Dubai Refreshment (P.J.S.C.)

FINANCIAL STATEMENTS

31 DECEMBER 2017

DUBAI REFRESHMENT (P.J.S.C.) دبـــي للـمـرطـبــات (ش.م.ع)

CHAIRMAN'S REPORT

Dear Shareholders,

I have the great pleasure of sharing with you the highlights of another year of accomplishments for Dubai Refreshment Company ('DRC').

The year 2017 was a year of dramatic change to our industry and our company. Given the dramatic changes in business environment in 2017 and given the tremendous impact such changes have had on our sales and profitability, we are of the view that Dubai Refreshment Company (DRC) has shown resiliency and has been successful despite the drop in sales and profit.

The year started well with DRC delivering AED 102 Million profit up to quarter three. As of October 1, 2017, the company was hit by excise taxes on carbonated soft drinks at a rate of 50% on retail sales which is approximately 60% on the company's own sales to the trade. The company had no choice but to pass on this large tax to the consumer, which in turn has caused a significant drop in sales. During quarter four, the company lost AED 10.6 Million as a result of these changes against a profit of AED 24.9 Million in quarter four of 2016.

Faced with the above situation, and faced with the 5% VAT which started on January 1, 2018, DRC is now moving aggressively on several directions:

- We have invested in our IT system and tax advisory to be ready to meet all the law requirements and avoid any potential violations.
- We have aggressively pursuit expansion in other drinks categories which are not subject to taxation. Both Aquafina and Lipton are now produced in DRC and are growing at healthy rates.
- We have signed an agreement with Froneri, the 2nd biggest ice cream maker in the world and we have started distributing Nestle branded ice creams in the UAE as of October 2017.
- We are exploring further opportunities with our existing partners and new partners to expand our food and beverage range and leverage the state of the art infrastructure we have.
- Last but not the least, we have laser sharp focus on our cost structure in order to ensure we manage this transition period well.

The Board and Management of DRC understand the magnitude of the changes facing our industry. While over the short to medium term this change will impact our revenues and profits, we believe that we have the plans to weather the change and to come out even stronger and more diversified over the longer term.

Revenues

The year 2017 saw a decline in volumes and revenues in both Local and Exports markets. DRC achieved total revenues of AED 871 million, which represents a decline of 5% when compared to 2016.

The decline in local business reflects the general slowdown in the market, but above all, it highlights the significant negative impact from the application of Excise Tax in October 2017. The negative trend in exports was mainly due to a continuous downward pressure on sales in the African markets resulting from continuous strength of the US Dollar against local currencies. Some exports were also impacted by various new regulations as well as customs duties hikes in some key markets.

Despite the challenges faced in 2017 and the uncertain regional outlook for the coming year, DRC will focus on growing its share of the local market and increasing its exports to GCC and African countries by expanding the product range to include Lipton brand and other PepsiCo products.

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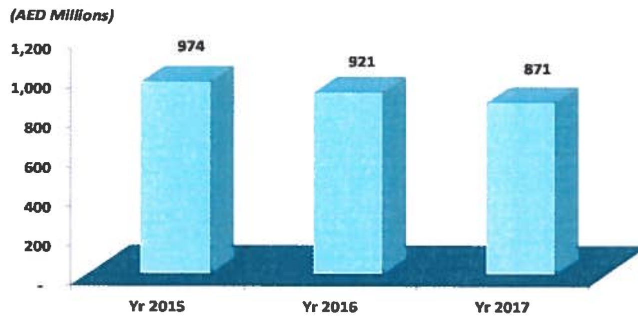
Paid up Capital AED 90,000,000

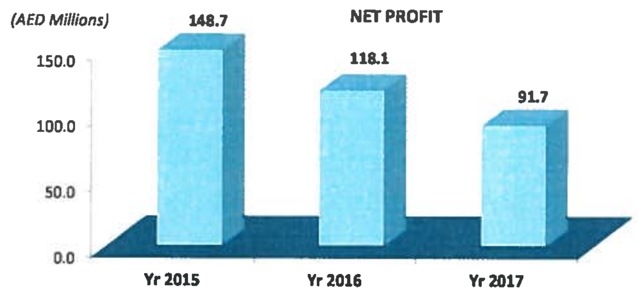


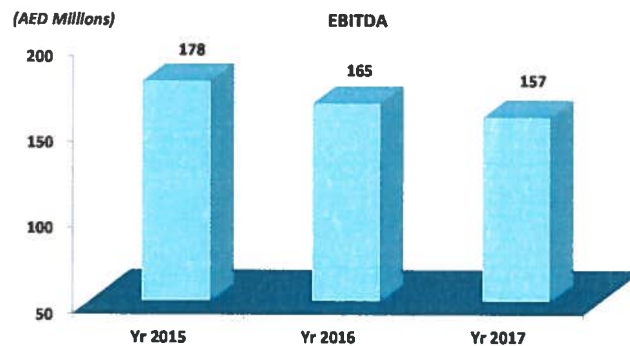
Profitability

Total Net Profits declined by 22% in 2017 to reach AED 91.7 Million or 10.5% of Net Revenues versus AED 118.1 Million or 12.8% of Net Revenues in 2016. Going forward, DRC will continue to focus on maximizing revenues and optimizing the operating costs to maintain healthy margins.

The additional depreciation and interest costs related to the new facility in DIP accounted for about 33% of the decline in net profit. On a similar note, DRC incurred a one-off expense of AED 7.8 Million in 2017 related to the relocation of its production lines from Al Quoz to DIP. The drop in sales volume has been, to a great extent, mitigated by savings in raw material prices and cost control initiatives driven by management, which resulted in a significant reduction in operating expenses.

DRC has been able to maintain a solid level of operating profitability as measured by EBITDA, which amounted to AED 157.4 Million or 18% of net revenues in 2017 versus AED 165.2 Million or 18% of net revenues in 2016.





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Paid up Capital AED 90,000,000

Cash Flow:

In 2017, DRC generated AED 138.8 million (15.9% of revenues) from operations, which reflects sound financial management strategy. During the year, the company paid AED 63 million in dividends to shareholders and repaid loans of AED 43.7 million related to the DIP project. DRC held AED 165.5 million as cash and cash equivalents at the end of 2017.

We believe with the new factory being operational, many potential business opportunities will be available to DRC. The management and the Board of Directors are committed to consider these opportunities as they arise and to take advantage of the best available option.

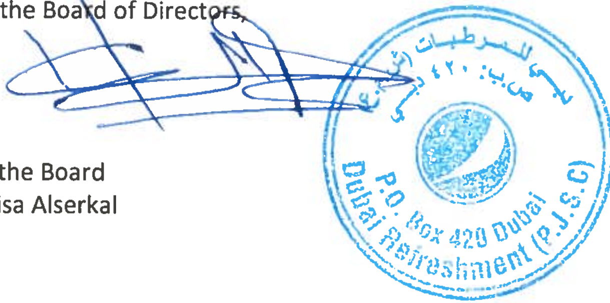
Capital Projects

In order to support its growth strategy and to optimise cost, DRC aims to invest in improving its sales and distribution networks in year 2017. DRC has already started developing a new warehouse in Fujairah to improve its distribution infrastructure in the North of the country. The project is expected to be completed in the first quarter of 2018. Also, the work on the extension of Sharjah Distribution Warehouse that started in 2017 to further support the distribution network in Sharjah and north of Dubai has been completed and an additional 15 distribution vehicles are now operating out of Sharjah. In addition, the company will start in quarter two 2018 a project to generate approximately 4 megawatt of power through solar energy by utilizing the rooftop of the new DIP factory. The project is expected to generate significant electricity savings.

On behalf of the Board of Directors, I would like to express my gratitude and appreciation to leaders of the UAE, His highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister of the UAE and ruler of Dubai and their brothers and members of Federal National Council for providing us with the business environment and infrastructure necessary to build a strong and prosperous business. Their continuous support has been greatly valuable for our success.

Further, I would like to thank all the people who continue to provide their support and demonstrate their commitment and dedication towards achieving our objectives. Our employees, shareholders, customers, suppliers, and business partners are all equally important to us in our efforts to seek a better future for all.

Thank you.
On behalf of the Board of Directors,



Chairman of the Board
Ahmad Bin Eisa Alserkal

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DUBAI REFRESHMENT (P.J.S.C.)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dubai Refreshment (P.J.S.C.) (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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 financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DUBAI REFRESHMENT (P.J.S.C.) (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Revenue is a material and an important determinant of the Company's performance and profitability. This gives rise to the inherent risk that revenue recognised is overstated in order to increase profitability. The Company generates revenue from sale of goods when the significant risks and rewards of ownerships are transferred to customers (refer to Note 2.4 to the financial statements for the revenue recognition policy). Given the magnitude of the amount and inherent risk of revenue overstatement, we considered revenue recognition to be a key audit matter.	- Tested the design and operating effectiveness of controls in respect of the Company's revenue and accounts receivable processes; - Performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals for rebates and discounts; - Performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to previous year; - Performed sales cut-off procedures and selected a sample of invoices before and after year-end to test whether sales are recorded in the appropriate period; - Inquired of management at different levels and departments of their knowledge of fraud risk and actual fraud instances; and - Performed journal entries testing for accounts related to identified risks of material misstatement and verified them with supporting documents.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED FOODS COMPANY (PSC) (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Relationship with Pepsi International	
The Company is engaged in bottling and selling carbonated products as a sole distributor for Pepsi International in Dubai and the Northern Emirates, and certain other countries as agreed with Pepsi International. The Company receives various types of rebates and monetary support from Pepsi International. These rebates and monetary support are a significant component of the Company's results. These rebates are adjusted against a running balance with Pepsi International. Given the number of arrangements with Pepsi International for various types of rebates and monetary support, there is a risk that the rebates and monetary supports are not appropriately measured and recognised as per the agreed arrangements.	- Tested management's controls around the completeness and accuracy of transactions recorded in the financial statements of the Company in accordance with the contractual agreements, challenged management's calculations used in determining the unrealised rebates through discussions with management and performing specific substantive procedures; - Tested the recorded amount of rebates and monetary supports on a sample basis to supporting contractual arrangement with Pepsi International; in addition, evaluated the reliability of management's calculations by performing a retrospective review of the subsequent collections of the rebates and monetary supports of prior periods; - Requested direct confirmation for the outstanding balances at the year end and, in the absence of a reply, we performed alternative audit procedures by testing statements of account and other correspondences with Pepsi International; and - Tested cut-off through assessing the obligation fulfilment of rebates recorded during a period shortly before and after year-end.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DUBAI REFRESHMENT (P.J.S.C.) (continued)

Report on the audit of the financial statements (continued)

Other information included in the Company's 2017 Annual Report

Other information consists of the information included in the Company's 2017 Annual Report other than the financial statements and our auditors' report thereon. We obtained the report of the Board of Directors prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Company's 2017 Annual Report after the date of our auditors' report. Management is responsible for the other information.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DUBAI REFRESHMENT (P.J.S.C.) (continued)

Report on the audit of the financial statements (continued)

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

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 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 Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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 to 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 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DUBAI REFRESHMENT (P.J.S.C.) (continued)

Report on other legal and regulatory requirements

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

i) the Company has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015;

iv) the financial information included in the Directors' report is consistent with the books of account of the Company;

v) investments in shares and stocks during the year ended 31 December 2017 are disclosed in note 7 to the financial statements;

vi) note 19 reflects material related party transactions and the terms under which they were conducted;

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 Company has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would have a material impact on its activities or its financial position; and

viii) note 4 and note 5 reflects the social contributions made during the year.

For Ernst & Young

Signed by:
Thodla Hari Gopal
Partner
Registration number: 689

28 February 2018

Dubai, United Arab Emirates

INCOME STATEMENT
Year ended 31 December 2017

	Notes	***2017 AED '000***	*2016 AED '000*
Sales, net		**870,965**	920,576
Cost of sales		**(554,672)**	(580,474)
GROSS PROFIT		**316,293**	340,102
Other operating income		**10,781**	7,497
Selling and distribution expenses		**(169,066)**	(167,842)
General and administrative expenses		**(57,825)**	(58,657)
Amortisation of intangible assets	6	**(8,163)**	(8,207)
Relocation expense of production lines		**(7,841)**	-
OPERATING INCOME		**84,179**	112,893
Finance income		**1,326**	782
Finance expense		**(3,731)**	(2,893)
Dividend income		**6,780**	6,780
Other income, net		**3,135**	496
PROFIT FOR THE YEAR	4	**91,689**	118,058
Earnings per share in AED	18	**0.97**	1.27

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	*2017* *AED '000*	*2016* *AED '000*
Profit for the year		**91,689**	118,058
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Change in fair value of available-for-sale investments	7	**(6,782)**	(4,423)
Change in fair value of cash flow hedges	25	**(579)**	6,872
Other comprehensive income for the year		**(7,361)**	2,449
Total comprehensive income for the year		**84,328**	120,507

Dubai Refreshment (P.J.S.C.)

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	*2017 AED '000*	*2016 AED '000*
ASSETS			
Non-current assets			
Property, plant and equipment	5	**702,005**	718,586
Intangible assets	6	**25,707**	33,870
Available-for-sale investments	7	**138,838**	145,620
		866,550	898,076
Current assets			
Inventories	8	**70,630**	75,298
Trade and other receivables	9	**136,221**	107,020
Advances to Greenfield contractors and suppliers		**-**	350
Bank balances and cash	10	**165,525**	160,922
		372,376	343,590
TOTAL ASSETS		**1,238,926**	1,241,666
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**90,000**	90,000
Statutory reserve	13	**45,000**	45,000
General reserve	14	**618,401**	567,543
Fair value reserve	15	**107,755**	114,537
Cash flow hedge reserve	25	**1,230**	1,809
Retained earnings		**87,489**	113,858
Total equity		**949,875**	932,747
Non-current liabilities			
Employees' end of service benefits	17	**22,252**	21,559
Non-current portion of term loans	20	**59,959**	102,611
		82,211	124,170
Current liabilities			
Trade and other payables	11	**163,721**	141,643
Current portion of term loans	20	**43,119**	43,106
		206,840	184,749
Total liabilities		**289,051**	308,919
TOTAL EQUITY AND LIABILITIES		**1,238,926**	1,241,666

The financial statements have been approved by the Board of Directors on 12th February 2018, and signed on their behalf by:

Mr. Ali Bin Humaid Al Owais
Vice Chairman
12 February 2018

Mr. Ahmad Bin Eisa Alserka
Chairman
12 February 2018

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	Share capital AED '000	*Statutory reserve AED '000*	*General reserve AED '000*	*Fair value reserve AED '000*	*Cash flow hedge reserve AED '000*	*Retained earnings AED '000*	*Total AED '000*
Balance at 31December 2016	90,000	45,000	567,543	114,537	1,809	113,858	932,747
Profit for the year	-	-	-	-	-	91,689	91,689
Other comprehensive income for the year	-	-	-	(6,782)	(579)	-	(7,361)
Total comprehensive income for the year	-	-	-	(6,782)	(579)	91,689	84,328
Dividends paid (Note 16)	-	-	-	-	-	(63,000)	(63,000)
Directors' fees (Note 11)	-	-	-	-	-	(4,200)	(4,200)
Transfer to general reserve (Note 14)	-	-	50,858	-	-	(50,858)	-
Balance as of 31 December 2017	**90,000**	**45,000**	**618,401**	**107,755**	**1,230**	**87,489**	**949,875**

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

STATEMENT OF CHANGES IN EQUITY (continued)
Year ended 31 December 2017

	Share capital AED'000	*Statutory reserve AED'000*	*General reserve AED'000*	*Fair value reserve AED'000*	*Cash flow hedge reserve AED'000*	*Retained earnings AED'000*	*Total AED'000*
Balance at 31December 2015	90,000	45,000	486,002	118,960	(5,063)	144,541	879,440
Profit for the year	-	-	-	-	-	118,058	118,058
Other comprehensive income for the year	-	-	-	(4,423)	6,872	-	2,449
Total comprehensive income for the year	-	-	-	(4,423)	6,872	118,058	120,507
Dividends paid (Note 16)	-	-	-	-	-	(63,000)	(63,000)
Directors' fees (Note 11)	-	-	-	-	-	(4,200)	(4,200)
Transfer to general reserve (Note 14)	-	-	81,541	-	-	(81,541)	-
Balance as of 31 December 2016	90,000	45,000	567,543	114,537	1,809	113,858	932,747

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Notes	*2017 AED '000*	*2016 AED '000*
OPERATING ACTIVITIES			
Profit for the year		**91,689**	118,058
Adjustments for:			
Depreciation	5	**47,293**	36,913
Amortisation of intangible assets	6	**8,163**	8,207
(Gain)/loss on disposal of property, plant and equipment		**(2,460)**	55
Finance income		**(1,326)**	(782)
Finance expense		**3,731**	2,893
Dividend income		**(6,780)**	(6,780)
Provision for employees' end of service benefits	17	**3,047**	3,116
		143,357	161,680
Working capital changes:			
Inventories		**4,668**	9,781
Trade and other receivables		**(29,201)**	4,664
Trade and other payables		**22,304**	(4,539)
		141,128	171,586
Employees' end of service benefits paid	17	**(2,354)**	(2,408)
Net cash generated from operating activities		**138,774**	169,178
INVESTING ACTIVITIES			
Additions to property, plant and equipment*	5	**(31,270)**	(103,927)
Proceeds from disposal of assets		**2,563**	-
Advances to Greenfield contractors and suppliers		**-**	40,106
Dividend income received		**6,780**	6,780
Finance income received		**1,326**	782
Net cash used in investing activities		**(20,601)**	(56,259)
FINANCING ACTIVITIES			
Proceeds from term loans		**1,014**	3,018
Repayment of term loans		**(43,653)**	(43,210)
Dividends paid	16	**(63,000)**	(63,000)
Directors' fees		**(4,200)**	(4,200)
Finance expense paid		**(3,731)**	(2,893)
Net cash used in financing activities		**(113,570)**	(110,285)
INCREASE IN CASH AND CASH EQUIVALENTS		**4,603**	2,634
Cash and cash equivalents at 1 January		**160,922**	158,288
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	**165,525**	160,922

*Additions to property, plant and equipment includes release of accrual of AED 805 thousand (2016: AED 805 thousand accruals for project costs) and AED 350 thousand (2016: Nil) adjusted against advances. These being non-cash transactions were excluded in the statement of cash flows.

1 ACTIVITIES

Dubai Refreshment (P.J.S.C) (the "Company") was incorporated in Dubai in 1959 by a Decree issued by His Highness The Ruler of Dubai. The Company is listed on the Dubai Financial Market ("DFM"). The registered address of the Company is P.O. Box 420, Dubai, United Arab Emirates (UAE).

The Company is engaged in bottling and selling Pepsi Cola International products in Dubai, Sharjah and the other Northern Emirates of the UAE. The Company also exports products of Pepsi Cola International from time to time to foreign countries after obtaining authorisation from Pepsi Cola International. The Company also holds 7Up and Aquafina bottling and selling rights for the whole of the UAE.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been presented in U.A.E. Dirhams, which is the functional and reporting currency of the Company, rounded to the nearest thousand (AED '000), except when otherwise indicated.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments and derivative financial instruments.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards and interpretations effective for annual period beginning on or after 1 January 2017

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017 which are described below. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- Amendments to IAS7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle-2014-2016
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a reasonable impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

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

Impairment
IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined that there will be no significant impact significant impact on its statement of financial position and equity.

Available for sale investments – Classification and measurement
The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in OCI will continued to be measured at fair value with gain and losses recorded in OCI.

Hedge accounting
The Company determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Company has chosen not to retrospectively apply IFRS 9 on transition to the hedges where the Company excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Company's financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

The Company is in the business of selling Pepsi Cola International products. The Company has completed the process of reasonable assessment of IFRS 15 based on various arrangements and contracts with the customers.

(a) Sale of goods
For contracts with customers in which the sale of products is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Company's revenue and profit or loss.

The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to adopt IFRS 15, the Company is considering the following:

Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Company recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Company defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

- **IFRS 15 Revenue from Contracts with Customers (continued)**

a) Sale of goods (continued)

Variable consideration (continued)
The Company expects that application of the constraint will result in revenue being different than under current IFRS.

• Rights of return
When a contract with a customer provides a right to return the good within the specified period, the Company currently accounts for the right of return using a probability-weighted average amount of return approach similar to the expected value method under IFRS 15. Under the current accounting policy, the amount of revenue related to the expected returns is deferred and recognised in the statement of financial position within trade and other payables. A corresponding adjustment is made to the cost of sales. The initial carrying amount of goods expected to be returned is included within Inventories. Applying the requirements of IFRS 15 will not have a significant impact on Company's financial statements as the Company's sales return are not significant.

• Volume rebates and other terms of the customer contracts
The Company provides retrospective volume rebates to some of its customers on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract and there are other terms of the contracts with the customer which results in variable consideration. Under its existing accounting policy, the Company estimates the expected volume rebates and other terms of the contract using the probability-weighted average amount of rebates approach and includes them in Trade and other payables. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer.

Under IFRS 15, retrospective volume rebates and other terms of the contract give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company considered that the most likely amount method better predicts the amount of variable consideration for contracts with only a single volume threshold while for contracts with more than one volume threshold it would apply either the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular type of contract. The Company applied the requirements in IFRS 15 on constraining estimates of variable consideration and concluded that an adjustment to revenue from sale of goods by approximately 5% to 10% would be needed in 2017, with a corresponding increase in Trade and other payables (to be presented under IFRS 15 as Contract liabilities) or deferred costs, if paid in advance. In addition, the Company would present a liability recognised for the expected future rebates as part of Contract liabilities and deferred costs as Contract assets. Therefore, certain amount would be reclassified from Trade and other payables to Contract liabilities and from Trade and other receivables to Contract assets. In addition, Contract liabilities and Contract assets will be recognised in the statement of financial position for the effects of restating of prior periods. As result of these adjustments Retained earnings as at 31 December 2017 will also be adjusted.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 15.

(b) Advances received from customers
Generally, the Company receives only short-term advances from its customers. They are presented as part of Trade and other payables.

Under IFRS 15, the Company must determine whether there is a significant financing component in its contracts. However, the Company decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of a significant financing components in the contracts, where the Company expects, at contract inception, that the period between the Company transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for shortterm advances, the Company will not account for a financing component even if it is significant.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

- **IFRS 15 Revenue from Contracts with Customers (continued)**

(c) Presentation and disclosure requirements
The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Company has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Company expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as required by IFRS 15, the Company will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017 the Company continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Transfers of Investment Property – Amendments to IAS 40
- Annual Improvements 2014-2016 Cycle:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards-Deletion of short-term exemptions for first-time adopters
  - IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
  - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
  - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
  - IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Company is currently assessing the impact of these standards on the future financial statements and intends to adopt these standards, if applicable, when they become effective.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
The Company measures financial instruments, such as derivatives and available-for-sale investments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy, as explained above.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of rebates, discount, payments, and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Sale incentives
The Company receives sale incentives on its export sales based on volumes sold and agreed rates. These incentives are recognised when related export sales are recognised.

Interest income
Interest income is recognised as the interest accrues.

Dividend income
Dividend income is recognised when the Company's right to receive the dividend payment is established.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excise duty

Excise duty is passed on to customers and is excluded from revenue. Trade receivables at the reporting date are stated with the amount of excise tax included. The net amount of excise duty payable at the reporting date is included in trade and other payables (note 11).

The net amount of sales duty recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives as follows:

Buildings	3 to 30 years
Plant, machinery and equipment	2 to 20 years
Coolers and vending machines	5 to 7 years
Furniture and fixtures	2 years
Freezers	5 years

Land and capital work-in-progress are not depreciated.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less cost to sell and their value in use.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the period the asset is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

During the year ended 31 December 2017, the Company has not capitalised any borrowing costs (2016: capitalised borrowing cost amounting to AED 1,803 thousand).

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated on a straight line basis over the assets' estimated useful lives as follows:

Franchise and bottling rights	20 years
Lease rights	20 years
Software	5 years

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
At each reporting date the Company reviews the carrying amounts of its assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Available-for-sale investments
Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Company becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available-for-sale investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "fair value reserve" within equity is included in the income statement for the year.

Accounts receivable
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and short term deposits with an original maturity of three months or less.

Impairment and uncollectibility of financial assets
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is an objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognised in the income statement.

Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)
Available-for-sale investments
For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from statement of other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through income statement; increases in their fair value after impairment are recognised in statement of other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those incurred in bringing each product to its present location and condition, as follows:

Raw materials – purchase cost on weighted average basis;
Spares and consumables – purchase cost on weighted average basis;
Finished goods – cost of direct materials plus an appropriate share of production overheads based on normal operating capacity and is determined on weighted average basis.

Net realisable value is based on the estimated selling price less any further costs expected to be incurred on disposal. Damaged and obsolete inventories are written off.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the Company receives a non-monetary grant, the asset and the grant are recorded at a nominal amount of AED 1.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits
The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' 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.

With respect to its national employees, the Company makes contributions to government pension scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Contingencies
Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Derivative financial instruments
The Company uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered in`to and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, on usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in statement of other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods in which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in income statement.

For fair value hedges related to items carried at amortised cost, the adjustment to the carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used is amortised through the income statement.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as hedged item, the subsequent cumulative change in fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in statement of other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or income statement are also recognised in other comprehensive income or income statements, respectively).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. These factors could include:

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant impact on the amounts recognised in the financial statements.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss or available-for-sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Company has the intention and ability to hold these to maturity.

The Company classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

Classification of investments as fair value through profit or loss depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, these are classified as fair value through profit or loss. All other investments are classified as available-for-sale.

Classification of properties
Management decides at the time of acquisition of a property whether it should be classified as held for sale, property, plant and equipment or an investment property. The Company classifies properties as properties held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Company also classifies properties as property, plant and equipment when the properties are held for use by, or in the operations, of the Company. Properties are classified as investment properties when the intention is to hold them for capital appreciation, for rental or for undetermined use. The Company changes the classification when the intention changes.

Presentation of revenue net of excise duty
Based on reasonable assessment of various factors related to excise tax in the current circumstances, the Company had decided that deduction of excise tax from revenue (net presentation) is the appropriate accounting treatment.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of accounts receivable
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were AED 90,045 thousand (2016: AED 71,420 thousand), and the provision for doubtful debts was AED 2,672 thousand (2016: AED 2,672 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

Impairment of inventories
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventory were AED 72,344 thousand (2016: AED 76,894 thousand) with provisions for slow moving inventories of AED 1,714 thousand (2016: AED 1,596 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

Useful lives and depreciation of property, plant and equipment
The management periodically reviews the estimated useful lives and depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Useful lives and amortisation of intangible assets
The management periodically reviews the estimated useful lives and amortisation method to ensure that the method and period of amortisation are consistent with the expected pattern of economic benefits from these assets.

Derivatives
The fair values are obtained from quoted market prices available from the counter party bank, discounted cash flow models and other valuation models as appropriate. The Company uses widely recognised valuation models for determining the fair value of forward commodity contracts. For these financial instruments, inputs into models are market observable.

4 NET PROFIT FOR THE YEAR

The net profit for the year is stated after charging:

	2017 AED'000	*2016 AED'000*
Staff costs	**96,837**	97,499
Rental - operating lease	**24,166**	21,962
Depreciation expense (Note 5)	**47,293**	36,913
(Gain)/loss on disposal of property, plant and equipment	**(2,460)**	55

During the year ended 31 December 2017, social contributions made by the Company amounted to AED 58 thousand (2016: AED 176 thousand).

5 PROPERTY, PLANT AND EQUIPMENT

	Land AED '000	*Buildings AED '000*	*Plant, machinery and equipment AED '000*	*Coolers and vending machines AED '000*	*Furniture and fixture AED '000*	*Freezer AED '000*	*Capital work-in-progress AED '000*	*Total AED '000*
Cost:								
At 1 January 2017	38,041	466,982	332,096	66,766	9,150	-	26,192	939,227
Additions	-	207	2,884	4,287	101	784	22,552	30,815
Transfer during the year		5,235	10,962		415		(16,612)	-
Disposals	-	-	(10,164)	(2,105)	(169)	-	-	(12,438)
At 31 December 2017	**38,041**	**472,424**	**335,778**	**68,948**	**9,497**	**784**	**32,132**	**957,604**
Accumulated depreciation:								
At 1 January 2017	-	47,246	119,113	47,385	6,897	-	-	220,641
Charge for the year	-	16,902	22,191	7,417	735	48	-	47,293
Disposal	-	-	(10,075)	(2,091)	(169)	-	-	(12,335)
At 31 December 2017	-	**64,148**	**131,229**	**52,711**	**7,463**	**48**	-	**255,599**
Net book value:								
At 31 December 2017	**38,041**	**408,276**	**204,549**	**16,237**	**2,034**	**736**	**32,132**	**702,005**

During 2016, construction of new Greenfield Factory was substantially completed and relevant assets (including buildings, machineries and equipment) were capitalised.

The old factory buildings are constructed on land granted by H.H. The Ruler of Dubai. In 2014, the land was converted from granted status to owned status.

The staff accommodation are constructed on land leased to the Company on an annual basis. In the opinion of management, the lease will be renewed for a period at least equivalent to the useful life of the staff accommodation.

Capital work in progress primarily pertains to the remaining assets of Greenfield Factory AED 22.5 million (2016: AED 21.7 million) and a mosque at Dubai Investment Park 2 of AED 5.03 million (2016: AED 5.03 million). The mosque on completion will be charged to equity as a social contribution.

Plant and machinery at Dubai Investment Park (DIP) are mortgaged against a term loan (Note 20 a).

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land AED '000	*Buildings AED '000*	*Plant, machinery and equipment AED '000*	*Coolers and vending machines AED '000*	*Furniture and fixtures AED '000*	*Capital work-in-progress AED '000*	*Total AED '000*
Cost:							
At 1 January 2016	38,041	55,519	163,161	68,186	6,843	518,607	850,357
Additions	-	42,938	31,927	3,634	2,473	21,760	102,732
Transfer	-	374,010	140,010	-	-	(514,020)	-
Reclassification to intangibles (Note 6)	-	-	(605)	-	-	(155)	(760)
Disposals	-	(5,485)	(2,397)	(5,054)	(166)	-	(13,102)
At 31 December 2016	38,041	466,982	332,096	66,766	9,150	26,192	939,227
Accumulated depreciation:							
At 1 January 2016	-	40,666	104,512	45,293	6,559	-	197,030
Charge for the year	-	12,043	17,275	7,091	504	-	36,913
Reclassification to intangibles (Note 6)	-	22	(277)	-	-	-	(255)
Disposal	-	(5,485)	(2,397)	(4,999)	(166)	-	(13,047)
At 31 December 2016	-	47,246	119,113	47,385	6,897	-	220,641
Net book value:							
At 31 December 2016	38,041	419,736	212,983	19,381	2,253	26,192	718,586

5 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charge for the year has been allocated as follows:

	2017 *AED'000*	*2016* *AED'000*
Cost of sales	**24,267**	16,753
Selling and distribution expenses	**14,186**	13,633
General and administrative expenses	**8,840**	6,527
	47,293	36,913

6 INTANGIBLE ASSETS

	Franchise and bottling rights *AED'000*	*Lease rights* *AED'000*	*Software* *AED'000*	*Total* *AED'000*
Cost:				
At 1 January 2017	62,391	7,000	22,850	92,241
At 31 December 2017	**62,391**	**7,000**	**22,850**	**92,241**
Amortisation:				
At 1 January 2017	42,895	1,248	14,228	58,371
Charge for the year	3,119	356	4,688	8,163
At 31 December 2017	**46,014**	**1,604**	**18,916**	**66,534**
Net book value:				
At 31 December 2017	**16,377**	**5,396**	**3,934**	**25,707**

	Franchise and bottling rights *AED'000*	*Lease rights* *AED'000*	*Software* *AED'000*	*Total* *AED'000*
Cost:				
At 1 January 2016	62,391	7,000	22,090	91,481
Reclassification from property, plant and equipment (Note 5)	-	-	760	760
At 31 December 2016	62,391	7,000	22,850	92,241
Amortisation:				
At 1 January 2016	39,775	904	9,230	49,909
Charge for the year	3,120	344	4,743	8,207
Reclassification from property, plant and equipment (Note 5)	-	-	255	255
At 31 December 2016	42,895	1,248	14,228	58,371
Net book value:				
At 31 December 2016	19,496	5,752	8,622	33,870

7 AVAILABLE-FOR-SALE INVESTMENTS

	2017 AED'000	*2016 AED'000*
Balance at 1 January	**145,620**	150,043
Change in market fair value	**(6,782)**	(4,423)
Balance at 31 December	**138,838**	145,620

8 INVENTORIES

	2017 AED'000	*2016 AED'000*
Raw material and consumables	**44,039**	44,361
Finished goods	**23,408**	28,074
Spare part and supplies	**4,897**	4,459
	72,344	76,894
Less: provision for slow moving spare parts and supplies inventories	**(1,714)**	(1,596)
	70,630	75,298

Movements in the provision for slow moving spare parts and supplies inventories were as follows:

	2017 AED'000	*2016 AED'000*
At 1 January	**1,596**	1,327
Provided during the year	**118**	269
At 31 December	**1,714**	1,596

During the year ended 31 December 2017, the carrying amount of raw material inventories recognised as an expense and included as part of cost of goods sold in the statement of income amounts to AED 478,862 thousand (2016: AED 514,227 thousand).

9 TRADE AND OTHER RECEIVABLES

	2017 AED'000	*2016 AED'000*
Trade receivables	**90,045**	71,420
Less: provision for doubtful debts	**(2,672)**	(2,672)
	87,373	68,748
Prepaid expenses	**9,951**	5,065
Advances to suppliers	**8,166**	7,784
Due from a related party (Note 19b)	**615**	72
Positive fair value of derivatives (Note 26)	**1,230**	1,809
Other receivables*	**28,886**	23,542
	136,221	107,020

* Other receivable includes deposit with E-Dirham as advance deposit for the subsequent payment of Excise duty.

9 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017, trade accounts receivable with a nominal value of AED 2,672 thousand (2016: AED 2,672 thousand) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	2017 AED'000	*2016 AED'000*
At 1 January	**2,672**	2,914
Write off during the year	**-**	(242)
At 31 December	**2,672**	2,672

As at 31 December, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired				
	Total AED'000	*Neither past due nor impaired AED'000*	*<30 days AED'000*	*30-60 days AED'000*	*60-90 days AED'000*	*90-120 days AED'000*	*>120 days AED'000*
2017	**87,373**	**70,324**	**13,236**	**2,800**	**935**	**78**	**-**
2016	68,748	62,716	6,032	-	-	-	-

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

10 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	2017 AED'000	*2016 AED'000*
Cash at banks and on hand	**69,752**	55,401
Short-term deposits	**95,773**	105,521
Bank balances and cash	**165,525**	160,922

Short-term deposits are made for varying periods between one day and three months and earn interest at the respective short-term deposits rates ranging from 0.6% to 2.6% (2016: 0.7% to 2%).

11 TRADE AND OTHER PAYABLES

	2017 AED'000	*2016 AED'000*
Trade payable	**63,693**	69,730
Accrued expenses	**37,886**	34,778
Accrual for staff costs	**10,853**	11,514
Accrual for project costs	**-**	805
Advances from customers	**1,052**	1,063
Retentions payable	**894**	4,693
Deferred income	**14,715**	13,235
Other payables	**34,628**	5,825
	163,721	141,643

Other payables include Board of Directors' fees of AED 4.2 million (2016: AED 4.2 million) payable to the directors of the Company after obtaining the shareholders' approval in the Annual General Meeting and excise duty payable amounting to AED 28.8 million (2016: Nil).

12 SHARE CAPITAL

	2017 *AED'000*	*2016* *AED'000*
Authorised issued and fully paid up:		
90 million shares of AED 1 each	**90,000**	90,000

13 STATUTORY RESERVE

In accordance with Article 239 of Commercial Companies Law No. 2 of 2015 and the Company's articles of association, 10% of the annual profit of the Company is required to be transferred to a statutory reserve until the reserve equals 50% of the share capital. No transfer was made to the statutory reserve in 2017 as the reserve has already reached 50% of the share capital. This reserve is not available for distribution except as stipulated by the law.

14 GENERAL RESERVE

In accordance with Article 240 of the UAE Commercial Companies Law No. 2 of 2015 and the Company's articles of association, 10% of the Company's net profit may be transferred to a general reserve to be used only for the purposes stated in the Company's article of association.

In accordance with Clause 70 of the Company's article of association, 10% of the net profit for each year should be transferred to this reserve and such transfers may cease when the reserve equals 5% of the paid up share capital of the Company.

During the Board of Directors' meeting held on 12 February 2018, the Directors have approved to transfer AED 50,858 thousand (2016: AED 81,541 thousand) from retained earnings to general reserve.

15 FAIR VALUE RESERVE

Changes in fair value of available-for-sale investments are recognised in other comprehensive income and reported as fair value reserve within equity. Upon impairment loss or upon derecognition, any loss or gain previously reported as fair value reserve within equity is included in the income statement for the year.

16 DIVIDENDS

During the Board of Directors' meeting held on 12 February 2018, the Directors proposed a cash dividend of AED 0.70 per share totaling to AED 63 million relating to 2017 (2016: AED 0.70 per share totaling to AED 63 million). The dividend is subject to the approval of the shareholder in the Annual General Meeting.

During the year, the Company paid dividend of AED 63 million relating to 2016 (2016: paid dividend of AED 63 million relating to 2015).

17 EMPLOYEES' END OF SERVICE BENEFITS

The movement in the provision recognised in the statement of financial position is as follows:

	2017 *AED'000*	*2016* *AED'000*
Provision as at 1 January	**21,559**	20,851
Provided during the year	**3,047**	3,116
End of service benefits paid	**(2,354)**	(2,408)
Provision as at 31 December	**22,252**	21,559

18 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Company, net of directors fees, amounting to AED 87.49 million (2016: AED 113.86 million) by the weighted average number of shares outstanding during the year of 90 million shares (2016: 90 million shares).

The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

19 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

a Significant transactions with related parties:

Significant transactions with related parties included in the income statement are as follows:

	2017 AED'000	*2016 AED'000*
Sales to a related party	**6,160**	262

Compensation of key management personnel
The remuneration of directors and other key members of management during the year was as follows:

	2017 AED'000	*2016 AED'000*
Short-term benefits	**13,110**	14,213
Employees' end of service benefits	**578**	499
Board of Directors' sitting fees	**90**	460
	13,778	15,172

b Due from a related party:

	2017 AED'000	*2016 AED'000*
Other related party		
Oman Refreshments Company Limited (Note 9)	**615**	72

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2017, the Company has not recorded any impairment of amounts owed by related parties (2016: Nil).

20 TERM LOANS

	Current portion AED '000	*Non-current portion AED '000*	*Total AED '000*
Loan 1 (a)	34,000	34,000	68,000
Loan 2 (b)	5,926	16,850	22,776
Loan 3 (c)	3,193	9,109	12,302
Balance at 31 December 2017	**43,119**	**59,959**	**103,078**
Balance at 31 December 2016	43,106	102,611	145,717

(a) The Company obtained a term loan from a local bank to finance the construction of an office and plant facility (Greenfield Project) at DIP. As approved by the Board of Directors of the Company, this loan was capped at AED 170 million with 5 years repayment period. The repayment started from January 2015 and will end in July 2019. The loan carries interest at 3 months EIBOR plus margin. The loan is secured by assignment of leasehold rights over the plot and chattel mortgage and assignment of insurance benefits over plant & machinery. (Note 5).

(b & c) The Company obtained two term loans denominated in US Dollar to finance the acquisition of new plant and machinery. The loans are repayable in 14 semi-annual instalments commenced from 15 January 2015 and carry interests at 6 months LIBOR plus margin. In AED terms, the outstanding amount as of 31 December 2017 is AED 35,078 thousand (31 December 2016: AED 43,717 thousand). In dollar terms, the outstanding amount as of 31 December 2017 is USD 9,545 thousand (31 December 2016: USD 11,905 thousand).

21 OPERATING LEASE COMMITMENTS

The Company leases land, staff accommodations, office and warehouse premises and vehicles under operating lease agreements. The leases typically run for a period of 1 year to 30 years with an option to renew the lease after that date. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 AED'000	*2016 AED '000*
Within 1 year	**15,294**	16,171
After one year but not more than five years	**28,645**	37,231
More than 5 years	**114,729**	120,240
Total operating lease expenditure contracted for at the reporting date	**158,668**	173,642

22 CONTINGENCIES AND CAPITAL COMMITMENTS

	2017 AED'000	*2016 AED '000*
Bank guarantees	**11,659**	2,828
Letter of credit	**454**	1,427
Capital commitments - contracted	**11,186**	33,857

The bank guarantees at 31 December 2017 mainly pertain to guarantees to the Federal Tax Authority with respect to Excise duty.

The Company's capital commitments mainly pertain to approved expenditure on office and plant facility (Greenfield Project) at the Dubai Investment Park.

23 SEGMENT REPORTING

The Company operates in a single reporting segment of canning, bottling, distribution and trading of soft drinks and related beverages products. All the relevant information relating to this reporting/operating segment is disclosed in the statement of financial position, income statement and notes to the financial statements.

Additional information required by IFRS 8 *Segment Reporting*, is disclosed below:

a) Information about geographical segments

During the year ended 31 December 2017, revenue from customers located in the Company's country of domicile (UAE) is AED 753 million (year ended 31 December 2016: AED 792 million) and revenue from customers outside UAE (foreign customers) is AED 118 million (year ended 31 December 2016: AED 128 million).

b) Major customer

During the year ended 31 December 2017, there were no customers of the Company with revenues greater than 10% of the total revenue of the Company (2016: Nil).

24 RISK MANAGEMENT

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include term loans, bank deposits, available-for-sale investments and derivative financial instruments.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and term loans).

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Company's result for one year, based on the floating rate financial assets and financial liabilities held at 31 December.

There is no impact on the Company's equity.

	Increase/ decrease in basis points	*Effect on profit for the year AED'000*
2017		
AED	**+50**	**(515)**
AED	**-50**	**515**
2016		
AED	+50	(729)
AED	-50	729

24 RISK MANAGEMENT (continued)

Currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company had the following significant net exposures denominated in foreign currencies in the form of bank balances and term loans.

	2017 AED'000 equivalent	*2016 AED'000 equivalent*
Net assets:		
Euro	**43**	161

The below analysis calculates the effect of a reasonably possible movement of the AED currency rate against the above mentioned currency, with all other variables held constant, on the income (due to the fair value of currency sensitive monetary assets and liabilities).

	Increase/ decrease in exchange rate to the AED	*Effect on profit for the year increase/ (decrease) AED'000*	*Effect on other comprehensive income for the year increase/ (decrease) AED'000*
2017	**+5%**	**2**	**-**
	-5%	**(2)**	**-**
2016	+5%	8	-
	-5%	(8)	-

Equity price risk
Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks. The Company's listed equity security is susceptible to market price risk arising from uncertainties about future values of the investment security.

The effect on equity (fair value reserve) as a result of a change in the fair value of equity instrument quoted on Muscat Securities Market – Oman and held as available-for-sale at 31 December 2017 and 31 December 2016, due to reasonably possible changes in the prices of these quoted shares held by the Company, with all other variables held constant, is as follows:

	2017		*2016*	
Market index – Muscat Securities Market (Oman)	***Increase / decrease in market prices %***	***Effect on equity (fair value reserve) AED'000***	*Increase / decrease in market prices %*	*Effect on equity (fair value reserve) AED'000*
Impact of change in market prices	**+10%**	**13,884**	+10%	14,562
	-10%	**(13,884)**	-10%	(14,562)

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks. The Company also manages the risk through dealings with large diversified base of customers as well as local and foreign banks.

24 RISK MANAGEMENT (continued)

Credit risk (continued)
Credit risk is limited to the carrying values of financial assets in the statement of financial position.

With respect to credit risk arising from other financial assets of the Company, including cash and cash equivalents, trade and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Company limits its liquidity risk by ensuring that adequate internally generated funds and bank facilities are available. The Company's terms of sales require amounts to be paid within 30 to 60 days from the date of sale. Trade payables are normally settled within 30 to 90 days from the date of purchase.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

At 31 December 2017

	Less than 6 months AED'000	***6 to 12 months AED'000***	***1 to 5 years AED'000***	***>5 years AED'000***	***Total AED'000***
Trade and other payables	**118,267**	**894**	**-**	**-**	**119,161**
Term loans	**22,009**	**22,270**	**60,920**	**-**	**105,199**
Total	**140,276**	**23,164**	**60,920**	**-**	**224,360**

At 31 December 2016

	Less than 6 months AED'000	*6 to 12 months AED'000*	*1 to 5 years AED'000*	*>5 years AED'000*	*Total AED'000*
Trade and other payables	122,652	4,693	-	-	127,345
Term loans	22,070	22,729	105,464	-	150,263
Total	144,722	27,422	105,464	-	277,608

Capital management
The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. Capital comprises share capital, reserves and retained earnings and is measured at AED 950 million as at 31 December 2017 (2016: AED 933 million).

25 FAIR VALUE OF DERIVATIVES

Cash flow hedges
The Company also uses forward commodity contracts to manage some of its financing transaction exposures, highly probable transactions and commitment. The hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transaction is accounted for as a cash flow hedge.

The cash flow hedges were assessed to be highly effective and as at 31 December 2017, and a net unrealised loss of AED 579 thousand (2016: net unrealised gain of AED 6,872 thousand) was included in other comprehensive income in respect of these contracts.

25 FAIR VALUE OF DERIVATIVES (continued)

Cash flow hedges (continued)
The table below shows the positive and negative fair values of derivative financial instruments including cash flow hedges, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

				Notional amounts by term to maturity	
	Positive fair value AED'000	***Negative fair value AED'000***	***Notional amount AED'000***	***Within 1 year AED'000***	***1-5 years AED'000***
Derivatives					
Designated as cash flow hedge	**1,230**	-	**10,898**	**10,898**	-
31 December 2017	**1,230**	-	**10,898**	**10,898**	-

				Notional amounts by term to maturity	
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 1 year AED'000*	*1-5 years AED'000*
Derivatives					
Designated as cash flow hedge	1,809	-	22,048	22,048	-
31 December 2016	1,809	-	22,048	22,048	-

The fair value of derivatives is presented in the statement of financial position as:

	2017 AED'000	*2016 AED'000*
Positive fair value of derivatives – current assets (Note 9)	**1,230**	1,809

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand and bank balances, receivables and available-for-sale investments. Financial liabilities consist of term loans, payables and negative fair value of derivatives.

The fair values of financial instruments are not materially different from their carrying values.

Fair value hierarchy
The Company 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.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)
As at 31 December 2017, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	31 Dec 2017 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Available-for-sale investments				
Quoted equity shares				
Consumer products sector (Note 7)	**138,838**	**138,838**	-	-

	31 Dec 2017 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Positive fair value of derivatives				
- held as cash flow hedge (Note 9)	**1,230**	-	**1,230**	-

As at 31 December 2016, the Company held the following financial instruments measured at fair value:

Assets measured at fair value

	31 Dec 2016 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Available-for-sale investments				
Quoted equity shares				
Consumer products sector (Note 7)	145,620	145,620	-	-

Liabilities measured at fair value

	31 Dec 2017 AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Negative fair value of derivatives				
- held as cash flow hedge (Note 11)	1,809	-	1,809	-

During the years ended 31 December 2017 and 31 December 2016, there were no transfers between the various levels of fair value measurements.