

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

Condensed consolidated interim financial  
information

**31 March 2017**

**Principal business address:**

P.O. Box 40307  
Abu Dhabi  
United Arab Emirates

# Arkan Building Materials Company (ARKAN) PJSC

## Condensed consolidated interim financial information

<i>Contents</i>	<i>Page</i>
Report of the Directors	1
Independent auditors' report on review of condensed consolidated interim financial information	2 - 3
Condensed consolidated interim statement of financial position	4
Condensed consolidated interim statement of profit or loss	6
Condensed consolidated interim statement of other comprehensive income	7
Condensed consolidated interim statement of changes in equity	8
Condensed consolidated interim statement of cash flows	9
Notes to the condensed consolidated interim financial information	10

## **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 quarter ending March 31<sup>st</sup>, 2017, together with the reviewed condensed consolidated financial statements for the same period.

Arkan's revenue in the first quarter of 2017 was AED 228.28 million, compared to AED 212.27 million in Q1 2016, up by 7.5%. 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 10.59 million compared to AED 30.73 million in Q1 2016. The difference was mainly due to the significantly higher energy costs, lower selling prices of cement and the completion of the accounting treatment of the benefit from the government grant received in July 2011.

### **Review of Operations:**

#### **Cement Operations:**

Revenue from Arkan's Cement segment was AED 158.65 million in Q1 2017, compared to AED 154.15 million in the first quarter of 2016. Profit from this segment in Q1 2017 equaled AED 14.26 million as compared to AED 23.63 million in Q1 2016. The decline in profit was attributable to 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 continued to cut costs by reducing energy consumption and procure raw materials at more competitive prices. This resulted in maintaining a high gross profit margin of 30%.

#### **Concrete Blocks and Dry Mortar:**

Revenue from Arkan's Blocks segment reached AED 38.46 million in Q1 2017, compared to AED 26.60 million in Q1 2016. Profit from this segment in Q1 2017 is AED 3.30 million as compared to a profit of AED 1.18 million in the first quarter of 2016. The Emirates Blocks Factory had a remarkably strong first quarter, increasing its revenues and profits by securing major projects across the UAE.

The commercial production of dry mortar products, which started in mid-2016, generated revenues of AED 7.16 million and profits of AED 1.42 million during the first quarter of 2017. The Company is producing a range of dry mix products at its high-capacity dry mortar plant located in Al Ma'raq.

#### **GRP Pipes:**

Revenue from Arkan's GRP Pipes segment reached AED 11.24 million in Q1 2017, compared to AED 12.20 million in Q1 2016. Profit from this segment amounted to AED 1.28 million in Q1 2017 compared to AED 1.74 million during Q1 2016. The slight decrease in profit is attributed to lower export sales volumes.

#### **PVC Pipes:**

Arkan's PVC Pipes segment sales revenue was AED 14.32 million in Q1 2017, compared to AED 13.15 million in Q1 2016. Profit from this segment amounted to AED 201 thousand at the end of Q1 2017 compared to AED 576 thousand in Q1 2016, due to lower selling prices.

#### **Bags:**

Arkan's Bags segment sales revenue was AED 5.62 million in Q1 2017, compared to AED 6.17 million in Q1 2016. Profit from this segment amounted to AED 773 thousand at the end of 31 March 2017, compared to AED 700 thousand in Q1 2016 due to higher sales volumes.

### **Liquidity**

The Group's cash and cash equivalents were AED 26.17 million at the end of Q1 2017.

### **Total Assets & Shareholders' Equity**

The total assets of the Group reached AED 3.44 billion at the end of Q1 2017. The value of shareholders' equity increased to AED 1.76 billion as of March 31, 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 quarter of 2017 was AED 1.40 million compared to AED 4.16 million in the same period last year. The Company received cash dividends of AED 3.6 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

27 April 2017



KPMG Lower Gulf Limited  
Level 19, Nation Tower 2  
Abu Dhabi Corniche, UAE  
Tel. +971 (2) 401 4800, Fax +971 (2) 632 7612

## **Independent auditors' report on review of condensed consolidated interim financial information**

To the Shareholders  
Arkan Building Materials Company (ARKAN) PJSC

### *Introduction*

We have reviewed the accompanying 31 March 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 31 March 2017;
- the condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2017;
- the condensed consolidated interim statement of other comprehensive income for the three-month period ended 31 March 2017;
- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 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.



# Arkan Building Materials Company (ARKAN) PJSC

## Condensed consolidated interim statement of financial position

As at

	<i>Note</i>	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,035,565	2,049,236
Goodwill		128,430	128,430
Other intangible assets		117,043	119,159
Investment in associates	6	210,207	212,406
Financial assets measured at fair value through other comprehensive income (FVTOCI)	7	-	73,793
<b>Total non-current assets</b>		<b>2,491,245</b>	<b>2,583,024</b>
<b>Current assets</b>			
Inventories	8	342,738	366,807
Trade and other receivables	9	543,775	479,739
Prepayments		36,658	30,806
Amounts due from related parties	11	591	720
Cash and bank balances	10	26,166	30,915
<b>Total current assets</b>		<b>949,928</b>	<b>908,987</b>
<b>Total assets</b>		<b>3,441,173</b>	<b>3,492,011</b>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
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)
Retained earnings		(51,519)	8,829
<b>Net equity attributable to owners of the Company</b>		<b>1,761,961</b>	<b>1,751,367</b>
<b>Net equity</b>		<b>1,761,961</b>	<b>1,751,367</b>

# Arkan Building Materials Company (ARKAN) PJSC

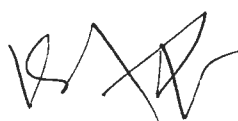
## Condensed consolidated interim statement of financial position (*continued*)

As at

	<i>Note</i>	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
<b>Non-current liabilities</b>			
Borrowings	12	876,044	943,055
Loan from a related party	11	91,845	91,845
Provision for employees' end of service benefit		39,854	49,764
<b>Total non-current liabilities</b>		<b>1,007,743</b>	1,084,664
<b>Current liabilities</b>			
Borrowings	12	214,844	239,845
Trade and other payables	13	404,715	364,225
Amounts due to a related party	11	15,204	15,204
Loan from a related party	11	36,706	36,706
<b>Total current liabilities</b>		<b>671,469</b>	655,980
<b>Total liabilities</b>		<b>1,679,212</b>	1,740,644
<b>Total equity and liabilities</b>		<b>3,441,173</b>	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 31 March

	Note	3 months ended	
		31 March	
		2017 (unaudited) AED'000	2016 (unaudited) AED'000
<b>Revenue</b>		<b>228,283</b>	212,271
Direct costs		(176,720)	(153,141)
<b>Gross profit</b>		<b>51,563</b>	59,130
Selling and distribution expenses		(7,942)	(10,739)
General and administrative expenses		(23,171)	(25,834)
Other income		1,911	4,356
Share of profits of associates (net)	6	1,401	4,164
Income from government grant		-	11,500
Net gain on investments at fair value through profit or loss		-	140
Dividend income		-	2,178
Finance cost		(13,646)	(14,162)
Finance income		478	-
<b>Profit for the period</b>		<b>10,594</b>	30,733
<b>Profit for the period attributable to:</b>			
Owners of the Company		10,594	30,733
		<b>10,594</b>	30,733
Basic and diluted earnings per share attributable to owners of the Company (AED)	17	<b>0.006</b>	0.018

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 other comprehensive income  
for the period ended 31 March

	Note	3 months ended 31 March	
		2017 (unaudited) AED'000	2016 (unaudited) AED'000
<b>Profit for the period</b>		<b>10,594</b>	30,733
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net changes in fair value of investment in equity instruments measured at FVTOCI	7	-	1,084
<b>Total comprehensive income for the period</b>		<b>10,594</b>	31,817
<b>Total comprehensive income for the period attributable to:</b>			
Owners of the Company		<b>10,594</b>	31,817
		<b>10,594</b>	31,817

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 changes in equity  
for the period ended 31 March

	Share capital AED'000	Statutory reserve AED'000	Capital Reserve AED'000	Investment revaluation reserve AED'000	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	-	-	-	-	30,733	-	30,733	-	30,733
Net changes in fair value of financial assets measured at FVTOCI	-	-	-	1,084	-	-	1,084	-	1,084
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,084</b>	<b>30,733</b>	<b>-</b>	<b>31,817</b>	<b>-</b>	<b>31,817</b>
<b>As at 31 March 2016</b>	<b>1,750,000</b>	<b>72,485</b>	<b>3,783</b>	<b>(68,927)</b>	<b>121,537</b>	<b>-</b>	<b>1,878,878</b>	<b>307</b>	<b>1,879,185</b>
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 loss for the year</i>									
Profit for the year	-	-	-	-	10,594	-	10,594	-	10,594
Disposal of financial assets measured at FVTOCI	-	-	-	70,942	(70,942)	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,942</b>	<b>(60,348)</b>	<b>-</b>	<b>10,594</b>	<b>-</b>	<b>10,594</b>
<b>As at 31 March 2017</b>	<b>1,750,000</b>	<b>72,485</b>	<b>3,783</b>	<b>-</b>	<b>(51,519)</b>	<b>(12,788)</b>	<b>1,761,961</b>	<b>-</b>	<b>1,761,961</b>

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

# Arkan Building Materials Company (ARKAN) PJSC

## Condensed consolidated interim statement of cash flows for the period ended 31 March

	Notes	3 months ended 31 March	
		2017 (unaudited) AED'000	2016 (unaudited) AED'000
<b>Cash flows from operating activities</b>			
Profit for the period		10,594	30,733
Adjustments for:			
Depreciation of property, plant and equipment	5	19,711	24,819
Amortisation of other intangible assets		2,116	2,153
Dividend income		-	(2,178)
Finance income		(478)	-
Finance cost		13,646	14,162
Amortisation of deferred government grant		-	(11,500)
Net change in fair value of financial assets measured as at FVTPL		-	(140)
Share of profit from associates	6	(1,401)	(4,164)
Impairment loss recognised on trade receivables	9	2,632	572
Allowance for impairment of inventories	8	(2,145)	75
Provision for employees' end of service benefit		1,700	1,125
<b>Operating cash flows before movements in working capital</b>		<b>46,375</b>	<b>55,657</b>
Changes in			
- inventories	8	26,214	(4,572)
- trade and other receivables	9	(66,668)	(10,759)
- prepayments		(5,852)	(399)
- amounts due from related parties	11	129	(250)
- trade and other payables	14	38,306	(13,030)
- amounts due to a related party	11	-	(99)
<b>Cash generated from operating activities</b>		<b>38,504</b>	<b>26,548</b>
End of service benefits paid		(11,610)	(103)
<b>Net cash from operating activities</b>		<b>26,894</b>	<b>26,445</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	5	(6,040)	(7,348)
Dividends received from associates	6	3,600	24,000
Dividend received from investments held at FVTOCI		-	2,178
Interest received		478	-
<b>Net cash (used in) / generated from investing activities</b>		<b>(1,962)</b>	<b>18,830</b>
<b>Cash flows from financing activities</b>			
Repayments bank borrowings – net		(18,219)	(32,011)
Finance cost paid		(11,462)	(11,325)
<b>Net cash used in financing activities</b>		<b>(29,681)</b>	<b>(43,336)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(4,749)</b>	<b>1,939</b>
Cash and cash equivalents at the beginning of the period	10	30,915	60,940
<b>Cash and cash equivalents at the end of the period</b>	10	<b>26,166</b>	<b>62,879</b>

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 three-months ended 31 March 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 polyester pipes and systems.
Arkan Mining and Transportation	Oman	-	70	Production of mine lime stone.

During 2016 the Company completed the liquidation of Arkan Mining and Transportation.

# 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 does 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 is 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*

<b>New and revised IFRS</b>	<b>Effective date</b>
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

### 2 Basis of preparation *(continued)*

### 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.

##### *Investments held at FVTPL (continued)*

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 three months period ended 31 March 2017, the Group acquired assets with a cost of AED 6,040 thousand (*31 March 2016: AED 7,348 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 19,711 thousand (*31 March 2016: AED 24,819 thousand*).

### 6 Investment in associates

The movement in investment in associates is as follows:

	<b>31 March 2017 (unaudited) AED'000</b>	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	1,401	8,704
Reversal of excess share of loss recognised in prior years	-	1,748
Dividends received during the period / year	(3,600)	(24,000)
Balance at the end of the period / year	<u>210,207</u>	<u>212,406</u>

### 7 Investments

	<b>31 March 2017 (unaudited) AED'000</b>	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>

# Arkan Building Materials Company (ARKAN) PJSC

## 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 of AED 90 million (refer note 12).

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

### 8 Inventories

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Raw materials	104,655	100,079
Work in progress	122,089	153,420
Finished goods	44,499	40,548
Goods in transit	58	59
Spare parts and consumable materials:	127,183	130,592
	<hr/>	<hr/>
	398,484	424,698
Less: Allowance for impairment of inventories	(55,746)	(57,891)
	<hr/>	<hr/>
	<b>342,738</b>	<b>366,807</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Balance at the beginning of the period / year	57,891	11,110
Reversal for the period / year	(2,145)	(395)
Impairment for the period / year	-	47,176
	<hr/>	<hr/>
Balance at the end of the period / year	<b>55,746</b>	<b>57,891</b>
	<hr/> <hr/>	<hr/> <hr/>

# Arkan Building Materials Company (ARKAN) PJSC

## Notes to the condensed consolidated interim financial information

### 9 Trade and other receivables

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Trade receivables	539,360	482,338
Other receivables	42,250	37,919
Less: Allowance for impairment	(62,706)	(60,074)
	<hr/>	<hr/>
Advances to suppliers	518,904 24,871	460,183 19,556
	<hr/>	<hr/>
	<b>543,775</b>	<b>479,739</b>
	<hr/> <hr/>	<hr/> <hr/>

### 10 Cash and bank balances

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Cash in hand	77	39
Cash in bank and current accounts	26,089	30,876
	<hr/>	<hr/>
	<b>26,166</b>	<b>30,915</b>
	<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.

# Arkan Building Materials Company (ARKAN) PJSC

## 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:

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
<i>Amounts due from related parties</i>		
Emirates Steel Industries PJSC	557	687
Others	34	33
	<b>591</b>	<b>720</b>
<i>Amounts due to a related party</i>		
General Holding Corporation PJSC (SENAAT)	<b>15,204</b>	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
	<b>128,551</b>	<b>128,551</b>

Transactions with related parties during the period comprise:

	<b>3 months ended 31 March</b>	
	<b>2017 (unaudited) AED'000</b>	2016 (unaudited) AED'000
Interest on loan from parent company	801	879
Sales to a related party	529	382
Key management compensation		
Short term benefits	2,001	1,799
Post-employment benefits	179	133
	<b>2,180</b>	<b>1,932</b>

# Arkan Building Materials Company (ARKAN) PJSC

## Notes to the condensed consolidated interim financial information

### 12 Borrowings

Bank borrowings are repayable as follows:

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
<i>Non-current</i>		
After one year	<b>876,044</b>	943,055
<i>Current</i>		
Within one year	<b>214,844</b>	239,845

The details of the bank borrowings are stated as follows:

	<b>Maturity</b>	<b>Outstanding at 31 March 2017</b>			<b>Outstanding at 31 December 2016</b>		
		<b>Current AED'000</b>	<b>Non- current AED'000</b>	<b>Total AED'000</b>	<b>Current AED'000</b>	<b>Non- current AED'000</b>	<b>Total AED'000</b>
Term loan 1	<b>2017</b>	-	-	-	90,000	-	90,000
Term loan 2	<b>2024</b>	<b>133,200</b>	<b>867,000</b>	<b>1,000,200</b>	133,200	933,600	1,066,800
Term loan 3	<b>2023</b>	<b>1,644</b>	<b>9,044</b>	<b>10,688</b>	1,645	9,455	11,100
Term loan 4	<b>2017</b>	<b>80,000</b>	-	<b>80,000</b>	15,000	-	15,000
		<b>214,844</b>	<b>876,044</b>	<b>1,090,888</b>	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 31 March 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 80 million (31 December 2016: AED 15 million) was obtained from two banks (31 December 2016: one bank) for financing the working capital of the Company. The loan is repayable in 90 days. The bank carries a markup of applicable EIBOR plus 1.5% per annum.



# Arkan Building Materials Company (ARKAN) PJSC

## Notes to the condensed consolidated interim financial information

### 13 Trade and other payables

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Trade payables	326,672	277,310
Accruals	62,854	73,537
Interest payable	5,680	3,496
Other payables	9,509	9,882
	<u>404,715</u>	<u>364,225</u>

### 14 Contingencies and commitments

	<b>31 March 2017 (unaudited) AED'000</b>	31 December 2016 (audited) AED'000
Bank guarantees and letters of credit	31,268	14,651
	<u>14,651</u>	<u>19,316</u>

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 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. Inter-segment pricing is determined on an arm's length basis.



## Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

### 15 Segment reporting (continued)

For the period ended 31 March 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	158,651	38,455	11,237	14,321	5,619	-	-	228,283
Intersegment revenue	4,795	-	-	-	1,817	-	(6,612)	-
Finance cost	13,521	-	-	-	-	125	-	13,646
Depreciation and amortisation	13,888	3,016	1,342	465	43	3,073	-	21,827
Share of profit of equity accounted investees	-	-	-	-	-	1,401	-	1,401
Profit / (loss) for the period	14,225	3,299	1,284	201	773	(9,188)	-	10,594

## Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

### 15 Segment reporting (continued)

As at 31 March 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	2,369,244	363,833	86,216	123,053	48,632	1,370,098	(919,903)	3,441,173
Total liabilities	15,089	186,258	22,770	14,376	49,300	2,247,462	(856,043)	1,679,212

For the period ended 31 March 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	154,154	26,597	12,201	13,147	6,172	-	-	212,271
Intersegment revenue	4,682	2,044	-	-	1,426	-	(8,152)	-
Finance cost	12,900	-	-	-	-	1,262	-	14,162

## Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

### 15 Segment reporting (continued)

For the period ended 31 March 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	16,542	2,944	1,351	438	43	5,654	-	26,972
Share of profit of equity accounted investees	-	-	-	-	-	4,164	-	4,164
Profit/(loss) for the period	23,631	1,178	1,743	576	700	2,905	-	30,733

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 three-month period ended 31 March 2017 and 31 March 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:

	<b>3 months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit attributable to owners of the Company (AED'000)	<b>10,594</b>	30,733
Weighted average number of shares in issue (thousands of shares)	<b>1,750,000</b>	1,750,000
Earnings per share (AED)	<b>0.006</b>	0.018

There were no potentially dilutive securities as at 31 March 2017 or 31 March 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 Company's Board of Directors and authorised for issue on 27 April 2017.