ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and condensed consolidated interim financial statements for the nine-month period ended 30 September 2021

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Board of Directors' report to the shareholders for the nine-month period ended 30 September 2021

On behalf of Arkan Building Materials Company's (Arkan) PJSC Board of Directors ("Arkan or the "Company"), I am pleased to present the Board of Directors' report for the nine months ended 30 September 2021, together with the reviewed condensed consolidated financial statements for the same period of 2020.

The results reflect the financial period prior to the completion of Arkan's combination with Emirates Steel on 4 October 2021; a transaction which created the UAE's largest steel and building materials company. Going forward, Arkan will report the consolidated results of the combined business.

Arkan's revenue in the first nine months of 2021 was AED 591.16 million compared to AED 581.02 in the same period in 2020. The Group's net loss for the same period was AED 29.19 million, compared to a net loss of AED 3.71 million for the first nine months of 2020.

The reduction in profitability was due to lower selling prices of cement and clinker as well as decreasing sales volumes and margins across the Company's products due to intense competition in the building materials sector and a slow-down in the Emirate's construction market, partly a consequence of the pandemic. An increase in raw material prices and overall costs has also contributed to the Group's profitability decline.

The cost rationalisation programme, which was implemented in Q4 2020 to address the challenging market conditions and improve Arkan's profitability, achieved AED 21 million of cost savings in the first nine months of 2021.

Review of Operations

Cement Operations:
Revenue from Arkan's Cement Division increased to AED 333.38 million for the first nine months of 2021 from AED 299.32 in the equivalent period in 2020. Profit from this segment for the first nine months of 2021 was AED 1.04 million as compared to a net profit of AED 4.07 million for the same period of 2020. The decline in profitability was due to lower cement sales and a more competitive pricing environment for both cement and clinker.

Concrete Blocks and Dry Mortar:
Revenue from Arkan's Blocks segment was AED 131.75 million for the first nine months of 2021, compared to AED 145.62 million for the same period in 2020. Loss from this segment, in the first nine months of 2021, was AED 3.53 million compared to a profit of AED 1.99 million for the equivalent period in 2020. Whilst Dry Mortar sales continued to increase and prices held up across the Division declining sales volumes, affected profitability. Profitability was also impacted by an additional provision for receivables under accounting standard IFRS 9.

GRP Pipes:
Revenue from GRP was AED 57.49 million for the first nine months of 2021, compared to AED 63.57 million in the first half of 2020. Profit in the reporting period was AED 10.07 million, compared to a net profit of AED 15.37 million for the same period in 2020. Whilst average sales prices were up during the period, fewer local projects meant sales volumes declined. The GRP segment also recognised an additional provision for receivables under accounting standard IFRS 9.

PVC Pipes:
PVC Pipes sales revenue was AED 58.09 million in the first nine months of 2021, compared to AED 59.62 million for the same period of 2020. The net loss from this segment was AED 8.88 million for the first nine months of 2021, compared to a profit of AED 2.93 million for the same period in 2020. Again, whilst the Company was able to increase average selling prices, profitability was impacted by a reduction in volumes and significant raw material price increases.

Board of Directors' report to the shareholders
for the nine-month period ended 30 September 2021 (continued)

Bags:
Arkan's Bags segment sales revenue was AED 10.44 million for the first nine months of 2021, down on the AED 12.89 million achieved in the same period of 2020. Profit from this segment amounted to AED 0.52 million for the first nine months of 2021, compared to AED 0.05 million for the same period of 2020, due to a reduction in the cost of goods sold.

Liquidity

The Company's cash and cash equivalents were AED 59.86 million as of 30 September 2021 (31 December 2020: AED 73.96 million).

Investments

The share of loss from associates for the first nine months of 2021 was AED 1.07 million compared to profit of AED 1.77 million in the same period of 2020. The Company received a cash dividend of AED 1.2 million from this investment during the period (2020: AED 3.4 million).

Total Assets & Shareholders' Equity

The total assets of the Company equaled AED 3.09 billion at the end of 30 September 2021 (31 December 2020: AED 3.26 billion). The value of shareholders' equity was at AED 1.69 billion as of 30 September 2021 compared to AED 1.72 billion as of 31 December 2020.

Strategic combination with Emirates Steel Industries PJSC

On 4 October 2021, following the shareholder vote on 9 August 2021 and the receipt of all regulatory approvals, Arkan legally completed its combination with Emirates Steel Industries PJSC ("Emirates Steel"), a leading integrated steel manufacturer in the Middle East.

The combination of Arkan and Emirates Steel (the "Combined Group") creates the UAE's largest steel and building materials company with a compelling strategic proposition and strong potential for growth in the UAE and internationally. The transaction provides significant revenue diversification for the Combined Group and marks the first time that investors have access to a steel producer on a UAE public market. The

Group is well placed to scale and grow, create new business opportunities and ensure that homegrown manufacturers are at the forefront of driving a sustainable, diversified national economy.

On behalf of the Board of Directors:

Jamal Salem Al Dhaheri
Chairman
03 Nov 2021

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (together with the Company, the "Group") as of 30 September 2021 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management of the Group is responsible for the preparation and presentation of this condensed consolidated financial information in accordance with International Accounting Standard IAS 34, "*Interim Financial Reporting (IAS 34)*". Our responsibility is to express a conclusion on this condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information performed by the Independent Auditor of the Entity*". A review of condensed consolidated 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 condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche (M.E.)

Mohammad Khamees. Al Tah
Registration No. 717
3 November 2021
Abu Dhabi
United Arab Emirates

Condensed consolidated statement of financial position as at 30 September 2021

	Notes	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,823,546	1,860,098
Goodwill		128,430	128,430
Right-of-use assets	11	221,356	233,097
Investment in associates	6	151,375	153,649
Total non-current assets		2,324,707	2,375,274
Current assets			
Inventories	7	351,530	396,818
Trade and other receivables	8	356,765	412,724
Amounts due from related parties	10	941	755
Cash and cash equivalents	9	59,855	73,962
Total current assets		769,091	884,259
Total assets		3,093,798	3,259,533
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,750,000	1,750,000
Statutory reserve		85,448	85,448
Capital reserve		3,783	3,783
Other reserves		(9,089)	(9,089)
Accumulated losses		(135,197)	(106,010)
Total equity		1,694,945	1,724,132
Non-current liabilities			
Lease liabilities	11	141,486	146,182
Provision for employees' end of service benefit		50,593	49,028
Borrowings	12	536,980	403,678
Total non-current liabilities		729,059	598,888
Current liabilities			
Borrowings	12	334,495	529,327
Trade and other payables	13	314,275	385,147
Amounts due to a related party	10	228	20
Loan from a related party	10	18,361	18,361
Lease liabilities	11	2,435	3,658
Total current liabilities		669,794	936,513
Total liabilities		1,398,853	1,535,401
Total equity and liabilities		3,093,798	3,259,533

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Group as of 30 September 2021, and for the periods presented in the report.

Jamal Salem Al Dhaheri
Chairman

Abdelaziz Asad
Chief Executive Officer (Acting)

Faizal Amod
Chief Financial Officer

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

Condensed consolidated statement of profit or loss for the nine-month period ended 30 September 2021

	Notes	3 months ended 30 September		9 months ended 30 September	
		2021 AED'000 (unaudited)	2020 AED'000 (unaudited)	**2021 AED'000 (unaudited)**	2020 AED'000 (unaudited)
Revenue		**173,074**	193,591	**591,157**	581,017
Direct costs		**(144,857)**	(163,272)	**(511,021)**	(461,867)
Gross profit		**28,217**	30,319	**80,136**	119,150
Selling and distribution expenses		**(4,703)**	(4,956)	**(14,181)**	(18,877)
General and administrative expenses		**(16,239)**	(20,692)	**(54,267)**	(62,967)
Other income	**16**	**894**	1,240	**4,075**	1,763
Impairment losses on financial assets		**(3,731)**	(1,721)	**(16,913)**	(9,708)
Impairment losses on non-financial assets		**(523)**	(383)	**(674)**	(683)
Share of (loss)/profit of associates	**6**	**(2,629)**	507	**(1,074)**	1,774
Finance costs		**(7,234)**	(10,158)	**(26,313)**	(34,184)
Finance income		**1**	8	**24**	22
Loss for the period		**(5,947)**	(5,836)	**(29,187)**	(3,710)
Basic and diluted earnings per share	**17**	**(0.003)**	(0.003)	**(0.017)**	(0.002)

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

Condensed consolidated statement of other comprehensive income for the nine-month period ended 30 September 2021

	3 months ended 30 September		9 months ended 30 September	
	2021 AED'000 (unaudited)	2020 AED'000 (unaudited)	**2021 AED'000 (unaudited)**	2020 AED'000 (unaudited)
Loss for the period	**(5,947)**	(5,836)	**(29,187)**	(3,710)
Other comprehensive income	**-**	-	**-**	-
Total comprehensive loss for the period	**(5,947)**	(5,836)	**(29,187)**	(3,710)

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

Condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2021

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Other reserves AED'000	Accumulated losses AED'000	Total equity AED'000
As at 1 January 2020 (audited)	1,750,000	85,448	3,783	(6,596)	(39,468)	1,793,167
Total comprehensive loss for the period	-	-	-	-	(3,710)	(3,710)
As at 30 September 2020 (unaudited)	1,750,000	85,448	3,783	(6,596)	(43,178)	1,789,457
As at 1 January 2021 (audited)	1,750,000	85,448	3,783	(9,089)	(106,010)	1,724,132
Total comprehensive loss for the period	-	-	-	-	(29,187)	(29,187)
As at 30 September 2021 (unaudited)	1,750,000	85,448	3,783	(9,089)	(135,197)	1,694,945

Condensed consolidated statement of cash flows
for the nine-month period ended 30 September 2021

	Notes	9 months ended 30 September 2021 AED'000 (unaudited)	2020 AED'000 (unaudited)
Cash flows from operating activities			
Loss for the period		**(29,187)**	(3,710)
Adjustments for:			
Depreciation of property, plant and equipment	**5**	**53,520**	54,521
Amortisation of right-of-use assets	**11**	**11,741**	12,405
Amorisation of restructuring fee		**1,001**	-
Gain on disposal of property, plant and equipment		**(1,121)**	-
Gain from sale of scrap		**(2,536)**	(1,236)
Impairment charge on trade receivables	**8**	**16,913**	9,708
Allowance for impairment of inventories, net	**7**	**674**	683
Provision for employees' end of service benefit		**4,639**	4,693
Share of loss/(profit) of associates	**6**	**1,074**	(1,774)
Finance costs		**26,313**	34,184
Finance income		**(24)**	(22)
Operating cash flows before movements in working capital		**83,007**	109,452
Movements in working capital:			
Decrease/(increase) in inventories		**44,614**	(44,839)
Decrease in trade and other receivables		**39,046**	54,040
(Increase)/decrease in amounts due from related parties		**(186)**	266
Decrease in trade and other payables		**(70,538)**	(94,888)
Increase/(decrease) in amounts due to a related party		**208**	(242)
Cash generated from operations		**96,151**	23,789
End of service benefits paid		**(3,074)**	(1,227)
Net cash from operating activities		**93,077**	22,562
Cash flows from investing activities			
Payments for property, plant and equipment	**5**	**(16,968)**	(10,319)
Proceed from sale of property, plant and equipment		**1,121**	-
Proceed from sale of scrap		**2,536**	1,236
Dividends received from associates	**6**	**1,200**	3,400
Interest received		**24**	22
Net cash used in investing activities		**(12,087)**	(5,661)
Cash flows from financing activities			
Proceeds from borrowings	**12**	**586,093**	639,303
Repayment of borrowings	**12**	**(648,958)**	(613,224)
Finance costs paid	**12**	**(19,173)**	(26,715)
Principal repayment of lease liability	**11**	**(5,919)**	(6,354)
Interest paid on lease liability	**11**	**(7,140)**	(7,469)
Repayment of loan from a related party	**10**	**-**	(18,369)
Net cash used in financing activities		**(95,097)**	(32,828)
Net decrease in cash and cash equivalents		**(14,107)**	(15,927)
Cash and cash equivalents at the beginning of the period		**73,962**	81,286
Cash and cash equivalents at the end of the period	**9**	**59,855**	65,359

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021

1 General information

Arkan Building Materials Company (ARKAN) 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 (SENAAT) (the "Parent Company") owns 51% of the Company's shares. The Ultimate Parent Company of Arkan is Abu Dhabi Developmental Holding Company PJSC (ADQ).

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 statements include the performance and financial position as at and for the nine-month period ended 30 September 2021 of the Company and its subsidiaries (collectively referred to as the "Group").

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Group		Principal activity
		30 September 2021	31 December 2020	
Emirates Blocks Factory	UAE	100%	100%	Production and sale of cement blocks.
Emirates Cement Factory[1]	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, manufacturing pipes, plastic and paper bags.

[1] Operations of Emirates Cement Factory were discontinued in December 2016 and currently Emirates Cement Factory does not have any operations.

On 5 October 2021, following the shareholder vote on 9 August 2021 and the receipt of all regulatory approvals, Arkan legally completed its combination with Emirates Steel Industries PJSC ("Emirates Steel"), a sister company.

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

The accounting policies used in the preparation of this condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, and the notes attached thereto, except for the adoption of certain new and revised standards, that became effective in the current period as set out below.

2.1 New and amended standards adopted by the Group

In the current period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2021. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current period but may affect the accounting for the Group's future transactions or arrangements.

- *Interest Rate Benchmark Reform –Phase 2*
  The amendments in Interest Rate Benchmark Reform- Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2021.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

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

- *Classification of Liabilities as Current or Non-Current - amendments to IAS 1 (effective from 1 January 2023).* The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current;

- *Reference to the Conceptual Framework - Amendments to IFRS 3 (effective from 1 January 2022).* The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard;

- *Property, Plant and Equipment - Proceeds before Intended Use - amendments to IAS 16 (effective from 1 January 2022).* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss;

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

- *Onerous Contracts - Cost of Fulfilling a Contract - amendments to IAS 37 (effective from 1 January 2022).* The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract);

- *IFRS 17: Insurance Contracts (effective from 1 January 2023).* IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2023;

- *Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture. (Effective date deferred indefinitely. Adoption is still permitted).

- *Annual Improvements to IFRS Standards 2018–2020 (effective from 1 January 2022).* The Annual Improvements include amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from January 1, 2022), IFRS 9 Financial Instruments (effective from January 1, 2022), IFRS 16 Leases (effective date not yet decided) and IAS 41 Agriculture (effective from January 1, 2022).

- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective from 1 January 2023).* The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

- *Definition of Accounting Estimates - Amendments to IAS 8 (effective from 1 January 2023).* The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (effective from 1 January 2023).* The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS 12.22A.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards and amendments may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that would be expected to have a material impact on the condensed consolidated financial information of the Group.

3 Summary of significant accounting policies

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the U.A.E. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2020. In addition, results for nine-month period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021 particularly due to the combination with Emirates Steel (note 1) which will be accounted for in the final quarter of the year.

Basis of preparation

These condensed consolidated financial statements are presented in UAE Dirhams (AED) which is the functional currency of the Group and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

These condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards and interpretations effective 1 January 2021.

Going concern

During the period, the Group entered into an amendment agreement with Term 1 lenders for a repayment holiday up to 17 December 2022. In addition, based on the Group's existing cash position, the funds available from undrawn facilities which amounted to AED 168.25 million at the reporting date and the expected free cash flow to be generated from operations will be sufficient for the Group to meet its obligations as they fall due for a period of at least 12 months from the date of these consolidated financial statements.

3 Summary of significant accounting policies (continued)

Going concern (continued)

The combination of Arkan and Emirates Steel (the "Combined Group") creates the UAE's largest steel and building materials company with a compelling strategic proposition and strong potential for growth in the UAE and internationally. The transaction provides significant revenue diversification for the combined group. The Group is well placed to scale and grow, create new business opportunities and ensure that homegrown manufacturers are at the forefront of driving a sustainable, diversified national economy.

Accordingly, and taking into consideration the impact of Covid-19 to the Group's future cash flows, these consolidated financial statements have been prepared on a going concern basis.

4 Critical judgements and key sources of estimation uncertainty

Changes in judgements and estimation uncertainty

The critical judgements and estimates used in the preparation of these condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020.

5 Property, plant and equipment

During the nine-month period ended 30 September 2021, the Group acquired assets with a cost of AED 16,968 thousand (30 September 2020: AED 10,319 thousand). Cement factory has been pledged against a loan received from a bank for the construction of the factory. Assets with net carrying value of AED Nil were disposed during the period with net proceeds from the sale amounting to AED 1,121 thousand (2020: AED Nil).

Depreciation charge for the period amounted to AED 53,520 thousand (30 September 2020: AED 54,521 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Balance at the beginning of the period/year	**153,649**	188,867
Share of loss of associates for the period/year	**(1,074)**	(197)
Dividends received during the period/year	**(1,200)**	(6,200)
Impairment during the period/year	**-**	(28,821)
Balance at the end of the period/year	**151,375**	153,649

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

7 Inventories

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Raw materials	**100,832**	123,563
Work in progress	**115,865**	142,291
Finished goods	**52,010**	44,908
Spare parts and consumable materials	**138,439**	140,998
	407,146	451,760
Less: allowance for impairment of inventories	**(55,616)**	(54,942)
	351,530	396,818

The movement in the allowance for impairment of inventories is as follows:

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Balance at the beginning of the period/year	**54,942**	54,921
Reversal for the period/year	**-**	(170)
Impairment for the period/year	**674**	191
Balance at the end of the period/year	**55,616**	54,942

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

8 Trade and other receivables

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Trade receivables	**481,174**	522,771
Less: loss allowance	**(147,702)**	(130,789)
	333,472	391,982
Prepayments	**21,344**	19,574
Advances to suppliers	**1,861**	1,127
Other receivables	**88**	41
	356,765	412, 724

The movement in the allowance for impairment is as follows:

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Balance as at 1 January	**130,789**	101,560
Net remeasurement of loss allowance	**16,913**	29,229
Balance at the end of the period/year	**147,702**	130,789

9 Cash and cash equivalents

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Cash in hand	**170**	109
Cash at banks in current accounts	**59,685**	73,853
	59,855	73,962

10 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 (IAS 24). Related parties comprise shareholders, directors, key management staff and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Government of Abu Dhabi, indirectly owns 51% of the Company's outstanding shares. The Group has elected to use the exemption under IAS 24 for government related entities on disclosing transactions and related outstanding balances with government related entities owned by the Government of Abu Dhabi other than the Parent Company and entities it owns and controls. The Company's significant transactions with the Government of Abu Dhabi and other entities controlled, jointly controlled or significantly influenced by the Government of Abu Dhabi are a large portion of its direct cost, lease rental payments and interest payments on certain loans.

The Group also has, at 30 September 2021, loans and cash balances with banks under the common control of the Government of Abu Dhabi, lease liabilities with and payables to Government municipalities and payables to a distribution company owned by the Government of Abu Dhabi.

Balances with these related parties generally arise from commercial transactions in the normal course of business on arm's length basis. Balances with related parties reflected in the consolidated statement of financial position at the reporting date comprised:

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Amounts due from related parties		
Emirates Steel Industries PJSC – sister company	**757**	552
National Petroleum (NPCC) – sister company	**151**	170
Others	**33**	33
	941	755
Amounts due to a related party		
Emirates Steel Industries PJSC – sister company	**228**	20

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

10 Related parties (continued)

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Loan from a related party – the Parent Company		
General Holding Corporation PJSC (SENAAT) - *Current*	**18,361**	18,361

Significant transactions with related parties during the period are as follows:

	9-month period ended 30 September	
	2021 AED'000 (unaudited)	2020 AED'000 (unaudited)
Interest on loan from the Parent Company	**315**	824
Repayment of loan from the Parent Company	**-**	18,369
Sales to a related party – Emirates Steel Industries PJSC, sister company	**2,128**	1,850
Purchase from a related party – Emirates Steel Industries PJSC, sister company	**315**	319
Key Management Compensation		
- Short term benefits	**5,477**	5,896
- Post-employment benefits	**582**	580
	6,059	6,476

11 Leases

The Group's obligations are secured by the lessor's title to the leased assets for such leases.

Right-of-use assets

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
As at 1 January	**233,097**	249,679
Additions	**-**	62
Disposals	**-**	(138)
Amortisation expense during the period/year	**(11,741)**	(16,506)
	221,356	233,097

Lease liabilities

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
As at 1 January	**149,840**	154,329
Additions	**-**	61
Disposals	**-**	(145)
Interest expense	**7,140**	9,875
Payments	**(13,059)**	(14,280)
	143,921	149,840

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Current		
Within one year	**2,435**	3,658
Non-current		
After one year	**141,486**	146,182

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

12 Borrowings

Bank borrowings are contractually repayable as follows:

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Non-current		
After one year	**536,980**	403,678
Current		
Within one year	**334,495**	529,327

The details of the bank borrowings are stated as follows:

		Outstanding at 30 September 2021			Outstanding at 31 December 2020		
	Maturity	**Current AED'000**	**Non-current AED'000**	**Total AED'000**	Current AED'000	Non-current AED'000	Total AED'000
Term loan 1	**2024**	**-**	**535,335**	**535,335**	133,200	400,800	534,000
Term loan 2	**2023**	**1,644**	**1,645**	**3,289**	1,644	2,878	4,522
Short term loan 1	**2020**	**100,000**	**-**	**100,000**	105,000	-	105,000
Short term loan 2	**2020**	**130,189**	**-**	**130,189**	132,100	-	132,100
Short term loan 3	**2020**	**79,644**	**-**	**79,644**	100,000	-	100,000
Short term loan 4	**2020**	**20,000**	**-**	**20,000**	49,800	-	49,800
Short term loan 5	**2020**	**3,018**	**-**	**3,018**	7,583	-	7,583
		334,495	**536,980**	**871,475**	529,327	403,678	933,005

Term loan 1 is a 10-year term loan of AED 1,200 million obtained in 2014 by the Group to finance the construction of the Group's new cement factory. The term loan was originally payable over 9 years semi-annually commencing from March 2016. The loan carries variable interest at EIBOR plus a margin. The term loan is secured by assets with a carrying amount of AED 1,526 million (2020: AED 1,553 million).

On 10 March 2021, the Group entered into an agreement with its Term Loan 1 lenders for a repayment holiday up to 17 December 2022. Consequently, the entire balance is presented as non-current liabilities in the current period.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Group. The loan is repayable in 36 equal quarterly installments from November 2014 and carries variable rate of interest.

Short term loan 1 with facility amount of AED 150 million was obtained from an Islamic bank for financing the working capital of the Group. The loan is repayable in 180 days and carries variable rate of interest.

12 Borrowings (continued)

Short term loan 2 with facility amount of AED 150 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 180 days carries variable rate of interest.

Short term loan 3 of AED 100 million was obtained from an Islamic bank for financing the working capital of the Company. The loan is repayable in 180 days and carries variable rate of interest.

Short term loan 4 with facility amount of AED 50 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable rate of interest.

Short term loan 5 with facility amount of AED 25 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable rate of interest.

These short term loans are revolving loans facilities.

Changes from financing cash flows related to borrowings

	30 September 2021 AED'000 (audited)	31 December 2020 AED'000 (audited)
Balance at the beginning of the period/year	**933,005**	943,366
Settlement of term loans	**(1,233)**	(134,844)
Settlement of short-term loans	**(647,725)**	(270,000)
Proceeds from short-term loans	**586,093**	394,483
Interest paid	**(19,173)**	(33,981)
Restructuring fee payable	**1,335**	-
Total changes from financing cash flows	**(80,703)**	(44,342)
Other changes / liability related		
Interest expense	**26,313**	43,856
Changes in accruals	**(7,140)**	(9,875)
Total liability related to other changes	**19,173**	33,981
Balance at the end of the period/year	**871,475**	933,005

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

13 Trade and other payables

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Trade payables	**233,182**	289,531
Accruals	**57,783**	68,109
VAT payable	**1,425**	979
Interest payable	**2,522**	2,433
Other payables	**19,363**	24,095
	314,275	385,147

14 Contingencies and commitments

	30 September 2021 AED'000 (unaudited)	31 December 2020 AED'000 (audited)
Bank guarantees and letters of credit	**44,027**	24,896
Capital commitments	**5,512**	9,612
Financial guarantees provided to associates	**77,211**	77,211

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 reviews 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;
- Poly-Vinyl Chloride ("PVC") Pipes segment, which includes the production and sale pipes;
- Glass Reinforced Polyester ("GRP") Pipes segment, which includes the production and sale 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 CEO 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.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

15 Segment reporting (continued)

For the period ended 30 September 2021 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Revenue from external customers	333,381	131,746	57,492	58,094	10,444	-	-	591,157
Intersegment revenue	21,417	-	-	-	5,035	-	(26,452)	-
Timing of revenue recognition At a point in time	333,381	131,746	57,492	58,094	10,444	-	-	591,157
Finance cost	25,025	1,171	10	-	-	107	-	26,313
Depreciation and amortisation	41,922	12,711	4,278	1,575	152	4,623	-	65,261
Share of loss of associates	-	-	-	-	-	(1,074)	-	(1,074)
Profit/(loss) for the period	1,043	(3,534)	10,071	(8,883)	524	(28,408)	-	(29,187)

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

15 Segment reporting (continued)

As at 30 September 2021 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Total assets	**4,768,157**	**357,283**	**99,819**	**158,752**	**37,784**	**1,526,800**	**(3,854,797)**	**3,093,798**
Total liabilities	**2,077,067**	**184,725**	**32,886**	**64,161**	**84,757**	**2,844,645**	**(3,889,388)**	**1,398,853**

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

15 Segment reporting (continued)

For the period ended 30 September 2020 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Revenue from external customers	299,320	145,619	63,568	59,621	12,889	-	-	581,017
Intersegment revenue	21,849	-	-	-	4,890	-	(26,739)	-
Timing of revenue recognition								
At a point in time	299,320	145,619	63,568	59,621	12,889	-	-	581,017
Finance cost	32,742	1,238	26	-	-	178	-	34,184
Depreciation and amortisation	42,466	14,128	4,211	1,600	167	4,354	-	66,926
Share of profit of associates	-	-	-	-	-	1,774	-	1,774
Profit/(loss) for the period	4,072	1,989	15,369	2,933	49	(28,122)	-	(3,710)
Total assets	4,530,412	409,029	101,819	172,110	42,580	1,554,945	(3,423,537)	3,387,358
Total liabilities	1,836,579	224,228	27,028	54,146	82,396	2,791,093	(3,417,569)	1,597,901

Notes to the condensed consolidated interim financial statements
for the nine-month period ended 30 September 2021 (continued)

15 Segment reporting (continued)

As at 31 December 2020 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Total assets	4,582,874	400,476	100,515	160,152	40,755	1,503,329	(3,528,568)	3,259,533
Total liabilities	1,901,770	225,464	28,214	45,875	83,628	2,783,875	(3,533,425)	1,535,401

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

16 Other income

	3 months ended 30 September		9 months ended 30 September	
	2021	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Proceeds from sale of scrap	**536**	1,236	**2,536**	1,713
Gain on sales of property and equipment	**(60)**	-	**1,121**	-
Other	**418**	4	**418**	50
	894	1,240	**4,075**	1,763

17 Basic and diluted earnings per share

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

	3 months ended 30 September		9 months ended 30 September	
	2021	2020	**2021**	2020
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Loss for the period (AED'000)	**(5,947)**	(5,836)	**(29,187)**	(3,710)
Weighted average number of shares in issue (thousands of shares)	**1,750,000**	1,750,000	**1,750,000**	1,750,000
Earnings per share (AED)	**(0.003)**	(0.003)	**(0.017)**	(0.002)

There were no potentially dilutive securities as at 30 September 2021 and 2020, and accordingly, diluted earnings per share are the same as basic earnings per share.

18 Seasonality of results

No significant income of a seasonal nature was recorded in the condensed consolidated statement of profit or loss for the nine-month period ended 30 September 2021 and 2020, except for the volatility arising from COVID-19.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2021 (continued)

19 Comparative information

Impairment losses on financial assets and impairment losses on non-financial assets have been presented separately as a one-line items in the face of the condensed consolidated statement of profit or loss to conform to the current period presentation. In the 30 September 2020 condensed consolidated interim financial statements, it was presented under impairment losses.

20 Subsequent events

On 4 October 2021, following the shareholder vote on 9 August 2021 and the receipt of all regulatory approvals, Arkan legally complete of its combination with Emirates Steel Industries PJSC.

The consideration for the contribution of the entire issued share capital of ESI to Arkan will be satisfied by the issuance by Arkan to SENAAT of mandatory convertible instruments for an aggregate principal amount of AED 4,069,800,000 (the “Convertible Instrument”), which shall be convertible into 5,100,000,000 ordinary shares of a nominal value of AED 1 each in the capital of Arkan (the “New Arkan Shares”). The price at which the Convertible Instrument will convert into the New Arkan Shares is AED 0.798 per new ordinary share in Arkan which was determined on the basis of all the financial, technical studies and the valuation, which the Board of Arkan has reviewed. The Convertible Instrument will be converted into New Arkan Shares. Arkan will continue to be listed on the Abu Dhabi Securities Exchange (ADX).

21 Approval of condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 3 November 2021.