Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim financial information

31 March 2018

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

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim financial information

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Board of Directors' Report to Shareholders

On behalf of Arkan Building Materials Company's Board of Directors, I am pleased to present the Board of Directors' report for the quarter ending March 31st, 2018, together with the reviewed condensed consolidated financial statements for the same period.
Arkan's revenue in the first quarter of 2018 was AED 251.05 million, compared to AED 228.28 million in Q1 2017, up by 10%. During the period, the Company was able to increase sales volumes in most of its divisions, despite the highly competitive market environment. The Group's profit for the same period was AED 11.70 million compared to AED 10.59 million in Q1 2017. The increase in profitability is attributed to the increase in sales volumes.

Review of Operations:

Cement Operations:
Revenue from Arkan's Cement segment was AED 157.74 million in Q1 2018, compared to AED 158.65 million in the first quarter of 2017. Profit from this segment in Q1 2018 equaled AED 8.50 million as compared to AED 14.26 million in Q1 2017. The decline in profit was attributable to the increase in energy costs and land rental. Despite the increase in costs, the Cement segment maintained high gross profit margin of 27% by improving the efficiency in energy consumption and securing raw materials at more competitive prices.

Concrete Blocks and Dry Mortar:
Revenue from Arkan's Blocks segment reached AED 48.19 million in Q1 2018, compared to AED 38.46 million in Q1 2017. Profit from this segment in Q1 2018 increased to AED 4.76 million as compared to a profit of AED 3.30 million in the first quarter of 2017. The strong performance is due to effective market expansion leading to increased sales volumes.

GRP Pipes:
Revenue from Arkan's GRP Pipes segment reached AED 21.27 million in Q1 2018, compared to AED 11.24 million in Q1 2017. Profit from this segment amounted to AED 5.30 million in Q1 2018 compared to AED 1.28 million during Q1 2017. Net profit is significantly higher than last year due to higher export sales and by focusing on selling high margin products locally that resulted in better profit margins.

PVC Pipes:
Arkan's PVC Pipes segment sales revenue was AED 19.48 million in Q1 2018, compared to AED 14.32 million in Q1 2017. Profit from this segment amounted to AED 1.10 million at the end of Q1 2018 compared to AED 201 thousand in Q1 2017, due to higher sales volumes and selling prices.

Bags:
Arkan's Bags segment sales revenue was AED 4.37 million in Q1 2018, compared to AED 5.62 million in Q1 2017. Profit from this segment amounted to AED 271 thousand at the end of 31 March 2018, compared to AED 773 thousand in Q1 2017, due to lower sales volumes resulted from shortage of the key raw material, kraft paper, in market.

Liquidity

The Group's cash and cash equivalents were AED 25.23 million at the end of Q1 2018.

Total Assets & Shareholders' Equity

The total assets of the Group equaled AED 3.39 billion at the end of Q1 2018. The value of shareholders' equity increased to AED 1.79 billion as of March 31, 2018, compared to AED 1.77 billion as of 31 December 2017.

Investments

The share of profit from associates at the end of the first quarter of 2018 was AED 1.96 million compared to AED 1.40 million in the same period last year. The Company received cash dividends of AED 3.2 million from this investment during the period.

On behalf of the Board of Directors:

Jamal Salem Al Dhaheri
Chairman

29 April 2018

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

To the Shareholders Arkan Building Materials Company (ARKAN) PJSC

Introduction

We have reviewed the accompanying 31 March 2018 condensed consolidated interim financial information of Arkan Building Materials Company (ARKAN) PJSC and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 31 March 2018;

- the condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2018;

- the condensed consolidated interim statement of comprehensive income for the three-month period ended 31 March 2018;

- the condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2018;

- the condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2018; and

- notes to the condensed consolidated interim financial information.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Richard Ackland
Registration Number: 1015
Abu Dhabi, United Arab Emirates
Date: 29 April 2018

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of financial position

As at

	Note	**31 March 2018 (unaudited) AED'000**	31 December 2017 (audited) AED'000
Assets			
Non-current assets			
Property, plant and equipment	*5*	**2,004,179**	2,019,031
Goodwill		**128,430**	128,430
Other intangible assets		**108,582**	110,698
Investment in associates	*6*	**207,796**	209,036
Total non-current assets		**2,448,987**	2,467,195
Current assets			
Inventories	*7*	**338,245**	348,049
Trade and other receivables	*8*	**545,408**	499,372
Prepayments		**32,690**	26,163
Amounts due from related parties	*10*	**626**	961
Cash and bank balances	*9*	**25,231**	67,076
Total current assets		**942,200**	941,621
Total assets		**3,391,187**	3,408,816
Equity and liabilities			
Capital and reserves			
Share capital		**1,750,000**	1,750,000
Statutory reserve		**75,502**	75,502
Capital reserve		**3,783**	3,783
Retained earnings		**(23,257)**	(34,957)
Other reserves		**(20,458)**	(20,458)
Net equity attributable to Owners of the Company		**1,785,570**	1,773,870
Net equity		**1,785,570**	1,773,870

Arkan Building Materials Company (ARKAN) PJSC

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

	Note	**31 March 2018 (unaudited) AED'000**	31 December 2017 (audited) AED'000
Non-current liabilities			
Borrowings	*11*	**741,200**	808,211
Loan from a related party	*10*	**55,106**	55,106
Provision for employees' end of service benefit		**53,554**	52,768
Total non-current liabilities		**849,860**	916,085
Current liabilities			
Borrowings	*11*	**134,844**	144,844
Trade and other payables	*12*	**568,454**	521,860
Amounts due to a related party	*10*	**15,753**	15,451
Loan from a related party	*10*	**36,706**	36,706
Total current liabilities		**755,757**	718,861
Total liabilities		**1,605,617**	1,634,946
Total equity and liabilities		**3,391,187**	3,408,816

Jamal Salem Al Dhaheri
Chairman

Abdellatif Sfaxi
Chief Executive Officer

Faizal Amod
Chief Financial Officer

The notes set out on pages 10 to 27 form an integral part of these condensed consolidated interim financial information.

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

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of profit or loss

for the period ended 31 March

	Note	3 months ended 31 March	
		2018 (unaudited) AED'000	2017 (unaudited) AED'000
Revenue		**251,048**	228,283
Direct costs		**(200,359)**	(176,720)
Gross profit		**50,689**	51,563
Selling and distribution expenses		**(7,871)**	(7,942)
General and administrative expenses		**(22,845)**	(23,171)
Other income		**2,236**	1,911
Share of profits of associates (net)	*6*	**1,960**	1,401
Finance cost		**(12,478)**	(13,646)
Finance income		**9**	478
Profit for the period		**11,700**	10,594
Profit for the period attributable to:			
Owners of the Company		**11,700**	10,594
		11,700	10,594
Basic and diluted earnings per share attributable to owners of the Company (AED)	*16*	**0.007**	0.006

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Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of comprehensive income

for the period ended 31 March

	Note	**3 months ended 31 March**	
		2018 (unaudited) AED'000	2017 (unaudited) AED'000
Profit for the period		**11,700**	10,594
Other comprehensive income		**-**	-
Total comprehensive income for the period		**11,700**	10,594
Total comprehensive income for the period attributable to:			
Owners of the Company		**11,700**	10,594
		11,700	10,594

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Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of changes in equity

for the period ended 31 March

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Investment revaluation reserve AED'000	Retained earnings AED'000	Other reserves AED'000	Net equity attributable to Owners of the Company AED'000	Non-controlling interest AED'000	Total AED'000
As at 1 January 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 period									
Profit for the period	-	-	-	-	10,594	-	10,594	-	10,594
Disposal of financial assets measured at FVTOCI	-	-	-	70,942	(70,942)	-	-	-	-
Total comprehensive income	-	-	-	70,942	(60,348)	-	10,594	-	10,594
As at 31 March 2017	**1,750,000**	**72,485**	**3,783**	-	**(51,519)**	**(12,788)**	**1,761,961**	-	**1,761,961**
As at 1 January 2018	1,750,000	75,502	3,783	-	(34,957)	(20,458)	1,773,870	-	1,773,870
Total comprehensive income for the period									
Profit for the period	-	-	-	-	11,700	-	11,700	-	11,700
Total comprehensive income	-	-	-	-	11,700	-	11,700	-	11,700
As at 31 March 2018	**1,750,000**	**75,502**	**3,783**	-	**(23,257)**	**(20,458)**	**1,785,570**	-	**1,785,570**

The notes set out on pages 10 to 27 form an integral part of these consolidated financial statements.

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of cash flows

for the period ended 31 March

	Note	3 months ended 31 March 2018 (unaudited) AED'000	2017 (unaudited) AED'000
Cash flows from operating activities			
Profit for the period		**11,700**	10,594
Adjustments for:			
Depreciation of property, plant and equipment	*5*	**20,206**	19,711
Amortisation of other intangible assets		**2,116**	2,116
Finance income		**(9)**	(478)
Finance cost		**12,478**	13,646
Share of profit from associates	*6*	**(1,960)**	(1,401)
Impairment loss recognised on trade receivables	*8*	**1,172**	2,632
Allowance for impairment of inventories	*7*	**254**	(2,145)
Provision for employees' end of service benefit		**1,057**	1,700
Operating cash flows before movements in working capital		**47,014**	46,375
Changes in			
- inventories	*7*	**9,550**	26,214
- trade and other receivables	*8*	**(47,208)**	(66,668)
- prepayments		**(6,527)**	(5,852)
- amounts due from related parties	*10*	**335**	129
- trade and other payables	*12*	**45,313**	38,306
- amounts due to a related party	*10*	**302**	-
Cash generated from operating activities		**48,779**	38,504
End of service benefits paid		**(271)**	(11,610)
Net cash from operating activities		**48,508**	26,894
Cash flows from investing activities			
Payments for property, plant and equipment	*5*	**(5,354)**	(6,040)
Dividends received from associates	*6*	**3,200**	3,600
Interest received		**9**	478
Net cash used in from investing activities		**(2,145)**	(1,962)
Cash flows from financing activities			
Repayments bank borrowings – net		**(77,011)**	(18,219)
Finance cost paid		**(11,197)**	(11,462)
Net cash used in financing activities		**(88,208)**	(29,681)
Net decrease in cash and cash equivalents		**(41,845)**	(4,749)
Cash and cash equivalents at the beginning of the period	*9*	**67,076**	30,915
Cash and cash equivalents at the end of the period	*9*	**25,231**	26,166

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Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

1 Legal status and principal activities

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

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

These condensed consolidated interim financial information include the performance and financial position as at and for the three-months period ended 31 March 2018 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 (%) 2018	2017	Principal activity
Emirates Blocks Factory	UAE	**100**	100	Production and sale of cement blocks.
Emirates Cement Factory	UAE	**100**	100	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	**100**	100	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	**100**	100	Production and sale of pipes and plastic and paper bags.
Hobas Gulf LLC	UAE	**100**	100	Develop market of glass fiber reinforced polyster pipes and systems.

2 Basis of preparation

(a) *Statement of compliance*

The condensed consolidated interim financial information have been prepared in accordance with IAS 34 "Interim Financial Reporting", the applicable provision of the articles of association of the Company and the UAE Federal Law No. (2) of 2015.

These condensed consolidated financial information do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

(b) *Basis of measurement*

These condensed consolidated interim financial information is prepared on the historical cost basis.

(c) *Functional and presentation currency*

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

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed consolidated interim financial statements.

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 financial statements. The actual impact of applying IFRS 16 on the 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.

2 Basis of preparation

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

***IFRS 16 Leases** (continued)*

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.

Other standards

New standards or amendments	**Effective date**
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
IFRS 17 Insurance contracts	1 January 2021

3 Summary of significant accounting policies

The accounting policies and estimates used in the preparation of these condensed consolidated interim financial information are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective 1 January 2018.

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

(a) **Investment in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3 Summary of significant accounting policies *(Continued)*

(a) Investment in associates *(continued)*

Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's interests in equity-accounted investees comprise interests in associates. 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 or joint control ceases.

4 Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial information are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's condensed consolidated interim financial information.

4 Changes in significant accounting policies *(continued)*

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has taken 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 is generally recognised in retained earnings and reserves as at 1 January 2018. The new hedge accounting requirements are also applied prospectively. Since there is no hedge relationship as at 31 December 2017, above transition have no effect.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost, Fair value through other comprehensive income ("FVOCI") – debt investment, Fair value through other comprehensive income ("FVOCI") – equity investment; or Fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

4 Changes in significant accounting policies *(continued)*

(a) IFRS 9 Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities *(continued)*

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The Group had the following financial assets: trade and other receivables, due from related parties and cash and cash equivalents as at the reporting period.

There is no change of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which determine on a probability-weighted basis.

The new impairment model applies to the financial assets measured at amortised cost or FVTOCI, except for investment equity instruments, and to contract assets.

4 Changes in significant accounting policies *(continued)*

(a) IFRS 9 Financial Instruments *(continued)*

Impairment of financial assets *(continued)*

Under IFRS 9, loss allowance is 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. The Group determines 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.

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.

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

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.

The Group's financial liabilities comprise trade and other payables, due to related parties, bank borrowings, which are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except, for short-term liabilities when the recognition of interest would be immaterial.

4 Changes in significant accounting policies *(continued)*

(a) IFRS 9 Financial Instruments *(continued)*

Impairment of financial assets *(continued)*

The following table provides information about the exposure to credit risk and ECLs for trade receivables 1 January 2018.

	Average loss rate	Carrying amount AED'000	Allowance AED'000
0 – 90 days	0.1%	373,120	(362)
91 –180 days past due	0.9%	43,323	(375)
181– 365 days past due	4.4%	35,772	(1,569)
Greater than 365 days	41.5%	66,810	(27,776)
Already provided as at 31 December 2017			(30,082)

Based on its assessment, the Group concluded that the application of IFRS 9 has no material impact on its condensed consolidated interim financial information as there is no material change in the fair value and allowance for impairment from 31 December 2017.

(b) *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.

The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted 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 has not applied the requirements of IFRS 15 to the comparative period presented.

The Group is in the business of production and sale of various products as described in note 1. The goods are generally sold on their own in separately identified contracts with customers.

Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and the amount of revenue to be recognised.

5 Property, plant and equipment

During the three months period ended 31 March 2018, the Group acquired assets with a cost of AED 5,354 thousand *(31 March 2017: AED 6,040 thousand).* The new cement factory has been pledged against a loan received from a bank for the construction of the factory.

Depreciation during the period amounts to AED 20,206 thousand *(31 March 2017: AED 19,711 thousand).*

6 Investment in associates

The movement in investment in associates is as follows:

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**209,036**	212,406
Group's share of associates' profits for the period/year-net	**1,960**	6,231
Dividends received during the period / year	**(3,200)**	(9,601)
Balance at the end of the period / year	**207,796**	209,036

7 Inventories

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Raw materials	**123,920**	98,506
Work in progress	**105,882**	140,263
Finished goods	**38,627**	41,926
Goods in transit	**58**	58
Spare parts and consumable materials	**127,221**	148,282
Transfer of spare parts to property, plant and equipment	-	(23,777)
	395,708	405,258
Less: allowance for impairment of inventories	**(57,463)**	(57,209)
	338,245	348,049

7 Inventories *(continued)*

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

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Balance at the beginning of the period / year	**57,209**	57,891
Reversal for the period / year	**-**	(800)
Impairment for the period / year	**254**	118
Balance at the end of the period / year	**57,463**	57,209

8 Trade and other receivables

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Trade receivables	**558,289**	519,025
Other receivables	**2,003**	3,068
Less: allowance for impairment	**(31,254)**	(30,082)
	529,038	492,011
Advances to suppliers	**16,370**	7,361
	545,408	499,372

9 Cash and bank balances

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Cash in hand	**185**	169
Cash in bank and current accounts	**25,046**	66,907
	25,231	67,076

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information

10 Transactions and balances with related parties

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

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

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Amounts due from related parties		
Emirates Steel Industries PJSC	**593**	953
Others	**33**	8
	626	961

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Amounts due to a related party		
General Holding Corporation PJSC (SENAAT)	**15,753**	15,451
Loan from a related party		
General Holding Corporation PJSC (SENAAT)		
Current	**55,106**	55,106
Non-current	**36,706**	36,706
	91,812	91,812

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

Transactions with related parties during the period comprise:

	3 months ended 31 March	
	2018 (unaudited) AED'000	2017 (unaudited) AED'000
Interest on loan from parent company	**867**	801
Sales to a related party	**756**	529
Key management compensation		
Short term benefits	**1,976**	2,001
Post-employment benefits	**162**	179
	2,138	2,180

11 Borrowings

Bank borrowings are repayable as follows:

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Non-current		
After one year	**741,200**	808,211
Current		
Within one year	**134,844**	144,844

The details of the bank borrowings are stated as follows:

		Outstanding at 31 March 2018			Outstanding at 31 December 2017		
	Maturity	**Current AED'000**	**Non-current AED'000**	**Total AED'000**	Current AED'000	Non-current AED'000	Total AED'000
Term loan 1	**2024**	**133,200**	**733,800**	**867,000**	133,200	800,400	933,600
Term loan 2	**2023**	**1,644**	**7,400**	**9,044**	1,644	7,811	9,455
Short term loan 1	**2018**	**-**	**-**	**-**	10,000	-	10,000
		134,844	**741,200**	**876,044**	144,844	808,211	953,055

11 Borrowings *(continued)*

Term loan 1 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 semi-annually commencing from March 2016. The restructured loan carries interest at prevailing market rates. The unutilised portion of the revolving facility amounted to AED 200 million as at 31 March 2018 *(31 December 2017: AED 200 million)*.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Company. The loan is repayable in 36 equal quarterly installments from November 2014 at prevailing market rates.

Short term loan 1 of AED 10 million was obtained from a commercial bank for financing the working capital of the Company. In January 2018, loan was fully repaid.

12 Trade and other payables

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Trade payables	**461,861**	419,644
Accruals	**67,423**	71,518
Interest payable	**5,164**	3,883
Other payables	**34,006**	26,815
	568,454	521,860

13 Contingencies and commitments

	31 March 2018 (unaudited) AED'000	31 December 2017 (audited) AED'000
Bank guarantees and letters of credit	**50,640**	37,416
Capital commitments	**10,385**	10,385

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

14 Segment reporting

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

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

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

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

14 Segment reporting *(continued)*

For the period ended 31 March 2018 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	157,736	48,193	21,265	19,481	4,373	-	-	251,048
Intersegment revenue	7,902	-	-	-	2,562	-	(10,464)	-
Finance cost	12,369	-	-	-	-	109	-	12,478
Depreciation and amortisation	14,089	3,350	1,349	441	38	3,055	-	22,322
Share of profit of equity accounted investees	-	-	-	-	-	1,960	-	1,960
Profit / (loss) for the period	8,501	4,758	5,303	1,096	271	(8,229)	-	11,700

14 Segment reporting *(continued)*

As at 31 March 2018 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	**3,623,416**	**402,374**	**105,324**	**152,347**	**47,877**	**1,366,224**	**(2,306,375)**	**3,391,187**
Total liabilities	**1,179,771**	**211,316**	**32,989**	**35,972**	**54,554**	**2,344,073**	**(2,253,058)**	**1,605,617**

For the period ended 31 March 2017 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	158,651	38,455	11,237	14,321	5,619	-	-	228,283
Intersegment revenue	4,795	-	-	-	1,817	-	(6,612)	-
Finance cost	13,521	-	-	-	-	125	-	13,646

14 Segment reporting *(continued)*

For the period ended 31 March 2017 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Depreciation and amortisation	13,888	3,016	1,342	465	43	3,073	-	21,827
Share of profit of equity accounted investees	-	-	-	-	-	1,401	-	1,401
Profit/(loss) for the period	14,225	3,299	1,284	201	773	(9,188)	-	10,594

As at 31 December 2017 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	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

15 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2018 and 31 March 2017.

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

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

	3 months ended 31 March	
	2018 (unaudited)	2017 (unaudited)
Profit attributable to owners of the Company (AED'000)	**11,700**	10,594
Weighted average number of shares in issue (thousands of shares)	**1,750,000**	1,750,000
Earnings per share (AED)	**0.007**	0.006

There were no potentially dilutive securities as at 31 March 2018 or 31 March 2017, and accordingly, diluted earnings per share are the same as basic earnings per share.

17 Date of authorisation for issue

The condensed consolidated interim financial information was approved by the Company's Board of Directors and authorised for issue on 29 April 2018.