Arkan PJSC annual report 2017

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ARKAN

Intrduction

Arkan Building Material Company PJSC is a public joint stock company that strives to play a key role in Abu Dhabi diversification drive to deliver the 2030 vision.

Company assets (AED)

3.49bn

2017 revenue (AED)

908.59m

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Cement business revenue in 2017 (AED)

605.69m

Block business revenue in 2017 (AED)

162.61m

Chairman's statement

On behalf of Arkan Building Materials Co. PJSC ('Arkan' or the 'Group') and its Board of Directors, I am pleased to present the Group's achievements for 2017.

Dear Shareholders,

On behalf of Arkan Building Materials Co. PJSC ('Arkan' or the 'Group') and its Board of Directors, I am pleased to present the Group's achievements for 2017.

Overall, Arkan had a successful year despite having to navigate a number of challenging external headwinds. Net profit for 2017 was impacted by AED 78 million due to the increase in Gas and Electricity prices enforced on 1 January 2017 and an accrual of AED 23 million to reflect the probable settlement amount of a litigated unusable land lease in Al Ain, compounded with an increased land lease tariff.

Early measures to cater with the hike on energy prices including the consolidation of the Cement operations at the new plant combined with further production cost optimization and overhead rationalization led to an improvement in profitability.

Our strategy to balance profits and risks from all our divisions is gaining momentum and delivering results. The cement business held sales quantities and market share in a very competitive environment while prices remained under pressure and we continue our efforts to reach an agreement with the relevant authorities on the alternative quarry to our existing site. In the unlikely event that an agreement could not be reached, it will have a significant impact on the Group's profitability and cash flow.

The Blocks division realized a robust sales growth as a result of the market penetration and expansion strategy, while Dry Mortar had its first full year of production, and is now running at full capacity and sales increased fivefold compared with 2016.

We continued to drive export market sales of PVC and GRP pipes in the Far East and in Central Africa through our subsidiary ANABEEB. We are making good progress winning new customers by meeting stringent technical and manufacturing specifications and demonstrating our ability to deliver high quality products on a consistent basis.

Looking ahead, the business remains well positioned for further recovery in regional construction markets as the need grows for higher quality and more specialised solutions, both at home and abroad.

Finally, I would like to seize this opportunity to thank our senior management team and employees for their continued support, hard work and dedication to overcome all the uncontrollable external challenges over the course of the past year.

On behalf of the Board of Directors

Jamal Salem Al Dhaheri
Chairman of the Board of Directors

Arkan BoD Members List

Name	Title
HE. ENG. JAMAL SALEM AL DHAHERI	Chairman
HE. ENG. AHMED SUHAIL AL MUHAIRI	Vice Chairman
HE. Mabkhoot Taleb AlMenhali.	Board Member
HE. ENG. Saeed Ghumran Al Remeithi.	Board Member
HE. KHALIFA SAIF DARWISH AL KETBI	Board Member
HE. Amna Obaid Al Zaabi.	Board Member
HE. MOHAMMED ALI ABBAS AL FAHIM	Board Member

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 and audited consolidated financial statements for the year ended 31 December 2017.

Dear Shareholders;

On behalf of Arkan Building Materials Company's Board of Directors, I am pleased to present the Board of Directors' Report and audited consolidated financial statements for the year ended 31 December 2017.

Overall, Arkan achieved revenue of 908.59 million in 2017 compared to AED 812.84 million in 2016, up by 12%. The improvement was driven by an increase in sales across all product lines, with Pipes, Blocks and Dry Mortar performing especially well.

Net profit for 2017 was AED 30.2 million compared to a loss of AED 82.3 million in 2016, which was due to the assets write off of AED 158 million taken on the closure of the Emirates Cement Factory. Net profit for 2017 was impacted, by the increase in Gas and Electricity prices enforced on January 1st 2017, by AED 78 million and the completion of the accounting treatment of the benefit from the government grant of AED 18 million received in July 2011. The Company accrued an additional AED 23 million to reflect the probable settlement amount of a litigated unusable land lease in Al Ain compounded with an increased land lease tariff.

Review of Operations:

Cement Operations:

Revenue from Arkan's Cement business was AED 605.69 million in 2017, compared to AED 592.33 million in 2016 and profit was AED 40.58 million in 2017, versus a loss of AED 74.36 million in 2016 resulted from the assets write off taken on the closure of the Emirates Cement Factory. The cement business held sales, quantities and market share in a very competitive market while prices saw a decrease. Net profit of 2017 was impacted by the significant increase in Gas and Electricity cost.

Concrete Blocks and Dry Mortar:

Revenue from Arkan's Blocks business significantly increased to AED 162.61 million in 2017, compared to AED 104.72 million in 2016. Profit in 2017 was AED 12.11 million as compared to AED 1.64 million in 2016. This strong performance was mainly due to the increased sales volume of concrete blocks and ramp up in production of the Dry Mortar business, which has seen strong market demand from contractors across the UAE, since Arkan launched the business in 2016.

GRP Pipes:

Revenue from GRP Pipes reached AED 52.55 million in 2017, compared to AED 47.79 million in 2016. Profit rose to AED 10.10 million in 2017 compared to AED 6.82 million in the previous year resulting from the emphasis on selling of high margin products.

PVC Pipes:

Revenues from PVC Pipes were AED 66.59 million in 2017, compared to AED 43.05 million in 2016 and profits for the year was AED 1.09 million compared to AED 301 thousand in 2016. The increase in profitability is due to higher sales volumes.

Bags:

Arkan's Bags business revenue was AED 21.14 million in 2017, compared to AED 24.94 million in 2016. Profit, rose to AED 2.69 million at the end of 2017, compared to AED 2.31 million in 2016, due to high margin export sales.

GRP Pipes business revenue in 2017 (AED) were

52.55million

Revenues from PVC Pipes in 2017 (AED)

66.59million

Bags business revenue in 2017 (AED) were

21.14million

Liquidity
The Company had cash and cash equivalents of AED 67.08 million at the end of 31 December 2017.

Total Assets & Shareholders' Equity

At the 31 December 2017, the Company had total assets of AED 3.41 billion and shareholders' equity of AED 1.77 billion.

Investments
The share of profit from associates at the end of 2017 was AED 6.23 million compared to AED 10.45 million in the same period last year. The Company received cash dividends of AED 9.6 million from this investment during the period. The investment in Emirates Real Estate Fund was sold in the first quarter of 2017.

Outlook
The Company continues to focus on building differentiation, accelerating profitable growth, and increasing shareholder value.

Our strategy to diversify our business away from just cement products will continue from our specialty business lines.

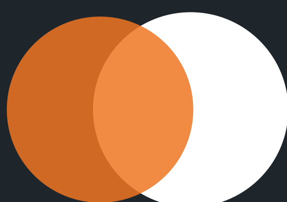
Overall, the business remains extremely well positioned for further recovery in the Abu Dhabi construction market and the growing requirement for higher grade more specialised products and solutions, both at home and abroad.

As we continue our journey, we wish to express our gratitude to our shareholders for their continued confidence in our vision and strategy.

On behalf of the Board of Directors:

Jamal Salem Al Dhaheri
Chairman of the Board of Directors
25 February 2018

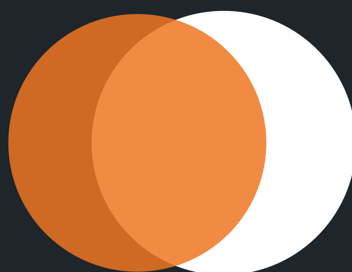
Total non-current assets
(AED '000)



2017
2,467,195

2016
2,583,024

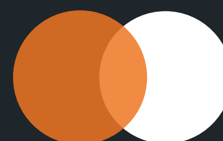
Total current assets
(AED '000)



2017
3,408,816

2016
3,492,011

Total equity
(AED '000)



2017
1,773,870

2016
1,751,367

Profit for the year before impairment loss 2017 (AED '000)

34,718

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants› Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year or period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Impairment of goodwill

Refer to note 6 to the consolidated financial statements on page 35.

Audit risk

The goodwill within the Group arose via business combinations. The Group's annual impairment testing on goodwill is performed by Group management using free cash flow projections based on five year future forecasts estimated by Group management.

Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which forms the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit concentrated on.

Our response

In respect of the assessment of Cash Generating Units ("CGUs"): We challenged the assessment of CGUs and considered the operating and management structure with reference to our understanding of the business.

- In respect of the cash flows: We considered the Group's procedures used to develop the forecasts and the principles and integrity of the Group's discounted cash flow model and re-performed the calculations of the model results to test their accuracy. To challenge the reasonableness of those cash flows, we assessed the historical accuracy of the Group's forecasting and corroborated the forecasts with reference to

Independent Auditors' Report
Continued

Key audit matters (continued)

(a) Impairment of goodwill (continued)

Our response (continued)

publicly available information and other evidence that has been made available during the course of the audit. We conducted our own assessments to challenge other key inputs, such as the projected growth rate and perpetuity rate.

- In respect of the discount rate: We compared the Group's assumptions to externally-derived data (for example, bond yields and inflation statistics) where appropriate. We used our own valuation specialists to assist us in assessing the adequacy of the significant assumptions used in arriving at the discount rates used.

- In respect of the sensitivity to key assumptions: We performed sensitivity analysis of discount rates and forecast cash flows as well as break-even analysis to stress-test the valuations of the CGUs' recoverable amounts.

We assessed the adequacy of the Group's disclosure in these respects.

(b) Recoverability of trade and other receivables

Refer to note 11 to the consolidated financial statements on pages
40 to 41.

Audit risk

As at 31 December 2017 the Group had trade and other receivables with a carrying value of AED 529 million before provisions.

The industry has faced a challenging year and the market continues to be impacted by certain macro-economic factors such as oil prices. Accordingly, the Group experienced relatively significant uncertainty over the collectability of receivables from specific customers. The determination as to whether a receivable is collectable involves significant judgment. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of the counterparty.

Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall.

We focused on this area because it requires a high level of judgment and due to the materiality of the amounts to the Group's financial statements. The Group's principal accounting policy on trade and other receivables is disclosed in note 3(i) and the critical accounting estimates and judgments on impairment are in note 32.

Our response

- Our audit procedures included testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history;

- We tested, on a sample basis, receivable balances that were provided for during the year to determine the accuracy of judgments made by the Group;

- We analysed receivables aged over one year which were not provided for by the Group to determine whether there were any indicators of impairment;

- We inspected arrangements and / or correspondences with external parties to assess the recoverability of significant long outstanding receivables;

- We obtained the Group's legal advisors' confirmation of the status of pending cases, as a defendant, and plaintiff, in order to assess the probability, and estimate of the cash outflow; and

Independent Auditors' Report
Continued

- Based on the work done above, we assessed the completeness, and accuracy of the impairment provisions made during the year, the balance as at year end and appropriateness of disclosures made.

Other Information
Management is responsible for the other information. The other information comprises the Report of the Directors but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Chairman's Message which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Message, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.
Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and their preparation in compliance with the applicable provisions of the UAE Federal Law No. 2 of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group›s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group›s financial reporting process.

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' Report
Continued

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group›s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management›s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group›s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor›s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Independent Auditors' Report
Continued

Further, as required by the UAE Federal Law No. 2 of 2015, we report that:

(i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 2 of 2015;

(iii) the Group has maintained proper books of accounts;

(iv) the financial information included in the Report of the Directors, in so far as it relates to these consolidated financial statements, is consistent with the books of accounts of the Group;

(v) as disclosed in note 9 to the consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2017;

(vi) note 13 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and

(vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. 2 of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2017.

KPMG Lower Gulf Limited

Richard Ackland
Registration Number: 1015
Abu Dhabi, United Arab Emirates
Date: 25 February 2018

Consolidated statement of financial position

As at 31 December

	Note	2017 AED'000	2016 AED'000
Assets			
Non-current assets			
Property, plant and equipment	5	**2,019,031**	2,049,236
Goodwill	6	**128,430**	128,430
Other intangible assets	7	**110,698**	119,159
Investment in associates	8	**209,036**	212,406
Investments	9	**-**	73,793
Total non-current assets		**2,467,195**	2,583,024
Current assets			
Inventories	10	**348,049**	366,807
Trade and other receivables	11	**499,372**	479,505
Prepayments		**26,163**	30,806
Amounts due from related parties	13	**961**	954
Cash and bank balances	12	**67,076**	30,915
Total current assets		**941,621**	908,987
Total assets		**3,408,816**	3,492,011
Equity and liabilities			
Equity			
Share capital	14	**1,750,000**	1,750,000
Statutory reserve	15	**75,502**	72,485
Capital reserve	16	**3,783**	3,783
Investment revaluation reserve	9	**-**	(70,942)
Other reserves		**(20,458)**	(12,788)
Retained earnings		**(34,957)**	8,829
Equity attributable to equity owners of the Company		**1,773,870**	1,751,367
Total equity		**1,773,870**	1,751,367

Consolidated statement of financial position (continued) As at 31 December

	Note	2017 AED'000	2016 AED'000
Non-current liabilities			
Borrowings	18	**808,211**	943,055
Loan from a related party	13	**55,106**	91,845
Provision for employees' end of service benefit	17	**52,768**	49,764
Total non-current liabilities		**916,085**	1,084,664
Current liabilities		**2,467,195**	2,583,024
Borrowings	18	**144,844**	239,845
Trade and other payables	19	**521,860**	364,225
Amounts due to a related party	13	**15,451**	15,204
Loan from a related party	13	**36,706**	36,706
Total current liabilities		**718,861**	655,980
Total liabilities		**1,634,946**	1,740,644
Total equity and liabilities		**3,408,816**	3,492,011

Jamal Salem Al Dhaheri
Chairman

Abdellatif Sfaxi
Chief Executive Officer

Faizal Amod
Chief Financial Officer

The notes set out on pages 17 to 64 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

Consolidated statement of profit or loss
for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Revenue	20	**908,586**	812,839
Direct costs	21	**(717,996)**	(593,445)
Gross profit		**190,590**	219,394
Selling and distribution expenses	22	**(27,620)**	(29,341)
General and administrative expenses	23	**(83,901)**	(103,291)
Other income	25	**4,294**	2,398
Income from government grant	29	**-**	23,000
Loss on sale of financial assets measured at FVTPL		**-**	(24)
Share of profits of associates- net	8	**6,231**	10,452
Finance income	24	**19**	4,512
Finance cost	24	**(54,895)**	(55,212)
Profit for the year before impairment loss		**34,718**	71,888
Impairment losses	26	**(4,545)**	(154,170)
Profit / (loss) for the year after impairment loss		**30,173**	(82,282)
Profit / (loss) attributable to:			
Owners of the Company		**30,173**	(82,282)
		30,173	(82,282)
Basic and diluted earnings per share (AED)	31	**0.017**	(0.047)

The notes set out on pages 17 to 64 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

Consolidated statement of comprehensive income
for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Profit / (loss) for the year		**30,173**	(82,282)
Other comprehensive income			
Net change in fair value of financial assets measured at FVTOCI	9	-	(931)
Re-measurement of end of service benefits	17	(7,670)	(12,788)
Total comprehensive income / (loss) for the year		**22,503**	(96,001)
Total comprehensive income / (loss) attributable to:			
Owners of the Company		22,503	(96,001)
		22,503	(96,001)

The notes set out on pages 17 to 64 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

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

	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
Total comprehensive loss for the year									
Loss for the year	-	-	-	-	(82,282)	-	(82,282)	-	(82,282)
Net changes in fair value of financial assets measured at FVTOCI	-	-	-	(931)	-	-	(931)	-	(931)
Re-measurement of end of service benefit				-	-	(12,788)	(12,788)	-	(12,788)
Total comprehensive loss	-	-	-	(931)	(82,282)	(12,788)	(96,001)	-	(96,001)
Transaction with owners of the Company									
Liquidation of Arkan Mining					307		307	(307)	-
As at 31 December 2016	**1,750,000**	**72,485**	**3,783**	**(70,942)**	**8,829**	**(12,788)**	**1,751,367**	**-**	**1,751,367**
As at 1 January 2017	1,750,000	72,485	3,783	(70,942)	8,829	(12,788)	1,751,367	-	1,751,367
Total comprehensive income for the year									
Profit for the year	-	-	-	-	30,173	-	30,173	-	30,173
Disposal of financial assets at FVTOCI	-	-	-	70,942	(70,942)	-	-	-	-
Re-measurement of end of service benefit (refer note 17)	-	-	-	-	-	(7,670)	(7,670)	-	(7,670)
Total comprehensive income	-	-	-	70,942	(40,769)	(7,670)	22,503	-	22,503
Transfer to statutory reserve	-	3,017	-	-	(3,017)	-	-	-	-
As at 31 December 2017	**1,750,000**	**75,502**	**3,783**	**-**	**(34,957)**	**(20,458)**	**1,773,870**	**-**	**1,773,870**

The notes set out on pages 17 to 64 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December

	Note	2017 AED'000	2016 AED'000
Cash flows from operating activities			
Profit / (loss) for the year		30,173	(82,282)
Adjustments for:			
Depreciation of property, plant and equipment	5	81,426	98,157
Impairment loss of property, plant and equipment	5	-	69,337
Gain on sale of property, plant and equipment		-	519
Amortisation of other intangible assets	7	8,461	8,611
Impairment loss of other intangible assets	7	-	1,050
Amortisation of deferred government grant	29	-	(23,000)
Dividend income	24	-	(4,353)
Finance income	24	(19)	(159)
Finance cost	24	54,895	55,212
Loss on sale of financial assets measured at FVTPL		-	24
Reversal of provision for inventory obsolescence	10	(800)	(395)
Impairment loss on inventories	10	118	47,176
Amounts written off from trade and other receivables	11	34,419	-
Provision for doubtful debts on trade receivables	11	4,427	1,855
Impairment loss on trade and other receivables	11	-	34,753
Provision for employees' end of service benefit	17	7,679	7,205
Share of profits of associates-net	8	(6,231)	(10,452)
Operating cash flows before movements in working capital		214,548	203,258
Changes in			
- inventories	10	(4,337)	(29,577)
- trade and other receivables	11	(58,713)	(47,340)
- prepayments		4,643	213
- trade and other payables	19	157,248	38,490
- amounts due from related parties	13	(7)	(440)
- amounts due to a related party	13	247	1,567
Cash generated from operating activities		313,629	166,171
Employees' end of service benefit paid	17	(12,345)	(3,902)
Net cash from operating activities		301,284	162,269

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

	Note	2017 AED'000	2016 AED'000
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(27,444)	(28,423)
Dividend received from investments held at FVTOCI	24	-	4,353
Interest received	24	19	159
Dividends received from associates	8	9,601	24,000
Proceed on sale of financial assets measured at FVTPL		-	963
Proceeds on disposal of property, plant and equipment		-	628
Net cash (used in) / from investing activities		(17,824)	1,680
Cash flows from financing activities			
Repayment of bank borrowings - net	18	(156,052)	(119,845)
Repayment of loan from a related party	13	(36,739)	(18,369)
Interest paid		(54,508)	(55,760)
Net cash used in financing activities		(247,299)	(193,974)
Increase / (decrease) in cash and cash equivalents		36,161	(30,025)
Cash and cash equivalents at the beginning of the year		30,915	60,940
Cash and cash equivalents at the end of the year	12	67,076	30,915

The notes set out on pages 17 to 64 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

Notes to the consolidated financial statements

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 consolidated financial statements include the financial performance and position 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.

2. Basis of preparation

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the IFRS Interpretations Committee of the IASB (IFRIC) and applicable requirements of the UAE Federal Law No. 2 of 2015 being the Commercial Companies Law ("UAE Companies Law of 2015").

(b) Basis of measurement
These consolidated financial statements are prepared on the historical cost basis except for investments held at fair value through other comprehensive income which are measured at fair value.

(c) Functional and presentation currency
These consolidated financial statements 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.

Notes to the consolidated financial statements
Continued

2. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are discussed in note 32.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control under IFRS 10 is that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all the following three criteria must be met, including:

(a) the investor has power over an investee;

(b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and

(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Business combination

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(a) Basis of consolidation (continued)
Business combination (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. Gains or losses on disposals of non-controlling interests are also recorded in equity.

3 Significant accounting policies (continued)
(a) Basis of consolidation (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3a above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in note 3(c) below.

(c) Investments in associates

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates 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 ceases.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment except for capital work in progress are stated at cost less accumulated depreciation and impairment losses, if any. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives for the current and the comparative periods are as follows:

	Years
Buildings	4 – 40
Plant and equipment	2 – 40
Furniture and fixtures	4
Motor vehicles	4 – 7

Depreciation methods, useful lives and residual values, if significant, are reassessed annually. Items of property, plant and equipment are depreciated from the date they are available for use. Freehold land is not depreciated.

Gain or loss arising from the disposal or retirement of an asset is determined as the difference between the net proceeds and the carrying amount of the asset sold or retired.

Capital work in progress

The Group capitalises all costs relating to the construction of tangible assets as capital work in progress. Upon completion, the related capital work-in-progress is transferred to the appropriate category of property, plant and equipment and is depreciated.

(e) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and impairment losses, if any.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss.

Intangible assets are amortised on a straight-line basis in the profit or loss over their estimated useful life, from the date they are available for use. The estimated useful life in respect of the intangible asset for the current and comparative period is twenty five years.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)

(f) Foreign currency transactions

For the purpose of these consolidated financial statements, UAE Dirhams (AED) is the functional and the presentation currency of the Group.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

(g) Provision for employees' end of service benefits

End of service benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(a) Bonus and long-term incentive plans

The Group recognises the liability for bonuses and long-term incentives in the consolidated statement of profit and loss on an accrued basis. The benefits for the management are subject to board's approval and are linked to business performance.

(b) Defined contribution plan

Monthly pension contributions are made in respect of UAE National employees, who are covered by the Law No. 2 of 2000. The pension fund is administered by the Government of Abu Dhabi, Finance Department, represented by the Abu Dhabi Retirement Pensions and Benefits Fund.

(c) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group currently operates an unfunded scheme for defined benefits in accordance with the applicable provisions of the UAE Federal Labour Law and is based on periods of cumulative service and levels of employees' final basic salaries. The Group's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the yield at the valuation date on US AA-rated corporate bonds, which in the absence of a deep market in corporate bonds within the UAE is the relevant proxy market as determined by the actuaries.

The calculation of defined benefit obligation is performed regularly by a qualified actuary using the projected unit credit method. When benefits of the plan are improved, the portion of the increased benefit related to past service by employees is recognised in the profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss. The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans within profit or loss.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continue)

(h) Borrowing costs

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

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

(i) Financial instruments

Financial assets

All financial assets are recognised and derecognised on a trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification of financial assets

The Group had the following financial assets as at the reporting date: 'cash and bank balance', 'loans and receivables' and 'investments held at fair value through other comprehensive income (FVTOCI)'. The Group does not hold any held to maturity investments as at the reporting date.

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 bank balances, trade and other receivables and amounts due from related parties.

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 off, 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.
Arkan Building Materials Company (ARKAN) PJSC

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(i) Financial instruments (continued)
Investments held at FVTOCI (continued)
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.

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.

(j) 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.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(j) Impairment (continued)
Financial assets (continued)
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.

(k) New standards and interpretations issued but not yet effective
A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

Management has performed its assessment on the following standards and concluded that these standards do not have a material impact on the consolidated financial statements in the period of initial application.

(i) IFRS 9 Financial Instruments
IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(k) New standards and interpretations issued but not yet effective (continued)
(i) IFRS 9 Financial Instruments (continued)
Impairment – Financial assets and contract assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

Cash and cash equivalent
The cash and cash equivalents are held with bank and financial institution counterparties as at
31 December 2017.

Classification – Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

Hedge Accounting
The Group does not have any hedge relationships which are subject to impact assessment as at 31 December 2017.

Disclosures
IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing

Notes to the consolidated financial statements
Continued

the system and controls changes that it believes will be necessary to capture the required data.

3 Significant accounting policies (continued)

(k) New standards and interpretations issued but not yet effective (continued)

(i) IFRS 9 Financial Instruments (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

- The new hedge accounting requirements should generally be applied prospectively. Since there is no hedge relationship as at 31 December 2017, above transition will not have any effect.

- The Group will need to apply an expected credit loss model when calculating impairment losses on its trade and other receivables (both current and non-current). This might result in increased or decreased impairment provisions and greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the Group must consider the probability of a default occurring over the contractual life of its trade receivables and contracts asset balances on initial recognition of those assets.

- IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will decrease by AED 6.2 million.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

    - The determination of the business model within which a financial asset is held.

    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

    - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Sales of goods

For the sale of paper products, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(k) New standards and interpretations issued but not yet effective (continued)
(ii) IFRS 15 Revenue from Contracts with Customers (continued)
Sales of goods
For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Based on its assessment, the Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements.

Sale of services
Revenue from services rendered is recognised upon services performed.

Transition
Based on above assessment, the Group does not believe that the new IFRS 15 will have a material impact on its accounting for revenue.

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(iii) IFRS 16 Leases
IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has to perform a detailed assessment of potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.
In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Notes to the consolidated financial statements
Continued

3 Significant accounting policies (continued)
(k) New standards and interpretations issued but not yet effective (continued)
(iv) Other standards
The following amended standards and interpretations are not expected to have a significant impact on the consolidated financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Considerations.
- IFRIC 23 Uncertainty over Income Tax Treatments.

4. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors (the "Board") have overall responsibility for the Group and oversight of the Group's risk management framework. Management is responsible for developing and monitoring the Group's risk management policies. Management reports regularly to the Board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

4. Financial risk management (continued)

Liquidity risk (continued)

The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk consists of the following two elements:

- Interest rate risk generally expresses the expected capital loss in interest rate exposures that the Group would incur as a result of an increase in interest rates.
- Currency risk is the risk of losses because of changes in exchange rates.

Interest rate risk

The effective rates of interest on the Group’s bank facilities are linked to the prevailing bank rates. There are no contractual re-pricing dates prior to maturity.

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates relating to transactions denominated in foreign currencies.

Other price risk

Price risk relate to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk arising from equity instruments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Capital management

The primary objective of the Group’s capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.
The Board’s policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which is defined as net operating income divided by total equity. The Group is not subject to externally imposed capital requirements.

Notes to the consolidated financial statements
Continued

5. Property, plant and equipment

	Land and Buildings AED'000	Plant and equipment AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2016	575,005	2,516,287	69,380	27,496	236,921	3,425,089
Additions	3,656	9,543	9,173	866	5,185	28,423
Transfers	200,293	38,640	279	468	(239,680)	-
Disposals	-	(2,392)	-	(416)	-	(2,808)
At 31 December 2016	**778,954**	**2,562,078**	**78,832**	**28,414**	**2,426**	**3,450,704**
At 1 January 2017	778,954	2,562,078	78,832	28,414	2,426	3,450,704
Additions	1,663	18,429	6,048	570	734	27,444
Transfers from inventories	-	23,777	-	-	-	23,777
At 31 December 2017	**780,617**	**2,604,284**	**84,880**	**28,984**	**3,160**	**3,501,925**
Accumulated depreciation						
At 1 January 2016	301,554	870,810	41,071	22,200	-	1,235,635
Charge for the year	14,198	74,325	7,472	2,162	-	98,157
Disposals	-	(1,245)	-	(416)	-	(1,661)
Impairment loss[1]	5,862	61,115	763	933	664	69,337
At 31 December 2016	**321,614**	**1,005,005**	**49,306**	**24,879**	**664**	**1,401,468**
At 1 January 2017	321,614	1,005,005	49,306	24,879	664	1,401,468
Charge for the year	12,157	60,070	7,851	1,348	-	81,426
At 31 December 2017	**333,771**	**1,065,075**	**57,157**	**26,227**	**664**	**1,482,894**
Carrying amount						
At 31 December 2016	457,340	1,557,073	29,526	3,535	1,762	2,049,236
At 31 December 2017	**446,846**	**1,539,209**	**27,723**	**2,757**	**2,496**	**2,019,031**

At 31 December 2017, properties with a carrying amount of AED 1,607 million (2016: AED 1,637 million) are secured through bank loans (see note 18).

Property, plant and equipment includes an amount of AED 27.32 million (2016: AED 3.50 million) pertaining to spare parts.

[1]Refer note 26

Notes to the consolidated financial statements
Continued

6. Goodwill
For the purpose of impairment testing, goodwill is allocated to the Group's operating segments where the goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each unit is as follows:

	2017	2016
	AED'000	AED'000
Cement	114,380	114,380
Blocks	14,050	14,050
	128,430	128,430

The recoverable amounts of Cement and Blocks segment were based on their value-in-use determined by management. The carrying amounts of both units were determined to be lower than their recoverable amounts.

Values in use were determined by discounting the future cash flows generated from the continuing use of the units. Cash flows were projected based on past experience and the five year forecasted business plan based on the following key assumptions:

	2017	2016
	%	%
Discount rate	8.41	8.67
Terminal growth rate	1.5	3

The values assigned to the key assumptions represent management's assessment of future trends in the building materials industry and are based on both external and internal sources.

Based on the above factors, the recoverable amount of the segments are greater than the carrying amounts, indicating that goodwill is not impaired as at the end of the current reporting period.

7. Other intangible assets

	2017	2016
	AED'000	AED'000
Cost		
As at 1 January	213,024	213,024
As at 31 December	213,024	213,024
Accumulated amortisation		
As at 1 January	93,865	84,204
Amortisation	8,461	8,611
Impairment loss1	-	1,050
As at 31 December	102,326	93,865
Carrying amount	110,698	119,159

Other intangible assets include the right of use for a plot of land. The value of such right is the estimated rental amount for a plot of land on which one of the subsidiaries' factories is constructed and is being amortised over a period of 25 years.

[1]Refer note 26

Notes to the consolidated financial statements
Continued

8. Investment in associates

The Group has the following significant interests in associates:

Associate name	Principal activities	Share in ownership (%) 2017	Share in ownership (%) 2016	Place of registration
Vision Hotel Apartment LLC	Ownership andmanagement of hotel apartments	**40**	40	UAE
Deco Vision LLC	Property fit outs, decorations, ownership and management of apartments	**40**	40	UAE
Vision Furniture and Decoration Factory LLC	Carpentry of household, decoration, loose furniture and other woodwork	**40**	40	UAE
Deco Vision Properties LLC	Real estate enterprises investment	**40**	40	UAE
Vision Links Hotel Apartments LLC	Deluxe hotel apartments	**40**	40	UAE

The movement in the investment in associates is as follows:

	2017 AED'000	2016 AED'000
As at 1 January	**212,406**	225,954
Group's share of associates' profits for the year	**6,231**	8,704
Reversal of excess share of loss recognised in prior years	**-**	1,748
Group's share of associates' profits - net	**6,231**	10,452
Dividends received during the year	**(9,601)**	(24,000)
As at 31 December	**209,036**	212,406

Notes to the consolidated financial statements
Continued

8. Investment in associates (continued)

Latest available financial information in respect of the Group's associates is summarised below:

	Deco Vision LLC		Vision Furniture and Decoration Factory LLC		Vision Hotel Apartments		Others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Total assets	**345,827**	344,800	**58,102**	53,969	**15,575**	20,121	**5,000**	11,658	**424,504**	430,548
Total liabilities	**166,343**	162,469	**24,434**	19,406	**2,550**	4,048	**21,370**	10,011	**214,697**	195,934
Net assets	**179,484**	182,331	**33,668**	34,563	**13,025**	16,073	**(16,370)**	1,647	**209,807**	234,614
Group's share of net assets	**71,795**	72,932	**13,470**	13,825	**5,210**	6,429	**-**	659	**90,475**	93,845
Goodwill on acquisition	**79,883**	79,883	**9,857**	9,857	**28,821**	28,821	**-**	-	**118,561**	118,561
Carrying amount	**151,678**	152,815	**23,327**	23,682	**34,031**	35,250	**-**	659	**209,036**	212,406
Revenue	**318,458**	354,781	**60,819**	57,080	**8,221**	9,572	**14,310**	20,446	**401,808**	
Profit / (loss) for the year	**12,152**	23,818	**8,105**	9,158	**(3,048)**	(2,764)	**(13,634)**	(8,451)	**3,575**	21,761
Group's share of profit / (loss) for the year	**4,861**	9,527	**3,242**	3,663	**(1,219)**	(1,106)	**(653)**	(3,380)	**6,231**	8,704

9. Investments

	2017	2016
	AED'000	AED'000
Financial assets measured at FVTOCI	**-**	146,920
Investment revaluation reserve	**-**	(70,942)
Capital distribution received	**-**	(2,185)
Fair value	**-**	73,793

Financial assets measured at FVTOCI comprise an investment in a real estate fund within the UAE. The movement during the year was as follows:

	2017	2016
	AED'000	AED'000
Balance at the beginning of the year	**73,793**	74,724
Changes in fair value during the year	**-**	(931)
Liquidation of investment	**(73,793)**	-
Balance at the end of the year	**-**	73,793

This investment is under lien to Term loan 1 (see note 18).

Notes to the consolidated financial statements
Continued

9. Investments (continued)

The Group's financial assets measured at FVTOCI at the end of reporting date is detailed below:

	2017	2016
	AED'000	AED'000
Investment in unquoted UAE equity securities	-	73,793

The Group has not purchased or invested in any new shares during the year ended 31 December 2017 (31 December 2016: Nil).

10. Inventories

	2017	2016
	AED'000	AED'000
Raw materials	98,506	100,079
Work in progress	140,263	153,420
Finished goods	41,926	40,548
Goods in transit	58	59
Spare parts and consumable materials	148,282	130,592
Transfer of spares parts to property, plant and equipment	(23,777)	-
	124,505	130,592
	405,258	424,698
Less: Allowance for impairment of inventories	(57,209)	(57,891)
	348,049	366,807

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

	2017	2016
	AED'000	AED'000
As at 1 January	57,891	11,110
Reversal for the year	(800)	(395)
Impairment during the year1	118	47,176
As at 31 December	57,209	57,891

Notes to the consolidated financial statements
Continued

11. Trade and other receivables

	2017 AED'000	2016 AED'000
Trade receivables	519,025	482,338
Other receivables	3,068	37,685
Less: Allowance for impairment1	(30,082)	(60,074)
	492,011	459,949
Advances to suppliers	7,361	19,556
	499,372	479,505

The average credit period on sale of goods or services rendered is ranging from 60 to 180 days depending on the business segment, security provided and the credit standing of the customer.

The Group has adopted a policy of dealing only with creditworthy counterparties. Adequate credit assessment is made before accepting an order for services or sale of goods from any counterparty. At the end of the year, an amount of AED 22.80 million representing 4% of the trade receivables (2016: AED 36.62 million representing 8% of the trade receivables) is due from one customer (2016: one customer). The Group considers these customers to be reputable and creditworthy. There are no other customers who represent more than 5% of the total balance of the receivables.

Included in the Group's trade receivables are customer balances with a carrying amount of AED 115.82 million (2016: AED 138.27 million) which are past due at the reporting date for which no allowance has been provided, as there was no significant change in credit quality of these customers and the amounts are still considered recoverable.

Ageing of trade receivables

	2017 AED'000	2016 AED'000
0 – 90 days	223,764	198,954
91 – 180 days	145,214	122,199
181 – 365 days	68,564	74,002
Greater than 365 days	81,483	87,183
	519,025	482,338

The movement in the allowance for impairment of trade receivables during the year was as follows:

	2017 AED'000	2016 AED'000
As at 1 January	60,074	23,853
Write off during the year	(34,419)	-
Charge for the year	4,427	36,221
As at 31 December	30,082	60,074

[1] Refer note 26

Notes to the consolidated financial statements
Continued

11. Trade and other receivables (continued)
Ageing of trade receivables (continued)
The Group has provided for certain receivables above 180 days based on estimated irrecoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further provision required in excess of the allowance for doubtful debts.

12. Cash and bank balances

	2017	2016
	AED'000	AED'000
Cash in hand	169	39
Cash at bank in current accounts	66,907	30,876
	67,076	30,915

13. Transaction 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.

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

	2017	2016
	AED'000	AED'000
Amounts due from related parties		
Dot Modern Oman	-	234
Emirates Steel Industries PJSC	953	687
Others	8	33
	961	954
Amounts due to a related party		
General Holding Corporation PJSC (SENAAT)	15,451	15,204
Loan from a related party*		
Non-current	55,106	91,845
Current	36,706	36,706
	91,812	128,551

[1]Refer note 26

Notes to the consolidated financial statements
Continued

13. Transaction and balances with related parties (continued)

* During 2011, the Group obtained a loan of USD 40 million (AED 146.9 million equivalent) from SENAAT with interest at prevailing market rates. The Group renegotiated the terms of the loan with the parent company on 30 November 2016. The original maturity of the loan was a bullet payment on 31 December 2016. The restructured loan is payable over 8 years semi-annually commencing from December 2016 and carries interest at prevailing market rates. The loan will be fully repaid by June 2020.

Transactions with related parties:

	2017	2016
	AED'000	AED'000
Interest on loan from parent company	3,928	3,058
Sales to a related party	2,744	2,057

Key management personnel compensation:

	2017	2016
Short term benefits	7,906	7,549
Post-employment benefits	647	604
	8,553	8,153

14. Share capital

Share capital comprises of 1,750 million authorised, issued and fully paid ordinary shares with a par value of AED 1 each.

The share capital includes 892.50 million shares at a par value of AED 1 each, which had been issued for in-kind consideration.

15. Statutory reserve

In accordance with UAE Federal Law No. 2 of 2015, the Company is required to transfer annually to a legal reserve account an amount equal to 10% of its net profit, until such reserve reaches 50% of the issued and fully paid-up share capital of the Company. This reserve is not available for distribution.

16. Capital reserve

Capital reserve represents the excess proceeds collected against offering cost for 857.50 million shares issued during 2006 at AED 0.025 per offer share after deducting actual expenses.

17. Provision for employees' end of service benefit

The Group's obligation in respect of retirement benefits is recognised in the consolidated statement of financial position at the present value of the defined benefit at the end of the reporting period, including any adjustments for past service costs. The defined benefit plan is unfunded.

The following are the principal actuarial assumptions at the respective reporting date (expressed as weighted averages):

Notes to the consolidated financial statements
Continued

17. Provision for employees' end of service benefit (continued)

	2017 AED'000	2016 AED'000
Amounts recognised in consolidated statement of financial position		
Balance at the start of the year	49,764	33,673
Service cost (including interest cost)	7,679	7,205
Benefit payments	(12,345)	(3,902)
Loss on re-measurement	7,670	12,788
	52,768	49,764
Amounts recognised in consolidated statement of profit or loss		
Current service cost	6,186	5,550
Interest expense	1,800	1,655
Gain on settlement	(307)	-
	7,679	7,205
Amounts recognised in consolidated statement of comprehensive income		
Effects of changes in financial assumption	6,276	10,463
Effect of experience adjustments	1,394	2,325
	7,670	12,788

Significant actuarial assumptions

	2017	2016
Discount rate	3.90%	3.90%
Rate of salary increase	3.00%	3.00%

Sensitivity analysis:

	AED'000 Decrease	AED'000 Increase
2017		
Discount rate (0.5% movement)	55,217	50,508
Future salary (0.5% movement)	50,130	55,406
2016		
Discount rate (0.5% movement)	52,074	47,634
Future salary (0.5% movement)	47,606	52,084

Notes to the consolidated financial statements
Continued

18. Borrowings

Borrowings are repayable as follows:

	2017 AED'000	2016 AED'000
Current		
Within one year	144,844	239,845
Non-current		
After one year	808,211	943,055
	953,055	1,182,900

	Outstanding at 31 December 2017				Outstanding at 31 December 2016		
	Maturity	Current AED'000	Non-current AED'000	Total AED'000	Current AED'000	Non-current AED'000	Total AED'000
Term loan 1	2017	-	-	-	90,000	-	90,000
Term loan 2	2024	133,200	800,400	933,600	133,200	933,600	1,066,800
Term loan 3	2023	1,644	7,811	9,455	1,645	9,455	11,100
Short term loan 1	2017	-	-	-	15,000	-	15,000
Short term loan 2	2018	10,000	-	10,000	-	-	-
		144,844	808,211	953,055	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 December 2017 (31 December 2016: AED 200 million).

Term loan 3 of AED 14.80 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 rate.

Short term loan 1 of AED 15 million was obtained from a commercial bank for financing the working capital of the Company. In January 2017 loan was fully repaid.

Short term loan 2 of AED 10 million was obtained from a commercial bank for financing the working capital of the Company. The loan is repayable in 30 days at prevailing market rate.

Notes to the consolidated financial statements
Continued

19. Trade and other payables

	2017 AED'000	2016 AED'000
Trade payables	419,644	277,310
Accruals	71,518	73,537
Interest payable	3,883	3,496
Other payables	26,815	9,882
	521,860	364,225

The average credit period on purchase of goods and services is 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest is charged on trade and other payables.

20 Revenue

	2017 AED'000	2016 AED'000
Gross revenue from sale of goods	1,168,740	972,846
Less: sales discount	(260,154)	(160,007)
	908,586	812,839

21. Direct costs

	2017 AED'000	2016 AED'000
Raw materials	304,566	238,331
Fuel and electricity	198,132	134,105
Salaries and related expenses	63,372	74,054
Depreciation of property, plant and equipment	72,607	83,258
Other expenses	79,319	63,697
	717,996	593,445

22. Selling and distribution expenses

	2017 AED'000	2016 AED'000
Salaries and related expenses	20,375	19,841
Depreciation of property, plant and equipment	1,665	2,238
Other expenses	5,580	7,262
	27,620	29,341

Notes to the consolidated financial statements
Continued

23. General and administrative expenses

	2017	2016
	AED'000	AED'000
Salaries and related expenses*	62,692	75,389
Depreciation of property, plant and equipment	7,154	12,661
Amortisation of other intangible assets	8,461	8,611
Other expenses	5,594	6,630
	83,901	103,291

*Includes pension contribution of AED 2.57 million (2016: AED 2.13 million) to Abu Dhabi Retirement Pensions and Benefits Fund.

24. Finance income and cost

	2017	2016
	AED'000	AED'000
Finance income		
Interest income on bank deposits	19	159
Dividend income	-	4,353
	19	4,512
Finance cost		
Interest expense on financial liabilities	(54,895)	(55,212)
Net finance cost	(54,876)	(50,700)

25. Other income

	2017	2016
	AED'000	AED'000
Transportation income – net	1,887	2,341
Others	2,407	57
	4,294	2,398

26. Impairment losses

In 2016 due to the increase in gas and electricity prices the Group had consolidated its cement production into one factory i.e. Al Ain Cement Factory ('ACF'). The closure of Emirates Cement Factory ("ECF") had resulted in the carrying amount of the following assets to exceed its recoverable amount.

Notes to the consolidated financial statements
Continued

26. Impairment losses (continued)

	Impairment loss	
	2017	2016
	AED'000	AED'000
a) Impairment loss on property, plant and equipment	**-**	69,337
b) Impairment loss on other intangible assets	**-**	1,050
c) Impairment loss on inventories	**118**	47,176
d) Impairment loss on trade and other receivables	**4,427**	36,221
e) Impairment of prepayments	**-**	386
Total	**4,545**	154,170

27. Contingent liabilities and commitments

	2017	2016
	AED'000	AED'000
Bank guarantees and letters of credit	**37,416**	14,651
Capital commitments	**10,385**	19,316

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

28 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 segment:

- 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 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.

Notes to the consolidated financial statements
Continued

28. Segment reporting (continued)

For the year ended 31 December 2017:

	Cement	Blocks	Pipes		Bags	Unallocated	Eliminations	Group
			GRP	PVC				
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
External revenues	605,690	162,613	52,552	66,590	21,141	-	-	908,586
Intersegment revenue	28,696	-	-	-	7,149	-	(35,845)	-
Interest expense	54,371	-	-	-	-	524	-	54,895
Depreciation and amortisation	57,112	13,012	5,435	1,931	170	12,227	-	89,887
Impairment losses	-	-	-	-	-	-	-	-
Share of profit of equity accounted investees	-	-	-	-	-	6,231	-	6,231
Profit / (loss) for the year	40,580	12,112	10,100	1,086	2,688	(36,393)	-	30,173
Total assets	3,477,631	387,937	93,812	143,037	47,130	1,390,507	(2,131,238)	3,408,816
Total liabilities	1,053,557	201,641	27,182	27,758	56,077	2,345,078	(2,076,347)	1,634,946

For the year ended 31 December 2016:

	Cement	Blocks	Pipes		Bags	Unallocated	Eliminations	Group
			GRP	PVC				
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
External revenues	592,329	104,724	47,791	43,053	24,942	-	-	812,839
Intersegment revenue	20,504	5,971	-	-	839	-	(27,314)	-
Interest expense	50,174	-	-	-	-	5,038	-	55,212
Depreciation and amortisation	69,674	12,322	5,411	1,845	174	17,342	-	106,768
Impairment loss	153,614	1,293	-	(784)	-	-	47	154,170
Share of profit of equity accounted investees	-	-	-	-	-	10,452	-	10,452
Profit / (loss) for the year	(74,356)	1,635	6,817	301	2,309	(18,988)	-	(82,282)
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

Notes to the consolidated financial statements
Continued

29. Grant of a subsidiary received

On 10 November 2010, the Executive Council of Abu Dhabi approved the transfer of the equity shares of Anabeeb Pipes Manufacturing Factories ("Anabeeb"), to the Group in exchange for no consideration. The effective date for the transfer was not specified at that time, but had since been decided by the management of the parent company and Arkan that this will be transferred to Arkan with an effective date of 1 July 2011. Prior to the transaction, Anabeeb was owned by the parent company.

The transfer of the assets, liabilities and operations of Anabeeb to the Company was based on the unaudited financial statements of Anabeeb at 1 July 2011 as follows:

	AED'000
Property, plant and equipment	85,448
Inventories	59,701
Trade and other receivables	49,510
Prepayments	582
Amounts due from related parties	20,883
Cash and cash equivalents	41,825
Provision for employees' end of service benefits	(5,091)
Trade and other payables	(20,391)
Amounts due to related parties	(345)
Net assets transferred	232,122

Management considers that the fair values of the assets and liabilities of Anabeeb as at 1 July 2011 approximate their carrying amounts.

This transaction has been accounted for as a grant from the Government of Abu Dhabi in accordance with the provisions of IAS 20 Government Grants at the value of the net assets acquired. This is recognised as deferred grant income and will be amortised over the average remaining economic useful life of the plant equipment acquired of five (5) years on the basis that the future benefits flowing to Arkan will be related to this equipment's ability to generate benefit.

The movement in the deferred government grant is as follows:

	2017	2016
	AED'000	AED'000
Balance at 1 January	**-**	23,000
Amortisation	**-**	(23,000)
Balance at 31 December	**-**	-

30. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group business.

Notes to the consolidated financial statements
Continued

30. Financial instruments (continued)

Credit risk

The carrying amount of financial assets represents the maximum credit exposure.The maximum exposure to credit risk at the reporting date was:

	Note	2017 AED'000	2016 AED'000
Cash at bank	12	66,907	30,876
Trade and other receivables	11	492,011	459,949
Amounts due from related parties	13	961	954
Total		559,879	491,779

Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the Central Bank. Trade receivables are secured by bank guarantees and letter of credits totalling AED 161.84 million (2016: AED 187.82 million) and post-dated cheques of AED 194.19 million (2016: AED 173.87 million). Balances with banks are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding impact of netting arrangements:

	Less than 1 year AED' 000	1 – 5 years AED' 000	More than 5 years AED' 000	Total AED' 000
31 December 2017				
Non-interest bearing	537,311	-	-	537,311
Variable interest rate instruments	224,859	720,141	287,177	1,232,177
Total	762,170	720,141	287,177	1,769,488
31 December 2016				
Non-interest bearing	379,430	-	-	379,430
Variable interest rate instruments	234,743	948,962	289,280	1,472,985
Fixed interest rate instruments	90,300	-	-	90,300
Total	704,473	948,962	289,280	1,942,715

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its term deposits and borrowings that carry both fixed and floating interest rates which are detailed in notes 12 and 18.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rates mainly arising from borrowings, assuming the amount of liability at the end of the reporting period was outstanding for the whole year.

Notes to the consolidated financial statements
Continued

30. Financial instruments (continued)

Interest rate risk (continued)

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by AED 11.65 million (2016: decrease/increase by AED 14.99 million).

Foreign currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

2017

Amounts in '000	USD	EUR	GBP	JPY	SAR
Foreign purchases	2,0617	12,679	62	19,414	114
Interest charged	1,061	-	-	-	-
Loan outstanding	25,017	-	-	-	-

2016

Amounts in '000	USD	EUR	GBP	JPY	SAR
Foreign purchases	19,259	11,389	63	1,563	69
Interest charged	842	-	-	-	-
Loan outstanding	35,028	-	-	-	-

The following exchange rates were applicable during the year:

	Average rate		Reporting date rate	
	2017	2016	2017	2016
EUR (Euro)	4.149	4.064	4.39	3.86
USD (US dollar)	3.671	3.673	3.67	3.67
SAR (Saudi riyal)	0.979	0.978	0.98	0.98
GBP (British pound)	4.732	4.976	4.95	4.53
JPY (Japanese yen)	0.033	0.033	0.03	0.03

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying values at the statement of financial position date.

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

	Level 1 AED' 000	Level 2 AED' 000	Level 3 AED' 000	Total AED' 000
2017				
Financial assets at FVTOCI	-	-	-	-
2016				
Financial assets at FVTOCI	-	73,793	-	73,793

Notes to the consolidated financial statements
Continued

30. Financial instruments (continued)

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting year ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital structure

The capital structure of the Group consists of net debts (borrowings offset by cash and bank balances) and equity (comprising share capital, reserves and retained earnings).

The capital structure at year end is as follows:

	2017	2016
	AED'000	AED'000
Total borrowings	1,044,867	1,311,451
Less: cash and bank balances	(67,076)	(30,915)
Net debt	977,791	1,280,536
Total equity	1,773,870	1,751,367
Debt to equity ratio	55%	73%

31. Basic and diluted earnings per share

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

	2017	2016
	AED'000	AED'000
Profit / (loss) attributable to equity holders of the parent (AED'000)	30,173	(82,282)
Weighted average number of shares in issue (thousands of shares)	1,750,000	1,750,000
Earnings per share (AED)	0.017	(0.047)

The Group does not have potentially dilutive shares and accordingly, diluted earnings per share is equal to basic earnings per share.

Notes to the consolidated financial statements
Continued

32. Accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts of assets and liabilities recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of trade and other receivables
An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. This determination of whether the receivables are impaired, entails management evaluating the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including review of current economic environment. The difference between the estimated collectible amount and the recorded amount is recognised as an expense in the profit or loss. Any difference between the amounts expected and the amounts actually collected in the future periods is recognised in the profit or loss at the time of collection. Allowance for doubtful debts at 31 December 2017 is AED 30.08 million (2016: AED 60.07 million).

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows for which certain assumptions are required, including management's expectation of:

- long term growth rates in cash flows;
- timing and quantum of future capital expenditure; and
- the selection of discount rates to reflect the risks involved.

The key assumptions used are detailed in note 6 of the consolidated financial statements. A change in the key assumptions and forecasts might result in an impairment of goodwill.

Impairment of property, plant and equipment and capital work in progress
Properties classified under property, plant and equipment and capital work in progress are assessed for impairment based on the assessment of cash flows on individual cash-generating units when there is an indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Useful lives of property, plant and equipment and intangible assets
Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. Management determined that current year's expectations do not differ from previous estimates based on their review.

Capitalisation of capital work in progress
In determining the timing to capitalise capital work in progress, management has considered the principles of IAS 16 Property, Plant and Equipment. On that basis, management considers the capability of the assets to operate in the manner intended by management, taking into consideration trends and level of production and salability of the products.

Notes to the consolidated financial statements
Continued

32. Accounting estimates and judgements (continued)

Government grant of a subsidiary

Management has considered the provisions of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance in respect of the transfer of equity shares of Anabeeb Pipes Manufacturing Factories. Management has concluded that the Government of Abu Dhabi was acting in its capacity as a government rather than as a shareholder and therefore the transfer is recognised as a government grant.

Amortisation of deferred government grant

Management has estimated that the deferred government grant relating to Anabeeb will be amortised over the remaining economic useful life of the property, plant and equipment acquired of 5 years. No income from the grant has been recognised during the year (2016: AED 23 million).

Provision for rehabilitation and restoration of cement quarry

Management has considered the provisions of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” in respect of provision for rehabilitation and restoration of cement quarry. Management has concluded that the costs relating to the rehabilitation will be negligible and therefore has not recognised any provision.

Classification of investments

In determining whether an investment qualifies as investment in subsidiary, associate or joint arrangement, the Group considered the detailed criteria of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures.

Impairment of investments in associates

Management regularly reviews its investments in associates for indicators of impairment. This determination of whether investments in associates are impaired entails Management’s evaluation of the specific investee’s profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in consolidated profit or loss. Management is satisfied that no impairment provision is necessary on its investments in associates.

Classification of inventories

Management considered the provisions of IAS 2 Inventories and IAS 16 Property, Plant and Equipment in determining the classification of inventories such as major spare parts. Major spare parts and stand-by equipment would qualify for recognition as property, plant and equipment when the entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment could be used only in connection with a particular item of property, plant and equipment, they would be accounted for as property, plant and equipment. Accordingly, management reclassified AED 27.32 million (2016: AED 3.50 million) from inventories to property, plant and equipment.

Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impaired inventory. Management performed a review of the spare parts and consumables which involved a line by line physical inspection of each inventory item to assess obsolescence and usability. The allowance for obsolete inventories at 31 December 2017 is AED 57.21 million (2016: AED 57.89 million).

33. Date of authorisation for issue

The consolidated financial statement were approved by the Company’s Board of Directors and authorised for issue on 25 February 2018.