

**Arabtec Holding PJSC and its  
Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2013**



## **DIRECTORS' REPORT**

The Board of Directors of Arabtec Holding PJSC (the “Company”) has the pleasure in submitting the consolidated statement of financial position of the Company and its Subsidiaries (the “Group”) as at 31 December 2013, and the related consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2013.

### ***Principal activities***

The Group is 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 through Arabtec Construction LLC and other contracting related subsidiaries and joint operations both in the UAE and overseas.

The Group also operates in the oil and gas, infrastructure and power sector, facilities management and property development.

### ***Financial results***

The Group has reported a net profit for the year of AED 468.3 million (2012: AED 188.2 million) representing a 149% increase from the previous year. The 2013 results reflect an increase in revenue, gross profit, other income and net income.

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law, an appropriation of AED 37.8 million (2012: AED 14.6 million) is made to statutory reserves from the distributable profit of AED 377.8 million (2012: AED 139.2 million).

Total equity attributable to the shareholders of the Company as of 31 December 2013 amounted to AED 5,515 million (2012: AED 2,947 million) an increase of 87%. The Board of Directors are proposing the distribution of dividends for the year ended 31 December 2013 in the form of bonus shares equivalent to 30% of the Company’s share capital (1 share for every 3.3 shares with a total of 941,850 thousand shares) and a cash dividend of 10% of the Company’s share capital (AED 1 for every 10 shares with a total of AED 313,950 thousand). This is subject to approval at the forthcoming Annual General Meeting of the Company.

### ***Strategy***

The Company’s growth strategy is being implemented through organic growth, acquisitions and international joint operations. The Company continues to achieve greater geographical and sectorial diversification via its expansion strategy. It is actively exploring opportunities in selective fast-growing markets, and is also solidifying its strong presence in residential and commercial projects, and has begun to expand its footprint in the fast-growing and sophisticated construction sectors in the Middle East, namely oil and gas, infrastructure and power.



أرابتك القابضة (ش.م.ع.)  
**Arabtec Holding (PJSC)**

*Directors*

H.F. Khadem Al Qubaisi (Chairman)  
Mr. Hasan Ismaik  
Mr. Riad Kamal  
Mr. Mohamed Al Fahim  
Mr. Mohamed Al Mhairi  
Mr. Khalifa Al Mhairi  
Mr. Wassel Al Fakhoury  
Mr. Raja Ghanma  
Mr. Tareq Abusharceh

*Auditors*

Ernst & Young were appointed as external auditors of the Group for the year ended 31 December 2013. Ernst & Young are eligible for reappointment for 2014 and have expressed their willingness to continue in office.

On behalf of the Board



H.F. Khadem Al Qubaisi  
Chairman

Dubai  
18 March 2014



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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARABTEC HOLDING PJSC**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Arabtec Holding PJSC (the "Company") and its Subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 the applicable provisions of the Company's Articles of Association and the UAE Commercial Companies Law of 1984 (as amended), 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.

#### *Auditors' 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
ARABTEC HOLDING PJSC (continued)**

*Emphasis of matter*

We draw attention to notes 30 and 37 to the consolidated financial statements which provide details on negotiations relating to contractual arrangements with clients, the probable outcome of which cannot be determined with reasonable certainty at the date of this report.

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

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; an inventory was duly carried out; and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Signed by:  
Ashraf Abu-Sharkh  
Partner  
Registration No. 690

18 March 2014  
Dubai, United Arab Emirates

Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
Revenue	5	<b>7,369,328</b>	5,659,944
Direct costs	6	<b>(6,516,351)</b>	(5,084,345)
<b>GROSS PROFIT</b>		<b>852,977</b>	575,599
Other operating income	19	<b>18,861</b>	17,332
General and administrative expenses	9	<b>(493,733)</b>	(484,776)
Other income	7	<b>111,083</b>	33,764
Interest income on non-current receivables and payables, net	10	<b>14,321</b>	5,318
Net investment income	8	<b>6,882</b>	86,052
Finance costs		<b>(51,452)</b>	(41,531)
Share of profit / (loss) of associate	14	<b>19,638</b>	(2,025)
<b>PROFIT BEFORE TAX</b>		<b>478,577</b>	189,733
Income tax expense	21	<b>(10,318)</b>	(1,506)
<b>PROFIT FOR THE YEAR</b>		<b>468,259</b>	188,227
Attributable to:			
Equity holders of the parent		<b>377,777</b>	139,171
Non-controlling interests		<b>90,482</b>	49,056
		<b>468,259</b>	188,227
<b>BASIC EARNINGS PER SHARE (AED)</b>	4	<b>0.16</b>	0.09
<b>DILUTED EARNINGS PER SHARE (AED)</b>	4	<b>0.16</b>	0.09
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income that would be reclassified to profit or loss in subsequent periods:</i>			
Unrealised gain / (loss) on revaluation of available-for-sale investments		<b>10,337</b>	(1,005)
Impairment loss on available-for-sale investments	8	-	1,289
Net change in foreign currency translation reserve		<b>2,700</b>	1,763
		<b>13,037</b>	2,047
<i>Other comprehensive income that would not be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain/(loss) recognised	26	<b>8,720</b>	(16,457)
<b>Total other comprehensive income / (loss) for the year</b>		<b>21,757</b>	(14,410)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>490,016</b>	173,817
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<b>398,308</b>	127,807
Non-controlling interests		<b>91,708</b>	46,010
		<b>490,016</b>	173,817

The attached notes 1 to 39 form part of these consolidated financial statements

# Arabtec Holding PJSC and its Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,159,033	1,108,245
Investment properties	11	619,106	95,867
Investments in associates	14	299,464	268,738
Goodwill	15	248,741	248,666
Other intangible assets	13	40,320	44,740
Trade and other receivables - non-current portion	16	325,345	668,235
Other financial assets	17	35,490	25,037
Other non-current assets		339	5,093
		<u>2,727,838</u>	<u>2,464,621</u>
<b>Current assets</b>			
Trade and other receivables	16	6,324,872	4,144,594
Other financial assets	17	131,873	104,725
Inventories	18	220,904	202,731
Other current assets	22	348,137	161,873
Due from related parties	19	593,725	1,048,570
Cash and cash equivalents	20	2,452,981	812,400
		<u>10,072,492</u>	<u>6,474,893</u>
<b>TOTAL ASSETS</b>		<u><u>12,800,330</u></u>	<u><u>8,939,514</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	23	3,139,500	1,569,750
Statutory reserve	24	1,131,138	308,486
Fair value adjustment reserve		9,465	300
Foreign currency translation reserve		5,894	2,315
Other reserves		(185,065)	(2,201)
Retained earnings		1,413,636	1,067,903
<b>Equity attributable to equity holders of the Parent</b>		<u>5,514,568</u>	<u>2,946,553</u>
Non-controlling interests		249,458	398,792
<b>Total equity</b>		<u>5,764,026</u>	<u>3,345,345</u>
<b>Non-current liabilities</b>			
Bank borrowings	25	57,894	152,707
Provision for employees' end of service indemnity	26	182,530	165,508
Retentions payable - non-current portion	27	98,765	138,558
Deferred tax liabilities	21	3,773	1,061
		<u>342,962</u>	<u>457,834</u>
<b>Current liabilities</b>			
Bank borrowings	25	862,537	647,215
Trade and other payables	28	5,286,381	3,929,632
Due to related parties	19	540,757	559,000
Income tax payable	21	3,667	488
<b>Total current liabilities</b>		<u>6,693,342</u>	<u>5,136,335</u>
<b>Total liabilities</b>		<u>7,036,304</u>	<u>5,594,169</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>12,800,330</u></u>	<u><u>8,939,514</u></u>

  
 Hasan Abdullah Ismaik  
 Managing Director and CEO  
 18 March 2014

The attached notes 1 to 39 form part of these consolidated financial statements

Arabtec Holding PJSC and its Subsidiaries  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
<b>OPERATING ACTIVITIES</b>			
Profit before tax		<b>478,577</b>	189,733
Adjustments for:			
Depreciation of property, plant and equipment	12	<b>249,468</b>	229,834
Depreciation of investment properties	11	<b>3,991</b>	1,668
Amortisation of intangible assets	13	<b>5,865</b>	49,471
Provision for employees' end of service indemnity	26	<b>54,625</b>	37,887
Accrued discretionary bonus	7	-	41,373
Write back of provision for bonus	7	<b>(32,958)</b>	(44,014)
Impairment of due from related party	19	-	7,377
Impairment loss on available-for-sale investments	8	-	1,289
Impairment of Goodwill	15	-	1,786
Loss on sale of steel inventory	9	<b>909</b>	33,592
Provision for impairment of slow-moving inventories		-	2,399
Gain on sale of property, plant and equipment		<b>(1,272)</b>	(8,765)
Gain on derecognition of financial assets	8	-	(60,070)
Interest income	8	<b>(6,882)</b>	(6,754)
Profit income on Sukuk	8	-	(20,517)
Finance costs		<b>51,452</b>	41,531
Interest income on non-current receivables and payables	10	<b>(14,321)</b>	(5,318)
Share of profit / (loss) from associate		<b>(19,638)</b>	2,025
		<b>769,816</b>	494,527
Working capital change:			
Other financial assets		<b>(27,148)</b>	46,587
Trade and other receivables		<b>(2,274,528)</b>	(153,729)
Due from related parties		<b>454,845</b>	1,043
Inventories		<b>(19,082)</b>	80,294
Other current assets		<b>(186,339)</b>	(47,261)
Trade and other payables		<b>1,118,551</b>	61,966
Due to related parties		<b>(18,243)</b>	(258,135)
Retentions payable - non-current portion		<b>317,418</b>	46,798
Cash from operating activities		<b>135,290</b>	272,090
Employees' end of service indemnity paid	26	<b>(28,883)</b>	(15,565)
Interest received		<b>6,882</b>	6,754
Interest paid		<b>(51,452)</b>	(41,531)
Income tax paid		<b>(4,427)</b>	(3,052)
Net cash flows from operating activities		<b>57,410</b>	218,696
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	12	<b>(316,838)</b>	(288,352)
Purchase of investment properties	11	<b>(527,230)</b>	-
Acquisition of intangible assets	13	<b>(1,445)</b>	-
Investment in associates	14	<b>(11,088)</b>	(270,763)
Proceeds from sale of financial assets		-	264,205
Proceeds from disposal of property, plant and equipment		<b>17,854</b>	42,415
Paid for additional acquisition of non-controlling interests	35	<b>(58,500)</b>	(18,007)
Net movement in other financial assets		<b>4,638</b>	-
Deposit maturing after three months		<b>(800,000)</b>	-
Net cash flows used in investing activities		<b>(1,692,609)</b>	(270,502)

The attached notes 1 to 39 form part of these consolidated financial statements



Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds/ repayments of borrowings (net)		<b>(51,347)</b>	82,779
Issue of share capital	23	<b>2,354,625</b>	-
Transaction cost of issue of share capital	23	<b>(2,054)</b>	-
Dividends paid to equity holders of the parent	34	-	(74,750)
Dividends paid to non-controlling interests		-	(27,644)
Net cash flows from (used in) financing activities		<b>2,301,224</b>	(19,615)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>666,025</b>	(71,421)
Cash and cash equivalents at 1 January		<b>345,186</b>	414,028
Net foreign exchange difference		<b>2,700</b>	2,579
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	20	<b>1,013,911</b>	345,186

The attached notes 1 to 39 form part of these consolidated financial statements

Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	<i>Attributable to the equity holders of the Parent</i>								
	<i>Share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Fair value adjustment reserve AED'000</i>	<i>Foreign currency translation reserve AED'000</i>	<i>Other reserves AED'000</i>	<i>Retained earnings AED'000</i>	<i>Total AED'000</i>	<i>Non-controlling interests AED'000</i>	<i>Total equity AED'000</i>
Balance at 1 January 2013	<b>1,569,750</b>	<b>308,486</b>	<b>300</b>	<b>2,315</b>	<b>(2,201)</b>	<b>1,067,903</b>	<b>2,946,553</b>	<b>398,792</b>	<b>3,345,345</b>
Profit for the year	-	-	-	-	-	377,777	377,777	90,482	468,259
Other comprehensive income	-	-	9,165	3,579	-	7,787	20,531	1,226	21,757
Total comprehensive income for the year	-	-	9,165	3,579	-	385,564	398,308	91,708	490,016
Issue of share capital (Note 23)	<b>1,569,750</b>	<b>784,875</b>	-	-	-	-	2,354,625	-	2,354,625
Transaction costs (Note 23)	-	-	-	-	-	(2,054)	(2,054)	-	(2,054)
Transfer to statutory reserve	-	37,777	-	-	-	(37,777)	-	-	-
Acquisition of non-controlling interests (Note 35)	-	-	-	-	(182,864)	-	(182,864)	(241,042)	(423,906)
<b>Balance at 31 December 2013</b>	<b>3,139,500</b>	<b>1,131,138</b>	<b>9,465</b>	<b>5,894</b>	<b>(185,065)</b>	<b>1,413,636</b>	<b>5,514,568</b>	<b>249,458</b>	<b>5,764,026</b>

The attached notes 1 to 39 form part of these consolidated financial statements

Arabtec Holding PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	<i>Attributable to the equity holders of the Parent</i>								<i>Total equity AED'000</i>
	<i>Share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Fair value adjustment reserve AED'000</i>	<i>Foreign currency translation reserve AED'000</i>	<i>Other reserves AED'000</i>	<i>Retained earnings AED'000</i>	<i>Total AED'000</i>	<i>Non-controlling interests AED'000</i>	
Balance at 1 January 2012	1,495,000	293,873	16	(264)	-	1,107,072	2,895,697	398,433	3,294,130
Profit for the year	-	-	-	-	-	139,171	139,171	49,056	188,227
Other comprehensive income	-	-	284	2,579	-	(14,227)	(11,364)	(3,046)	(14,410)
Total comprehensive income for the year	-	-	284	2,579	-	124,944	127,807	46,010	173,817
Issue of bonus shares (Note 34)	74,750	-	-	-	-	(74,750)	-	-	-
Transfer to statutory reserve	-	14,613	-	-	-	(14,613)	-	-	-
Dividends paid (Note 34)	-	-	-	-	-	(74,750)	(74,750)	-	(74,750)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(27,644)	(27,644)
Acquisition of non-controlling interests (Note 35)	-	-	-	-	(2,201)	-	(2,201)	(18,007)	(20,208)
Balance at 31 December 2012	1,569,750	308,486	300	2,315	(2,201)	1,067,903	2,946,553	398,792	3,345,345

The attached notes 1 to 39 form part of these consolidated financial statements

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 1 CORPORATE 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 Company's shares are listed on the Dubai Financial Market (“DFM”). The registered office of the Company is P.O. Box 72122, Dubai, UAE.

Arabtec Holding PJSC and its Subsidiaries (the “Group”) are primarily engaged in 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 Group also operates in the oil and gas, infrastructure and power sector, facilities management and property development.

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 18 March 2014.

### 2 SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS

<i>Name of subsidiary and domicile</i>	<i>% Holding (including indirect holding)</i>		<i>Principal activities</i>
	<i>31 December 2013</i>	<i>31 December 2012</i>	
Arabtec Construction LLC – Dubai, UAE	<b>100%</b>	100%	Civil construction and related works
Arabtec Construction Syria LLC, Syrian Arab Republic	<b>100%</b>	100%	Civil construction and related works
Arabtec Pakistan (Pvt.) Limited, Pakistan	<b>60%</b>	60%	Civil construction and related works
Arabtec Saudi Arabia LLC, Kingdom of Saudi Arabia *	<b>45%</b>	45%	Civil construction and related works
Arabtec Egypt for Construction SAE, Arab Republic of Egypt	<b>100%</b>	55%	Civil construction and related works
Arabtec Construction LLC (Foreign Company), State of Palestine	<b>100%</b>	100%	Civil construction and related works
Arabtec - Musawa W.L.L., Kingdom of Bahrain	<b>75%</b>	75%	Civil construction and related works
Arabtec Construction W.L.L., Qatar*	<b>49%</b>	49%	Civil construction and related works
Arabtec Construction LLC, State of Kuwait (under formation)	<b>100%</b>	100%	Civil construction and related works
Arabtec Construction LLC (Jordan foreign working entity), Jordan **	<b>100%</b>	-	Civil construction and electrical, mechanical, plumbing contracting and related works
Arabtec International Company, Limited, Republic of Mauritius	<b>100%</b>	100%	Civil construction and related works

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 2 SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

<i>Name of subsidiary and domicile</i>	<i>% Holding (including indirect holding)</i>		<i>Principal activities</i>
	<i>31 December 2013</i>	<i>31 December 2012</i>	
Arabtec Construction India (Pvt) Limited, India	<b>63%</b>	63%	Civil construction and related works
Arabtec Construction LLC - Abu Dhabi, UAE	<b>100%</b>	100%	Civil construction and related works
Arabtec Precast LLC, UAE	<b>100%</b>	100%	Manufacturing of precast panels
Arabtec Investments Holding Limited, UAE**	<b>100%</b>	-	Investment holding company
Arabtec Building Equipment LLC, UAE **	<b>70%</b>	-	Trading and leasing of construction and building equipment
Arabtec Electromechanical LLC, UAE **	<b>100%</b>	-	Electrical mechanical and plumbing contracting
Arabtec Construction Machinery LLC Kingdom of Saudi Arabia	<b>58%</b>	58%	Trading and leasing of construction Equipment
Arabtec Engineering Services LLC, UAE	<b>80%</b>	80%	Infrastructure construction works
Arabtec-Envirogreen Facility Management Services LLC, UAE	<b>66%</b>	51%	Building maintenance and cleaning services, facilities management and security services
Arabtec Property Development LLC - Abu Dhabi, UAE **	<b>100%</b>	-	Real Estate , investment, development, and management
Arabtec Property Development LLC - Dubai, UAE**	<b>100%</b>	-	Real Estate development
Arabtec For General Maintenance LLC, UAE **	<b>100%</b>	-	Building general maintenance, electrical fittings, sewerage and water fittings maintenance, caravans maintenance
Arabtec Property Management LLC - Abu Dhabi, UAE **	<b>100%</b>	-	Management services
Arabtec Property Management LLC - Dubai, UAE**	<b>100%</b>	-	Leasing and management of third party property
Arabtec Facility Management LLC, UAE **	<b>100%</b>	-	Facilities management
Arabtec International Constructions Company LLC, UAE **	<b>100%</b>	-	Civil construction and related works

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 2 SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

<i>Name of subsidiary and domicile</i>	<i>% Holding</i>		<i>Principal activities</i>
	<i>(including indirect holding)</i>		
	<i>31 December</i>	<i>31 December</i>	
	<i>2013</i>	<i>2012</i>	
Arabtec Real Estate LLC - Abu Dhabi, UAE **	100%	-	Real estate leasing and management services
Arabtec Real Estate LLC - Dubai, UAE **	100%	-	Buying and selling of real estate
Arabtec Living For Construction LLC, UAE **	100%	-	Civil construction and related works
Arabtec Construction Group LLC, UAE **	100%	-	Civil construction and related works, oil and gas facilities, and airports contracting
Arabtec Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Arabtec Trading Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Arabtec Consolidated Contractors Limited, JAFZA, UAE **	50%	-	International business, general trading, and investments
Austrian Arabian Ready Mix Concrete Co. LLC - Dubai, UAE	100%	100%	Ready mixed concrete manufacturing
Austrian Arabian Readymix Co LLC – Abu Dhabi, UAE**	100%	-	Manufacturing and transportation of ready mix concrete products
Emirates Falcon Electromechanical Co. (EFECO) LLC - Dubai, UAE	100%	55%	Electrical mechanical and plumbing contracting
EFECO Qatar W.L.L, Qatar*	49%	27%	Electrical, mechanical and plumbing contracting
EFECO LLC, State of Palestine	100%	100%	Electrical, mechanical and plumbing contracting
Emirates Falcon Electromechanical Co. (EFECO) LLC - Abu Dhabi, UAE	100%	55%	Electrical, mechanical & plumbing contracting
EFECO Saudi LLC, Kingdom of Saudi Arabia	53%	39%	Electrical, mechanical and plumbing contracting
Gulf Steel Industries FZC, UAE	100%	100%	Fabrication of steel structure and profiles
Gulf Steel Industries FZE, Jordan**	100%	-	Fabrication of steel structure and profiles, steel storage tanks and road tankers, steel and structural buildings
GSI Steel Construction Contracting LLC, UAE	100%	100%	Fabrication of steel structure and profiles

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 2 SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

<i>Name of subsidiary and domicile</i>	<i>% Holding (including indirect holding)</i>		<i>Principal activities</i>
	<i>31 December 2013</i>	<i>31 December 2012</i>	
House of Equipment Co. LLC, UAE	67%	67%	Trading and leasing of construction Equipment
Idrotec Srl, Italy	96%	96%	Civil construction and related works
Lotus Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Magnolia Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Mars Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Nasser Bin Khaled Factory Ready Mix Concrete Co. LLC, Qatar*	49%	49%	Manufacturing and transportation of ready mix concrete products
Neptune Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments
Powercon Switchgear Factory, UAE	75%	75%	Manufacturing of switch gears and power distribution panels
Stone Oil and Gas Inc, Canada	70%	70%	Consultancy and engineering
Saudi Austrian Arabian Ready Mix Co LLC Kingdom of Saudi Arabia	62%	62%	Manufacturing and transportation of ready mix concrete products
Saudi Target Engineering Construction Company LLC, Kingdom of Saudi Arabia	64%	39%	Civil construction and related works
Target Engineering Construction Company LLC, UAE	98%	60%	Civil construction and related works
Target Steel Industries LLC, UAE	97%	59.4%	Fabrication of steel structure and profiles
Target Engineering Construction Company W.L.L., Qatar	59%	36%	Civil construction and related works
Venus Limited, JAFZA, UAE **	100%	-	General trading; commercial and real estate investments

\* Those represent indirect holdings of the Group. Although the Group holds less than 50%, it exercises control over these subsidiaries.

\*\* Those are newly established companies in 2013.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

## 2 SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

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

<i>Name of associate and domicile</i>	<i>% Holding (including indirect holding)</i>		<i>Principal activities</i>
	<i>31 December 2013</i>	<i>31 December 2012</i>	
Depa Limited, Dubai, UAE (“DEPA”)	24%	24%	Luxury fit-out of five star hotels, yachts and facilities and related services
Envirecon, Kingdom of Saudi Arabia	30%	30%	Manufacture of concrete and mixture, additives and other construction chemicals
Gulf Capital PJSC – Salboukh project, Kingdom of Saudi Arabia	24%	24%	Development of Salboukh residential compound
Polypod Middle East LLC, Abu Dhabi, UAE (“Polypod”)	40%	40%	Assembly of bathroom pods and other types of pods on the same concept
Jordan Wood Industries PSC	14%	-	Production and distribution of furniture and fixtures

The Company has the following branches:

- Arabtec Holding PJSC – Abu Dhabi branch
- Arabtec Construction LLC, St Petersburg and Kazan, Russia
- Arabtec Construction LLC, Riyadh, Kingdom of Saudi Arabia
- Arabtec Saudi Arabia LLC, Riyadh, Kingdom of Saudi Arabia
- House of Equipment LLC - Abu Dhabi
- Idrotec SRL - Abu Dhabi
- ACC Arabtec JV SAL - Syrian Arab Republic branch
- Target Engineering Construction Company – Dubai branch
- Arabtec Constructions LLC – branch, Abu Dhabi
- GSI Steel Construction Contracting LLC – Abu Dhabi branch

Joint operations of the Group are disclosed in Note 31.

## 3 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 3.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value. The 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. All values are rounded to the nearest thousand (“000”), except when otherwise indicated.

### 3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries (Note 2) as at 31 December 2013.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:



# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### 3.2 BASIS OF CONSOLIDATION (continued)

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Non-controlling interest represents the interest not held by the Group. Although the Group owns less than 50% of the equity shares in certain companies as listed in Note 2, the Group has power over the companies, is exposed, or has rights, to variable returns from its involvement with these entities and has the ability to affect those returns through its power to direct their strategic, operating and financial decisions and, therefore, recognises them as subsidiaries.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### 3.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following standards and interpretation as on 1 January 2013:

##### (a) New standards, interpretations and amendments adopted by the Group

*IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.3 CHANGES IN ACCOUNTING POLICIES (continued)**

**(a) New standards, interpretations and amendments adopted by the Group (continued)**

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities.

IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all six criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

*IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly –controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard became effective for annual periods beginning on or after 1 January 2013, and is applied retrospectively for joint arrangements held at the date of initial application. The Group has assessed its jointly controlled entities as disclosed in Note 31. Based on this assessment, these jointly controlled entities meet the definition of Joint operations, and, hence, the Group continued to recognise its share in these arrangements' assets, liabilities, revenue and expenses.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard became effective for annual periods beginning on or after 1 January 2013 and has no impact on the Group's financial position and performance. Additional disclosures required by the standard have been made throughout the notes to these consolidated financial statements.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. IFRS 13 had no impact on the Group's financial position or performance.

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

The standard was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS; therefore, this amendment is not relevant to the Group.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.3 CHANGES IN ACCOUNTING POLICIES (continued)**

**(a) New standards, interpretations and amendments adopted by the Group (continued)**

*IAS 1 Presentation of Financial Statements- Clarification of the requirement for comparative information (Amendment)*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

*IAS 32 Financial Instruments: Presentation- Tax effects of distributions to holders of equity instruments (Amendment)*

The amendment to *IAS 32 Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with *IAS 12 Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

*IAS 19 Employee Benefits (Revised 2011) (IAS 19R)*

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss. Instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In case of the Group, the transition to IAS 19R did not have an impact on the employees' end of service benefits obligations.

*IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7*

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since there are no entities in the Group which would qualify to be an investment entity under IFRS 10.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.3 CHANGES IN ACCOUNTING POLICIES (continued)**

**(b) Standards, amendments and interpretations issued but not effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

*IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard's effective date has been deferred until completion of all phases of the project. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued, to present a comprehensive picture.

*IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to impact the Group's financial position or performance.

*IFRIC Interpretation 21 – Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

*IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has no derivatives during the current year. However, these amendments would be considered for future novations.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business combinations and goodwill (continued)**

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all the assets acquired and all of the liabilities assumed and review the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

**Interest in Joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group accounts for its interests in joint operations by recognising:

- a) its assets, including its share of any assets held jointly;
- b) its liabilities, including its share of any liabilities incurred jointly; and
- c) its revenue from the sale of its share of the output arising from the joint operation.

The Group combines its share of each of the assets, liabilities, income and expenses of the joint operation with similar items, line by line, in its consolidated financial statements. The financial statements of the joint operations are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

Where any Group entity undertakes its activities under joint operation arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other joint operators 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 operations 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.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

##### 3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

###### **Interest in Joint operations (continued)**

The Group's share of intra-group balances, transactions and unrealised gains and losses on such transactions between the Group and its joint operation are eliminated on consolidation. Losses on transactions are recognised immediately if there is evidence of a reduction in the net realisable value of current assets or an impairment loss.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. The difference between the carrying amount of the investment upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in associate.

###### **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.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the consolidated statement of comprehensive income. 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.

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.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

###### **Foreign currencies**

The Group's consolidated financial statements are presented in AED, which is also the parent company's functional and reporting currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

###### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in consolidated statement of comprehensive income.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currencies (continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements 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. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in consolidated statement of comprehensive income.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Contract revenue*

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, whether or not work has commenced on these contracts.

Due from customers or contract work-in-progress is stated at cost plus attributable profit, less provision for any anticipated losses and progress payments received and receivable. Where the payments received and receivable for any contract exceed the cost plus attributable profit or less anticipated losses, the excess is shown as due to customers or excess billings.

*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 not to the Group; and
- The costs incurred or to be incurred and amount of revenue in respect of the transaction can be measured reliably.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate ("EIR") 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 rights to receive payment have been established.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

**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.

**Income tax**

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:



**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income tax (continued)**

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

**Property, plant and equipment**

Property, plant and equipment except for land are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in consolidated statement of comprehensive income as incurred.

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:

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

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

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.

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.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment (continued)**

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Investment properties**

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the consolidated statement of comprehensive income in the period in which it is incurred.

Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of 20 years. All subsequent additions are depreciated over the remaining useful lives of investment properties. Land is not depreciated.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

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 with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets (continued)**

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

Lease hold property benefits	amortised on a straight line basis over 18 – 21 years
Arabtec brand	amortised on a straight line basis over 30 years (2012: 10 years)
Customer contracts	amortised on a straight line basis over 10 years
Other intangibles	amortised on a straight line basis over 10 years

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. 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 expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Financial assets**

*Initial recognition and measurement*

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**Current versus non-current classification**

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Current versus non-current classification (continued)**

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the consolidated statement of comprehensive income.

**Available-for-sale financial investments**

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

**Impairment of financial assets**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of comprehensive income. Loans and advances together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income - is removed from other comprehensive income and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGUs fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of one to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. The following assets have specific characteristics for impairment testing:

*Goodwill*

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

*Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

**Trade and other receivables**

Contract and trade receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

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

**Due from/to related parties**

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

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, those costs that have been incurred in bringing the inventories to their present location and condition.

Raw materials, consumables and trading goods	-	purchase cost on a weighted average basis.
Manufacturing work-in-progress and finished goods	-	costs of direct materials and labour plus attributable overheads based on a normal level of activity.

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

**Financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and bank borrowings.

*Derecognition- financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

**Trade and other payables and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**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.

**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 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. 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.

*Group as a lessee*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**Employees' end of service indemnity**

In accordance with labour laws prevailing in the countries in which Group and its subsidiaries operate, the Group provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The Group provides for a number of post employment defined benefit plans under several jurisdictions in which the Group operates. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for the defined benefit plans are recognised in full in the period in which they occur in other comprehensive income. The past service costs are recognised as an expense in the consolidated statement of comprehensive income, on a straight line basis over the average period until the benefits become vested. The interest cost component is expensed to the statement of comprehensive income.

The defined benefit liability comprises the present value of the defined benefit obligations using a discount rate based on market yield rates. The Group has not allocated any assets to such plans.

Payments made to Social Security Institutions in connection with government pension plans in various countries where the Group operates are dealt with as payments to defined contribution plans, where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The Group pays contributions to the social security institutions on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period to which the employees' service relates.



**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

**Contingencies**

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the consolidated financial statement under accounts payable and accruals. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as assets held for sale. External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For investments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value of financial instruments (continued)**

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 38.

**3.5 USE OF ESTIMATES AND JUDGMENTS**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the financial statements) are as follows:

**Judgments**

*Joint operations*

The Group reports its interests in jointly controlled entities as joint operations which management considers appropriately recognises the substance of the business arrangements.

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

*Amicable discussion on contractual arrangement*

Note 30 describes an amicable discussion on a contractual arrangement that is currently in progress with one of the customers of one of the Group's joint operations. The encashment of the Performance Security and Advance Payment Guarantee (the "Securities") by the customer, and the claims presented required the directors to consider whether it was appropriate to recognise the amount of the encashed securities as expenses or, alternatively, as amounts receivable from the customer 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 paid 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, and continued discussions for an amicable settlement, management continues to consider that the outcome of the negotiations will be favourable to the Group and continues to recognise the amount of the securities as a receivable and not as an expense.

*Classification of Investment properties*

The Group determines whether a property is classified as an investment property or property, plant and equipment. Investment properties comprises land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation or where the intention of the Group is not yet clear.

Property, plant and equipment comprise property, land and buildings which are occupied substantially for use by, or in the operations of the Group.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.5 USE OF ESTIMATES AND JUDGMENTS (continued)**

**Judgments (continued)**

*Impairment of available-for-sale financial asset*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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:

*Percentage-of-completion and cost to complete estimates of construction contracts*

The Group uses the percentage-of-completion method in accounting for its construction contracts. At each reporting date, the Group is required to estimate stage of completion and costs to complete on its construction contracts. These estimates require the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claim by subcontractors and the cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the year in which the estimates are revised.

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

*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 estimating the value of variations based on management's prior experience, application of contract terms and the relationship with the customers.

*Contract claims*

Contract claims are recognised as revenue only when management believes that an advanced stage of negotiation has been reached and the revenue can be estimated with reasonable certainty. The amount of claim recognised as part of the revenue for the year is AED 328 million. Management reviews the judgement related to these contract claims periodically and adjustments are made in the future periods, if assessments indicates that such adjustments are appropriate.

*Impairment of accounts receivable*

An estimate of the collectible amount of contract and trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Provision 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 provision 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 operating in the real estate sector. Management has carefully considered these receivables in light of current economic circumstances and the status of negotiations with customers, signed and draft memoranda of understanding, agreed payment plans, together with potential offsetting arrangements with advances received from customers and amounts due to subcontractors in order to determine provision for the potential impairment losses which may occur on finalising collection of contract receivables, amounts due from customers for contract work and retentions receivable.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.5 USE OF ESTIMATES AND JUDGMENTS (continued)**

**Estimates and assumptions (continued)**

*Impairment of accounts receivable (continued)*

At the reporting date, gross trade, contract and other receivables were AED 1,875,471 thousand (2012: AED 2,485,301 thousand), and the provision for doubtful debts was AED 22,256 thousand (2012: AED 47,230 thousand). Any difference between the amounts actually collected in a future period and the amounts expected, will be recognised in the consolidated statement of comprehensive income in that period.

*Impairment of inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices. Factors influencing these adjustments include changes in demand, technological changes, physical deterioration and quality issues.

At the reporting date, gross inventories were AED 233,826 thousand (2012: AED 219,886 thousand), with provisions for old and obsolete inventories of AED 12,922 thousand (2012: AED 17,155 thousand). Any difference between the amounts actually realised in a future period and the amounts expected, will be recognised in the consolidated statement of comprehensive income in that period.

*Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

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.

*Useful lives of investment properties*

The Group's management determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

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 investment properties and determined that no impairment losses arose.

*Non-current retentions and contract receivables*

Non-current retentions receivable and contract receivables and payables are restated at their amortised cost at each reporting period by discounting at the Group's effective deposit and borrowing rates, as appropriate, which management considers being the appropriate discount rates for these assets and liabilities.

*Fair value of other financial instruments*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and estimation is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**3 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**3.5 USE OF ESTIMATES AND JUDGMENTS (continued)**

**Estimates and assumptions (continued)**

*Impairment of non-financial assets*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years, and do not include significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

*Impairment of intangible assets*

If there is an indication that an intangible asset may be impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future economic benefits expected to be derived from the asset.

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.

*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.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

*Employees' end of service indemnity*

The cost of the end of service benefits and the present value of these benefits obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used and sensitivity analysis are given in Note 26.

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 4 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders of the Parent company of AED 377.8 million (2012: AED 139.1 million) by the weighted average number of shares outstanding during the year ended 31 December 2013 of 2,315,381 thousand (2012: 1,569,750 thousand).

Diluted earnings per share is calculated by dividing the net profit attributable to the shareholders of the Parent company by the weighted average number of shares outstanding during the year, plus the weighted average number of shares under the Rights Issue less the weighted average number of shares that would have been issued at average market price for the period (Note 23).

	<i>2013</i>	<i>2012</i>
Basic earnings per share (AED)	<u>0.16</u>	<u>0.09</u>
Diluted earnings per share (AED)	<u>0.16</u>	<u>0.09</u>

### 5 REVENUES

Revenues comprise the following:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Contract revenue	<b>7,015,979</b>	5,305,148
Sale of ready mix concrete / precast	<b>154,076</b>	179,814
Drainage division revenue	<b>120,631</b>	68,695
Sale and hire of equipment	<b>52,929</b>	58,905
Plant division revenue	<b>11,312</b>	17,550
Other revenues	<b>14,401</b>	29,832
	<u><b>7,369,328</b></u>	<u>5,659,944</u>

### 6 DIRECT COSTS

Direct costs comprise the following:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Contract costs	<b>6,228,177</b>	4,793,722
Cost of sales of ready mix concrete / precast	<b>121,829</b>	140,696
Drainage division costs	<b>104,810</b>	57,146
Cost of sales and hire of equipment	<b>36,267</b>	48,001
Plant division costs	<b>13,176</b>	20,697
Other costs	<b>12,092</b>	24,083
	<u><b>6,516,351</b></u>	<u>5,084,345</u>

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 7 OTHER INCOME

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Write back of provision for doubtful debt, net (Note 16)	<b>22,934</b>	9,261
Write-back of provision for bonus, net	<b>32,958</b>	2,641
Write-back of liabilities	<b>22,447</b>	-
Write-back of provision for slow moving inventory (Note 18)	<b>4,233</b>	-
Gain on sale of property, plant and equipment	<b>1,272</b>	8,765
Others	<b>27,239</b>	13,097
	<b>111,083</b>	33,764

Discretionary bonuses accrued for the year 2012 amounting to AED 41,373 thousand were reduced by the write-back of provision for bonuses relating to prior years of AED 44,014. The write-back is due to change in estimations.

### 8 NET INVESTMENT INCOME

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Interest income	<b>6,882</b>	6,754
Gain on disposal of Sukuk	-	60,070
Profit income on Sukuk	-	20,517
Impairment loss on available-for-sale investments	-	(1,289)
	<b>6,882</b>	86,052

### 9 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Employees' salaries and other benefits	<b>275,388</b>	199,938
Tender expenses	<b>20,871</b>	12,342
Selling expenses	<b>20,833</b>	2,736
Communication and utilities	<b>5,739</b>	12,116
Office rent – operating leases	<b>16,743</b>	11,807
Charitable donations	<b>19,332</b>	-
Depreciation (apportioned)	<b>18,317</b>	25,354
Amortisation of intangible assets (Note 13)	<b>5,865</b>	49,471
Impairment losses on goodwill (Note 15)	-	1,786
Sponsorship expenses	<b>18,465</b>	-
Legal expenses	<b>5,622</b>	7,571
Impairment of due from associate (Note 19)	-	7,377
Consultancy fees	<b>7,790</b>	-
Impairment losses on slow-moving inventories (Note 18)	-	1,024
Loss on sale of steel inventory	<b>909</b>	33,592
Attendance fee to Directors	<b>450</b>	3,630
Other general and administrative expenses	<b>77,409</b>	116,032
	<b>493,733</b>	484,776

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 10 INTEREST INCOME ON NON-CURRENT RECEIVABLES AND PAYABLES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Interest income on non-current trade receivables	14,253	8,848
Interest income /(expense) on non-current retentions receivable	605	(3,504)
Interest expense on non-current retentions payable	(537)	(26)
	<u>14,321</u>	<u>5,318</u>

Interest income / (expense) relates to the Group agreeing on long-term payment plans for certain trade receivables and payables, in addition to retentions which are due after completion of a minimum service period of completed contracts. On date of inception, the discount amount is recognised as interest income or expense. Payments are estimated to be received or paid over the long term which results in interest expense or income recognised on amortisation until maturity. The risk of recovery for receivables was provided for under the provision for doubtful debts.

### 11 INVESTMENT PROPERTIES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>Cost</b>		
At 1 January	97,535	-
Transfer from property, plant and equipment (Note 12)	-	97,535
Additions during the year	527,230	-
	<u>624,765</u>	<u>97,535</u>
At 31 December	<u>624,765</u>	<u>97,535</u>
<b>Accumulated depreciation</b>		
Opening balance at 1 January	(1,668)	-
Charge for the year	(3,991)	(1,668)
	<u>(5,659)</u>	<u>(1,668)</u>
At 31 December	<u>(5,659)</u>	<u>(1,668)</u>
<b>Net book value</b>	<u>619,106</u>	<u>95,867</u>

Additions to the investment properties represent land acquired in Dubai, UAE for AED 479.7 million, which include development costs already incurred. The land will be used to construct a mixed used development and has been designated as an investment property. The fair value of this land as at 31 December 2013 is AED 450 million and the management is of the opinion that the fair value of the development costs already incurred approximates its carrying value. In addition the Group purchased other investment properties amounting to AED 47.5 million, the fair value of these investment properties are AED 47.5 million at 31 December 2013.

Transfer from property, plant and equipment of AED 97,535 thousand to investment properties represents land and a building in Dubai, UAE. The value of land included in the property amounts to AED 17.7 million. The land and building have been designated for rental activities and, accordingly, classified as an investment property. The Group completed the construction of the building during 2012. The fair value of this investment property as at 31 December 2013 is AED 92.7 million compared to book value of AED 91.9 million (2012: AED 96 million).

The fair values of the properties were determined by a qualified and independent property consultant. The property consultant is a specialist in valuing these types of investment properties. The fair value stated in the consultant reports is determined using transactions observable in the market (level 3). The valuation technique used is level 3, management believes that no reasonable changes in assumptions used will result in any risk of impairment.

Investment properties include land with carrying value of AED 497.4 million (2012: AED 17.7 million).

Land classified as investment property are not depreciated.

During the year, the rental income related to investment properties amounted to AED 5,319 thousand (2012: AED 1,384 thousand).



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12 PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i> <i>AED'000</i>	<i>Leasehold</i> <i>land</i> <i>AED'000</i>	<i>Plant</i> <i>machinery</i> <i>and office</i> <i>equipment</i> <i>AED'000</i>	<i>Vehicles</i> <i>AED'000</i>	<i>Labour</i> <i>camps</i> <i>buildings</i> <i>AED'000</i>	<i>Furniture</i> <i>AED'000</i>	<i>Scaffolding</i> <i>cabins and</i> <i>tunnel forms</i> <i>AED'000</i>	<i>Properties</i> <i>under</i> <i>construction</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>Cost:</b>									
At 1 January 2013	53,001	6,512	1,098,881	255,508	487,931	91,979	189,893	112,298	2,296,003
Additions	-	-	137,786	21,161	10,548	17,085	60,326	69,932	316,838
Transfers	-	-	19,070	2,514	732	68	2,629	(25,013)	-
Disposals	-	-	(22,014)	(10,116)	(5,790)	(1,322)	(2,934)	-	(42,176)
At 31 December 2013	<b>53,001</b>	<b>6,512</b>	<b>1,233,723</b>	<b>269,067</b>	<b>493,421</b>	<b>107,810</b>	<b>249,914</b>	<b>157,217</b>	<b>2,570,665</b>
<b>Accumulated depreciation:</b>									
At 1 January 2013	-	1,411	621,310	172,763	190,164	67,140	134,970	-	1,187,758
Charge for the year	-	115	137,367	27,112	47,763	10,415	26,696	-	249,468
Relating to disposals	-	-	(13,615)	(7,678)	(2,187)	(688)	(1,426)	-	(25,594)
At 31 December 2013	-	<b>1,526</b>	<b>745,062</b>	<b>192,197</b>	<b>235,740</b>	<b>76,867</b>	<b>160,240</b>	-	<b>1,411,632</b>
<b>Net carrying value</b>									
<b>At 31 December 2013</b>	<b>53,001</b>	<b>4,986</b>	<b>488,661</b>	<b>76,870</b>	<b>257,681</b>	<b>30,943</b>	<b>89,674</b>	<b>157,217</b>	<b>1,159,033</b>

The depreciation charge has been allocated in the consolidated statement of comprehensive income to direct costs and general and administrative expenses.

Arabtec Holding PJSC and its Subsidiaries

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12 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land</i> <i>AED'000</i>	<i>Leasehold</i> <i>land</i> <i>AED'000</i>	<i>Plant</i> <i>machinery</i> <i>and office</i> <i>equipment</i> <i>AED'000</i>	<i>Vehicles</i> <i>AED'000</i>	<i>Labour</i> <i>camps</i> <i>buildings</i> <i>AED'000</i>	<i>Furniture</i> <i>AED'000</i>	<i>Scaffolding</i> <i>cabins and</i> <i>tunnel forms</i> <i>AED'000</i>	<i>Properties</i> <i>under</i> <i>construction</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>Cost:</b>									
At 1 January 2012	70,727	6,512	1,010,241	248,722	463,357	74,345	183,817	155,220	2,212,941
Additions	-	-	145,584	20,475	24,982	18,092	17,570	61,649	288,352
Transfers	-	-	11,839	6,186	95	351	-	(18,471)	-
Transfers to investment properties	(17,726)	-	-	-	-	-	-	(79,809)	(97,535)
Disposals	-	-	(68,783)	(19,875)	(503)	(809)	(11,494)	(6,291)	(107,755)
At 31 December 2012	53,001	6,512	1,098,881	255,508	487,931	91,979	189,893	112,298	2,296,003
<b>Accumulated depreciation:</b>									
At 1 January 2012	-	1,150	553,043	153,669	146,460	58,295	119,412	-	1,032,029
Charge for the year	-	261	119,637	29,422	43,936	9,565	27,013	-	229,834
Relating to disposals	-	-	(51,370)	(10,328)	(232)	(720)	(11,455)	-	(74,105)
At 31 December 2012	-	1,411	621,310	172,763	190,164	67,140	134,970	-	1,187,758
<b>Net carrying value</b>									
At 31 December 2012	53,001	5,101	477,571	82,745	297,767	24,839	54,923	112,298	1,108,245

Transfer to investment property has been made during the year 2012 and is shown in Note 11.

The depreciation charge has been allocated in the consolidated statement of comprehensive income to direct costs and general and administrative expenses.

Arabtec Holding PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

**13 OTHER INTANGIBLE ASSETS**

	<i>Leasehold property benefits AED'000</i>	<i>Arabtec brand AED'000</i>	<i>Customer contracts AED'000</i>	<i>Other intangibles AED'000</i>	<i>Total AED'000</i>
<b>31 December 2013</b>					
<b>Cost:</b>					
At 1 January 2013	5,700	110,000	195,056	9,000	319,756
Additions	-	-	-	1,445	1,445
At 31 December 2013	<u>5,700</u>	<u>110,000</u>	<u>195,056</u>	<u>10,445</u>	<u>321,201</u>
<b>Accumulated amortisation:</b>					
At 1 January 2013	5,608	88,000	176,008	5,400	275,016
Charge for the year	92	1,000	3,874	899	5,865
At 31 December 2013	<u>5,700</u>	<u>89,000</u>	<u>179,882</u>	<u>6,299</u>	<u>280,881</u>
<b>Net carrying value as at 31 December 2013</b>	<u>-</u>	<u>21,000</u>	<u>15,174</u>	<u>4,146</u>	<u>40,320</u>
<b>31 December 2012</b>					
<b>Cost:</b>					
At 1 January 2012	5,700	110,000	195,056	9,000	319,756
Additions	-	-	-	-	-
At 31 December 2012	<u>5,700</u>	<u>110,000</u>	<u>195,056</u>	<u>9,000</u>	<u>319,756</u>
<b>Accumulated amortisation:</b>					
At 1 January 2012	5,265	77,000	138,780	4,500	225,545
Charge for the year	343	11,000	37,228	900	49,471
At 31 December 2012	<u>5,608</u>	<u>88,000</u>	<u>176,008</u>	<u>5,400</u>	<u>275,016</u>
<b>Net carrying value as at 31 December 2012</b>	<u>92</u>	<u>22,000</u>	<u>19,048</u>	<u>3,600</u>	<u>44,740</u>

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 13 OTHER INTANGIBLE ASSETS (continued)

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

Amortisation of the leasehold property benefits is based on the underlying leases which have periods of between 18 to 21 years.

During the year, the useful life of the Arabtec brand was revised from 10 years to 30 years, based on management estimates. The change in useful life effected the current year and future amortisation charge and was accounted for under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. As a result of the change, the amortisation expenses per year has been reduced from AED 11 million to AED 1 million.

The value of customer contracts acquired as a result of the acquisition of Target Engineering Construction Company LLC 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.

The Group has tested its intangible assets for impairment thorough an external independent expert. The management has concurred to the expert's conclusion that these intangible assets suffered no impairment. The valuation technique used is level 3, management believes that no reasonable changes in assumptions used will result in any risk of impairment.

#### 14 INVESTMENTS IN ASSOCIATES

##### *DEPA Limited*

On 21 November 2012, the Group acquired shares in Depa Limited ("DEPA") for AED 241,706 thousand representing a 24.329% interest in the Company's share capital upon acquisition. The investment in DEPA was classified as an associate as the Group obtained influence over the operating and financial policies of the company.

The company operates in the luxury fit-out sector, focusing primarily on hospitality, commercial and residential property developments through a combination of multiple subsidiaries, joint ventures and associates across a number of countries and market segments. The company operates in the Middle East/North Africa region, Europe and Asia.

During 2012, an indirect related party to one of DEPA's customers publicly announced its intention to file a claim against DEPA and its JV partner for compensation of USD 600 million in connection with a contract cancelled by the customer. Based on legal advice, the Group and its associate are confident that such a possible claim will have no grounds for jurisdiction as the third party was not a direct party to the contract. No legal proceedings have been initiated by the third party as of the date of issue of these financial statements.

Summarised financial information of DEPA as of 31 December 2013 is not available as DEPA has not declared its results at the date of approval of these financial statements. DEPA is listed in the Dubai International Financial Center (DIFC) on the NASDAQ Dubai.

Management has assessed the Group's share of profit in this associate using projections and estimations based on the previously published financial statements and analysts' reports. The share of profit of the Group for the year is AED 19.6 million (21 November 2012 until 31 December 2012: loss AED 2.0 million). Management believes that the actual financial information, once released, would not be materially different from the projections used.

The fair market value of the investment in Depa as of 31 December 2013, based on listed bid prices, was approximately AED 373 million (31 December 2012: AED 192 million) which is higher than its carrying value of AED 259 million (2012: AED 239 million).

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 14 INVESTMENTS IN ASSOCIATES (continued)

##### *DEPA Limited (continued)*

The following table illustrates the summarised financial information of the Group's investment in Depa limited:

	<b>30 June 2013 AED'000</b>	<b>31 December 2012 AED'000</b>
Current assets	<b>2,093,096</b>	2,055,755
Non-current assets	<b>1,064,856</b>	1,088,371
Current liabilities	<b>1,366,358</b>	1,374,568
Non-current liabilities	<b>159,555</b>	155,952
	<b>2013 AED'000</b>	<b>2012 AED'000</b>
Revenue	<b>1,010,207</b>	1,946,845
Profit / (loss) for the year	<b>38,663</b>	(184,379)
Group share of profit / (loss)	<b>19,638</b>	(2,025)

Summarised financial information of DEPA as of 31 December 2013 is not available, the above information represents the results of the associate as at 30 June 2013 and 31 December 2012.

##### *Jordan Wood Industries PSC*

During 2013, the Group acquired shares in Jordan Wood Industries PSC ("JWICO") for AED 11,088 thousand representing a 14% interest in the Company's share capital upon acquisition. The investment in JWICO was classified as an associate as the Group obtained influence over the operating and financial policies of the company. JWICO deals in manufacturing, trading and distribution of various types of furniture.

The fair market value of the investment in JWICO as of 31 December 2013, based on listed bid prices, was approximately AED 9.6 million. Management is of the opinion that the investment in associate is not impaired.

The following table illustrates the summarised financial information of the Group's investment in JWICO:

	<b>30 September 2013 AED'000</b>	<b>31 December 2012 AED'000</b>
Current assets	<b>40,617</b>	35,381
Non-current assets	<b>48,140</b>	51,574
Current liabilities	<b>24,982</b>	22,101
Non-current liabilities	<b>-</b>	-
	<b>2013 AED'000</b>	<b>2012 AED'000</b>
Revenue	<b>46,140</b>	55,695
Profit / (loss) for the year	<b>(1,078)</b>	(3,043)
Group share of profit / (loss)	<b>-</b>	-

Summarised financial information of JWICO as of 31 December 2013 is not available as JWICO has not declared its results at the date of approval of these financial statements. Accordingly the above information represents the results of the associate as at 30 September 2013 and 31 December 2012.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 14 INVESTMENTS IN ASSOCIATES (continued)

##### *Polypod Middle East LLC*

On 6 May 2009, Polypod Middle East LLC ("Polypod"), Abu Dhabi was incorporated with the Company 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, as of 31 December 2011, due to continuous losses incurred. Management is in the process of restructuring this business with a view to allowing the business to positively trade out of its existing deficits.

##### *Salboukh Project*

During 2012, the Group entered into an investment arrangement with Gulf Capital PJSC, Kingdom of Saudi Arabia to acquire a 24% interest in the Salboukh project. The Group advanced an amount of AED 29,057 thousand and expects to have a significant influence on the special purpose entity being formed to hold the project. The legal formalities and the final ownership agreement are yet to be completed and agreed.

#### 15 GOODWILL

Goodwill arising on acquisition of:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
a) Arabtec Construction LLC	<b>87,963</b>	87,963
b) Emirates Falcon Electro Mechanical Co. (LLC)	<b>9,086</b>	9,086
c) Target Engineering Construction Company LLC	<b>134,945</b>	134,945
d) Gulf Steel Industries FZC	<b>14,842</b>	14,842
e) Idrotec Srl (Note 35)	<b>1,905</b>	1,830
f) Powercon Switchgears Factory (Note 35)	<b>1,786</b>	1,786
	<b>250,527</b>	250,452
Less: Impairment loss	<b>(1,786)</b>	(1,786)
	<b>248,741</b>	248,666

Goodwill acquired in a business combination is allocated, on acquisition, to the CGUs that are expected to benefit from the business combination. Management has allocated goodwill as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<i>Cash generating unit</i>		
Construction	<b>102,805</b>	102,805
Mechanical, electrical and plumbing (MEP)	<b>9,181</b>	9,106
Oil, gas and infrastructure	<b>136,755</b>	136,755
	<b>248,741</b>	248,666

Management has carried out an impairment test of goodwill at the year-end and has concluded that no impairment exists as of 31 December 2013. For this purpose, the recoverable amount of each CGU has been estimated by an independent expert, and is based on a value-in-use calculation using cash flow projections approved by senior management and covering a five-year period. Cash flows beyond the five year period are extrapolated using a growth rate, which management believes approximates the long-term average growth rate for the industries in which the CGU's operate.

Management concurred to the expert's calculation of the value in use of goodwill at 31 December 2013 and concluded that no impairment loss exists for the financial year 2013 (2012: AED 1,786 thousand).

#### **Key assumptions used for calculation of value-in-use**

The calculation of value in use is sensitive to the following assumptions:

- Growth rate
- Profit margins, and
- Discount rate

*Growth rate:* Estimates are based on forecasted growth rates in the industry and historical performance of each CGU. An average growth rate of 30% per annum has been applied.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 15 GOODWILL (continued)

##### Key assumptions used for calculation of value-in-use (continued)

A reduction of 10% in growth rates would result in a reduction of AED 1,408,078 thousand of the value-in-use for all CGU, but will not impact the recoverable amount or goodwill of the CGU.

*Profit margins:* Estimates are based on assumption of achieving a stabilised level of performance based on the contracts in hand and expected orders. The effect of changes in economic conditions and the level of activity in the construction industry would impact the profit margins.

*Discount rate:* discount rates used throughout the assessment period was 21% per annum, reflecting the CGU's estimated weighted average cost of capital and specific market risk profile and cost of debt. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available marked data.

##### Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions (growth rate, profit margin and discount rate) would cause the carrying value of the CGU, including goodwill, to materially exceed its recoverable amount.

#### 16 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 fulfilment of contractual obligations.

	<i>Current</i>		<i>Non-current</i>	
	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Trade receivables	<b>304,057</b>	290,472	<b>175</b>	-
Contract receivables	<b>1,509,656</b>	1,829,022	<b>61,583</b>	365,807
Amounts due from customers for contract work (Note 29)	<b>3,527,190</b>	1,270,072	-	-
	<b>5,340,903</b>	3,389,566	<b>61,758</b>	365,807
Provision for doubtful debts	<b>(20,520)</b>	(47,230)	<b>(1,736)</b>	-
	<b>5,320,383</b>	3,342,336	<b>60,022</b>	365,807
Retentions receivable	<b>488,587</b>	343,349	<b>265,323</b>	302,428
Advances paid to suppliers and sub contractors	<b>510,434</b>	333,885	-	-
Contract work in progress	<b>5,468</b>	125,024	-	-
Total	<b>6,324,872</b>	4,144,594	<b>325,345</b>	668,235

Included in contract receivables are amounts totalling AED 552.4 million (2012: AED 552.4 million) receivable from Meydan LLC in connection with the amicable discussion on a contractual arrangement described in Note 30. The remaining balance of contract receivables includes two customers' balances totalling AED 256.8 million individually representing more than 5% of the total balance of contract receivables.

Included in trade and other receivables are contract claims amounting to AED 328 million where management believes that advanced stages of negotiations have been reached and the outcome of such negotiations can be estimated with reasonable certainty.

Of the contract and trade receivables balance at the end of the year, AED 180 million (2012: AED 401 million) is due from the Group's largest customer.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 16 TRADE AND OTHER RECEIVABLES (continued)

A provision has been made for the estimated impairment amounts of trade and other receivables of AED 22.3 million (2012: AED 47.2 million). This provision has been determined based on collection history and past experience of management and on management's assessment of current economic conditions, project completion, negotiations underway, future recoverability of these balances and potential offsetting arrangements with customers and subcontractors.

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Balance at the beginning of the year	<b>47,230</b>	57,213
Write off to trade receivables	<b>(2,040)</b>	(722)
Reversal of provision during the year	<b>(31,591)</b>	(21,163)
Increase in provision recognised during the year	<b>8,657</b>	11,902
	<hr/>	<hr/>
Balance at the end of the year	<b>22,256</b>	47,230
	<hr/> <hr/>	<hr/> <hr/>

#### *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 964 million (2012: AED 1,923 million) which are past due at the reporting date for which the Group has not recorded any provision 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:*

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Past due for less than 3 months	<b>202,593</b>	518,562
Past due for more than 3 months	<b>928,505</b>	1,404,621
	<hr/>	<hr/>
	<b>1,131,098</b>	1,923,183
	<hr/> <hr/>	<hr/> <hr/>

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 provision for doubtful debts disclosed above.



Arabtec Holding PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

**16 TRADE AND OTHER RECEIVABLES (continued)**

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Current	-	5,174
Past due for less than 3 months	<b>3,071</b>	48,337
Past due for more than 3 months	<b>20,924</b>	133,513
	<u><b>23,995</b></u>	<u>187,024</u>

**17 OTHER FINANCIAL ASSETS**

	<i>Current</i>		<i>Non-current</i>	
	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>Financial assets at fair value</b>				
<i>Available-for-sale investments</i>				
Quoted equity shares (a)	-	-	<b>16,430</b>	6,093
	<u>-</u>	<u>-</u>	<u><b>16,430</b></u>	<u>6,093</u>
<b>Financial assets at cost</b>				
<i>Available-for-sale investments</i>				
Unquoted equity shares (b)	-	-	<b>17,282</b>	17,282
	<u>-</u>	<u>-</u>	<u><b>17,282</b></u>	<u>17,282</u>
Total available-for-sale investments	<u>-</u>	<u>-</u>	<u><b>33,712</b></u>	<u>23,375</u>
<b>Financial assets at amortised cost</b>				
Fixed deposits under lien	<b>78,694</b>	93,470	-	-
Margin deposits	<b>53,179</b>	11,255	-	-
Loans to related parties	-	-	<b>1,778</b>	1,662
	<u><b>131,873</b></u>	<u>104,725</u>	<u><b>1,778</b></u>	<u>1,662</u>
<b>Total other financial assets</b>	<u><b>131,873</b></u>	<u>104,725</u>	<u><b>35,490</b></u>	<u>25,037</u>

a) Quoted equity securities 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.

b) Unquoted equity shares represent an investment in Al Waab City project, Qatar. As the fair value of this investment cannot be reliably determined, it is carried at cost less provision for impairment of AED 1,110 thousand. The Group intends to hold this investment for future growth or until an appropriate exit is found.

***Impairment on quoted available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Based on these criteria, the Group did not identify any impairment (2012: AED 1,289 thousand) on available-for-sale investments in quoted shares. The impairment on available-for-sale financial investments is in net investment income (Note 8).

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 18 INVENTORIES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Steel inventories required for specific projects	87,837	67,607
General steel inventories	-	504
Trading goods	37,551	47,542
Other construction materials	96,675	91,104
Ready mix concrete and other related materials	10,473	9,831
Work in progress	1,290	3,298
	<u>233,826</u>	<u>219,886</u>
Less: Impairment losses	(12,922)	(17,155)
	<u><u>220,904</u></u>	<u><u>202,731</u></u>

#### *Movement in impairment losses on inventories:*

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Balance at the beginning of the year	17,155	16,131
Impairment losses (Note 9)	-	1,024
Reversal (Note 7)	(4,233)	-
<b>Balance at the end of the year</b>	<u><u>12,922</u></u>	<u><u>17,155</u></u>

### 19 RELATED PARTY TRANSACTIONS

- a) The Group entered into a variety of transactions with companies and entities that fall within the definition of related parties 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. Joint venture partners and non-controlling interests are considered by the Group as related parties. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.
- b) At the end of the reporting period, due from related parties comprise the following:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b><i>Joint operations</i></b>		
Amounts due from joint operations' partners	<u>359,348</u>	<u>525,038</u>
<b><i>Shareholder</i></b>		
Aabar Investments PJSC (Project related)	<u>37,667</u>	<u>60,395</u>
<b><i>Other related parties</i></b>		
<i>Entities with common ownership and management</i>		
Al Waab City W.L.L., Doha, Qatar	106,369	152,073
Saudi Bin Laden Group (Bin Laden Group), Kingdom of Saudi Arabia	-	234,071
Advance Vision Co. (Bin Laden Group), Kingdom of Saudi Arabia	20,829	44,979
Ready Mix Company Limited (PREMCO) (Bin Laden Group)	40,210	26,696
Others	29,302	5,318
	<u>196,710</u>	<u>463,137</u>
	<u><u>593,725</u></u>	<u><u>1,048,570</u></u>

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 19 RELATED PARTY TRANSACTIONS (continued)

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b><i>Joint operations</i></b>		
Amounts due to joint operations' partners	<b>263,240</b>	386,139
<b><i>Associate</i></b>		
Depa Interiors LLC, Dubai, UAE	<b>42,878</b>	91,160
<b><i>Other related parties</i></b>		
<i>Entities with common ownership and management</i>		
Nasser Bin Khaled Al-Thani and Sons Group and its related parties, Qatar	<b>38,717</b>	37,440
Saudi Bin Laden Group, Kingdom of Saudi Arabia	<b>158,945</b>	-
Others	<b>36,967</b>	10,652
<i>Current account of a director and major shareholder of the parent company</i>		
Mr. Riad Kamal - a Director and a shareholder	<b>10</b>	10,703
Current accounts of shareholders in subsidiaries	-	22,906
	<b>234,639</b>	81,701
	<b>540,757</b>	559,000

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b><i>Joint operations</i></b>		
Manpower and other charges to joint operations*	<b>18,861</b>	17,332
<b><i>Other related parties</i></b>		
Contract and other revenue	<b>1,676,622</b>	1,316,829
Subcontracting costs	<b>350,414</b>	38,141
Equipment hire	<b>777</b>	1,355
Purchase of fixed assets	<b>501,119</b>	134,233
Rent income	-	36,052
Wages and salaries	<b>31,931</b>	-
Provision for impairment of amounts due from related parties (Note 9)	-	7,377

\* Manpower and other charges to joint operations are within the other operating income.

e) The Group provided a loan of AED 1.8 million (2012: AED 1.7 million) to a minority shareholder in House of Equipment Co. LLC. Interest on the loan is charged at 6% per annum.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 19 RELATED PARTY TRANSACTIONS (continued)

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Attendance fees to Board of Directors	450	3,630
Short term benefits	5,041	23,465
End of service indemnity	257	716
Discretionary bonus accrued	2,203	1,126

The remuneration of key executives and attendance fees of the Board of Directors are determined by the Board of Directors.

g) Included in trade and other payables is an amount of AED 32.1 million (2012: AED 24.3 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 of AED 14.4 million (2012: AED 13.5 million) and other current assets of AED 17.7 million (2012: AED 10.8 million).

#### 20 CASH AND CASH EQUIVALENTS

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Cash and bank balances	1,284,815	671,700
Short term bank deposits	1,168,166	140,700
Bank balance and cash	2,452,981	812,400
Short term deposit with maturity over three months	(800,000)	-
Bank overdrafts (Note 25)	(639,070)	(467,214)
Cash and cash equivalents	<u>1,013,911</u>	<u>345,186</u>

#### Bank balances and cash located in:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Within UAE	2,273,317	662,375
Outside UAE	179,664	150,025
Balance at the end of the year	<u>2,452,981</u>	<u>812,400</u>

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 20 CASH AND CASH EQUIVALENTS (continued)

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Bank balances and cash denominates in following currencies:		
United Arab Dirhams (AED)	<b>2,260,210</b>	662,375
United States Dollars (USD)	<b>10,036</b>	14,017
Kuwait Dinars (KWD)	<b>68</b>	16,366
Qatar Riyals (QAR)	<b>93,633</b>	24,637
Pakistan Rupees (PKR)	<b>6,337</b>	8,527
Saudi Riyals (SAR)	<b>48,444</b>	72,791
Other currencies	<b>34,253</b>	13,687
	<b><u>2,452,981</u></b>	<b><u>812,400</u></b>

#### 21 INCOME TAX

The Group is subject to taxation on its operations except in the United Arab Emirates and Bahrain. Income in these countries is subject to tax at rates ranging between 10% and 35%.

##### *Income tax recognised in the consolidated financial statements*

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<i>Tax expense comprises:</i>		
Current tax expense	<b>7,606</b>	114
Deferred tax expense (income) relating to the origination and (reversal) of temporary differences	<b>2,712</b>	1,392
<b>Total income tax expense</b>	<b><u>10,318</u></b>	<b><u>1,506</u></b>

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Profit before tax	<b><u>478,577</u></b>	<b><u>189,733</u></b>
Profit in countries subject to tax	<b><u>170,862</u></b>	<b><u>96,079</u></b>
Income tax expense recognised in the consolidated statement of comprehensive income	<b><u>10,318</u></b>	<b><u>1,506</u></b>

The effective tax rate on profit for the year ended 31 December 2013 is 6.1% (2012: 1.6%).

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 21 INCOME TAX (continued)

##### *Deferred tax balances*

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

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Opening balance (liability) / asset	<b>(1,061)</b>	331
Impact on the consolidated statement of comprehensive income	<b>(2,712)</b>	(1,392)
Closing balance (liability)	<b><u>(3,773)</u></b>	<b><u>(1,061)</u></b>

Deferred tax assets and liabilities are considered non-current

##### *Current tax liability*

Current tax liability included in the statement of financial position	<b><u>3,667</u></b>	<b><u>488</u></b>
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#### 22 OTHER CURRENT ASSETS

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Prepaid expenses	<b>190,235</b>	47,213
Other receivables	<b>148,414</b>	107,158
Due from employees	<b>9,488</b>	7,502
	<b><u>348,137</u></b>	<b><u>161,873</u></b>

#### 23 SHARE CAPITAL

The share capital as at 31 December 2013 comprises 3,139 million (2012: 1,569 million) authorised, issued and fully paid shares of AED 1 each.

At the extra ordinary general meeting of the Company held on 13 April 2013, the shareholders approved the recommendation of the Board of Directors to increase the share capital of the Company by issuing up to 3,140 million shares (the "Rights Issue") with a nominal value of 1 AED and an issuance premium of 0.50 AED per share (the total value of the Rights Issue to approximate AED 4.7 billion) in two phases: the first for an amount of up to AED 2.4 billion or 1,570 million shares by the end of 2013, and the second of up to AED 2.4 billion or 1,570 million shares during 2014, if and when required; and to issue non-convertible bonds or other debt instruments in a total amount of up to AED 1.7 billion, if and when required, either at the end of 2013 or during 2014.

In July 2013, the first phase of the Rights Issue concluded with a total of 1,570 million new shares issued with a nominal value of 1 AED and an issuance premium of 0.50 AED per share. The share capital of the Company increased by AED 1,570 million and the statutory reserve increased by AED 785 million for a total increase to shareholders' equity of AED 2,355 million. The Company incurred cost of AED 2 million related to the Rights Issue which was deducted from the proceeds of the Rights Issue and the impact has been taken to shareholders' equity directly.

At the meeting of the Board of Directors held on 13 November 2013, the Board of Directors resolved to cancel the second phase of the Rights Issue.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 24 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 Company 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.

As of 31 December 2013 the statutory reserve amounted to AED 1,131 million representing 36% of the issued capital (2012: AED 308 million representing 20% of the issued share capital)

#### 25 BANK BORROWINGS

	<i>Current</i>		<i>Non-current</i>	
	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Bank overdrafts (Note 20)	<b>639,070</b>	467,214	-	-
Acceptances	<b>61,420</b>	44,249	-	-
Trust receipts assets	<b>27,137</b>	47,943	-	-
Term loans	<b>134,910</b>	87,809	<b>57,894</b>	152,707
<b>Total</b>	<b>862,537</b>	647,215	<b>57,894</b>	152,707

The term loans are repayable as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
On demand or within one year	<b>134,910</b>	87,809
In the second year	<b>57,894</b>	100,686
In the third year to fifth year (inclusive)	-	52,021
	<b>192,804</b>	240,516
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(134,910)</b>	(87,809)
<b>Amount due for settlement after 12 months</b>	<b>57,894</b>	152,707

The term loans are repayable over the period of 1-5 years and carry fixed interest rates originally set at rates ranging between EIBOR + 3.00% and EIBOR + 3.50% (2012: EIBOR + 3.00% and EIBOR + 3.50%)

Variable interest rate loan is subject to EIBOR/SIBOR + 2.00% to EIBOR + 3.50% (2011: 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.
- Assignment of concession rights on property.
- Assignment of sub-contractors' performance bonds in favour of the financing banks for specific contracts.
- Assignment of leasehold rights and insurance over property.
- In one of the subsidiaries, minimum net worth of AED 1.27 billion.
- To maintain a maximum leverage ratio of 3.5x to 4x.
- Corporate guarantees of Subsidiaries and the Parent company.
- Personal guarantees.

The Group has complied with all bank covenants during the year.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 26 PROVISION FOR EMPLOYEES' END OF SERVICE INDEMNITY

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.

The following tables summarise the components of net benefit expense recognised in the consolidated statement of comprehensive income:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
<b>Net benefit expense</b>		
Current service cost	47,055	30,652
Interest cost	7,570	7,235
	<u>54,625</u>	<u>37,887</u>
Net expense recognised in the statement of income	<u>54,625</u>	<u>37,887</u>
Net actuarial (gains) / losses recognised in other comprehensive income	<u>(8,720)</u>	<u>16,457</u>

Changes in the present value of defined benefit obligations is as follows

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
At 1 January	165,508	126,729
Current service cost	47,055	30,652
Interest cost	7,570	7,235
Benefits paid during the year	(28,883)	(15,565)
Actuarial (gain) / loss recognised in other comprehensive income	(8,720)	16,457
	<u>182,530</u>	<u>165,508</u>
At 31 December	<u>182,530</u>	<u>165,508</u>

The principal assumptions used in determining the provision for end of service benefit obligations are shown below:

	<i>2013</i>	<i>2012</i>
Discount rate per annum	5%	5%
Salary increase rate per annum		
Staff	5%	5%
Workers	3.25%	3.25%

#### 27 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.

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Total retentions payable	384,842	445,944
Less: Retentions payable - current portion (Note 28)	(286,077)	(307,386)
Retentions payable - non-current portion at amortised cost	<u>98,765</u>	<u>138,558</u>



## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 28 TRADE AND OTHER PAYABLES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Trade payables	<b>658,759</b>	607,924
Advances received from customers for contract work	<b>1,673,505</b>	1,402,326
Amounts due to subcontractors	<b>1,255,539</b>	650,280
Subcontractors' retentions payable - current portion (Note 27)	<b>286,077</b>	307,386
Payable against acquisition of additional share in subsidiary (Note 35)	<b>271,156</b>	-
Amounts due to customers for contract work (Note 29)	<b>50,018</b>	100,633
Other accruals and other payables	<b>1,091,327</b>	861,083
	<b><u>5,286,381</u></b>	<b><u>3,929,632</u></b>

Included in trade and other payables are amounts totalling to AED 331.1 million (2012: AED 345.2 million) that are payable to third parties in connection with the Nad Al Sheba racecourse project which is subject to an amicable discussion on a contractual arrangement described in Note 30.

#### 29 AMOUNTS DUE FROM / (TO) CUSTOMERS FOR CONTRACT WORK

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Amounts due from customers for contract work included in trade and other receivables (Note 16)	<b>3,527,190</b>	1,270,072
Amounts due to customers for contract work included in trade and other payables (Note 28)	<b>(50,018)</b>	(100,633)
	<b><u>3,477,172</u></b>	<b><u>1,169,439</u></b>
Contract costs incurred plus recognised profit less recognised losses to date on projects in progress	<b>23,830,708</b>	16,700,586
Less: Progress billings	<b>(20,353,536)</b>	(15,531,147)
	<b><u>3,477,172</u></b>	<b><u>1,169,439</u></b>

#### 30 AMICABLE DISCUSSION ON CONTRACTUAL ARRANGEMENT

On 25 December 2008, Arabtec Construction LLC WCT Engineering Berhad (Dubai Branch) Joint Venture (the "Joint Arrangement") for the construction of the Nad Al Sheba race course in Dubai, in which the Group has a 50% share, received notice from the customer, Meydan LLC ("Meydan") purporting to terminate the contract on 9 January 2009 for reasons which management considers did not justify such termination. Subsequently, by way of its notice dated 10 January 2009, the Joint Arrangement purported to terminate the contract on 24 January 2009 on a number of grounds including failure to pay certified amounts, the Joint Arrangement'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 230.7 million) and the Advance Payment Guarantee amounting to AED 77.3 million (Group's share: AED 38.6 million) was received by the Joint Arrangement on 29 December 2008. Both securities were payable on demand and, on payment by the banks concerned, management has recorded a receivable for the net amount due 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 LLC is paying interest, which is being expensed.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 30 AMICABLE DISCUSSION ON CONTRACTUAL ARRANGEMENT (continued)

On 11 January 2009, the Joint Arrangement served its request for arbitration after which the arbitration proceedings commenced. The amount claimed by the Joint Arrangement was approximately AED 2.7 billion (Group's share: AED 1.4 billion). In June 2012, Meydan has further lodged a claim before Dubai Court contesting the validity of the arbitration tribunal and claiming a sum of AED 3.5 billion plus interest.

During the first quarter of 2013, the arbitration process was suspended in order to allow for the civil and penal cases in connection with the parties to proceed. Subsequently, in February 2013 the Board of Directors of the Company (the "Board") approved the withdrawal of the arbitration proceedings. Following the Board of Directors' approval in February 2013, the tribunal of DIAC CASE 2/ 2009 issued a partial order terminating the proceedings between Meydan and the Company, without prejudice to the parties' respective rights and obligations. The purpose of withdrawing the proceedings is to engage in and progress amicable settlement discussions. Management is in the process of engaging in these settlement discussions.

#### 31 JOINT OPERATIONS

The Group has the following significant interests in joint operations:

	<i>Share in JV</i>
a) Samsung/Arabtec joint operation project, UAE	40%
b) Six Construct/Arabtec joint operation projects, UAE	50%
c) Samsung/Six Construct/Arabtec joint operation project, UAE	30%
d) Arabtec/Max Bogl joint operation projects, UAE	50%
e) Arabtec/Aktor joint operation projects, UAE	60%
f) Arabtec/Emirates Sunland joint operation projects, UAE	50%
g) Arabtec/WCT Engineering joint operation projects, UAE	50%
h) Arabtec/Engineering Enterprises Company joint operation projects, Jordan	50%
i) Arabtec/Dubai Contracting Company joint operation project, UAE	50%
j) Target Engineering and Construction Company LLC/ Marintek Middle East and Asia FLE joint operation project UAE	65%
k) Arabtec Engineering Services/WCT Engineering joint operation project, UAE	50%
l) Arabian Construction Company/Arabtec joint operation project, Syria	50%
m) Arabtec/National Projects and Construction joint operation project, UAE	50%
n) Arabtec/AI Saad joint operation project, KSA	66.66%
o) Arabtec/AI Mukawilon joint operation project, Palestine	60%
p) Arabtec/Combined Group Contracting Company Joint operation, Kuwait	60%
q) TAV/CCC/Arabtec Joint operation, UAE	33%
r) Oger Abu Dhabi LLC/Constructora San Jose SA/Arabtec Joint operation, UAE	33%
s) CCC/Arabtec Joint operation, Kazakhstan	50%
t) ATC/CCC/DSC Joint Venture Limited, Jordan	33%

The Group is entitled to a proportionate share of the joint operations' assets and revenues and bears a proportionate share of their liabilities and expenses.

The following amounts are included in the Group's consolidated financial statements information in connection with the Group's rights to the assets, returns and obligation for the liabilities relating to the joint operations:

	<i>2013</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>
Current assets	<b>1,760,740</b>	1,269,004
Non-current assets	<b>138,925</b>	87,491
Current liabilities	<b>(1,878,713)</b>	(1,096,146)
Non-current liabilities	<b>(8,669)</b>	(215,520)
Contingent liabilities	<b>2,611,712</b>	1,670,508
Revenue	<b>1,498,898</b>	598,718
Expenses	<b>(1,350,062)</b>	(589,423)

**32 SEGMENT INFORMATION**

***Primary segment information***

The management of the Group has changed the way in which the business is assessed and has reorganised the Group into four operating segments: Construction; MEP; Oil & Gas, Infrastructure and Power; and Other.

The Construction segment primarily engages in the construction of high-rise towers, buildings and residential villas. The MEP segment is involved in the execution of drainage, electrical and mechanical works. The Oil & Gas, Infrastructure and Power segment is involved in all works related to, intended to be used for, and/or for clients in the industries of Oil & Gas, Infrastructure and Power. The Other segment is involved in all other work that does not fall into the previous three segments in addition to the headquarters.

The above segments are the basis on which the Group reports its segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis and eliminated on consolidation.

Segment wise statement of income information for the year ended 31 December 2013 is presented below:

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32 SEGMENT INFORMATION (continued)

<i>Year ended 31 December 2013</i>	<i>Construction AED'000</i>	<i>Mechanical, electrical and plumbing AED'000</i>	<i>Oil &amp; Gas, infrastructure and power AED'000</i>	<i>Other AED'000</i>	<i>Elimination AED'000</i>	<i>Total AED'000</i>
Revenues	4,249,342	550,054	2,810,435	485,046	(725,549)	7,369,328
Contract costs	(3,826,449)	(526,902)	(2,495,851)	(392,698)	725,549	(6,516,351)
<b>Gross profit</b>	<b>422,893</b>	<b>23,152</b>	<b>314,584</b>	<b>92,348</b>	<b>-</b>	<b>852,977</b>
Other income and other expenses	83,937	52,223	34,778	2,197	(2,350)	170,785
General and administrative expenses	(147,664)	(50,535)	(114,914)	(182,970)	2,350	(493,733)
Finance costs	(2,785)	(16,125)	(15,518)	(17,024)	-	(51,452)
Income tax expense	(1,565)	(143)	(3,979)	(4,631)	-	(10,318)
<b>Net segment results</b>	<b>354,816</b>	<b>8,572</b>	<b>214,951</b>	<b>(110,080)</b>	<b>-</b>	<b>468,259</b>
<i>Year ended 31 December 2012*</i>	<i>Construction AED'000</i>	<i>Mechanical, electrical and plumbing AED'000</i>	<i>Oil &amp; Gas, infrastructure and power AED'000</i>	<i>Other AED'000</i>	<i>Elimination AED'000</i>	<i>Total AED'000</i>
Revenues	2,941,735	738,194	2,331,689	446,056	(797,730)	5,659,944
Contract costs	(2,712,674)	(646,670)	(2,120,786)	(316,493)	712,278	(5,084,345)
Gross profit	229,061	91,524	210,903	129,563	(85,452)	575,599
Other income and other expenses	67,385	1,322	56,135	15,599	-	140,441
General and other administrative expenses	(152,915)	(57,436)	(134,822)	(139,603)	-	(484,776)
Finance costs	(8,970)	(9,043)	(21,262)	(2,256)	-	(41,531)
Income tax expense	(572)	(243)	(243)	(448)	-	(1,506)
<b>Net segment results</b>	<b>133,989</b>	<b>26,124</b>	<b>110,711</b>	<b>2,855</b>	<b>(85,452)</b>	<b>188,227</b>

\* The Group has restated the presentation of segment information in the prior period to correspond to the current period presentation. Elimination includes inter-company dividends which are included in the segment results.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

**32 SEGMENT INFORMATION (continued)**

The following table presents segment assets, segment liabilities and other information of the Group's operating segments as at 31 December 2013 and 31 December 2012.

	<i>Construction AED'000</i>	<i>Mechanical, electrical and plumbing AED'000</i>	<i>Oil &amp; Gas, infrastructure and power AED'000</i>	<i>Other AED'000</i>	<i>Elimination AED'000</i>	<i>Total AED'000</i>
<b>31 December 2013</b>						
Segment assets	<u>7,107,116</u>	<u>738,662</u>	<u>3,595,982</u>	<u>3,589,962</u>	<u>(2,231,392)</u>	<u>12,800,330</u>
Segment liabilities	<u>(6,008,106)</u>	<u>(593,179)</u>	<u>(2,273,588)</u>	<u>(392,823)</u>	<u>2,231,392</u>	<u>(7,036,304)</u>
<b>31 December 2012*</b>						
Segment assets	<u>5,421,754</u>	<u>685,304</u>	<u>1,901,740</u>	<u>1,426,574</u>	<u>(495,858)</u>	<u>8,939,514</u>
Segment liabilities	<u>(3,812,376)</u>	<u>(606,480)</u>	<u>(1,436,199)</u>	<u>(234,972)</u>	<u>495,858</u>	<u>(5,594,169)</u>

\* The Group has restated the presentation of segment information in the prior period to correspond to the current period presentation.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 32 SEGMENT INFORMATION (continued)

##### *Geographical information*

The following table presents revenue and total assets information regarding geographic segments for the periods ended 31 December 2013 and 31 December 2012:

	2013		2012	
	<i>Revenue</i> <i>AED'000</i>	<i>Total</i> <i>assets</i> <i>AED'000</i>	<i>Revenue</i> <i>AED'000</i>	<i>Total</i> <i>assets</i> <i>AED'000</i>
GCC Countries	7,176,917	12,532,669	5,402,243	8,727,935
Others	192,411	267,661	257,701	211,579
	<u>7,369,328</u>	<u>12,800,330</u>	<u>5,659,944</u>	<u>8,939,514</u>

##### *Information about major customers*

Revenues from the largest 4 customers of the Construction segment represent approximately AED 2.5 billion (31 December 2012: AED 1.3 billion) of the Group's total revenues.

#### 33 OPERATING LEASE ARRANGEMENTS

*The Group as lessee:*

	2013 <i>AED'000</i>	2012 <i>AED'000</i>
Minimum lease payments under operating leases recognised as expense in the consolidated statement of comprehensive income for the year	<u>21,185</u>	<u>34,936</u>

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

	2013 <i>AED'000</i>	2012 <i>AED'000</i>
Within one year	26,569	27,181
Two to five years	18,155	7,710
More than five years	9,461	11,466
	<u>54,185</u>	<u>46,357</u>

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

#### 34 DIVIDENDS PAID AND PROPOSED

At the Board of Directors meeting held on 18 March 2014, a dividend was proposed of AED 0.4 per share to be distributed as share bonus dividends at 30% of share capital (1 bonus share for each 3.3 shares held totalling 941,850 thousand shares) and the distribution of cash dividends at AED 0.1 per share, or 10% cash dividends, totalling AED 313,950 thousand. This is subject to approval at the forthcoming Annual General Meeting of the Company.

At the Board of Directors meeting on 27 February 2013, the directors resolved to not propose a dividend for the financial year 2012 which was approved by the Annual General Meeting of the shareholders held on 13 April 2013.

At the Annual General Meeting held on 28 April 2012, the shareholders approved the issue of bonus shares @ 5% of share capital (1 bonus share for each 20 shares held totalling 74,750 thousand shares) and the distribution of cash dividends at AED 0.05 per share totalling AED 74,750 thousand.

**35 ACQUISITION OF NON-CONTROLLING INTERESTS AND BUSINESS COMBINATION**

**Acquisition of additional interests in subsidiaries in 2013**

*Emirates Falcon Electromechanical Company LLC*

During 2013, the Group acquired the remaining shareholding of 45% in Emirates Falcon Electromechanical Company LLC (“EFECO”) that it did not already own for AED 152.8 million, increasing its ownership interest to 100%. A cash consideration of AED 58.5 million was paid to the minority shareholders for the non-controlling interest. The difference between the purchase price and the cash consideration of AED 94.3 million reflects contingent consideration related to the performance of EFCO for the period. The difference between the purchase price and the carrying value of the non-controlling interest acquired of AED 94.1 million has been reflected in Other reserves.

*Target Engineering Construction Company LLC*

During 2013, the Group acquired an additional shareholding of 38% in Target Engineering Construction Company LLC (“Target”) for AED 269.8 million, increasing its ownership interest to 98%. The consideration is reflected in trade and other payables. The difference between the purchase price and the carrying value of the non-controlling interest acquired of AED 87.9 million has been reflected in Other reserves.

During 2014 the Group acquired remaining 2% shareholding in Target, increasing its ownership to 100%.

*Arabtec Egypt for Construction SAE*

During 2013, the Group acquired the remaining shareholding of 45% in Arabtec Egypt for Construction SAE that it did not already own for AED 1.3 million, increasing its ownership interest to 100%. The consideration in trade and other payables. The difference between the purchase price and the carrying value of the non-controlling interest acquired of AED 860 thousand has been reflected in Other reserves.

**Acquisition of additional interests in subsidiaries in 2012**

*Idrotec Srl*

During 2012, the Group acquired an additional shareholding in Idrotec from its non-controlling interests, increasing its ownership interest from 48% to 96%. A cash consideration of AED 1.9 million (Euro 400 thousand) was paid to the non-controlling interests.

*Gulf Steel Industries FZC*

During 2012, the Group acquired the remaining shareholding of 45% in Gulf Steel Industries FZC (including its subsidiary, GSI Steel Construction Contracting LLC) from its non-controlling interests, increasing its ownership interest to 100%. A cash consideration of AED 18 million was paid to the non-controlling interests. The difference between the consideration paid and the carrying value of the interest acquired has been recognised in other reserves for AED 2,201 thousand.

**Acquisition in 2012**

*Acquisition of Powercon Switchgear Factory*

During 2012, one of the Group’s subsidiaries acquired 75% of the voting shares of Powercon Switchgear Factory, an unlisted limited liability company registered in the UAE and engaged in manufacturing of and trading in switchgears. This transaction has been accounted for using the acquisition method of accounting. The carrying and fair values of the assets, liabilities and contingencies liabilities acquired on business combination (with fair values estimated by the directors of the subsidiary) and the goodwill arising thereon, are as follows:

# Arabtec Holding PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

### 35 BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

	<i>Fair values recognised on acquisition AED'000 (Unaudited)</i>
<b>Assets</b>	
Property, plant and equipment	3
Inventories	1,936
Trade and other receivables	1,200
Due from related parties	4,163
Bank and cash balances	181
	<hr/> 7,483 <hr/>
<b>Liabilities</b>	
Employees' end of service indemnity provision	(643)
Trade, notes and other payables	(8,007)
Bank borrowings	(1,214)
	<hr/> (9,864) <hr/>
Total identifiable net liabilities acquired	(2,381)
Less: Non-controlling interests	595
	<hr/> 1,786 <hr/>
Consideration transferred	-
<b>Goodwill arising on acquisition</b>	<hr/> <b>1,786</b> <hr/>
<b>Movement in goodwill</b>	
Arising on acquisition	1,786
Impairment at closing date	(1,786)
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## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 36 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below:

(a) *Proportion of equity interest held by non-controlling interests*

	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
Target Engineering Construction Company LLC	2%	40%
Arabtec Saudi Arabia LLC	55%	55%
Arabtec Construction WLL	51%	51%

(b) *Accumulated balances of material non-controlling interest*

	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
Target Engineering Construction Company LLC	8,755	164,976
Arabtec Saudi Arabia LLC	200,633	88,809
Arabtec Construction WLL	8,627	49,890

(c) *Profit/(loss) allocated to material non-controlling interest*

	<b>2013</b> <b>AED'000</b>	<b>2012</b> <b>AED'000</b>
Target Engineering Construction Company LLC	25,689	24,162
Arabtec Saudi Arabia LLC	113,194	26,836
Arabtec Construction W.L.L.	(41,263)	(5,716)

The summarised financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations:

(d) *Summarised statement of comprehensive income*

For the year ended 31 December 2013

	<b>Target Engineering Construction Company LLC AED'000</b>	<b>Arabtec Saudi Arabia LLC AED'000</b>	<b>Arabtec Construction WLL AED'000</b>
Revenue	1,453,212	1,318,660	430,741
Gross profit / (loss)	226,837	241,728	(74,296)
Other income	2,200	16,037	2,020
Profit / (loss) before tax	158,258	205,807	(80,205)

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At 31 December 2013

**36 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**

For the year ended 31 December 2012

	<i>Target Engineering Construction Company LLC AED'000</i>	<i>Arabtec Saudi Arabia LLC AED'000</i>	<i>Arabtec Construction WLL AED'000</i>
Revenue	1,409,067	995,461	321,940
Gross profit	124,469	65,940	16,367
Other income	5,264	409	-
Profit / (loss) before tax	60,649	48,897	(10,115)

(e) Summarised statement of financial position

At 31 December 2013

	<i>Target Engineering Construction Company LLC AED'000</i>	<i>Arabtec Saudi Arabia LLC AED'000</i>	<i>Arabtec Construction WLL AED'000</i>
Current assets	1,127,136	1,296,897	456,118
Current liabilities	(814,937)	(1,197,209)	(435,700)
Non-current assets	340,153	283,557	68,162
Non-current liabilities	(83,759)	(18,348)	(52,939)
	<u>568,593</u>	<u>364,897</u>	<u>35,641</u>

At 31 December 2012

	<i>Target Engineering Construction Company LLC AED'000</i>	<i>Arabtec Saudi Arabia LLC AED'000</i>	<i>Arabtec Construction WLL AED'000</i>
Current assets	1,062,219	448,158	390,569
Current liabilities	(921,816)	(519,250)	(249,476)
Non-current assets	351,610	239,740	27,251
Non-current liabilities	(79,275)	(8,906)	(52,161)
	<u>412,738</u>	<u>159,742</u>	<u>116,183</u>

Arabtec Holding PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

**36 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**

(f) *Summarised statement of cash flows*

For the year ended 31 December 2013

	<i>Target Engineering Construction Company LLC AED'000</i>	<i>Arabtec Saudi Arabia LLC AED'000</i>	<i>Arabtec Construction WLL AED'000</i>
Operating	168,235	(84,787)	(10,707)
Investing	(63,993)	(91,592)	(8,724)
Financing	(7,567)	143,881	32,951
Net increase/(decrease) in cash and cash equivalents	<u>96,675</u>	<u>(32,498)</u>	<u>13,520</u>

For the year ended 31 December 2012

	<i>Target Engineering Construction Company LLC AED'000</i>	<i>Arabtec Saudi Arabia LLC AED'000</i>	<i>Arabtec Construction WLL AED'000</i>
Operating	48,698	(49,014)	(16,920)
Investing	(81,841)	(141,102)	(3,291)
Financing	19,905	77,072	-
Net decrease in cash and cash equivalents	<u>(13,238)</u>	<u>(113,044)</u>	<u>(20,211)</u>

**37 COMMITMENTS AND CONTINGENCIES**

	<i>2013 AED'000</i>	<i>2012 AED'000</i>
<b><i>Commitments</i></b>		
Commitments for the acquisition of property, plant and equipment	<u>49,143</u>	<u>46,357</u>
<b><i>Contingent liabilities</i></b>		
Performance and bid bonds	3,708,165	2,757,068
Advance payment bonds	1,886,288	1,062,431
Financial guarantees	100,584	53,284
Retention bonds	332,460	454,347
Labour guarantees	140,515	99,911
Letters of credit	<u>362,230</u>	<u>418,721</u>

**37 COMMITMENTS AND CONTINGENCIES (continued)**

*Political unrest in Syria*

The Group has a project in Syria that has been suspended as a result of the current political events and civil unrest in the country. The Group management has taken proactive measures by entering into negotiations with its Syrian client in order to realise its assets and ensure that any exposure on its financial statements is covered.

While it is difficult to quantify the effect of these events on the future financial statements, the significance of this impact will depend on the extent to which these events and their effect will last. In management's opinion, the events in Syria will not materially affect the Group's financial position or performance.

The Group is a defendant in a number of lawsuits relating to its ordinary course of business. The Group's management believes that it is only possible, but not probable, that the claimants will succeed. Accordingly the Group's management has assessed that the provision currently booked is adequate to cover any liability arising for such cases.

**38 FAIR VALUES**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, trade and other receivables, other financial assets, other current assets and due from related parties. Financial liabilities consist of bank borrowings, trade and other payables, due to related parties and income tax payable.

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

- Bank balances and cash, trade receivables, other financial assets, other current assets, due from related parties bank borrowings, trade and other payables, due to related parties and income tax payable approximate their carrying amounts, largely due to the short-term maturities of these instruments.
- Long term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, provisions are taken to account for the expected losses of these receivables. As at 31 December 2013, the carrying amounts of such receivables, net of provisions, are not materially different from their fair values.
- Fair value of bank borrowings and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debts on similar items, credit risk and remaining maturities.

**Fair value hierarchy**

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

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

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

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

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 38 FAIR VALUES (continued)

##### Fair value hierarchy (continued)

As at 31 December, the Group held the following financial instrument measured at fair value:

<i>At 31 December 2013</i>	<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>	<i>Total AED'000</i>
Available-for-sale investments	16,446	-	-	16,446
	<u>16,446</u>	<u>-</u>	<u>-</u>	<u>16,446</u>
<i>At 31 December 2012</i>	<i>Level 1 AED'000</i>	<i>Level 2 AED'000</i>	<i>Level 3 AED'000</i>	<i>Total AED'000</i>
Available-for-sale investments	6,093	-	-	6,093
	<u>6,093</u>	<u>-</u>	<u>-</u>	<u>6,093</u>

Fair value hierarchy disclosures relating to other assets and liabilities (such as goodwill and investment properties) are made in the relevant notes.

#### 39 RISK MANAGEMENT

The Group's principal financial liabilities comprise bank borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade and other receivables, other current assets and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments and investments in associates.

The Group is exposed to interest rate risk, market risk, credit risk, equity price risk and liquidity risk. The Group's Board of directors and senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

##### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, bank overdrafts, acceptances, trust receipts and term loans). The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The following table demonstrates the sensitivity of the consolidated statement of comprehensive income to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the Group's profit for a year, based on the floating rate financial assets and financial liabilities held at 31 December. There is no impact on the Group's equity.

	<i>Increase/ Decrease in basis points</i>	<i>Effect on profit for the year AED'000</i>
<b>2013</b>		
<b>AED</b>	<b>±50</b>	<b>602</b>
<b>2012</b>		
<b>AED</b>	<b>±50</b>	<b>1,470</b>

**39 RISK MANAGEMENT (continued)**

**Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities including contract, retention and trade receivables, due from related parties and bank balances. Trade and contract receivables consist of a number of customers, spread across diverse industries and geographical areas within and outside the UAE. The terms of payment are specified in formal signed contracts with customers.

The Group is 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 a provision for doubtful accounts receivable based on expected collectability of all accounts receivable.

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 concentration of credit risk is disclosed in Note 16.

The Group limits its credit risk with regard to bank deposits by dealing only with reputable banks.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2013 %</i>	<i>Effect on equity 2013 AED'000</i>	<i>Change in equity price 2012 %</i>	<i>Effect on equity 2012 AED'000</i>
Singapore Stock Exchange	+10	1,222	+10	432
Dubai Financial Market	+10	422	+10	177

Unquoted investments in shares carried at cost where the impact of changes in prices will only be reflected when the investment is sold or deemed to be impaired and, accordingly, at that time the consolidated statement of comprehensive income will be impacted.

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 39 RISK MANAGEMENT (continued)

##### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group limits its liquidity risk by ensuring adequate bank facilities are available and by maintaining adequate reserves, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. The Group's terms of executing contracts and sales require amounts to be paid as specified in the contracts and in case of sales within 120 days of the date of invoice. Trade payables are normally settled within 120 days of the date of purchase.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2013, based on contractual payment dates and current market interest rates.

##### Year ended 31 December 2013

	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>&gt;5 years AED'000</i>	<i>Total AED'000</i>
Accounts payable and accruals	868,541	2,046,438	-	-	2,914,979
Due to related parties	212,772	327,985	-	-	540,757
Income tax payable	2,584	1,083	-	-	3,667
Retentions payable	-	286,076	98,766	-	384,842
Bank overdrafts, trust receipt and acceptances	224,706	503,682	-	-	728,388
Term loans	8,330	131,301	61,947	-	201,578
<b>Total</b>	<b>1,316,933</b>	<b>3,296,565</b>	<b>160,713</b>	<b>-</b>	<b>4,774,211</b>

##### Year ended 31 December 2012

	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>&gt;5 years AED'000</i>	<i>Total AED'000</i>
Accounts payable and accruals	447,598	2,300,460	-	-	2,748,058
Due to related parties	571,154	-	-	-	571,154
Income tax payable	-	488	-	-	488
Retentions payable	-	-	138,558	-	138,558
Bank overdrafts, trust receipt and acceptances	470,718	95,649	-	-	566,367
Term loans	37,409	64,595	157,585	-	259,589
<b>Total</b>	<b>1,526,879</b>	<b>2,461,192</b>	<b>296,143</b>	<b>-</b>	<b>4,284,214</b>

##### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The analysis calculates the effect of a reasonably possible movement of foreign currencies in relation to the functional currencies of the Group's entities with all the other variables held constant, on the consolidated statement of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

## Arabtec Holding PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

#### 39 RISK MANAGEMENT (continued)

##### Currency risk (continued)

		<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Euro	±10%	<b>189</b>	274
UK Pounds Sterling	±10%	<b>6</b>	-
Pakistani Rupee	±10%	<b>634</b>	1,888
Jordanian Dinar	±10%	<b>2,000</b>	-
Syrian Pound	±10%	-	70
Russian Roubles	±10%	<b>16</b>	624

Balances in US Dollar are not considered to represent significant risk as the UAE Dirham is pegged to the US Dollar.

##### Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in business conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012. Capital comprises share capital, retained earnings, reserves and non-controlling interests, and is measured at AED 5,764,026 thousand as at 31 December 2013 (2012: AED 3,345,345 thousand).