contract costs incurred to date, which management considers is not doubtful of recovery and therefore no provision has been made against the amounts due from the customer for contract work. No profit has been recognised on the contract to date pending the outcome of the Group's claim and conclusion of the arbitration proceedings.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

17. Joint ventures

The Group had the following significant interests in joint ventures (JV):

		Share in JV
a)	Samsung/Arabtec joint venture project	40%
b)	Six Construct/Arabtec joint venture projects	50%
c)	Samsung/Six Construct/Arabtec joint venture project	30%
d)	Arabtec/Max Bogl joint venture projects	50%
e)	Arabtec/Al Mukawilon joint venture project	60%
f)	Arabtec/Aktor joint venture projects	50%/60%
g)	Arabtec/Emirates Sunland joint venture projects	50%
h)	Arabtec/WCT Engineering joint venture projects	50%
i)	Arabtec/Engineering Enterprises Company joint venture projects	50%
j)	Arabtec/AMN Holdings joint venture project	60%
k)	Arabtec/Dubai Contracting Company joint venture project	50%
l)	Target Engineering and Construction Company LLC/Marintek Middle East and Asia FZE joint venture project	65%
m)	Arabtec Engineering Services/WCT Engineering joint venture project	50%
n)	Arabian Construction Company/Arabtec joint venture project	50%
o)	Arabtec/National Projects and Construction joint venture project	50%
p)	Arabtec/Al Saad joint venture project	66.66%
q)	Arabtec/Combined Group Contracting Company joint venture project	60%

The Group is entitled to a proportionate share of the joint ventures' assets and revenues and bears a proportionate share of the liabilities and outgoings.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the joint ventures:

	2011 AED'000	2010 AED'000
Current assets	**1,125,087**	1,497,777
Non-current assets	**89,990**	158,585
Current liabilities	**1,073,877**	1,431,487
Non-current liabilities	**55,099**	54,280
Contingent liabilities	**724,048**	655,064
Revenue	**770,721**	1,591,157
Expenses	**740,717**	1,508,509

18. Share capital

The share capital as at 31 December 2011 comprises of 1.495 billion shares (2010: 1.196 billion) authorized, issued and fully paid shares of AED 1 each. The increase in share capital is as a result of a bonus share dividend of 299,000,000 shares on the basis of 1 bonus share for each 4 shares in issue at 31 December 2010, approved at the Annual General Meeting held on 3 April 2011.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

19. Statutory reserve

In accordance with United Arab Emirates Federal Companies law number 8 of 1984, as amended, and the Company's Articles of Association, the Group is required to establish a statutory reserve by appropriation of a minimum of 10% of net profit for each year until the reserve equals a minimum of 50% of the share capital, for which purposes the Group uses the net profit attributable to the equity holders of the parent. This reserve is not available for distribution except in the circumstances stipulated by the Law.

20. Bank borrowings

	Current		Non-current	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
Secured - at amortised cost				
Bank overdrafts	**274,029**	357,035	-	-
Acceptances	**57,958**	72,236	-	-
Trust receipts	**54,120**	45,819	-	41,227
Term loans	**82,201**	151,582	**55,650**	69,152
Total	**468,308**	626,672	**55,650**	110,379

The term loans are repayable as follows:

	2011	2010
	AED'000	AED'000
Secured – at amortised cost		
On demand or within one year	**82,201**	151,582
In the second year	**40,274**	27,133
In the third year to fifth year (inclusive)	**15,376**	39,139
Over 5 years	**-**	2,880
	137,851	220,734
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(82,201)**	(151,582)
Amount due for settlement after 12 months	**55,650**	69,152

The term loans are repayable over the period of 1-5 years and carry fixed interest rates of EIBOR + 2% (2010: EIBOR + 3%).

Variable interest rate loan is subject to EIBOR + 2% (2010: EIBOR + 2%) and was taken for the purchase of inventories and property, plant and equipment. This is secured by a charge over the Group's inventory and tangible assets.

The bank facilities are subject to certain restrictive covenants on overall borrowings outstanding at any time, including:

- Irrevocable assignment of project proceeds to the financing banks to be confirmed by the customers.
- Irrevocable undertaking by a subsidiary to deposit the proceeds of projects financed by banks into the specific accounts maintained with the financing banks.
- In one of the subsidiary, minimum net worth of AED 200 million and minimum net gearing less than 1.
- Assignment of sub-contractors performance bonds in favour of the financing banks for specific contracts.
- Corporate guarantee of the Company.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

21. Provision for employees' end of service indemnity

The activity on this account during the year was as follows:

	2011 AED'000	2010 AED'000
Balance at the beginning of the year	**128,286**	137,726
Expense for the year	**48,245**	24,325
Payments made during the year	**(18,721)**	(33,765)
Balance at the end of the year	**157,810**	128,286

Provision for employees' end of service indemnity is made in accordance with the relevant labour laws assuming the maximum payable based on current remuneration and cumulative years of service at the end of the reporting period.

No actuarial valuation has been performed as the net impact of the application of discount rates and increase in staff salaries would not result in a material change affecting the consolidated financial statements.

22. Retentions payable - non-current portion

Retentions payable - non-current portion represent retentions that have been withheld by the Group from payments due to sub-contractors. These amounts become due in a period exceeding one year from the end of the reporting period.

	2011 AED'000	2010 AED'000
Total retentions payable	**486,251**	555,541
Less: Retentions payable - current portion (Note 23)	**(394,491)**	(351,709)
Retentions payable - non-current portion at fair value	**91,760**	203,832

23. Trade and other payables

	2011 AED'000	2010 AED'000
Trade payables	**476,808**	660,503
Advances received from customers for contract work	**1,006,233**	500,346
Advances from customers for trading	**6,203**	1,272
Amounts due to subcontractors	**563,035**	471,944
Subcontractors retentions payable - current portion (Note 22)	**394,491**	351,709
Refundable deposits	**4,299**	26,834
Amounts due to customers for contract work (Note 15)	**194,621**	332,136
Subcontractor and other accruals and other payables	**1,185,949**	1,810,590
	3,831,639	4,155,334

Included in trade and other payables are amounts totalling to AED 337.2 million (2010: AED 338.3 million) that are payable to third parties in connection with the Nad Al Sheba racecourse project which is subject to a contractual dispute described in Note 16.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

24. Revenues

Revenues comprise of the following:

	2011 AED'000	2010 AED'000
Contract revenue	**4,762,377**	5,143,129
Sales of ready mix concrete/precast	**56,396**	40,281
Sale and hire of equipment	**50,350**	33,809
Plant division revenue	**16,798**	20,727
Electrical division revenue	**2,744**	3,904
Scaffolding division revenue	**9,042**	7,177
Drainage division revenue	**93,118**	207,320
Model division revenue	**12,643**	7,351
	5,003,468	5,463,698

25. Direct costs

Direct costs comprise the following:

	2011 AED'000	2010 AED'000
Contract costs	**4,077,974**	4,324,838
Cost of sales of ready mix concrete/precast	**140,793**	138,891
Cost of sales of equipment	**46,380**	49,756
Plant division costs	**24,760**	24,695
Electrical division costs	**2,877**	2,297
Scaffolding division costs	**4,903**	2,643
Drainage division costs	**66,827**	88,397
Model division costs	**9,642**	5,158
	4,374,156	4,636,675

26. Other operating income

	2011 AED'000	2010 AED'000
Manpower and other charges to joint ventures	**36,545**	46,508

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

27. General and administrative expenses

	2011 AED'000	2010 AED'000
Employees' salaries and other benefits	**208,350**	172,874
Attendance fees to directors	**2,000**	2,200
Tender expenses	**7,848**	7,450
Selling expenses	**2,232**	9,380
Communication and utilities	**11,360**	14,874
Office rent	**13,230**	6,647
Depreciation (apportioned)	**28,748**	32,659
Impairment loss of intangible assets (Note 6)	**-**	1,434
Amortisation of intangible assets (Note 6)	**49,530**	50,241
Impairment losses on goodwill (Note 8)	**-**	5,429
Discretionary bonus accrued for current year	**18,044**	7,873
Allowance for slow-moving inventories and impairment losses (Note 11)	**12,952**	3,557
Legal expenses	**5,682**	13,721
Loss on sale of steel inventory	**10,211**	65,822
Other general and administrative expenses	**86,639**	86,891
	456,826	481,052
Net reversal of provision for doubtful debts (Note 9)	**(109,240)**	(32,064)
	347,586	448,988

28. Other income

	2011 AED'000	2010 AED'000
Gain on sale of property, plant and equipment	**6,218**	11,285
Gain on derecognition of financial liabilities	**5,595**	-
Other income	**21,254**	22,891
	33,067	34,176

29. Net changes in fair value of non-current retentions and trade receivables

	2011 AED'000	2010 AED'000
Fair value reduction in non-current trade receivables	**(19,336)**	-
Fair value increase in non-current retentions receivable	**11,522**	3,545
Fair value reduction in non-current retentions payable	**(3,704)**	(1,405)
	(11,518)	2,140

The increase in the reductions of fair value of non-current trade receivables is a result of the Group having agreed on payment plans or having reached an advance stage of negotiations to estimate the likely payment period of certain trade receivables. The payments are estimated to be received over the long term and therefore result in a fair value adjustment. The risk of recovery for these receivables was provided for under the doubtful debt allowances in the prior periods, which were part of the reversal of the provision in the current year as shown in Note 27.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

30. Investment income

	2011 AED'000	2010 AED'000
Interest income	**11,010**	18,573
Amortisation of discount on held to maturity investment	**5,018**	-
	16,028	18,573

31. Income tax

Income tax recognised in the consolidated financial statements

	2011 AED'000	2010 AED'000
Tax expense comprises:		
Current tax expense	**1,727**	6,298
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**447**	(167)
Total income tax expense	**2,174**	6,131

The Group's profit before tax arises from continuing operations. Therefore the Group's tax charge also relates solely to continuing operations.

The total charge for the year can be reconciled to the accounting profit as follows:

	2011 AED'000	2010 AED'000
Profit before tax	**342,500**	437,731
Income tax expense calculated at the United Arab Emirates tax rate of 0% (2010: 0%)	**-**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,174**	6,131
Income tax expense recognised in the consolidated income statement	**2,174**	6,131

The effective tax rate on profits for the year ended 31 December 2011 is 1.13% (2010: 2.33%).

Deferred tax balances

Deferred tax assets arise from temporary differences on property, plant and equipment as follows:

	2011 AED'000	2010 AED'000
Opening balance	**331**	164
Credited to the income statement	**-**	167
Closing balance	**331**	331

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

32. Segment information

The Group has five reportable segments: building construction, precast and concrete production, drainage and electromechanical works, marine construction and equipment trading. The building construction segment primarily engages in the construction of high-rise towers, buildings and residential villas. The precast and concrete production segment produces ready mix concrete and precast mainly to serve the building construction segment. The drainage and electromechanical segment is involved in the execution of drainage, electrical and mechanical works. The marine segment is involved in marine construction. The trading segment is involved in the trading of heavy equipment and steel.

The accounting policies of the operating segments are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010. Arabtec Holding PJSC evaluates performance on the basis of profit or loss from operations before tax expense.

Inter-segment sales and transfers are accounted for as if the sales or transfers were to third parties, i.e. at current market prices.

The reportable segments described above are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired/formed as individual units, and the management at the time of the acquisition was retained.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

32. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

	Building construction AED'000	Precast and concrete production AED'000	Drainage and electro-mechanical works AED'000	Marine construction AED'000	Equipment Trading AED'000	Total AED'000
31 December 2011						
Revenues from external customers	**3,628,416**	**68,815**	**1,040,640**	**215,024**	**50,573**	**5,003,468**
Inter-segment revenues	**72,927**	**73,737**	**380,150**	**-**	**1,518**	**528,332**
Other income	**21,667**	**1,694**	**5,291**	**962**	**2,149**	**31,763**
Interest expense	**11,069**	**412**	**15,661**	**2,443**	**3,470**	**33,055**
Depreciation	**147,584**	**35,848**	**30,045**	**1,429**	**2,983**	**217,889**
Reportable segment profit/(loss) before tax	**335,222**	**(40,589)**	**111,831**	**12,753**	**(8,296)**	**410,921**
Income tax expense	**2,165**	**-**	**(44)**	**53**	**-**	**2,174**
Reportable segment assets	**7,229,421**	**362,464**	**1,209,700**	**175,596**	**93,362**	**9,070,543**
Expenditures for reportable segment non-current assets	**125,622**	**8,188**	**19,411**	**40,329**	**1,684**	**195,234**
Reportable segment liabilities	**4,973,105**	**204,309**	**781,435**	**157,502**	**42,302**	**6,158,653**

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

32. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

	Building construction AED'000	Precast and concrete production AED'000	Drainage and electro-mechanical works AED'000	Marine construction AED'000	Equipment Trading AED'000	Total AED'000
31 December 2010						
Revenues from external customers	4,272,225	47,631	885,728	155,260	102,854	5,463,698
Inter-segment revenues	-	114,318	496,552	-	17,968	628,838
Other income	30,210	7,548	6,845	455	5,999	51,057
Interest expense	23,187	-	11,940	1,499	5,048	41,674
Depreciation	157,958	38,568	19,418	6,523	18,426	240,893
Reportable segment profit/(loss) before tax	288,380	(29,086)	242,734	7,666	(24,657)	485,037
Income tax expense/(credit)	5,026	(807)	1,912	-	-	6,131
Reportable segment assets	6,920,995	385,978	1,093,791	224,113	180,776	8,805,653
Expenditures for reportable segment non-current assets	197,861	10,600	11,415	58	1,958	221,892
Reportable segment liabilities	5,095,681	192,038	626,615	181,111	114,226	6,209,671

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

32. Segment information (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities:

	2011 AED'000
Revenues	
Total revenues for reportable segments	5,531,800
Elimination of inter-segment revenues	(528,332)
Group's revenues	**5,003,468**
Profit	
Total profit for reportable segments	410,921
Other corporate expenses	(68,421)
Group's profit before income tax expense	**342,500**
Assets	
Total assets for reportable segments	9,070,543
Corporate assets	470,699
Elimination of inter-segment receivables	(745,206)
Group's assets	**8,796,036**
Liabilities	
Total liabilities for reportable segments	6,158,653
Corporate liabilities	14,676
Elimination of inter-segment payables	(634,481)
Elimination of payable to corporate headquarters	(110,725)
Group's liabilities	**5,428,123**

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

32. Segment information (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities:

	2010 AED'000
Revenues	
Total revenues for reportable segments	6,092,536
Elimination of inter-segment revenues	(628,838)
Group's revenues	5,463,698
Profit	
Total profit for reportable segments	485,037
Other corporate expenses	(47,306)
Group's profit before income tax expense	437,731
Assets	
Total assets for reportable segments	8,805,653
Corporate assets	521,384
Elimination of inter-segment receivables	(646,947)
Group's assets	8,680,090
Liabilities	
Total liabilities for reportable segments	6,209,671
Corporate liabilities	15,049
Elimination of inter-segment payables	(576,790)
Elimination of payable to corporate headquarters	(70,158)
Group's liabilities	5,577,772

Geographical information

	2011		2010	
	Revenues AED'000	**Non-current assets AED'000**	Revenues AED'000	Non-current assets AED'000
GCC Countries	**4,792,061**	**2,515,764**	5,381,092	2,490,754
Pakistan	**-**	**26**	4,180	305
Levant	**122,887**	**15,645**	38,953	3,479
Egypt	**83,889**	**6,837**	-	-
Russia	**4,630**	**472**	39,473	347

a) Revenues are attributed to countries on the basis of the construction projects' location.

b) Non-current assets exclude financial instruments and corporate assets.

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

32. Segment information (continued)

Information about major customers

Revenues from the largest 4 customers of the building construction segment represent approximately AED 1.2 billion (31 December 2010: AED 1.6 billion) of the Group's total revenues.

33. Operating lease arrangements

The Group as lessee:

	2011 **AED'000**	2010 AED'000
Minimum lease payments under operating leases recognised as expense in the consolidated income statement for the year	**58,116**	76,308

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2011 **AED'000**	2010 AED'000
Within one year	**31,018**	34,745
In the second to fifth years inclusive	**9,125**	11,642
	40,143	46,387

Operating lease payments represents rentals payable by the Group for land, certain labour camps and rented vehicles.

34. Dividends paid and proposed

At the Annual General Meeting held on 3 April 2011, the shareholders have approved the issue of a bonus share dividend amounting to 299,000,000 shares on the basis of 1 bonus share for each 4 shares held.

At the Board of Directors meeting on 7 March 2012, the directors resolved to propose a bonus share dividend of 74.75 million shares and a cash dividend of AED 74.75 million, which is subject to approval at the forthcoming Annual General Meeting of the Company.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

35. Acquisition of subsidiaries

On 19 April 2011, the Group acquired 48 per cent of the issued share capital of Idrotec Srl for a cash consideration of AED 2.078 million (EUR 450,000). This transaction has been accounted for using the purchase method of accounting in accordance with IFRS 3 *Business Combinations*.

The net assets acquired in the transaction stated at fair value estimated by the directors of the Group, and the goodwill arising, are as follows:

	AED'000 (Unaudited)
Net assets acquired at fair value:	
Property, plant and equipment	**209**
Inventories	**1,085**
Trade and other receivables	**1,824**
Bank and cash balances	**1**
Trade and other payables	**(2,509)**
Provision for taxation	**(321)**
	289
Less: Non-controlling interest	**(58)**
Goodwill	**1,847**
Total	**2,078**
Movement in goodwill	
Arising on acquisition	**1,847**
Foreign exchange differences	**(54)**
	1,793

On 7 April 2010, the Company acquired an additional 33.34% shares in House of Equipment Co. LLC, Dubai, UAE, bringing its total holding to 66.67% in the subsidiary.

36. Commitments and contingencies

	2011 AED'000	2010 AED'000
Commitments		
Commitments for the acquisition of property, plant and equipment	**35,237**	41,295
Contingent liabilities		
Performance and bid bonds	**2,528,861**	2,620,708
Advance payment bonds	**992,288**	1,110,433
Financial guarantees	**58,042**	41,649
Retention bonds	**462,681**	487,937
Labour guarantees	**33,731**	26,135
Letters of credit	**123,457**	192,092

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

37. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

(b) Categories of financial instruments

	2011	2010
	AED'000	AED'000
Financial assets		
Loans and receivables	**5,512,207**	5,541,166
Other financial assets	**201,840**	40,670
Financial liabilities		
At amortised cost	**4,061,669**	4,610,538

(c) Financial risk management objectives

The Group's financial risk management relies on the close involvement of senior management in determining the Group's overall business strategies and its risk management philosophy, which seeks to minimise potential adverse effects of financial performance of the Group.

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates.

The Group does not hold or issue derivative financial instruments for speculative purposes.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

(d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary liabilities and assets at the reporting date are as follows:

	Liabilities		**Assets**	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
Euro	**2,048**	24,423	**5,525**	3,967
GBP	**-**	756	**196**	5
Pakistani Rupee	**39,683**	41,767	**46,837**	52,895
Jordanian Dinar	**887**	1,833	**5,462**	7,223
Syrian Pound	**5,490**	-	**21,843**	-
Russian Roubles	**41,638**	31,396	**3,774**	9,673

Notes to the consolidated financial statements (continued) for the year ended 31 December 2011

37. Financial instruments (continued)

(d) Foreign currency risk management (continued)

There were no outstanding derivative financial instruments as at 31 December 2011. The majority of the liabilities in foreign currencies are denominated either in US Dollars or in GCC countries denominated currencies which are pegged to the US Dollar to which the AED is pegged.

(e) Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in the AED against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AED strengthens 10% against the relevant currency. For a 10% weakening of the AED against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Profit or (loss)	
	2011	2010
	AED'000	AED'000
Euro	**348**	(2,046)
GBP	**20**	(75)
Pakistani Rupee	**715**	1,113
Jordanian Dinar	**458**	539
Syrian Pound	**1,635**	-
Russian Roubles	**(3,786)**	(2,172)

(f) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

37. Financial instruments (continued)

(g) Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on bank borrowings had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease by AED 2.6 million (2010: decrease by AED 3.7 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management regularly and the Group maintains an allowance for doubtful accounts receivable based on expected collectability of all accounts receivable.

Trade and contract receivables consist of a number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The concentration of credit risk is disclosed in Note 9.

The Group does not have any additional significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 15% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks which are registered in the respective country.

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

37. Financial instruments (continued)

(i) Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 year AED'000	2 - 5 years AED'000	Total AED'000
ASSETS				
2011				
Non-interest bearing instruments	**Nil**	**4,176,064**	**834,464**	**5,010,528**
Fixed interest rate instruments	**2-10%**	**522,974**	**180,545**	**703,519**
		4,699,038	**1,015,009**	**5,714,047**
2010				
Non-interest bearing instruments	Nil	4,230,455	825,590	5,056,045
Fixed interest rate instruments	3-4%	522,503	3,288	525,791
		4,752,958	828,878	5,581,836
LIABILITIES				
2011				
Non-interest bearing instruments	**Nil**	**3,445,953**	**91,760**	**3,537,713**
Variable interest rate instruments	**EIBOR+2-3.5%**	**468,307**	**55,649**	**523,956**
		3,914,260	**147,409**	**4,061,669**
2010				
Non-interest bearing instruments	Nil	3,669,655	203,832	3,873,487
Variable interest rate instruments	EIBOR+2%-3%	626,672	110,379	737,051
		4,296,327	314,211	4,610,538

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

37. Financial instruments (continued)

(j) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(k) Price risk

The Group has exposure to price risk in its construction materials. The results of operations and cash flows can vary with fluctuation in these market prices. These are affected by factors outside the Group's control, including the market forces of supply and demand and regulatory issues. The Group mitigates the price risk through advance procurement of materials when they determine that the price of the materials will secure their forecast margins and costs on projects which are due to commence or which are in progress.

(l) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, cash and cash equivalents and equity attributable to equity holders of the parent (comprising issued capital, reserves and retained earnings) as disclosed in Notes 14 and 18, respectively.

Gearing ratio

The gearing ratio at the end of the financial year was as follows:

	2011	2010
	AED'000	AED'000
Debt (i)	**523,956**	737,050
Other financial assets	**(358,393)**	(222,064)
Cash and cash equivalents	**(683,889)**	(588,130)
Net debt	**(518,326)**	(73,144)
Equity (ii)	**2,953,095**	2,697,874
Net debt to equity ratio	**Nil**	Nil

(i) Debt is defined as long-term and short-term borrowings, as detailed in Note 20.

(ii) Equity includes all capital and reserves of the Group.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2011

38. Non-cash transactions

During the current year, the Group entered into the following non-cash operating activities which are not reflected in the consolidated statement of cash flows:

a) An amount of AED 182.227 million was received Anka'a Sukuk bonds issued by Anka'a Sukuk Limited (Nakheel PJSC) in exchange for settlement of outstanding receivables amounting AED 260.325 million (gross before bad debt provision of AED 97.804 million).

b) An amount of AED 18.65 million, which is the face value (fair value AED 13.055 million) of the Anka'a Sukuk bonds was given to certain creditors as full and final settlement of their liabilities. This resulted in a gain on derecognition of these financial liabilities amounting to AED 5.595 million.

39. Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2011 were approved by the Board of Directors and authorised for issue on 7 March 2012.