

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

Condensed consolidated interim financial
information

30 September 2016

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

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim financial information

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Board of Directors' Report to Shareholders

On behalf of Arkan Building Materials Company's Board of Directors, I am pleased to present the Board of Directors' report for the period ending 30 September 2016, together with the reviewed condensed consolidated financial statements for the same period.

Overall, Arkan achieved revenue of AED 596 million in the first nine months of 2016, compared to AED 666 million in the first nine months of 2015. The Group's profit for the same period was AED 54.76 million compared to AED 81.01 million for the same period in 2015. The net profit was lower mainly due to production decline resulting from adverse weather conditions in early March 2016 that caused damage to the cement plant in Al Ain and significant decrease in share of profit from associates.

Cement Operations:

Revenue from Arkan's Cement segment was AED 434.41 million at the end of the of the first nine months of 2016, compared to AED 518.34 million in the same period of 2015, as the first nine months of 2016 has seen a decrease in the market prices of cement compared to 2015. Profit from this segment during the same period of 2016 equaled AED 55.96 million as compared to AED 67.90 million in 2015. As highlighted in the first quarter, the decrease in profit and revenue is mainly attributed to the interruption in production at Ain Cement Factory due to the fierce rain storm that occurred in the month of March which resulted in damaging one of the conveyor belts at the factory. The damaged conveyor belt stalled the production of half of the raw material handling line; however the company has stepped up the utilization of the other half to achieve an overall production capacity utilization of 65% thereby mitigating the profitability loss due to the damage.

Concrete Blocks and Dry Mortar:

Revenue from Arkan's Blocks segment (Blocks) increased to AED 76.17 million at the end of 30 September 2016, compared to AED 52.45 million in the same period of 2015. Loss from Blocks amounted to AED 52 thousand as compared to a loss of AED 4.19 million for the same period last year. The turnaround in this business is due to higher production and sales volumes as a result of intensified market development efforts of the business. Higher production and sales volumes on the blocks side were offset by a loss of AED 1.06 million by the Dry Mortar plant. Such loss was expected and budgeted for as the Dry Mortar plant is on the ramp up phase being the first year of commercial operations.

GRP Pipes:

Revenue from Arkan's GRP Pipes segment (GRP) reached AED 39.04 million at the end of 30 September 2016, compared to AED 31.06 million on 30 September 2015. Profit from this segment amounted to AED 5.27 million in the first nine months of 2016 compared to AED 4.77 million during the same period of 2015. Tapping into new export markets and broadening the product portfolio has contributed to the increase in revenue and profit.

PVC Pipes:

Arkan's PVC Pipes segment (PVC) posted revenue of AED 31.59 million at the end of 30 September 2016, compared to AED 46.51 million at the end of 30 September 2015. Profit from PVC was AED 223 thousand at the end of 30 September 2016 as compared to AED 1.27 million at the end of 30 September 2015. Although PVC pipes segment has a strong pipeline of confirmed orders, delivery has slowed down due to infrastructure projects delays thereby resulting in decrease in sales and profitability.

Bags:

Arkan's Bags segment (Bags) revenue was AED 14.60 million for the period ended 30 September 2016, compared to AED 18.01 million on 30 September 2015. Profit from Bags for the period ended 30 September 2016 was AED 1.60 million, compared to AED 936 thousand as at 30 September 2015 due to higher export sales.

Liquidity

The Company had cash and cash equivalents of AED 62.53 million at the end of 30 September 2016.

Total Assets & Shareholders' Equity

The total assets of the Company reached AED 3.62 billion at the end of Q3 2016. The value of shareholders' equity increased to AED 1.90 billion as of September 30, 2016, compared to AED 1.85 billion as of 31 December 2015.

Investments

The value of the investment in Emirates Real Estate Fund was AED 77.33 million at the end of 30 September 2016 compared to AED 74.72 million as at 31 December 2015. The share of profit from associates at the end of the first nine months of 2016 was AED 6.79 million compared to AED 17.05 million in the same period last year. The Company received cash dividends of AED 24 million from this investment during the period.

On behalf of the Board of Directors:

Jamal Salem Al Dhaheri

Chairman

31 October 2016



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

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

The Shareholders
Arkan Building Materials Company (ARKAN) PJSC

Introduction

We have reviewed the accompanying 30 September 2016 condensed consolidated interim financial information of Arkan Building Materials Company (ARKAN) PJSC and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 September 2016;
- the condensed consolidated interim statement of profit or loss for the nine-month period ended 30 September 2016;
- the condensed consolidated interim statement of comprehensive income for the nine-month period ended 30 September 2016;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2016;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2016; and
- notes to the condensed consolidated interim financial information.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2016 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited
Fawzi AbuRass
Registration No. 968
Abu Dhabi, United Arab Emirates

31 OCT 2016

Arkan Building Materials Company (ARKAN) PJSC

Condensed consolidated interim statement of financial position

As at

	<i>Notes</i>	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Assets			
Non-current assets			
Property, plant and equipment	5	2,142,106	2,189,454
Goodwill		128,430	128,430
Other intangible assets		122,361	128,820
Investment in associates	6	208,748	225,954
Financial assets measured at fair value through other comprehensive income (FVTOCI)	7	77,331	74,724
Total non-current assets		2,678,976	2,747,382
Current assets			
Financial assets measured at fair value through profit or loss (FVTPL)	7	-	987
Inventories	8	388,439	384,011
Trade and other receivables	9	451,088	468,773
Prepayments		36,097	31,019
Amounts due from related parties	11	481	514
Cash and bank balances	10	62,529	60,940
Total current assets		938,634	946,244
Total assets		3,617,610	3,693,626
Equity and Liabilities			
Equity			
Share capital		1,750,000	1,750,000
Statutory reserve		72,485	72,485
Capital reserve		3,783	3,783
Investment revaluation reserve	7	(67,404)	(70,011)
Retained earnings		145,869	90,804
Equity attributable to owners of the Company		1,904,733	1,847,061
Non-controlling interest		-	307
Total equity		1,904,733	1,847,368

Arkan Building Materials Company (ARKAN) PJSC

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

As at

	Notes	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Non-current liabilities			
Borrowings	12	943,333	1,077,767
Provision for employees' end of service benefit		35,626	33,673
Total non-current liabilities		978,959	1,111,440
Current liabilities			
Borrowings	12	244,978	224,978
Trade and other payables	13	328,438	326,283
Amounts due to a related party	11	13,582	13,637
Loan from a related party	11	146,920	146,920
Deferred government grant		-	23,000
Total current liabilities		733,918	734,818
Total liabilities		1,712,877	1,846,258
Total equity and liabilities		3,617,610	3,693,626



Jamal Salem Al Dhaheri
Chairman



Abdellatif Sfaxi
Chief Executive Officer



Faizal Amod
Chief Financial Officer

The notes set out on pages 9 to 24 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 page 2.

Arkan Building Materials Company (ARKAN) PJSC

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Revenue		184,577	222,373	595,812	666,372
Direct costs		(130,520)	(175,118)	(438,542)	(508,253)
Gross profit		54,057	47,255	157,270	158,119
Selling and distribution expenses		(6,640)	(5,224)	(21,109)	(17,680)
General and administrative expenses		(23,071)	(25,851)	(75,389)	(82,574)
Other income		944	-	1,651	9,027
Share of profits of associates (net)	6	687	6,379	6,794	17,050
Income from government grant		-	11,500	23,000	34,500
Net gain / (loss) on investments at fair value through profit or loss		-	1,071	(24)	1,071
Dividend income		2,164	2,185	4,353	4,365
Finance cost		(13,564)	(14,187)	(41,845)	(43,073)
Finance income		42	53	57	206
Profit for the period		14,619	23,181	54,758	81,011
Profit for the period attributable to:					
Owners of the Company		14,619	23,181	54,758	81,011
		14,619	23,181	54,758	81,011
Basic and diluted earnings per share attributable to Owners of the Company (AED)	17	0.008	0.013	0.031	0.046

The notes set out on pages 9 to 24 form an integral part of these condensed consolidated interim financial information.

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Arkan Building Materials Company (ARKAN) PJSC

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

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
		AED'000	AED'000	AED'000	AED'000
Profit for the period		14,619	23,181	54,758	81,011
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Net change in fair value of investment in equity instruments measured at FVTOCI	7	765	(54)	2,607	(54)
Total comprehensive income for the period		15,384	23,127	57,365	80,957
Total comprehensive income for the period attributable to:					
Owners of the Company		15,384	23,127	57,365	80,957
		15,384	23,127	57,365	80,957

The notes set out on pages 9 to 24 form an integral part of these condensed consolidated interim financial information.

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Arkan Building Materials Company (ARKAN) PJSC

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

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Investment revaluation reserve AED'000	Retained earnings AED'000	Net equity attributable to the Owners of the Company AED'000	Non- controlling interests AED'000	Total AED'000
As at 1 January 2015 (audited)	1,750,000	62,373	3,783	(69,975)	43,545	1,789,726	307	1,790,033
<i>Total comprehensive income for the period</i>								
Profit for the period	-	-	-	-	81,011	81,011	-	81,011
Other comprehensive income for the period	-	-	-	(54)	-	(54)	-	(54)
Total comprehensive income	-	-	-	(54)	80,957	80,957	-	80,957
<i>Transaction with owners of the Company</i>								
Dividend paid (refer note 18)	-	-	-	-	(43,750)	(43,750)	-	(43,750)
As at 30 September 2015 (unaudited)	1,750,000	62,373	3,783	(70,029)	80,806	1,826,933	307	1,827,240
As at 1 January 2016 (audited)	1,750,000	72,485	3,783	(70,011)	90,804	1,847,061	307	1,847,368
<i>Total comprehensive income for the period</i>								
Profit for the period	-	-	-	-	54,758	54,758	-	54,758
Liquidation of Arkan Mining and Transportation	-	-	-	-	307	307	(307)	-
Other comprehensive income for the period	-	-	-	2,607	-	2,607	-	2,607
Total comprehensive income	-	-	-	2,608	55,065	57,672	(307)	57,365
As at 30 September 2016 (unaudited)	1,750,000	72,485	3,783	(67,404)	145,869	1,904,733	-	1,904,733

The notes set out on pages 9 to 24 form an integral part of these condensed consolidated interim financial information.

Arkan Building Materials Company (ARKAN) PJSC

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

	Notes	Nine months ended 30 September	
		2016 AED'000	2015 AED'000
Cash flows from operating activities			
Profit for the period		54,758	81,011
Adjustments for:			
Depreciation of property, plant and equipment	5	70,977	81,715
Amortisation of other intangible assets		6,459	6,459
Dividend income		(4,353)	(4,365)
Finance income		(57)	(206)
Finance cost		41,845	43,073
Amortisation of deferred government grant		(23,000)	(34,500)
Net loss / (gain) in fair value of financial assets measured as at FVTPL		24	(1,071)
Share of profit from associates	6	(6,794)	(17,050)
Loss on sale of property, plant and equipment		576	-
Impairment loss recognised on trade receivables	9	1,303	1,577
Provision for inventory obsolescence	8	555	302
Provision for employees' end of service benefit		3,052	2,860
Operating cash flows before movements in working capital		145,345	159,805
Changes in			
- inventories	8	(4,983)	(28,601)
- trade and other receivables	9	16,382	(61,554)
- prepayments		(5,078)	5,700
- amounts due from related parties	11	33	397
- trade and other payables	13	(663)	73,601
- amounts due to a related party	11	(55)	181
Cash generated from operating activities		150,981	149,529
Employees' end of service benefits paid		(1,099)	(460)
Net cash from operating activities		149,882	149,069
Cash flows from investing activities			
Payments for property, plant and equipment	5	(24,776)	(37,003)
Proceeds from sale of property, plant and equipment		571	-
Dividends received from associates	6	24,000	20,000
Payments for short term investments/deposits held for more than 3 months		-	3,678
Dividend received from investments held at FVTOCI		4,353	4,365
Proceeds from sale of investment held at FVTPL		963	-
Interest income		57	206
Net cash from / (used in) investing activities		5,168	(8,754)
Cash flows from financing activities			
Repayments of bank borrowings - net		(114,434)	(86,232)
Finance cost paid		(39,027)	(43,073)
Dividend paid	18	-	(43,750)
Net cash used in financing activities		(153,461)	(173,055)
Net increase / (decrease) in cash and cash equivalents		1,589	(32,740)
Cash and cash equivalents at the beginning of the period	10	60,940	94,784
Cash and cash equivalents at the end of the period	10	62,529	62,044

The notes set out on pages 9 to 24 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 page 2.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

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 nine-months ended 30 September 2016 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
		2016	2015	
Emirates Blocks Factory	UAE	100	100	Production and sale of cement blocks.
Emirates Cement Factory	UAE	100	100	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	100	100	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	100	100	Production and sale of pipes and plastic and paper bags.
Hobas Gulf LLC	UAE	100	100	Develop market of glass fiber reinforced polyster pipes and systems.
Arkan Mining and Transportation	Oman	-	70	Production of mine lime stone.

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

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

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. UAE Federal Law no. 2 of 2015 being the Commercial Companies Law (“the UAE Companies Law of 2015”) was issued on 1 April 2015 to come into force on 1 July 2015 repealing the old UAE Federal Law No. 8 of 1984 (as amended). Companies are mandated to comply with the UAE Companies Law No. 2 of 2015 by 30 June 2017. The Group has finalised the process of amending its Articles of Association. These condensed consolidated financial information does not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

(b) *Basis of measurement*

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

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

(c) *Functional and presentation currency*

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

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

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

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

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

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 2015, except for the adoption of new standards and interpretations effective 1 January 2016.

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

(a) Investment in associates and joint venture

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

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the condensed consolidated interim statement of 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 or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 “Impairment of Assets” as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

3 Summary of significant accounting policies (continued)

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

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

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

(b) Financial assets

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

Cash and cash equivalents

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

Loans and receivables

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

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

Investments held at FVTPL

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the condensed consolidated interim statement of profit or loss.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

3 Summary of significant accounting policies (continued)

(b) Financial assets (continued)

Investments held at FVTPL (continued)

A financial asset is held for trading if:

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

Investments held at FVTOCI

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

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

Dividends on these investments in equity instruments are recognised in the condensed consolidated interim statement of 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 the condensed consolidated interim statement of profit or loss and are included in the net investment and other income line item in the condensed consolidated interim statement of 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.

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

3 Summary of significant accounting policies (continued)

(b) Financial assets (continued)

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.

(c) Impairment

Financial assets

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

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

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

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

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

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

4 Accounting estimates and judgments

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

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015.

5 Property, plant and equipment

During the nine months period ended 30 September 2016, the Group acquired assets with a cost of AED 24,776 thousand (30 September 2015: AED 37,003 thousand). Out of the total assets acquired for the period, AED 4,836 thousand (30 September 2015: AED 14,919 thousand) represents construction cost of the new cement factory. 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 70,977 thousand (30 September 2015: AED 81,715 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Balance at the beginning of the period / year	225,954	222,852
Group's share of associates' profits for the period / year	6,794	23,102
Dividends received during the period / year	(24,000)	(20,000)
	<hr/>	<hr/>
Balance at the end of the period / year	208,748	225,954
	<hr/> <hr/>	<hr/> <hr/>

7 Investments

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
<i>Non-current investments</i>		
Financial assets measured at FVTOCI	146,920	146,920
Investment revaluation reserve	(67,404)	(70,011)
Capital distribution received	(2,185)	(2,185)
	<hr/>	<hr/>
Fair value	77,331	74,724
	<hr/> <hr/>	<hr/> <hr/>

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

7 Investments (continued)

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
<i>Current investments</i>		
Financial assets measured at FVTPL	-	987

The FVTOCI investment represents an investment of AED 144,735 thousand in a real estate fund within the UAE. The investment is fully under lien to secure a term loan.

During the period, the fair value of FVTOCI investment increased by AED 2,607 thousand (31 December 2015: decreased by AED 36 thousand).

Financial assets measured at FVTOCI and financial assets measured at FVTPL fall under fair value hierarchy level 2 and level 1 respectively.

8 Inventories

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Raw materials	104,609	121,672
Work in progress	143,413	139,194
Finished goods	40,569	34,300
Goods in transit	58	71
Spare parts and consumable materials	111,455	99,884
	400,104	395,121
Less: allowance for obsolescence	(11,665)	(11,110)
	388,439	384,011

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

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Balance at the beginning of the period / year	11,110	11,917
Charge / (reversal) for the period / year	555	(807)
Balance at the end of the period / year	11,665	11,110

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Notes to the condensed consolidated interim financial information
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9 Trade and other receivables

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Trade receivables	434,983	453,146
Less: allowance for impairment	(25,156)	(23,853)
	<hr/>	<hr/>
	409,827	429,293
Advances to suppliers	12,902	14,293
Other receivables	28,359	25,187
	<hr/>	<hr/>
	451,088	468,773
	<hr/> <hr/>	<hr/> <hr/>

10 Cash and bank balances

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Cash in hand	125	183
Cash at bank in current accounts	62,404	60,757
	<hr/>	<hr/>
	62,529	60,940
	<hr/> <hr/>	<hr/> <hr/>

11 Transactions and balances with related parties

Related parties comprise the shareholders, directors and key management of the Group and those entities in which they have the ability to control or exercise significant influence in financial and operational decisions. Balances with key related parties are as follows:

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
<i>Amounts due from related parties</i>		
Dot Modern Oman	234	234
Emirates Steel Industries PJSC	213	247
Others	34	33
	<hr/>	<hr/>
	481	514
	<hr/> <hr/>	<hr/> <hr/>

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

11 Transactions and balances with related parties (continued)

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
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Amounts due to a related party

General Holding Corporation PJSC (SENAAT)	13,582	13,637
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	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
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Loan from a related party

General Holding Corporation PJSC (SENAAT)	146,920	146,920
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Transactions with related parties during the period comprise:

	Nine months ended 30 September	
	2016 (unaudited) AED'000	2015 (unaudited) AED'000
Interest on loan from parent company	2,994	1,674
Sales to a related party	1,406	469
Key management compensation		
Short term benefits	5,814	3,415
Post-employment benefits	466	256
	6,280	3,671

12 Borrowings

Bank borrowings are repayable as follows:

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
<i>Non-current</i>		
After one year	943,333	1,077,767
<i>Current</i>		
Within one year	244,978	224,978

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Notes to the condensed consolidated interim financial information
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12 Borrowings (continued)

The details of the bank borrowings are stated as follows:

	Maturity	Outstanding at 30 September 2016			Outstanding at 31 December 2015		
		Current AED'000	Non- current AED'000	Total AED'000	Current AED'000	Non- current AED'000	Total AED'000
Term loan 1	2016	90,000	-	90,000	90,000	-	90,000
Term loan 2	2024	153,333	933,466	1,086,799	133,333	1,066,667	1,200,000
Term loan 3	2023	1,645	9,867	11,512	1,645	11,100	12,745
		<u>244,978</u>	<u>943,333</u>	<u>1,188,311</u>	<u>224,978</u>	<u>1,077,767</u>	<u>1,302,745</u>

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 2016. The loan is secured by the Group's share in the real estate fund and bears a fixed rate of profit.

Term loan 2 was obtained by the Group to finance the construction of the Group's new cement factory. In 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 180 million as at 30 September 2016 (31 December 2015: Nil).

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

13 Trade and other payables

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Trade payables	244,794	246,630
Accruals	72,618	68,572
Interest payable	6,862	4,044
Other payables	4,164	7,037
	<u>328,438</u>	<u>326,283</u>

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
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14 Contingencies and commitments

	30 September 2016 (unaudited) AED'000	31 December 2015 (audited) AED'000
Bank guarantees and letters of credit	14,169	16,792
Capital commitments	14,651	22,965

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

15 Segment reporting

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

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

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

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

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Notes to the condensed consolidated interim financial information
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15 Segment reporting (continued)

For the period ended 30 September 2016 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	434,412	76,171	39,036	31,591	14,602	-	-	595,812
Intersegment revenue	14,086	-	-	-	4,789	-	(18,875)	-
Finance cost	38,064	-	3	-	-	3,778	-	41,845
Depreciation and amortisation	50,911	8,183	4,067	1,363	131	12,781	-	77,436
Share of profit of equity accounted investees	-	-	-	-	-	6,794	-	6,794
Profit for the period	55,955	(52)	5,265	223	1,601	(8,234)	-	54,758

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 September 2016

15 Segment reporting (continued)

As at 30 September 2016 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	2,492,776	323,414	89,691	114,371	46,507	1,439,950	(889,099)	3,617,610
Total liabilities	34,285	168,447	23,711	8,972	43,701	2,254,437	(820,676)	1,712,877

As at 30 September 2016, included within unallocated assets is AED 154,168 thousand (31 December 2015: AED 229,799 thousand) being construction work in progress, which primarily relates to phase 2 and phase 3 of the new cement factory. All construction work in progress will be allocated to the respective segments once completed.

For the period ended 30 September 2015 (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	518,340	52,454	31,061	46,505	18,012	-	-	666,372
Intersegment revenue	8,139	-	471	-	4,536	-	(13,146)	-
Finance cost	39,260	-	6	-	-	3,807	-	43,073

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Notes to the condensed consolidated interim financial information
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15 Segment reporting (continued)

For the period ended 30 September 2015 (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
Share of profit of equity accounted investees	-	-	-	-	-	17,050	-	17,050
Depreciation and amortisation	50,440	8,739	3,978	1,254	162	23,601	-	88,174
Profit/(loss) for the period	67,904	(4,185)	4,770	1,266	936	10,320	-	81,011

As at 31 December 2015 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	2,512,875	224,224	95,996	122,928	43,167	1,552,586	(858,150)	3,693,626
Total liabilities	150,771	142,958	22,063	17,753	35,962	2,247,471	(770,720)	1,846,258

Arkan Building Materials Company (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
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16 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the nine-month period ended 30 September 2016 and 30 September 2015.

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

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

	Nine months ended 30 September	
	2016 (unaudited)	2015 (unaudited)
Profit attributable to owners of the Company (AED'000)	54,758	81,011
Weighted average number of shares in issue (thousands of shares)	1,750,000	1,750,000
Earnings per share (AED)	0.031	0.046

There were no potentially dilutive securities as at 30 September 2016 or 30 September 2015, and accordingly, diluted earnings per share are the same as basic earnings per share.

18 Dividend

No dividend has been declared during the period ended 30 September 2016 (30 September 2015: On 29 April 2015 the Board of Directors approved and declared a dividend of AED 43,750 thousand representing 2.5% of the issued share capital to the existing shareholders as at 10 May 2015).

19 Comparative information

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

20 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 31 October 2016.