

**Arkan Building Materials Company
(ARKAN) PJSC**

Condensed consolidated interim financial
information

30 June 2017

Principal business address:
P.O. Box 40307
Abu Dhabi
United Arab Emirates

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim financial information

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Board of Directors' Report to Shareholders

On behalf of Arkan Building Materials Company's Board of Directors, I am pleased to present the Board of Directors' report for the period ended June 30th, 2017, together with the reviewed condensed consolidated financial statements for the same period.

Overall, Arkan achieved a revenue of AED 460 million in the first half (H1) of 2017, compared to AED 411 million in H1 2016, up by 12%. During the period, the Company was able to increase sales volumes in most of its divisions, despite the highly competitive market environment. The involvement in Dubai based mega projects, including Dubai South project contributed to Arkan's increased market share. The Group's profit for the same period was AED 25 million compared to AED 40 million in H1 2016. As outlined in the first quarter results, the completion in June 2016 of the accounting treatment of the benefit from the government grant received in July 2011 and the significantly higher energy costs are the reasons for the difference.

Review of Operations:

Cement Operations:

Revenue from Arkan's Cement segment was AED 318.53 million in H1 2017, compared to AED 299.68 million in the first half of 2016. Profit from this segment in H1 2017 equaled AED 32.28 million as compared to AED 33.84 million in H1 2016. Despite the severe pricing pressure due to overall excess capacity in the UAE market as well as the significant increase in gas and electricity costs, the Cement segment maintained the same profitability level as of 2016 by reducing energy consumption and securing raw materials at more competitive prices.

Concrete Blocks and Dry Mortar:

Revenue from Arkan's Blocks segment significantly increased to AED 77.39 million in H1 2017, compared to AED 48.84 million in H1 2016. Profit from this segment in H1 2017 is AED 5.46 million as compared to AED 427 thousand in H1 2016. The Emirates Blocks Factory built on the strong first quarter and continued the remarkable performance for the second quarter of 2017, increasing its revenues and profits by securing major projects across the UAE.

GRP Pipes:

Revenue from Arkan's GRP Pipes segment reached AED 23.32 million in H1 2017, compared to AED 25.60 million in H1 2016. Profit from this segment amounted to AED 3.08 million in H1 2017 compared to AED 3.90 million during H1 2016 as a result of lower export sales volumes.

PVC Pipes:

Arkan's PVC Pipes segment sales revenue was AED 29.49 million in H1 2017, compared to AED 23.18 million in H1 2016. Loss from this segment amounted to AED 69 thousand at the end of H1 2017 compared to a profit AED 857 thousand in H1 2016, due to lower selling prices.

Bags:

Arkan's Bags segment sales revenue was AED 10.92 million in H1 2017, compared to AED 13.94 million in H1 2016. Profit from this segment amounted to AED 1.63 million at the end of 30 June 2017, compared to AED 1.16 million in H1 2016 due to higher sales volumes in spite of lower selling prices.

Liquidity

The Group's cash and cash equivalents amounted to AED 45.27 million at the end of H1 2017.

Total Assets & Shareholders' Equity

The total assets of the Group amounted to AED 3.44 billion at the end of H1 2017. The value of shareholders' equity increased to AED 1.78 billion as of June 30, 2017, compared to AED 1.75 billion as of 31 December 2016.

Investments

The share of profit from associates at the end of the first half of 2017 was AED 2.95 million compared to AED 6.11 million in the same period last year. The Company received cash dividends of AED 9.6 million from this investment during the period. The investment in Emirates Real Estate Fund was sold in the first quarter of 2017.


On behalf of the Board of Directors:

Jamal Salem Al Dhaheri

Chairman

26 July 2017



KPMG Lower Gulf Limited
Level 19, Nation Tower 2
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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders of Arkan Building Materials Company (ARKAN) PJSC

Introduction

We have reviewed the accompanying 30 June 2017 condensed consolidated interim financial information of Arkan Building Materials Company (ARKAN) PJSC and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 June 2017;
- the condensed consolidated interim statement of profit or loss and other comprehensive income for the three-month and six-month period ended 30 June 2017;
- the condensed consolidated interim statement of other comprehensive income for the three-month and six-month period ended 30 June 2017;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2017;
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2017; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.



Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

A handwritten signature in black ink, appearing to read 'Richard Ackland'.

Richard Ackland
Registration Number: 1015
Abu Dhabi, United Arab Emirates
Date: 26 July 2017

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of financial position

As at


	<i>Note</i>	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Assets			
Non-current assets			
Property, plant and equipment	5	2,019,246	2,049,236
Goodwill		128,430	128,430
Other intangible assets		114,928	119,159
Investment in associates	6	205,750	212,406
Financial assets measured at fair value through other comprehensive income (FVTOCI)	7	-	73,793
Total non-current assets		2,468,354	2,583,024
Current assets			
Inventories	8	347,328	366,807
Trade and other receivables	9	541,687	479,739
Prepayments		33,458	30,806
Amounts due from related parties	11	1,224	720
Cash and bank balances	10	45,236	30,915
Total current assets		968,933	908,987
Total assets		3,437,287	3,492,011
Equity and Liabilities			
Capital and reserves			
Share capital		1,750,000	1,750,000
Statutory reserve		72,485	72,485
Capital reserve		3,783	3,783
Investment revaluation reserve	7	-	(70,942)
Other reserves		(12,788)	(12,788)
Accumulated (losses) / retained earnings		(37,099)	8,829
Net equity attributable to owners of the Company		1,776,381	1,751,367
Net equity		1,776,381	1,751,367

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of financial position *(continued)*

As at

	Note	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Non-current liabilities			
Borrowings	12	875,633	943,055
Loan from a related party	11	91,845	91,845
Provision for employees' end of service benefit		41,195	49,764
Total non-current liabilities		1,008,673	1,084,664
Current liabilities			
Borrowings	12	154,844	239,845
Trade and other payables	13	445,232	364,225
Amounts due to a related party	11	15,451	15,204
Loan from a related party	11	36,706	36,706
Total current liabilities		652,233	655,980
Total liabilities		1,660,906	1,740,644
Total equity and liabilities		3,437,287	3,492,011


Jamal Salem Al Dhaheri
Chairman


Abdellatif Sfaxi
Chief Executive Officer


Faizal Amod
Chief Financial Officer

The notes set out on pages 10 to 26 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of these condensed consolidated interim financial information is set out on pages 2 and 3.

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of profit or loss
for the period ended 30 June

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Revenue		231,320	198,964	459,603	411,235
Direct costs		(176,182)	(154,882)	(352,902)	(308,023)
Gross profit		55,138	44,082	106,701	103,212
Selling and distribution expenses		(8,135)	(3,729)	(16,077)	(14,468)
General and administrative expenses		(21,759)	(26,482)	(44,930)	(52,316)
Other income / (expenses)		1,512	(3,649)	3,423	707
Share of profits of associates (net)	6	1,544	1,943	2,945	6,107
Income from government grant		-	11,500	-	23,000
Net loss on investments at fair value through profit or loss		-	(164)	-	(24)
Dividend income		-	11	-	2,189
Finance cost		(13,444)	(14,119)	(27,090)	(28,281)
Finance income		(436)	15	42	15
Profit for the period		14,420	9,408	25,014	40,141
Profit for the period attributable to:					
Owners of the Company		14,420	9,408	25,014	40,141
		14,420	9,408	25,014	40,141
Basic and diluted earnings per share attributable to Owners of the Company (AED)	17	0.008	0.005	0.014	0.023

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Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of comprehensive income
for the period ended 30 June

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Profit for the period		14,420	9,408	25,014	40,141
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Net change in fair value of investment in equity instruments measured at FVTOCI	7	-	758	-	1,842
Total comprehensive income for the period		14,420	10,166	25,014	41,983
Total comprehensive income for the period attributable to:					
Owners of the Company		14,420	10,166	25,014	41,983
		14,420	10,166	25,014	41,983

The notes set out on pages 10 to 26 form an integral part of these condensed consolidated interim financial information.

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Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of changes in equity for the period ended 30 June

	Share capital AED'000	Statutory reserve AED'000	Capital Reserve AED'000	Investment revaluation reserve AED'000	Accumulated (losses) / retained earnings AED'000	Other reserves AED'000	Net equity attributable to Owners of the Company AED'000	Non- controlling interest AED'000	Total AED'000
As at 1 January 2016	1,750,000	72,485	3,783	(70,011)	90,804	-	1,847,061	307	1,847,368
<i>Total comprehensive income for the period</i>									
Profit for the period	-	-	-	-	40,141	-	40,141	-	40,141
Net changes in fair value of financial assets measured at FVTOCI	-	-	-	1,842	-	-	1,842	-	1,842
Total comprehensive income	-	-	-	1,842	40,141	-	41,983	-	41,983
As at 30 June 2016	1,750,000	72,485	3,783	(68,169)	130,945	-	1,889,044	307	1,889,351
As at 1 January 2017	1,750,000	72,485	3,783	(70,942)	8,829	(12,788)	1,751,367	-	1,751,367
<i>Total comprehensive income for the period</i>									
Profit for the period	-	-	-	-	25,014	-	25,014	-	25,014
Disposal of financial assets measured at FVTOCI	-	-	-	70,942	(70,942)	-	-	-	-
Total comprehensive income	-	-	-	-	(45,928)	-	25,014	-	25,014
As at 30 June 2017	1,750,000	72,485	3,783	-	(37,099)	(12,788)	1,776,381	-	1,776,381

The notes set out on pages 10 to 26 form an integral part of these condensed consolidated interim financial information.

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of cash flows for the period ended 30 June

	Notes	6 months ended 30 June	
		2017 (unaudited) AED'000	2016 (unaudited) AED'000
Cash flows from operating activities			
Profit for the period		25,014	40,141
Adjustments for:			
Depreciation of property, plant and equipment	5	39,525	49,785
Amortisation of other intangible assets		4,231	4,306
Dividend income		-	(2,189)
Finance income		(42)	(15)
Finance cost		27,090	28,281
Amortisation of deferred government grant		-	(23,000)
Net change in fair value of financial assets measured as at FVTPL		-	24
Share of profit from associates	6	(2,945)	(6,107)
Loss on sale of property, plant and equipment		-	576
Impairment loss recognised on trade receivables	9	3,792	718
(Reversal) / allowance for impairment of inventories	8	(2,012)	279
Provision for employees' end of service benefit		3,450	2,498
		98,103	95,297
Operating cash flows before movements in working capital			
Changes in			
- inventories	8	21,491	6,599
- trade and other receivables	9	(65,740)	(12,472)
- prepayments		(2,652)	2,327
- amounts due from related parties	11	(504)	(219)
- trade and other payables	14	77,434	(16,891)
- amounts due to a related party	11	247	(99)
		128,379	74,542
Cash generated from operating activities		128,379	74,542
End of service benefits paid		(12,019)	(205)
		116,360	74,337
Net cash from operating activities			
Cash flows from investing activities			
Payments for property, plant and equipment	5	(9,535)	(17,614)
Proceeds from sale of property, plant and equipment		-	571
Dividends received from associates	6	9,601	24,000
Dividend received from investments held at FVTOCI		-	2,189
Proceeds from sale of investment held at FVTPL		-	963
Interest received		42	15
		108	10,124
Net cash generated from investing activities			
Cash flows from financing activities			
Repayments bank borrowings – net		(78,630)	(52,423)
Finance cost paid		(23,517)	(25,580)
		(102,147)	(78,003)
Net cash used in financing activities			
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	10	30,915	60,940
		45,236	67,398
Cash and cash equivalents at the end of the period			

The notes set out on pages 10 to 26 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of these condensed consolidated interim financial information is set out on pages 2 and 3.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

1 Legal status and principal activities

Arkan Building Materials Company PJSC (“Arkan” or the “Company”) was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) as a Public Joint Stock Company pursuant to Ministerial Resolution No. 228 for the year 2006. General Holding Corporation PJSC (the “parent company”) owns 51% of the Company’s shares.

The principal activities of the Company include operating, trading and investing in industrial projects and commercial companies involved in the building materials sector.

These condensed consolidated interim financial information include the performance and financial position as at and for the six-months ended 30 June 2017 of the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in associates.

The principal activity, country of incorporation and operation, and ownership interest of the Company in the subsidiaries is set out below:

Subsidiary	Country of incorporation and operation	Ownership interest (%)		Principal activity
		2017	2016	
Emirates Blocks Factory	UAE	100	100	Production and sale of cement blocks.
Emirates Cement Factory	UAE	100	100	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	100	100	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	100	100	Production and sale of pipes and plastic and paper bags.
Hobas Gulf LLC	UAE	100	100	Develop market of glass fiber reinforced polyster pipes and systems.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

2 Basis of preparation

(a) *Statement of compliance*

The condensed consolidated interim financial information have been prepared in accordance with IAS 34 "Interim Financial Reporting", the applicable provision of the articles of association of the Company and the UAE Federal Law No. (2) of 2015. On 1 April 2015, UAE Federal Law No. 8 has been replaced with UAE Federal Law No. (2) of 2015 being the Commercial Companies Law ("UAE Companies Law of 2015") and has come into force on 1 July 2015 repealing the old UAE Federal Law No. 8 of 1984 (as amended). Companies are mandated to comply with the UAE Companies Law No. (2) of 2015 by 30 June 2017.

The Group has finalised the process of amending its Articles of Association.

These condensed consolidated financial information do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2016.

(b) *Basis of measurement*

These condensed consolidated interim financial information are prepared on the historical cost basis except for the following:

- Investments held at fair value through profit or loss which are measured at fair value.
- Investments held at fair value through other comprehensive income which are measured at fair value.

(c) *Functional and presentation currency*

These condensed consolidated interim financial information are presented in United Arab Emirates Dirham ('AED'), which is the Group's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

(d) *New and amended International Financial Reporting Standards (IFRS) in issue but not yet effective*

New and revised IFRS	Effective date
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019

Management anticipates that these amendments will be applied in the consolidated financial statement for the initial period when they become effective. Management is currently assessing the impact from the adoption of the above new and amended standards on its financial position and performance.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

3 Summary of significant accounting policies

The accounting policies and estimates used in the preparation of these condensed consolidated interim financial information are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective 1 January 2017.

As required by the Securities and Commodities Authority ("SCA") notification dated 12 October 2008, accounting policies relating to investments in associates and financial assets have been disclosed below.

(a) Investment in associates and joint venture

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these condensed consolidated interim financial information using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

3 Summary of significant accounting policies *(continued)*

(a) Investment in associates and joint venture (continued)

The requirements of IFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(b) Financial assets

The Group has the following financial assets: 'cash and bank balances', 'loans and receivables', 'investments measured at fair value through profit or loss (FVTPL)', and 'investments measured at fair value through other comprehensive income (FVTOCI)'. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at banks and call and term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and amounts due from related parties.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

3 Summary of significant accounting policies *(continued)*

(b) Financial assets (continued)

Investments held at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or designated as at FVTPL.

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition as described below.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated as a hedging instrument or a financial guarantee.

Investments held at FVTOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the net investment and other income line item in the profit or loss.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

3 Summary of significant accounting policies *(continued)*

(b) Financial assets *(continued)*

Investments held at FVTOCI (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

3 Summary of significant accounting policies *(continued)*

(c) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

4 Accounting estimates and judgments

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

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

5 Property, plant and equipment

During the six months period ended 30 June 2017, the Group acquired assets with a cost of AED 9,535 thousand (30 June 2016: AED 17,614 thousand). The new cement factory has been pledged against a loan received from a bank for the construction of the factory.

Depreciation during the period amounts to AED 39,525 thousand (30 June 2016: AED 49,785 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Balance at the beginning of the period / year	212,406	225,954
Group's share of associates' profits for the period / year-net	2,945	8,704
Reversal of excess share of loss recognised in prior years	-	1,748
Dividends received during the period / year	(9,601)	(24,000)
Balance at the end of the period / year	<u>205,750</u>	<u>212,406</u>

7 Investments

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
<i>Non-current investments</i>		
Financial assets measured at FVTOCI	-	146,920
Investment revaluation reserve	-	(70,942)
Capital distribution received	-	(2,185)
Fair value	<u>-</u>	<u>73,793</u>

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Notes to the condensed consolidated interim financial information

7 Investments (continued)

The FVTOCI investment represented an investment of AED 144,735 thousand in a real estate fund within the UAE. The investment was fully under lien to secure a term loan. During the period, the Group has settled this investment against the term loan 1 amounting to AED 90 million (refer note 12).

Financial assets measured at FVTOCI falls under fair value hierarchy level 2.

8 Inventories

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Raw materials	109,667	100,079
Work in progress	103,448	153,420
Finished goods	53,851	40,548
Goods in transit	23	59
Spare parts and consumable materials	136,218	130,592
	<hr/>	<hr/>
	403,207	424,698
Less: Allowance for impairment of inventories	(55,879)	(57,891)
	<hr/>	<hr/>
	347,328	366,807
	<hr/> <hr/>	<hr/> <hr/>

The movement in the allowance for inventory obsolescence is as follows:

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Balance at the beginning of the period / year	57,891	11,110
Reversal for the period / year	(2,012)	(395)
Impairment for the period / year	-	47,176
	<hr/>	<hr/>
Balance at the end of the period / year	55,879	57,891
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Notes to the condensed consolidated interim financial information

9 Trade and other receivables

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Trade receivables	539,813	482,338
Other receivables	38,596	37,919
Less: Allowance for impairment	(63,866)	(60,074)
	<hr/>	<hr/>
Advances to suppliers	514,543 27,144	460,183 19,556
	<hr/>	<hr/>
	541,687	479,739
	<hr/> <hr/>	<hr/> <hr/>

10 Cash and bank balances

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Cash in hand	51	39
Cash in bank and current accounts	45,185	30,876
	<hr/>	<hr/>
	45,236	30,915
	<hr/> <hr/>	<hr/> <hr/>

11 Transactions and balances with related parties

In the ordinary course of business the Group enters into transactions at agreed terms and conditions which are carried out on commercially agreed terms, with other business enterprises or individuals that fall within the definition of a related party contained in International Accounting Standard 24. The Company has a related party relationship with the Group entities, its executive officers and business entities over which they can exercise significant influence or which can exercise significant influence over the Group.

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Notes to the condensed consolidated interim financial information

11 Transactions and balances with related parties *(continued)*

The volume of related party transactions, outstanding balances and related expenses and income for the year were as follows:

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
<i>Amounts due from related parties</i>		
Emirates Steel Industries PJSC	982	687
Others	242	33
	<u>1,224</u>	<u>720</u>
<i>Amounts due to a related party</i>		
General Holding Corporation PJSC (SENAAT)	15,451	15,204
<i>Loan from a related party</i>		
General Holding Corporation PJSC (SENAAT)		
<i>Current</i>	36,706	36,706
<i>Non-current</i>	91,845	91,845
	<u>128,551</u>	<u>128,551</u>

*The Group renegotiated the terms of the loan with the parent company on 30 November 2016. The original maturity of the loan was a bullet payment on 31 December 2016. The restructured loan is payable over 8 equal semi-annually commencing from December 2016 and carries interest at prevailing market rates. The loan will be fully repaid by June 2020.

Transactions with related parties during the period comprise:

	6 months ended 30 June	
	2017 (unaudited) AED'000	2016 (unaudited) AED'000
Interest on loan from parent company	2,019	1,961
Sale to a related party	1,127	688
Key management compensation		
Short term benefits	4,005	4,152
Post-employment benefits	451	328
	<u>4,456</u>	<u>4,480</u>

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Notes to the condensed consolidated interim financial information

12 Borrowings

Bank borrowings are repayable as follows:

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
<i>Non-current</i>		
After one year	875,633	943,055
<i>Current</i>		
Within one year	154,844	239,845

The details of the bank borrowings are stated as follows:

	Outstanding at 30 June 2017			Outstanding at 31 December 2016			
	Maturity	Current AED'000	Non- current AED'000	Total AED'000	Current AED'000	Non- current AED'000	Total AED'000
Term loan 1	2017	-	-	-	90,000	-	90,000
Term loan 2	2024	133,200	867,000	1,000,200	133,200	933,600	1,066,800
Term loan 3	2023	1,644	8,633	10,277	1,645	9,455	11,100
Term loan 4	2017	20,000	-	20,000	15,000	-	15,000
		154,844	875,633	1,030,477	239,845	943,055	1,182,900

Term loan 1 of AED 90 million was obtained from an Islamic bank to fund the Group's share in real estate fund. The original maturity of the loan was 2012. The Group renegotiated the terms of the loan in 2011 and agreed on a bullet payment by January 2017. The loan was secured by the Group's share in the real estate fund and bears a fixed rate of profit. During the period this loan was settled against the Group's share in the real estate fund amounting to AED 73,793 thousand and the remaining balance amounting to AED 16,207 thousand was fully paid.

Term loan 2 was obtained by the Group to finance the construction of the Group's new cement factory. During 2014, the Group restructured the existing loan of AED 1,400 million into a 10 year term loan of AED 1,200 million and a three year revolving facility of AED 200 million. The term loan is payable over 9 years semiannually commencing from March 2016. The restructured loan carries interest at prevailing market rates. The unutilised portion of the revolving facility amounted to AED 200 million as at 30 June 2017 (31 December 2016: AED 200 million).

Term loan 3 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Company. The loan is repayable in 36 equal quarterly installments from November 2014 at prevailing market rates.

Term loan 4 of AED 20 million (31 December 2016: AED 15 million) was obtained from one bank (31 December 2016: one bank) for financing the working capital of the Company. The loan is repayable in 90 days. The loan carries a markup of applicable EIBOR plus 1.5% per annum.

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Notes to the condensed consolidated interim financial information

13 Trade and other payables

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Trade payables	364,714	277,310
Accruals	62,934	73,537
Interest payable	7,069	3,496
Other payables	10,515	9,882
	<u>445,232</u>	<u>364,225</u>

14 Contingencies and commitments

	30 June 2017 (unaudited) AED'000	31 December 2016 (audited) AED'000
Bank guarantees and letters of credit	39,391	14,651
Capital commitments	6,195	19,316

The above bank guarantees and letters of credit were issued in the normal course of business.

15 Segment reporting

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Board of Directors review internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

- Cement segment, which includes production and sale of cement;
- Blocks segment, which includes production and distribution of blocks;
- Pipes segment, which includes the production and sale of Poly-Vinyl Chloride ("PVC") Pipes and Glass Reinforced Polyester ("GRP") Pipes; and
- Bags segment, which includes production and sale of paper bags.

Information regarding the results of each reportable segment is included below. Performance is measured on segment profit as included in the internal management reports that are reviewed by the Group's Chief Executive Officer and Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

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Notes to the condensed consolidated interim financial information

15 Segment reporting (continued)

For the period ended 30 June 2017 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	318,526	77,348	23,321	29,492	10,916	-	-	459,603
Intersegment revenue	13,755	-	-	-	3,985	-	(17,740)	-
Finance cost	26,841	-	-	-	-	249	-	27,090
Depreciation and amortisation	27,806	6,015	2,738	993	86	6,118	-	43,756
Share of profit of equity accounted investees	-	-	-	-	-	2,945	-	2,945
Profit / (Loss) for the period	32,277	5,455	3,076	(69)	1,628	(17,353)	-	25,014

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Notes to the condensed consolidated interim financial information

15 Segment reporting (continued)

As at 30 June 2017 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	2,792,280	372,656	87,881	130,485	43,874	1,391,837	(1,381,726)	3,437,287
Total liabilities	407,781	192,917	22,452	26,078	50,382	2,289,666	(1,328,370)	1,660,906

For the period ended 30 June 2016 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	299,679	48,843	25,595	23,175	13,943	-	-	411,235
Intersegment revenue	9,502	3,110	-	-	-	-	(12,612)	-
Finance cost	25,766	-	3	-	-	2,512	-	28,281

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

15 Segment reporting (continued)

For the period ended 30 June 2016 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Depreciation and amortisation	33,193	5,985	2,699	896	87	11,231	-	54,091
Share of profit of equity accounted investees	-	-	-	-	-	6,107	-	6,107
Profit / (Loss) for the period	33,839	427	3,898	857	1,161	(41)	-	40,141

As at 31 December 2016 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	2,365,375	347,598	82,160	116,339	45,088	1,444,318	(908,867)	3,492,011
Total liabilities	35,957	173,495	20,758	10,862	46,574	2,304,121	(851,123)	1,740,644

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

16 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the six-month period ended 30 June 2017 and 30 June 2016.

17 Basic and diluted earnings per share attributable to Owners of the Company

The following reflects the profit and shares data used in the earnings per share computations:

	6 months ended 30 June	
	2017 (unaudited)	2016 (unaudited)
Profit attributable to owners of the Company (AED'000)	<u>25,014</u>	<u>40,141</u>
Weighted average number of shares in issue (thousands of shares)	<u>1,750,000</u>	<u>1,750,000</u>
Earnings per share (AED)	<u>0.014</u>	<u>0.023</u>

There were no potentially dilutive securities as at 30 June 2017 or 30 June 2016, and accordingly, diluted earnings per share are the same as basic earnings per share.

18 Comparative information

Certain comparative figures have been reclassified, wherever necessary, to conform to the presentation adopted in the condensed consolidated interim financial information.

19 Date of authorisation for issue

The condensed consolidated interim financial information was approved by the Group's Board of Directors and authorised for issue on 26 JUL 2017.