# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated financial statements

**31 December 2016**

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

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated financial statements

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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 and audited consolidated financial statements for the year ended 31 December 2016.

2016 saw considerable operational progress, with sales volumes increasing across new markets both at home and abroad and the introduction of new products and services including the launch of dry mortar products and the implementation of turnkey solutions to help developers achieve greater on-site efficiencies.

Overall, Arkan achieved revenue of 812.84 million in 2016 compared to AED 876.93 million in 2015 despite an increase in volumes of both production and sales.

Due to significant price increases in gas and electricity from 1 January 2017, Arkan undertook a series of mitigating actions across the business, including temporarily closing the Emirates Cement Factory ('ECF'), the older and smaller of Arkan's two cement factories in Al Ain. The Board has subsequently taken the decision to permanently close and write off the Emirates Cement Factory. Arkan achieved a profit of AED 72 million for the year before impairment losses, however writing off the Emirates Cement assets in 2016 of AED 152 million and severance cost included in general and administration expenses of AED 6 million resulted in a loss after impairment of AED 82 million.

## Review of Operations:

### Cement Operations:

Revenue from Arkan's Cement business was AED 592.33 million in 2016, compared to AED 676.30 million in 2015 and profits before impairment losses were AED 83.66 million in 2016, versus AED 85.61 million in 2015. The decrease in revenue and profit was attributable to continued pricing pressure on clinker and cement sales and the interruption in production at the Ain Cement Factory due to the storm in March that year which damaged one of the conveyor belts but has since been repaired.

Following the closure of the ECF factory, Arkan was able to absorb production and sales at its modern Al Ain Cement Factory ('ACF'). ACF is now running at a near 100% utilization rate with three shifts. The consolidation of the two plants has helped Arkan become one of the most efficient cement producers in the UAE by reducing operating costs.

### Concrete Blocks:

Revenue from Arkan's Blocks business significantly increased to AED 104.72 million in 2016, compared to AED 75.06 million in 2015. Profit was AED 1.64 million as compared to a loss of AED 4.55 million in 2015. The turnaround in this business was due to higher production and sales volumes as a result of intensified business development efforts.

### GRP Pipes:

Revenue from GRP Pipes reached AED 47.80 million in 2016, compared to AED 41.23 million in 2015. Profit rose to AED 6.82 million in 2016 compared to AED 6.19 million in the previous year. During 2016, GRP Pipes achieved greater sales volumes in part due to orders from customers in new export markets, as well as the introduction of a broader product portfolio.

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**PVC Pipes:**
Revenues from PVC Pipes were AED 43.05 million in 2016, compared to AED 59.53 million in 2015 and profits for the year under review consequently was AED 301,000 compared to AED 1.50 million in 2015. Although PVC Pipes has a strong book of confirmed orders, delivery slowed due to infrastructure project delays. The PVC Pipes business has a strong market position and is well placed to win infrastructure projects as the market recovers.

**Bags:**
Arkan's Bags business saw revenue edge higher to AED 24.94 million in 2016, compared to AED 24.81 million in 2015. Profit, however, rose significantly to AED 2.31 million at the end of 2016, compared to AED 1.69 million in 2015, due to increased export sales.

**Liquidity**

The Company had cash and cash equivalents of AED 30.92 million at the end of 31 December 2016.

**Total Assets & Shareholders' Equity**

At the 31 December 2016, the Company had total assets of AED 3.49 billion and shareholders' equity of AED 1.75 billion.

**Investments**

The value of Arkan's investment in the Emirates Real Estate Fund was AED 73.79 million at the end of December 2016, compared to AED 74.72 million at the end of 2015. The share of profit from associates at the end of 2016 was AED 10.45 million compared to AED 23.10 million in the same period last year. The Company received cash dividends of AED 24 million from this investment during the period.

**Outlook**

We have made a good start to the 2017 financial year, notwithstanding the increase in utility prices and continued challenging trading environment.

The Company continues to offer the highest quality products and services to its customers and builds on its reputation as the leading building materials company in the UAE.

We are committed to our strategy of expanding into new markets in the Middle East, Asia and Africa and introducing new and innovative products as well as driving operational efficiencies to retain a lean operating model.

Our businesses are well-positioned in their markets and we remain confident of our ability to deliver future shareholder value. As we continue our journey, we wish to express our gratitude to our shareholders for their continued confidence in our vision and strategy.

**On behalf of the Board of Directors:**

**Jamal Salem Al Dhaheri**
**Chairman of the Board of Directors**
**20 March 2017**


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## Independent Auditors' Report

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

### Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for opinion*

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

*Key audit matters*

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

**(a) Impairment of goodwill**

Refer to note 6 to the consolidated financial statements on pages 33 to 34.

*Audit risk*

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

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

*Our response*

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

- In respect of the cash flows: We considered the Group's procedures used to develop the forecasts and the principles and integrity of the Group's discounted cash flow model and re-performed the calculations of the model results to test their accuracy. To challenge the reasonableness of those cash flows, we assessed the historical accuracy of the Group's forecasting and corroborated the forecasts with reference to publicly available information and other evidence that has been made available during the course of the audit. We conducted our own assessments to challenge other key inputs, such as the projected growth rate and perpetuity rate;

- In respect of the discount rate: We compared the Group's assumptions to externally-derived data where appropriate. We used our own valuation specialists to assist us in assessing the adequacy of the significant assumptions used in arriving at the discount rates used; and

*Key audit matters (continued)*

**(a) Impairment of goodwill** *(continued)*

*Our response (continued)*

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

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

**(b) Recoverability of trade and other receivables**

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

*Audit risk*

As at 31 December 2016 the Group had trade and other receivables with a carrying value of AED 539 million before provisions.

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

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

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

*Our response*

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

*Key audit matters (continued)*

**(b) Recoverability of trade and other receivables** *(continued)*

*Our response (continued)*

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

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

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

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

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

**(c) Impairment of property, plant and equipment**

Refer to note 5 to the consolidated financial statements on pages 33 to 34.

*Audit risk*

In the current year due to the increase in gas and electricity prices the Group has consolidated its cement production into one factory i.e. Al Ain Cement Factory ('ACF'). This may result in the carrying amount of property, plant and equipment at Emirates Cement Factory ('ECF') to exceed its recoverable amount and therefore requiring impairment.

*Our response*

- We evaluated management's impairment calculations, assessing the future cash flow forecasts used in the models, and the process by which they were drawn up and we tested the mechanics of the underlying calculations;

- We analysed the assumptions used in the Group's long term plan and the growth rates by comparing them to economic and industry forecasts;

*Key audit matters (continued)*

**(c) Impairment of property, plant and equipment** *(continued)*

*Our response (continued)*

- We compared the discount rate by assessing the cost of capital and other inputs and comparable organisations; and

- We performed a sensitivity analysis around the key drivers of growth rates within the cash flow forecasts to ascertain the extent of change in those assumptions that either individually or collectively would be required for the assets to be further impaired and also considered the likelihood of such a movement in those key assumptions arising.

*Other Information*

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

*Responsibilities of management and those charged with governance for the consolidated financial statements*

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

*Responsibilities of management and those charged with governance for the consolidated financial statements (continued)*

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

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

*Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

*Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

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

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

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

iii. the Group has maintained proper books of accounts;

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

v. as disclosed in note 9 to the consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2016;

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

vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. 2 of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Abu Dhabi, United Arab Emirates
Date: 20 MAR 2017

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of financial position
*As at 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **2,049,236** | 2,189,454 |
| Goodwill | 6 | **128,430** | 128,430 |
| Other intangible assets | 7 | **119,159** | 128,820 |
| Investment in associates | 8 | **212,406** | 225,954 |
| Investments | 9 | **73,793** | 74,724 |
| **Total non-current assets** | | **2,583,024** | 2,747,382 |
| **Current assets** | | | |
| Investments | 9 | **-** | 987 |
| Inventories | 10 | **366,807** | 384,011 |
| Trade and other receivables | 11 | **479,505** | 468,773 |
| Prepayments | | **30,806** | 31,019 |
| Amount due from related parties | 13 | **954** | 514 |
| Cash and bank balances | 12 | **30,915** | 60,940 |
| **Total current assets** | | **908,987** | 946,244 |
| **Total assets** | | **3,492,011** | 3,693,626 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 14 | **1,750,000** | 1,750,000 |
| Statutory reserve | 15 | **72,485** | 72,485 |
| Capital reserve | 16 | **3,783** | 3,783 |
| Investment revaluation reserve | 9 | **(70,942)** | (70,011) |
| Other reserves | 17 | **(12,788)** | - |
| Retained earnings | | **8,829** | 90,804 |
| **Equity attributable to equity owners of the Company** | | **1,751,367** | 1,847,061 |
| Non-controlling interest | | **-** | 307 |
| **Total equity** | | **1,751,367** | 1,847,368 |

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of financial position *(continued)*

*As at 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | *18* | **943,055** | 1,077,767 |
| Loan from a related party | *13* | **91,845** | - |
| Provision for employees' end of service benefit | *17* | **49,764** | 33,673 |
| **Total non-current liabilities** | | **1,084,664** | 1,111,440 |
| **Current liabilities** | | | |
| Borrowings | *18* | **239,845** | 224,978 |
| Trade and other payables | *19* | **364,225** | 326,283 |
| Amounts due to a related party | *13* | **15,204** | 13,637 |
| Loan from a related party | *13* | **36,706** | 146,920 |
| Deferred government grant | *29* | **-** | 23,000 |
| **Total current liabilities** | | **655,980** | 734,818 |
| **Total liabilities** | | **1,740,644** | 1,846,258 |
| **Total equity and liabilities** | | **3,492,011** | 3,693,626 |

**Jamal Salem Al Dhaheri**
Chairman

**Abdellatif Sfaxi**
Chief Executive Officer

**Faizal Amod**
Chief Financial Officer

The notes set out on pages 18 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 10.

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of profit or loss

*for the year ended 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| Revenue | *20* | **812,839** | 876,926 |
| Direct costs | *21* | **(593,445)** | (662,630) |
| **Gross profit** | | **219,394** | 214,296 |
| Selling and distribution expenses | *22* | **(29,341)** | (31,072) |
| General and administrative expenses | *23* | **(103,291)** | (101,147) |
| Other income | *25* | **2,398** | 4,413 |
| Income from government grant | *29* | **23,000** | 46,000 |
| Net change in fair value of financial assets measured at FVTPL | | **-** | 630 |
| Loss on sale of financial assets measured at FVTPL | | **(24)** | - |
| Share of profits of associates- net | *8* | **10,452** | 23,102 |
| Finance income | *24* | **4,512** | 4,451 |
| Finance cost | *24* | **(55,212)** | (53,512) |
| **Profit for the year before impairment loss** | | **71,888** | 107,161 |
| Impairment losses | *26* | **(154,170)** | (6,040) |
| **(Loss) / profit for the year after impairment loss** | | **(82,282)** | 101,121 |
| **(Loss) / profit attributable to:** | | | |
| Owners of the Company | | **(82,282)** | 101,121 |
| Non-controlling interests | | **-** | - |
| | | **(82,282)** | 101,121 |
| Basic and diluted earnings per share (AED) | *31* | **(0.047)** | 0.058 |

The notes set out on pages 18 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 10.

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of comprehensive income
*for the year ended 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| **(Loss) / profit for the year** | | **(82,282)** | 101,121 |
| **Other comprehensive income** | | | |
| Net change in fair value of financial assets measured at FVTOCI | *9* | **(931)** | (36) |
| Re-measurement of end of service benefits | *17* | **(12,788)** | - |
| **Total comprehensive (loss)/ income for the year** | | **(96,001)** | 101,085 |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | **(96,001)** | 101,085 |
| Non-controlling interest | | - | - |
| | | **(96,001)** | 101,085 |

The notes set out on pages 18 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 10.

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of changes in equity

*for the year ended 31 December*

| | Share capital AED'000 | Statutory reserve AED'000 | Capital Reserve AED'000 | Investment revaluation reserve AED'000 | Retained earnings AED'000 | Other Reserves AED'000 | Net equity attributable to Owners of the Company AED'000 | Non-controlling interest AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2015 | 1,750,000 | 62,373 | 3,783 | (69,975) | 43,545 | - | 1,789,726 | 307 | 1,790,033 |
| *Total comprehensive income for the year* | | | | | | | | | |
| Profit for the year | - | - | - | - | 101,121 | - | 101,121 | - | 101,121 |
| Other comprehensive loss for the year | - | - | - | (36) | - | - | (36) | - | (36) |
| Total comprehensive income/(loss) | - | - | - | (36) | 101,121 | - | 101,085 | - | 101,085 |
| *Transaction with owners of the Company* | | | | | | | | | |
| Transfer to statutory reserve | - | 10,112 | - | - | (10,112) | - | - | - | - |
| Dividend paid (refer note 33) | - | - | - | - | (43,750) | - | (43,750) | - | (43,750) |
| **As at 31 December 2015** | **1,750,000** | **72,485** | **3,783** | **(70,011)** | **90,804** | **-** | **1,847,061** | **307** | **1,847,368** |
| As at 1 January 2016 | 1,750,000 | 72,485 | 3,783 | (70,011) | 90,804 | - | 1,847,061 | 307 | 1,847,368 |
| *Total comprehensive loss for the year* | | | | | | | | | |
| Loss for the year | - | - | - | - | (82,282) | - | (82,282) | - | (82,282) |
| Net changes in fair value of financial assets measured at FVTOCI | - | - | - | (931) | - | - | (931) | - | (931) |
| Re-measurement of end of service benefit (refer note 17) | - | - | - | - | - | (12,788) | (12,788) | - | (12,788) |
| Total comprehensive loss | - | - | - | (931) | 8,522 | (12,788) | (96,001) | - | (96,001) |
| *Transaction with owners of the Company* | | | | | | | | | |
| Liquidation of Arkan Mining | - | - | - | - | 307 | - | 307 | (307) | - |
| **As at 31 December 2016** | **1,750,000** | **72,485** | **3,783** | **(70,942)** | **8,829** | **(12,788)** | **1,751,367** | **-** | **1,751,367** |

The notes set out on pages 18 to 62 form an integral part of these consolidated financial statements.

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of cash flows
*for the year ended 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss) / profit for the year | | **(82,282)** | 101,121 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | *5* | **98,157** | 99,970 |
| Impairment loss of property, plant and equipment | *5* | **69,337** | - |
| Gain on sale of property, plant and equipment | | **519** | - |
| Amortisation of other intangible assets | *7* | **8,611** | 8,611 |
| Impairment loss of other intangible assets | *7* | **1,050** | - |
| Amortisation of deferred government grant | *29* | **(23,000)** | (46,000) |
| Dividend income | *24* | **(4,353)** | (4,366) |
| Finance income | *24* | **(159)** | (85) |
| Finance cost | *24* | **55,212** | 53,512 |
| Net change in fair value of financial assets measured at FVTPL | | - | (630) |
| Loss on sale of financial assets measured at FVTPL | | **24** | - |
| Reversal of provision for inventory obsolescence | *10* | **(395)** | (807) |
| Impairment loss on inventories | *10* | **47,176** | - |
| Provision for doubtful debts on trade receivables | *11* | **1,855** | 6,040 |
| Impairment loss on trade and other receivables | *11* | **34,753** | - |
| Provision for employees' end of service benefit | *17* | **7,205** | 5,382 |
| Share of profits of associates-net | *8* | **(10,452)** | (23,102) |
| **Operating cash flows before movements in working capital** | | **203,258** | 199,646 |
| Changes in | | | |
| - inventories | *10* | **(29,577)** | (39,963) |
| - trade and other receivables | *11* | **(47,340)** | (59,260) |
| - prepayments | | **213** | (306) |
| - trade and other payables | *19* | **38,490** | 81,609 |
| - amounts due from related parties | *13* | **(440)** | 359 |
| - amounts due to a related party | *13* | **1,567** | 1,730 |
| **Cash generated from operating activities** | | **166,171** | 183,815 |
| Employees' end of service benefit paid | *17* | **(3,902)** | (2,592) |
| **Net cash from operating activities** | | **162,269** | 181,223 |

# Arkan Building Materials Company (ARKAN) PJSC

## Consolidated statement of cash flows *(continued)*
*for the year ended 31 December*

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | *5* | **(28,423)** | (44,556) |
| Margin deposits encashed | | **-** | 3,678 |
| Dividend received from investments held at FVTOCI | *24* | **4,353** | 4,366 |
| Interest received | *24* | **159** | 85 |
| Dividends received from associates | *8* | **24,000** | 20,000 |
| Proceed on sale of financial assets measured at FVTPL | | **963** | - |
| Proceeds on disposal of property, plant and equipment | | **628** | - |
| **Net cash from / (used in) investing activities** | | **1,680** | (16,427) |
| **Cash flows from financing activities** | | | |
| Repayment of bank borrowings - net | *18* | **(119,845)** | (101,643) |
| Repayment of loan from a related party | *13* | **(18,369)** | - |
| Interest paid | | **(55,760)** | (53,247) |
| Dividend paid | *33* | **-** | (43,750) |
| **Net cash used in financing activities** | | **(193,974)** | (198,640) |
| Net decrease in cash and cash equivalents | | **(30,025)** | (33,844) |
| Cash and cash equivalents at the beginning of the year | | **60,940** | 94,784 |
| **Cash and cash equivalents at the end of the year** | *12* | **30,915** | 60,940 |

The notes set out on pages 18 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 10.

## 1 Legal status and principal activities

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

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

These consolidated financial statements include the financial performance and position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

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

| **Subsidiary** | **Country of incorporation and operation** | **Ownership interest (%) 2016** | **2015** | **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 polyester pipes and systems. |
| Arkan Mining and Transportation | Oman | - | 70 | Production of mine lime stone. |

On 10 November 2010, the Executive Council of Abu Dhabi approved the transfer of the equity shares of Anabeeb Pipes Manufacturing Factories ("Anabeeb"), to the Company in exchange for no consideration effective 1 July 2011 (see note 29).

During the year the Company completed the liquidation of Arkan Mining and Transportation. On 23 June 2011, the Board of Directors approved a plan to secure a 70% investment in Dot Modern Oman, a mining company located in Oman. As of 31 December 2016, the acquisition is still to be completed.

## 1 Legal status and principal activities *(continued)*

On 30 April 2014, the Company acquired 100% control of Hobas Gulf LLC which was previously treated as an associate with shareholding of 51%.

## 2 Basis of preparation

### (a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable provision of the articles of association of the Company and the UAE Federal Law No. 2 of 2015. On 1 April 2015, UAE Federal Law No. 8 has been replaced with UAE Federal Law No 2 of 2015 being the Commercial Companies Law ("UAE Companies Law of 2015") and has come into force on 1 July 2015 repealing the old UAE Federal Law No. 8 of 1984 (as amended). Companies are mandated to comply with the UAE Companies Law No. 2 of 2015 by 30 June 2017. The Group has finalised the process of amending its Articles of Association.

### (b) *Basis of measurement*

These consolidated financial statements are prepared on the historical cost basis except for the following:

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

### (c) *Functional and presentation currency*

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

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

| New and revised IFRS | Effective date |
|---|---|
| Disclosure initiative (Amendments to IAS 7) | 1 January 2017 |
| IFRS 9 Financial Instruments | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |

Management anticipates that these amendments will be applied in the consolidated financial statements for the initial period when they become effective. Management has not yet had the opportunity to consider the potential impact of the application of these amendments.

## 2 Basis of preparation *(continued)*

### (e) *Use of estimates and judgements*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are discussed in note 32.

## 3 Significant accounting policies

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

### *(a)* Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (as disclosed in note 1). Control is achieved where the Group has power over the investee; is exposed, or has rights, to variable returns from its involvement; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

## 3 Significant accounting policies *(continued)*

### *(a)* Basis of consolidation *(consolidation)*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed off during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### *(b)* Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if it relates to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the profit or loss.

## 3 Significant accounting policies *(continued)*

### *(c)* Goodwill

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

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

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

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

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

### *(d)* Investments in associates and joint venture

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.

## 3 Significant accounting policies *(continued)*

### *(e)* Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### *(i)* Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the property;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *(ii)* Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### *(f)* Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises of materials purchased, duties, freight charges and other related expenses and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventory to their present location and condition. Work-in-progress and finished goods comprise of cost of materials plus direct labour and attributable overheads. Work-in-progress is valued by reference to the stage of completion. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less any estimated selling expenses.

Allowance is made for obsolete and slow moving items.

### 3 Significant accounting policies *(continued)*

#### *(g)* Property, plant and equipment

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

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

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

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

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

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

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

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

#### *(h)* ***Intangible assets***

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

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

## 3 Significant accounting policies *(continued)*

### *(h)* Intangible assets *(continued)*

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

### *(i)* *Foreign currency transactions*

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

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

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

### *(j)* Provision for employees' end of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

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

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

### 3 Significant accounting policies *(continued)*

#### *(j)* Provision for employees' end of service benefits (continued)

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

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

#### *(k)* Borrowing costs

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

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

## 3 Significant accounting policies *(continued)*

### *(l) Financial instruments*

*Financial assets*

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

The Group made an early adoption of IFRS 9.

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

*Classification of financial assets*

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

*Cash and cash equivalents*

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

*Loans and receivables*

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

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

*Investments held at FVTPL*

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

**3 Significant accounting policies** *(continued)*

***(l) Financial instruments*** *(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 off, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the net investment and other income line item in the profit or loss.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

*Financial liabilities and equity instruments*

Classification as debt or equity

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

## 3 Significant accounting policies *(continued)*

### *(l)* ***Financial instruments*** *(continued)*

*Financial liabilities and equity instruments (continued)*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### *(m)* ***Impairment***

*Financial assets*

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

## 3 Significant accounting policies *(continued)*

### *(m)* ***Impairment*** *(continued)*

*Non-financial assets*
The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

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

### *(n)* **Government grants**

Non-monetary government grants are recognised at nominal value where there is reasonable assurance that the asset will be received and the Group will comply with any attached conditions, where applicable.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Deferred income is recognised at the nominal value of shares granted to the Group Deferred income is amortised over the period for which the Group is expected to obtain economic benefits as a result of the grant.

## 4 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

***Credit risk***

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

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

***Liquidity risk***

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

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

## 4 Financial risk management *(continued)*

***Liquidity risk** (continued)*

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

***Market risk***

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

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

*Interest rate risk*

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

*Currency risk*

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

*Other price risk*

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

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

***Capital management***

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

## 5 Property, plant and equipment

| | Land and Buildings AED'000 | Plant and equipment AED'000 | Furniture and fixtures AED'000 | Motor vehicles AED'000 | Capital work in progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2015 | 572,684 | 2,482,851 | 67,801 | 26,168 | 231,029 | 3,380,533 |
| Additions | 447 | 3,773 | 1,579 | 1,328 | 37,429 | 44,556 |
| Transfers | 1,874 | 29,663 | - | - | (31,537) | - |
| **At 31 December 2015** | **575,005** | **2,516,287** | **69,380** | **27,496** | **236,921** | **3,425,089** |
| At 1 January 2016 | 575,005 | 2,516,287 | 69,380 | 27,496 | 236,921 | 3,425,089 |
| Additions | 3,656 | 9,543 | 9,173 | 866 | 5,185 | 28,423 |
| Transfers | 200,293 | 38,640 | 279 | 468 | (239,680) | - |
| Disposals | - | (2,392) | - | (416) | - | (2,808) |
| **At 31 December 2016** | **778,954** | **2,562,078** | **78,832** | **28,414** | **2,426** | **3,450,704** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2015 | 288,708 | 793,269 | 33,561 | 20,127 | - | 1,135,665 |
| Charge for the year | 12,846 | 77,541 | 7,510 | 2,073 | - | 99,970 |
| **At 31 December 2015** | **301,554** | **870,810** | **41,071** | **22,200** | **-** | **1,235,635** |
| At 1 January 2016 | 301,554 | 870,810 | 41,071 | 22,200 | - | 1,235,635 |
| Charge for the year | 14,198 | 74,325 | 7,472 | 2,162 | - | 98,157 |
| Disposals | - | (1,245) | - | (416) | - | (1,661) |
| Impairment loss[1] | 5,862 | 61,115 | 763 | 933 | 664 | 69,337 |
| **At 31 December 2016** | **321,614** | **1,005,005** | **49,306** | **24,879** | **664** | **1,401,468** |
| **Carrying amount** | | | | | | |
| At 31 December 2015 | 273,451 | 1,645,477 | 28,309 | 5,296 | 236,921 | 2,189,454 |
| **At 31 December 2016** | **457,340** | **1,557,073** | **29,526** | **3,535** | **1,762** | **2,049,236** |

[1]*Refer note 26*

## 5 Property, plant and equipment *(continued)*

At 31 December 2016, properties with a carrying amount of AED 1,637 million *(2015: AED 1,748 million)* are secured through bank loans (see note 18).

Plant and equipment includes an amount of AED 3.5 million *(2015: AED 21.87 million)* pertaining to spare parts.

Included in the depreciation is an amount of AED 12.53 million *(2015: AED 17.42 million)* relating to the property, plant and equipment of Anabeeb which was granted in 2011 (note 29).

## 6 Goodwill

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

| | **2016** | 2015 |
|---|---|---|
| | **AED'000** | AED'000 |
| Cement | **114,380** | 114,380 |
| Blocks | **14,050** | 14,050 |
| | **128,430** | 128,430 |

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

## 6 Goodwill *(continued)*

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

| | **2016** | 2015 |
|---|---|---|
| | **%** | % |
| Discount rate | **8.67** | 9.13 |
| Terminal growth rate | **3** | 3 |

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

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

## 7 Other intangible assets

| | **2016** | 2015 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Cost** | | |
| As at 1 January | **213,024** | 213,024 |
| **As at 31 December** | **213,024** | 213,024 |
| **Accumulated amortisation** | | |
| As at 1 January | **84,204** | 75,593 |
| Amortisation | **8,611** | 8,611 |
| Impairment loss[1] | **1,050** | - |
| **As at 31 December** | **93,865** | 84,204 |
| **Carrying amount** | **119,159** | 128,820 |

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

[1]*Refer note 26*

## 8 Investment in associates

The Group has the following significant interests in associates:

| Associate Name | Principal activities | Share in ownership (%) 2016 | 2015 | Place of registration |
|---|---|---|---|---|
| Vision Hotel Apartment LLC | Ownership and management of hotel apartments | **40** | 40 | UAE |
| Deco Vision LLC | Property fit outs, decorations, ownership and management of apartments | **40** | 40 | UAE |
| Vision Furniture and Decoration Factory LLC | Carpentry of household, decoration, loose furniture and other woodwork | **40** | 40 | UAE |
| Deco Vision Properties LLC | Real estate enterprises investment | **40** | 40 | UAE |
| Vision Links Hotel Apartments LLC | Deluxe hotel apartments | **40** | 40 | UAE |

The movement in the investment in associates is as follows:

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| As at 1 January | **225,954** | 222,852 |
| Group's share of associates' profits for the year | **8,704** | 23,102 |
| Reversal of excess share of loss recognised in prior years | **1,748** | - |
| Group's share of associates' profits - net | **10,452** | 23,102 |
| Dividends received during the year | **(24,000)** | (20,000) |
| As at 31 December | **212,406** | 225,954 |

## 8 Investment in associates *(continued)*

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

| | Deco Vision LLC | | Vision Furniture and Decoration Factory LLC | | Vision Hotel Apartments | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 | **2016 AED'000** | 2015 AED'000 |
| Total assets | **344,800** | 465,483 | **53,969** | 67,984 | **20,121** | 22,381 | **11,658** | 7,916 | **430,548** | 563,764 |
| Total liabilities | **162,469** | 260,169 | **19,406** | 30,878 | **4,048** | 2,045 | **10,011** | 2,192 | **195,934** | 295,284 |
| Net assets | **182,331** | 205,314 | **34,563** | 37,106 | **16,073** | 20,336 | **1,647** | 5,724 | **234,614** | 268,480 |
| Group's share of net assets | **72,932** | 82,126 | **13,825** | 14,842 | **6,429** | 8,134 | **659** | 2,291 | **93,845** | 107,393 |
| Goodwill on acquisition | **79,883** | 79,883 | **9,857** | 9,857 | **28,821** | 28,821 | **-** | - | **118,561** | 118,561 |
| Carrying amount | **152,815** | 162,009 | **23,682** | 24,699 | **35,250** | 36,955 | **659** | 2,291 | **212,406** | 225,954 |
| Revenue | **354,781** | 468,115 | **57,080** | 74,915 | **9,572** | 14,492 | **20,446** | 25,377 | **441,879** | 582,899 |
| Profit / (loss) for the year | **23,818** | 48,303 | **9,158** | 11,778 | **(2,764)** | 1,517 | **(8,451)** | (3,843) | **21,761** | 57,755 |
| Group's share of profit / (loss) for the year | **9,527** | 19,321 | **3,663** | 4,711 | **(1,106)** | 607 | **(3,380)** | (1,537) | **8,704** | 23,102 |

## 9 Investments

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Financial assets measured at FVTOCI | **146,920** | 146,920 |
| Investment revaluation reserve | **(70,942)** | (70,011) |
| Capital distribution received | **(2,185)** | (2,185) |
| Fair value | **73,793** | 74,724 |

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

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **74,724** | 74,760 |
| Changes in fair value during the year | **(931)** | (36) |
| Balance at the end of the year | **73,793** | 74,724 |

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

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| **Current assets** | | |
| Financial assets measured at FVTPL | **-** | 987 |

The Group's financial assets measured at FVTPL and financial assets measured at FVTOCI at the end of reporting date are detailed below.

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Investment in quoted UAE equity securities | **-** | 987 |
| Investment in unquoted UAE equity securities | **73,793** | 74,724 |
| | **73,793** | 75,711 |

The fair value of the quoted UAE equity securities is based on quoted market prices at the end of the reporting period. The fair value of unquoted non-UAE securities have been arrived at based on the fair market value provided by the fund manager.

## 9 Investments *(continued)*

The geographical distribution of investments is as follows:

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Within UAE | | |
| - Financial assets measured at FVTOCI | 73,793 | 74,724 |
| - Financial assets measured at FVTPL | - | 987 |
| | 73,793 | 75,711 |

The Group has not purchased or invested in any new shares during the year ended 31 December 2016 *(31 December 2015: Nil).*

## 10 Inventories

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Raw materials | 100,079 | 121,672 |
| Work in progress | 153,420 | 139,194 |
| Finished goods | 40,548 | 34,300 |
| Goods in transit | 59 | 71 |
| Spare parts and consumable materials | 130,592 | 99,884 |
| | 424,698 | 395,121 |
| Less: Allowance for impairment of inventories | (57,891) | (11,110) |
| | 366,807 | 384,011 |

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

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| As at 1 January | 11,110 | 11,917 |
| Reversal for the year | (395) | (807) |
| Impairment during the year[1] | 47,176 | - |
| As at 31 December | 57,891 | 11,110 |

[1]*Refer note 26*

## 11 Trade and other receivables

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Trade receivables | **482,338** | 453,146 |
| Other receivables | **37,685** | 25,187 |
| Less: Allowance for impairment | **(60,074)** | (23,853) |
| | **459,949** | 454,480 |
| Advances to suppliers | **19,556** | 14,293 |
| | **479,505** | 468,773 |

The average credit period on sale of goods or services rendered is ranging from 60 to 180 days depending on the business segment, security provided and the credit standing of the customer. The Group has adopted a policy of dealing only with creditworthy counterparties. Adequate credit assessment is made before accepting an order for services or sale of goods from any counterparty. At the end of the year, an amount of AED 36.62 million representing 8% of the trade receivables *(2015: AED 103.48 million representing 23% of the trade receivables)* is due from one customer *(2015: four customers)*. The Group considers these customers to be reputable and creditworthy. There are no other customers who represent more than 5% of the total balance of the receivables.

Included in the Group's trade receivables are customer balances with a carrying amount of AED 52.63 million *(2015: AED 120.26 million)* which are past due at the reporting date for which no allowance has been provided, as there was no significant change in credit quality of these customers and the amounts are still considered recoverable.

Ageing of trade receivables

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| 0 – 90 days | **198,954** | 192,138 |
| 91 – 180 days | **122,199** | 135,118 |
| 181 – 365 days | **74,002** | 71,371 |
| Greater than 365 days | **87,183** | 54,519 |
| | **482,338** | 453,146 |

[1]*Refer note 26*

## 11 Trade and other receivables *(continued)*

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

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| As at 1 January | **23,853** | 17,813 |
| Charge for the year | **36,221** | 6,040 |
| **As at 31 December** | **60,074** | 23,853 |

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

## 12 Cash and bank balances

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Cash in hand | **39** | 183 |
| Cash at bank in current accounts | **30,876** | 60,757 |
| | **30,915** | 60,940 |

## 13 Transaction and balances with related parties

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

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

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| **Amounts due from related parties** | | |
| Dot Modern Oman | **234** | 234 |
| Emirates Steel Industries PJSC | **687** | 247 |
| Others | **33** | 33 |
| | **954** | 514 |
| **Amounts due to a related party** | | |
| General Holding Corporation PJSC (SENAAT) | **15,204** | 13,637 |
| **Loan from a related party*** | | |
| Non-current | **91,845** | - |
| Current | **36,706** | 146,920 |
| | **128,551** | 146,920 |

*The Group renegotiated the terms of the loan with the parent company on 30 November 2016. The original maturity of the loan was a bullet payment on 31 December 2016. The restructured loan is payable over 8 years semi-annually commencing from December 2016 and carries interest at prevailing market rates. The loan will be fully repaid by June 2020.

## 13 Transaction and balances with related parties *(continued)*

**Transactions with related parties:**

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Interest on loan from parent company | **3,058** | 3,244 |
| Sales to a related party | **2,057** | 1,578 |
| **Key management personnel compensation:** | | |
| Short term benefits | **7,549** | 7,303 |
| Post-employment benefits | **604** | 532 |
| | **8,153** | 7,835 |

## 14 Share capital

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

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

## 15 Statutory reserve

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

## 16 Capital reserve

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

## 17 Provision for employees' end of service benefit

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

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

| | 2016<br>AED'000 |
|---|---|
| **Amounts recognised in consolidated statement of financial position** | |
| Balance at the start of the year | 33,673 |
| Service cost (including interest cost) | 7,205 |
| Benefit payments | (3,902) |
| Loss on re-measurement | 17,788 |
| | 49,764 |
| **Amounts recognised in consolidated statement of profit or loss** | |
| Current service cost | 5,550 |
| Interest expenses | 1,655 |
| | 7,205 |
| **Amounts recognised in consolidated statement of comprehensive income** | |
| Effects of changes in financial assumption | 10,463 |
| Effects of experience adjustments | 2,325 |
| | 12,788 |

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

**Significant actuarial assumptions**

| | **2016** |
|---|---|
| Discount rate | **3.90%** |
| Rate of salary increase | **3.00%** |

**Sensitivity analysis:**

| | | **2016 AED'000** |
|---|---|---|
| | **Decrease** | **Increase** |
| Discount rate (0.5% movement) | **52,074** | **47,634** |
| Future salary increases (0.5% movement) | **47,606** | **52,084** |

## 18 Borrowings

Borrowings are repayable as follows:

| | **2016 AED'000** | 2015 AED'000 |
|---|---|---|
| *Current* | | |
| Within one year | **239,845** | 224,978 |
| *Non-current* | | |
| After one year | **943,055** | 1,077,767 |
| | **1,182,900** | 1,302,745 |

## 18 Borrowings *(continued)*

| | | **Outstanding at 31 December 2016** | | | Outstanding at 31 December 2015 | | |
|---|---|---|---|---|---|---|---|
| | **Maturity** | **Current AED'000** | **Non-current AED'000** | **Total AED'000** | Current AED'000 | Non-current AED'000 | Total AED'000 |
| Term loan 1 | **2017** | **90,000** | **-** | **90,000** | 90,000 | - | 90,000 |
| Term loan 2 | **2017** | **133,200** | **933,600** | **1,066,800** | 133,333 | 1,066,667 | 1,200,000 |
| Term loan 3 | **2023** | **1,645** | **9,455** | **11,100** | 1,645 | 11,100 | 12,745 |
| Term loan 4 | **2017** | **15,000** | **-** | **15,000** | - | - | - |
| | | **239,845** | **943,055** | **1,182,900** | 224,978 | 1,077,767 | 1,302,745 |

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. The loan is in process of being settled by the Group in 2017.

Term loan 2 was obtained by the Group to finance the construction of the Group's new cement factory. During 2014, the Group restructured the existing loan of AED 1,400 million into a 10 year term loan of AED 1,200 million and a three year revolving facility of AED 200 million. The term loan is payable over 9 years semiannually commencing from March 2016. The restructured loan carries interest at prevailing market rates. The unutilised portion of the revolving facility amounted to AED 200 million as at 31 December 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.

Term loan 4 of AED 15 million was obtained from First Gulf Bank PJSC in December 2016 for financing the working capital of the Company. The loan is repayable in 90 days. The loan carries a markup of applicable EIBOR plus 1.5% per annum.

## 19 Trade and other payables

| | 2016<br>AED'000 | 2015<br>AED'000 |
|---|---|---|
| Trade payables | **277,310** | 246,630 |
| Accruals | **73,537** | 68,572 |
| Interest payable | **3,496** | 4,044 |
| Other payables | **9,882** | 7,037 |
| | **364,225** | 326,283 |

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

## 20 Revenue

| | 2016<br>AED'000 | 2015<br>AED'000 |
|---|---|---|
| Gross revenue from sale of goods | **972,846** | 1,010,653 |
| Less: sales discount | **(160,007)** | (133,727) |
| | **812,839** | 876,926 |

## 21 Direct costs

| | 2016<br>AED'000 | 2015<br>AED'000 |
|---|---|---|
| Raw materials | **238,331** | 336,242 |
| Fuel and electricity | **134,105** | 128,649 |
| Salaries and related expenses | **74,054** | 63,267 |
| Depreciation of property, plant and equipment | **83,258** | 78,755 |
| Other expenses | **63,697** | 55,717 |
| | **593,445** | 662,630 |

## 22 Selling and distribution expenses

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Salaries and related expenses | **19,841** | 18,287 |
| Depreciation of property, plant and equipment | **2,238** | 3,010 |
| Other expenses | **7,262** | 9,775 |
| | **29,341** | 31,072 |

## 23 General and administrative expenses

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Salaries and related expenses* | **75,389** | 67,643 |
| Depreciation of property, plant and equipment | **12,661** | 18,205 |
| Amortisation of other intangible assets | **8,611** | 8,611 |
| Other expenses | **6,630** | 6,688 |
| | **103,291** | 101,147 |

*Includes pension contribution of AED 2.13 million *(2015: AED 1.90 million)* to Abu Dhabi Retirement Pensions and Benefits Fund.

## 24 Finance income and cost

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| *Finance income* | | |
| Interest income on bank deposits | **159** | 85 |
| Dividend income | **4,353** | 4,366 |
| | **4,512** | 4,451 |
| *Finance cost* | | |
| Interest expense on financial liabilities | **(55,212)** | (53,512) |
| Net finance cost | **(50,700)** | (49,061) |

## 25 Other income

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Transportation income – net | 2,341 | 1,809 |
| Others | 57 | 2,604 |
| | 2,398 | 4,413 |

## 26 Impairment losses

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

| | Impairment loss 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| a) Impairment loss on property, plant and equipment | 69,337 | - |
| b) Impairment loss on other intangible assets | 1,050 | - |
| c) Impairment loss on inventories | 47,176 | - |
| d) Impairment loss on trade and other receivables | 36,221 | 6,040 |
| e) Impairment of prepayments | 386 | - |
| Total | 154,170 | 6,040 |

## 27 Contingent liabilities and commitments

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Bank guarantees and letters of credit | **14,651** | 16,792 |
| Capital commitments | **19,316** | 22,965 |

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

## 28 Segment reporting

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

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

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

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

## 28 Segment reporting *(continued)*

For the year ended 31 December 2016:

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

## 28 Segment reporting *(continued)*

For the year ended 31 December 2016:

| | Cement | Blocks | Pipes GRP | Pipes PVC | Bags | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| Total assets | **2,365,375** | **347,598** | **82,160** | **116,339** | **45,088** | **1,444,318** | **(908,867)** | **3,492,011** |
| Total liabilities | **35,957** | **173,495** | **20,758** | **10,862** | **46,574** | **2,304,121** | **(851,123)** | **1,740,644** |

As at 31 December 2016, included within unallocated assets is AED 154.17 million *(31 December 2015: AED 229.80 million)* being construction work in progress, which primarily relates to dry mortar and 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 year ended 31 December 2015:

| | Cement | Blocks | Pipes GRP | Pipes PVC | Bags | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| External revenues | 676,297 | 75,059 | 41,228 | 59,529 | 24,813 | - | - | 876,926 |
| Intersegment revenue | 11,987 | 311 | 471 | - | 5,443 | - | (18,212) | - |
| Interest expense | 48,122 | - | - | - | - | 5,390 | - | 53,512 |

# Arkan Building Materials Company (ARKAN) PJSC

Notes to the consolidated financial statements

## 28 Segment reporting *(continued)*

For the year ended 31 December 2015:

| | Cement | Blocks | Pipes GRP | Pipes PVC | Bags | Unallocated | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Depreciation and amortisation | 65,830 | 11,480 | 5,321 | 1,688 | 207 | 24,055 | - | 108,581 |
| Impairment loss | 4,600 | 1,440 | - | - | - | - | - | 6,040 |
| Share of profit of equity accounted investees | - | - | - | - | - | 23,102 | - | 23,102 |
| Profit / (loss) for the year | 85,613 | (4,547) | 6,188 | 1,504 | 1,668 | 10,695 | - | 101,121 |
| 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 |

## 29 Grant of a subsidiary received

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

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

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

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

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

The results of Anabeeb are included in the consolidated statement of profit or loss from the effective date of control of 1 July 2011. Depreciation amounting to AED 12.53 million has been recognised for the year ended 31 December 2016 *(2015: AED 17.42 million)* relating to the property plant and equipment of Anabeeb (note 5).

## 29 Grant of a subsidiary received *(continued)*

The movement in the deferred government grant is as follows:

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| Balance at 1 January | **23,000** | 69,000 |
| Amortisation | **(23,000)** | (46,000) |
| Balance at 31 December | **-** | 23,000 |

The deferred government grant is classified as follows:

| | 2016 AED'000 | 2015 AED'000 |
|---|---|---|
| *Current* | | |
| Within one year | **-** | 23,000 |

## 30 Financial instruments

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

***Credit risk***

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

| | Note | 2016 AED'000 | 2015 AED'000 |
|---|---|---|---|
| Cash at bank | *12* | **30,876** | 60,757 |
| Trade and other receivables | *11* | **459,949** | 454,480 |
| Amounts due from related parties | *13* | **954** | 514 |
| Total | | **491,779** | 515,751 |

## 30 Financial instruments *(continued)*

***Credit risk** (continued)*

Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the Central Bank. Trade receivables are secured by bank guarantees and letter of credits totalling AED 187.82 million *(2015: AED 170.56 million)* and post-dated cheques of AED 173.87 million *(2015: AED 171.90 million)*. Balances with banks are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

***Liquidity risk***

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

| | Less than 1 year AED' 000 | 1 – 5 years AED' 000 | More than 5 years AED' 000 | Total AED' 000 |
|---|---|---|---|---|
| **31 December 2016** | | | | |
| Non-interest bearing | **379,430** | **-** | **-** | **379,430** |
| Variable interest rate instruments | **234,743** | **948,962** | **289,280** | **1,472,985** |
| Fixed interest rate instruments | **90,300** | **-** | **-** | **90,300** |
| Total | **704,473** | **948,962** | **289,280** | **1,942,715** |
| 31 December 2015 | | | | |
| Non-interest bearing | 339,920 | - | - | 339,920 |
| Variable interest rate instruments | 333,949 | 884,093 | 448,639 | 1,666,681 |
| Fixed interest rate instruments | 94,500 | - | - | 94,500 |
| Total | 768,369 | 884,093 | 448,639 | 2,101,101 |

***Interest rate risk***

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

## 30 Financial instruments *(continued)*

*Interest rate sensitivity analysis*

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would decrease/increase by AED 14.99 million *(2015: decrease/increase by AED 14.63 million).*

***Foreign currency risk***

The Group's transactions are principally in UAE Dirhams or US Dollars, to which the UAE Dirham is pegged and therefore the Group does not face any foreign currency risks.

**Fair values**

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

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

| | Level 1<br>AED' 000 | Level 2<br>AED' 000 | Level 3<br>AED' 000 | Total<br>AED' 000 |
|---|---|---|---|---|
| **2016** | | | | |
| Financial assets at FVTOCI | - | **73,793** | - | **73,793** |
| 2015 | | | | |
| Financial assets at FVTPL | 987 | - | - | 987 |
| Financial assets at FVTOCI | - | 74,724 | - | 74,724 |
| | 987 | 74,724 | - | 75,711 |

## 30 Financial instruments *(continued)*

**Fair value hierarchy**

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

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

During the reporting year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**Capital structure**

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

The capital structure at year end is as follows:

| | **2016**<br>**AED'000** | 2015<br>AED'000 |
|---|---|---|
| Total borrowings | **1,311,451** | 1,449,665 |
| Less: cash and bank balances | **(30,915)** | (60,940) |
| Net debt | **1,280,536** | 1,388,725 |
| Total equity | **1,751,367** | 1,847,368 |
| Debt to equity ratio | **73%** | 75% |

## 31 Basic and diluted earnings per share

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

| | **2016**<br>**AED'000** | 2015<br>AED'000 |
|---|---|---|
| (Loss)/profit attributable to equity holders of the parent (AED'000) | **(82,282)** | 101,121 |
| Weighted average number of shares in issue (thousands of shares) | **1,750,000** | 1,750,000 |
| Earnings per share (AED) | **(0.047)** | 0.058 |

## 31 Basic and diluted earnings per share *(continued)*

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

## 32 Accounting estimates and judgements

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

**Impairment of trade and other receivables**

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. This determination of whether the receivables are impaired, entails management evaluating the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including review of current economic environment. The difference between the estimated collectible amount and the recorded amount is recognised as an expense in the profit or loss. Any difference between the amounts expected and the amounts actually collected in the future periods is recognised in the profit or loss at the time of collection. Allowance for doubtful debts at 31 December 2016 is AED 60.07 million *(2015: AED 23.85 million)*.

**Impairment of goodwill**

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

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

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

## 32 Accounting estimates and judgements *(continued)*

**Impairment of property, plant and equipment and capital work in progress**

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

**Useful lives of property, plant and equipment and intangible assets**

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

**Capitalisation of capital work in progress**

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

**Government grant of a subsidiary**

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

**Amortisation of deferred government grant**

Management has estimated that the deferred government grant relating to Anabeeb will be amortised over the remaining economic useful life of the property, plant and equipment acquired of 5 years. Income from the grant of AED 23 million *(2015: AED 46 million)* has been recognised during the year.

## 32 Accounting estimates and judgements *(continued)*

### Provision for rehabilitation and restoration of cement quarry

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

### Classification of investments

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

### Impairment of investments in associates

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

### Classification of inventories

Management considered the provisions of IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment* in determining the classification of inventories such as major spare parts. Major spare parts and stand-by equipment would qualify for recognition as property, plant and equipment when the entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment could be used only in connection with a particular item of property, plant and equipment, they would be accounted for as property, plant and equipment. Accordingly, management reclassified AED 3.5 million *(2015: AED 21.87 million)* from inventories to property, plant and equipment.

### Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impaired inventory. Management performed a review of the spare parts and consumables which involved a line by line physical inspection of each inventory item to assess obsolescence and usability. The allowance for obsolete inventories at 31 December 2016 is AED 57.89 million *(2015: AED 11.11 million)*.

## 33 Dividend

No dividend has been declared during the year ended 31 December 2016 *(31 December 2015: on 29 April 2015 the Board of Directors approved and declared a dividend of AED 43.75 million representing 2.5% of the issued share capital to the existing shareholders as at 10 May 2015).*

## 34 Comparative information

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

## 35 Date of authorisation for issue

The consolidated financial statement were approved by the Company's Board of Directors and authorised for issue on 20 March 2017.