ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and condensed consolidated interim financial statements for the nine-month period ended 30 September 2019

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Board of Directors' report to the shareholders
for the nine-month period ended 30 September 2019

Board of Directors' Report to Shareholders

On behalf of Arkan Building Materials Company's (Arkan) PJSC Board of Directors ("Arkan or the "Company"), I am pleased to present the Board of Directors' report for the nine months ending 30 September 2019, together with the reviewed condensed consolidated financial statements for the same period of 2019.

Arkan's revenue in the first nine months of 2019 was AED 675.50 million, compared to AED 719.72 million for the same period of 2018 as a result of intense competition leading to downward pressure on selling prices. The Company's profit for the first nine months of 2019 reached AED 36.13 million compared to AED 10.21 million for the same period of 2018. The adverse impact on revenue was compensated by cost saving initiatives, an income recognized from the sale of scrap assets of the old cement factory and the proceeds from an insurance claim in the Cement Division. Further, Al Ain Cement Factory scored category A rating under Electricity Tariff incentive program announced by Abu Dhabi Government thereby qualifying for a preferred energy tariff provided only to entities that enhance the economic impact of the industrial sector in the Emirate of Abu Dhabi.

Review of Operations

Cement Operations:
Revenue from Arkan's Cement segment was AED 416.12 million in first nine months of 2019, compared to AED 443.83 million for the same period of 2018. Profit from this segment in first nine months of 2019 increased to AED 60.74 million as compared to AED 20.72 million for the same period of 2018. The improved profitability is due to substituting a raw material with another of a lower cost, reduced electricity prices and optimum utilization of the factory.

Concrete Blocks and Dry Mortar:
Revenue from Arkan's Blocks segment reached to AED 165.74 million in first nine months of 2019, compared to AED 148.58 million for the same period of 2018. The segment increased its sales volume by extending its product range. Profit from this segment in first nine months of 2019 was AED 4.62 million as compared to a profit of AED 9.17 million in first nine months of 2018. The decline in profit is mainly due to increase in the land lease tariff and increase in provision for accounts receivables as per IFRS 9.

GRP Pipes:
Revenue from Arkan's GRP Pipes segment reached AED 29.16 million in first nine months of 2019, compared to AED 48.67 million for the same period of 2018. Loss from this segment amounted to AED 1.29 million in first nine months of 2019 compared to profit of AED 7.95 million for the same period of 2018. Net loss resulted from significant delays incurred in export sales coupled with seasonal fluctuation of market demand.

PVC Pipes:
Arkan's PVC Pipes segment sales revenue was AED 53.24 million in first nine months of 2019, compared to AED 56.56 million for the same period of 2018. Profit from this segment amounted to AED 2.31 million for first nine months of 2019 compared to AED 2.81 million for the same period of 2018 due to lower selling prices.

Bags:
Arkan's Bags segment sales revenue was AED 11.25 million in first nine months of 2019, compared to AED 22.09 million for the same period of 2018. Loss from this segment amounted to AED 1.55 million in first nine months of 2019, compared to a profit of AED 1.94 million for the same period of 2018 as a result of a significant drop in export sales volumes particularly to markets affected by instability.

Board of Directors' report to the shareholders
for the nine-month period ended 30 September 2019 (continued)

Liquidity

The Company's cash and cash equivalents were AED 31.21 million as of 30 September 2019 (31 December 2018: AED 53.65 million).

Total Assets & Shareholders' Equity

The total assets of the Company equaled AED 3.441 billion at the end of September 2019 (31 December 2018: AED 3,333 billion). The value of shareholders' equity decreased to AED 1.786 billion as of 30 September 2019 compared to AED 1.793 billion as of 31 December 2018. The company paid dividend of AED 43.75 million representing 2.5% of the issued share capital to the existing shareholder as at 18th April 2019.

Investments

The share of profit from associates for first nine months of 2019 was AED 0.85 million compared to loss of AED 0.93 million in the same period of 2018. The Company received a cash dividend of AED 7.20 million from this investment during the period.

On behalf of the Board of Directors:

Jamal Salem Al Dhaheri
Chairman
3 November 2019

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Arkan Building Materials Company (ARKAN) PJSC
Abu Dhabi
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (together with the Company, the "Group") as of 30 September 2019 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management of the Group is responsible for the preparation and presentation of this condensed consolidated financial information in accordance with International Accounting Standard IAS 34, "*Interim Financial Reporting (IAS 34)*". Our responsibility is to express a conclusion on this condensed consolidated financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)

Obada Alkowatly
Registration No. 1056
3 November 2019
Abu Dhabi
United Arab Emirates

Condensed consolidated statement of financial position as at 30 September 2019

	Notes	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,929,735**	1,975,243
Goodwill		**128,430**	128,430
Other intangible assets		**95,891**	102,237
Right-of-use assets	2	**176,886**	-
Investment in associates	6	**186,010**	192,365
Total non-current assets		**2,516,952**	2,398,275
Current assets			
Inventories	7	**400,213**	387,339
Trade and other receivables	8	**491,572**	493,250
Due from related parties	10	**905**	819
Cash and cash equivalents	9	**31,210**	53,645
Total current assets		**923,900**	935,053
Total assets		**3,440,852**	3,333,328
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**1,750,000**	1,750,000
Statutory reserve		**80,848**	80,848
Capital reserve		**3,783**	3,783
Other reserves		**(4,029)**	(4,029)
Accumulated losses		**(44,747)**	(37,127)
Total net equity		**1,785,855**	1,793,475

Condensed consolidated statement of financial position as at 30 September 2019 (continued)

	Notes	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Non-current liabilities			
Lease liabilities	2	165,412	-
Borrowings	11	4,933	6,167
Loan from a related party	10	-	18,368
Provision for employees' end of service benefit		39,862	37,967
Total non-current liabilities		210,207	62,502
Current liabilities			
Borrowings	11	896,912	842,107
Trade and other payables	12	502,373	597,733
Due to a related party	10	545	805
Loan from a related party	10	36,730	36,706
Lease liabilities	2	8,230	-
Total current liabilities		1,444,790	1,477,351
Total liabilities		1,654,997	1,539,853
Total equity and liabilities		3,440,852	3,333,328

Jamal Salem Al Dhaheri	**Abdellatif Sfaxi**	**Faizal Amod**
Chairman	Chief Executive Officer	Chief Financial Officer

Condensed consolidated statement of profit or loss
for the nine-month period ended 30 September 2019

	Notes	3 months ended 30 September		9 months ended 30 September	
		2019	2018	**2019**	2018
		AED'000	AED'000	**AED'000**	AED'000
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue		**216,625**	215,938	**675,502**	719,718
Direct costs		**(165,769)**	(173,466)	**(531,589)**	(580,587)
Gross profit		**50,856**	42,472	**143,913**	139,131
Selling and distribution expenses		**(18,400)**	(10,562)	**(34,293)**	(26,011)
General and administrative expenses		**(20,493)**	(21,691)	**(60,481)**	(63,831)
Other income	**15**	**3,815**	25	**29,141**	344
Share of profit/(loss) of associates	**6**	**723**	(2,338)	**845**	(931)
Finance costs		**(14,205)**	(12,972)	**(43,059)**	(38,537)
Finance income		**55**	28	**64**	43
Profit for the period		**2,351**	(5,038)	**36,130**	10,208
Basic and diluted earnings per share	**16**	**0.001**	(0.003)	**0.021**	0.006

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of profit or loss and other comprehensive income for the nine-month period ended 30 September 2019

	3 months ended 30 September		9 months ended 30 September	
	2019	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period	**2,351**	(5,038)	**36,130**	10,208
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**2,351**	(5,038)	**36,130**	10,208

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2019

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Retained earnings/ accumulated (losses) AED'000	Other reserves AED'000	Total equity AED'000
As at 1 January 2018 (audited)	1,750,000	75,502	3,783	(34,957)	(20,458)	1,773,870
Impact of application of IFRS 9 and IFRS 15	-	-	-	(41,605)	-	(41,605)
As at 1 January 2018 – as restated	1,750,000	75,502	3,783	(76,562)	(20,458)	1,732,265
Total comprehensive income for the period	-	-	-	10,208	-	10,208
As at 30 September 2018 (unaudited)	1,750,000	75,502	3,783	(66,354)	(20,458)	1,742,473
As at 1 January 2019 (audited)	1,750,000	80,848	3,783	(37,127)	(4,029)	1,793,475
Dividend paid	-	-	-	(43,750)	-	(43,750)
Total comprehensive income for the period	-	-	-	36,130	-	36,130
As at 30 September 2019 (unaudited)	**1,750,000**	**80,848**	**3,783**	**(44,747)**	**(4,029)**	**1,785,855**

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019

	Notes	9 months ended 30 September 2019 AED'000 (unaudited)	2018 AED'000 (unaudited)
Cash flows from operating activities			
Profit for the period		**36,130**	10,208
Adjustments for:			
Depreciation of property, plant and equipment	5	**54,147**	56,382
Amortisation of other intangible assets		**6,346**	6,346
Amortisation of right-of-use assets		**6,920**	-
Gain on disposal of property, plant and equipment		**(16)**	-
Impairment charge on trade receivables	8	**14,056**	7,283
Allowance for impairment of inventories, net	7	**512**	1,126
Provision for employees' end of service benefit		**4,109**	3,125
Share of (loss)/profit from associates	6	**(845)**	931
Finance costs		**43,059**	38,537
Finance income		**(64)**	(43)
Operating cash flows before movements in working capital		**164,354**	123,895
Movements in working capital:			
Increase in inventories		**(13,386)**	(35,314)
Increase in trade and other receivables		**(12,378)**	(56,939)
(Increase)/decrease in amounts due from related parties		**(86)**	98
(Decrease)/increase in trade and other payables		**(91,329)**	97,297
(Decrease)/increase in amounts due to a related party		**(260)**	364
Cash generated from operations		**46,915**	129,401
End of service benefits paid		**(2,214)**	(601)
Net cash from operating activities		**44,701**	128,800
Cash flows from investing activities			
Payments for property, plant and equipment	5	**(8,639)**	(15,032)
Proceed from sale of property, plant and equipment		**16**	-
Dividends received from associates	6	**7,200**	3,200
Interest received		**64**	43
Net cash used in investing activities		**(1,359)**	(11,789)
Cash flows from financing activities			
Proceeds from borrowings	11	**217,000**	45,000
Proceeds from bank overdraft	11	**11,068**	-
Repayment of borrowings	11	**(174,497)**	(144,433)
Finance costs paid	11	**(35,905)**	(34,321)
Dividend paid		**(43,750)**	-
Principal repayment of lease liability		**(14,195)**	-
Interest paid on lease liability	11	**(7,154)**	-
Repayment of loan from a related party		**(18,344)**	(18,369)
Net cash used in financing activities		**(65,777)**	(152,123)
Net decrease in cash and cash equivalents		**(22,435)**	(35,112)
Cash and cash equivalents at the beginning of the period		**53,645**	67,076
Cash and cash equivalents at the end of the period	9	**31,210**	31,964

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019

1 General information

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

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

These condensed consolidated interim financial statements include the performance and financial position as at and for the nine-month period ended 30 September 2019 of the Company and its subsidiaries (collectively referred to as the "Group").

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Company		Principal activity
		30 September 2019	31 December 2018	
Emirates Blocks Factory	UAE	**100%**	100%	Production and sale of cement blocks.
Emirates Cement Factory	UAE	**100%**	100%	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	**100%**	100%	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	**100%**	100%	Production and sale of pipes, manufacturing pipes, plastic and paper bags.

2 Application of new and revised International Financial Reporting Standards (IFRS)

The accounting policies used in the preparation of this condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, and the notes attached thereto, except for the adoption of certain new and revised standards, that became effective in the current period as set out below.

2.1 New and amended standards adopted by the Group

The Group adopted IFRS 16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application. IFRS 16 transition disclosures also require the Group to present the reconciliation. The off-balance sheet lease obligations as of 31 December 2018 are reconciled as follows to the recognized lease liabilities as of 1 January 2019.

	AED' 000
Operating lease commitments as of 31 December 2018	**344,520**
Discounted using the lessee's incremental borrowing rate at the date of initial application	192,185
Less short term leases recognised on a straight line basis as expense	(4,197)
Lease liability recognised as at 1 January 2019	**187,988**
Of which are:	
Current lease liabilities	20,790
Non-current lease liabilities	167,198
	187,988

The right-of-use assets was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended standards adopted by the Group (continued)

The recognised right-of-use assets relate to the following types of assets:

	30 September 2019 AED'000	1 January 2019 AED'000
Land and building	**172,409**	177,445
Plant and equipment	**1,505**	2,453
Vehicles	**2,972**	4,063
Total right-of-use assets	**176,886**	183,961

During the nine-month period ended September 30, 2019, additions to right-of-use assets amounted to AED 92 thousand, whereas depreciation and amortisation of right-of-use assets amounted to AED 6,920 thousand.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by AED 183,961 thousand
- lease liabilities – increase by AED 187,988 thousand

There was no impact on retained earnings on 1 January 2019.

Impact on segment disclosures:

Segment assets and segment liabilities for September 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in policy:

Segment	**Segment assets AED'000**	**Segment liabilities AED'000**
Cement	146,511	140,823
Blocks	29,493	31,920
GRP Pipes	882	899
Total	176,886	173,642

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended standards adopted by the Group (continued)

The Group's leasing activities and how these are accounted for:

The Group leases various land, equipment and cars. Land rental are for longer period whereas machinery and equipment, and vehicles are typically made for fixed periods of 3 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured based on the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost of the initial measurement of lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Practical expedient

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and amended standards adopted by the Group (continued)

Practical expedient (continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

2.2 Revised standards

Effective for annual periods beginning on or after 1 January 2019

Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities.*

Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures.

Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*

IFRIC 23 *Uncertainty over Income Tax Treatments*

2.3 New and revised standards and interpretations but not yet effective

Effective for annual periods beginning after 1 January 2020

Amendments regarding the definition of material

Amendments to clarify the definition of a business

IFRS 17 *Insurance Contracts*

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the *Conceptual Framework.*

3 Summary of significant accounting policies

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the U.A.E. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018. In addition, results for nine-month period ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Basis of preparation

These condensed consolidated financial statements are presented in UAE Dirhams (AED) which is the functional currency of the Group and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

These condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies, significant judgments, estimates and assumptions applied by the Group in these condensed consolidated interim financial statements are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective 1 January 2019.

4 Critical judgements and key sources of estimation uncertainty

Changes in judgements and estimation uncertainty

The critical judgements and estimates used in the preparation of these condensed interim financial information are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018 except for the changes highlighted below:

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Discounting of lease payments
The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease.

5 Property, plant and equipment

During the nine-month period ended 30 September 2019, the Group acquired assets with a cost of AED 8,639 thousand (30 September 2018: AED 15,032 thousand). Cement factory has been pledged against a loan received from a bank for the construction of the factory.

Depreciation charge for the period amounted to AED 54,147 thousand (30 September 2018: AED 56,382 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Balance at the beginning of the period/year	**192,365**	209,036
Impact of change in accounting policy due to application of IFRS 9	-	(8,678)
Share of profit/(loss) of associates for the period/year	**845**	(4,793)
Dividends received during the period/year	**(7,200)**	(3,200)
Balance at the end of the period/year	**186,010**	192,365

7 Inventories

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Raw materials	**126,341**	140,644
Work in progress	**145,578**	113,875
Finished goods	**53,352**	52,115
Goods in transit	**58**	58
Spare parts and consumable materials	**131,155**	136,406
	456,484	443,098
Less: allowance for impairment of inventories	**(56,271)**	(55,759)
	400,213	387,339

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Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

7 Inventories (continued)

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

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Balance at the beginning of the period/year	**55,759**	57,209
Reversal for the period/year	**-**	(1,450)
Charge for the period/year	**512**	-
Balance at the end of the period/year	**56,271**	55,759

8 Trade and other receivables

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Trade receivables	**562,664**	552,778
Less loss allowance	**(98,545)**	(84,489)
	464,119	468,289
Prepayments	**21,515**	20,444
Advances to suppliers	**5,757**	3,292
Other receivables	**181**	1,225
	491,572	493,250

The movement in the allowance for impairment is as follows:

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Balance as at 1 January	**84,489**	71,687
Net remeasurement of loss allowance	**14,056**	12,802
Balance at the end of the period/year	**98,545**	84,489

9 Cash and cash equivalents

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Cash in hand	**160**	100
Cash at banks in current accounts	**31,050**	53,545
	31,210	53,645

10 Related parties

In the ordinary course of business, the Group enters into transactions at agreed terms and conditions which are carried out on commercially agreed terms, with other business enterprises or individuals that fall within the definition of a related party contained in International Accounting Standard 24. Related parties comprise shareholders, directors, key management staff and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

Related party balances are as follows:

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Amounts due from related parties		
Emirates Steel Industries PJSC – sister concern	**872**	786
Others	**33**	33
	905	819
Amounts due to a related party		
General Holding Corporation PJSC (SENAAT)	**545**	805
Loan from a related party – the Parent Company		
Non-Current	-	18,368
Current	**36,730**	36,706
	36,730	55,074

10 Related parties (continued)

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Loan from a related party – under common control		
Non-Current (note 11)	**4,933**	7,811
Current (note 11)	**224,021**	264,132
	228,954	271,943

Significant transactions with related parties during the period are as follows:

	9-month period ended 30 September	
	2019 AED'000 (unaudited)	2018 AED'000 (unaudited)
Interest on loan from the Parent Company	**1,734**	2,719
Repayment of loan from the Parent Company	**18,369**	18,369
Sales to a related party – Emirates Steel Industries PJSC, sister concern	**2,317**	2,751
Key management compensation		
- Short term benefits	**6,295**	6,243
- Post-employment benefits	**507**	507
	6,802	6,750

11 Borrowings

Bank borrowings are repayable as follows:

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Non-current		
After one year	**4,933**	6,167
Current		
Within one year	**896,912**	842,107

11 Borrowings

The details of the bank borrowings are stated as follows:

		Outstanding at 30 September 2019			Outstanding at 31 December 2018		
	Maturity	**Current AED'000**	**Non-current AED'000**	**Total AED'000**	Current AED'000	Non-current AED'000	Total AED'000
Term loan 1	**2024**	**667,200**	**-**	**667,200**	800,400	-	800,400
Term loan 2	**2023**	**1,644**	**4,933**	**6,577**	1,644	6,167	7,811
Short term loan 1	**2019**	**77,000**	**-**	**77,000**	15,000	-	15,000
Short term loan 2	**2019**	**100,000**	**-**	**100,000**	10,063	-	10,063
Short term loan 3	**2019**	**40,000**	**-**	**40,000**	15,000	-	15,000
Bank overdraft	**2019**	**11,068**	**-**	**11,068**	-	-	-
		896,912	**4,933**	**901,845**	842,107	6,167	848,274

Term loan 1 is a 10-year term loan of AED 1,200 million obtained in 2014 by the Group to finance the construction of the Group's new cement factory. The term loan is payable over 9 years semi-annually commencing from March 2016. The loan carries variable interest at EIBOR plus a margin. As of 30 September 2019, the Group was in noncompliance of Term loan 1 of one of the covenants, which constituted an event of default as defined in the term facility agreement and the lenders may, by notice to the Group, cancel the total commitments, declare that all or part of utilisations and accrued interest be immediately due and payable or payable on demand and enforce all or part of the security provided for the loan. Accordingly, entire outstanding amount on Term loan 1 is classified as current in the consolidated statement of financial position. The lenders did not request accelerated repayment of the facility as of the signing date.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Group. The loan is repayable in 36 equal quarterly installments from November 2014 and carries variable rate of interest.

Short term loan 1 with facility amount of AED 100 million was obtained from an Islamic bank for financing the working capital of the Group. The loan is repayable in 180 days and carries variable rate of interest.

Short term loan 2 with facility amount of AED 100 million was obtained from an Islamic bank for financing the working capital of the Group. The loan is repayable in 180 days and carries variable rate of interest.

Short term loan 3 with facility amount of AED 100 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable rate of interest.

Bank overdraft facility with facility amount of AED 25 million is available from a commercial bank for financing the working capital of the Group. The overdraft is repayable at any time and carries variable rate of interest.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

11 Borrowings (continued)

Changes from financing cash flows related to borrowings

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Balance at the beginning of the period/year	**848,274**	953,055
Settlement of term loans	**(134,434)**	(134,844)
Settlement of short term loans	**(40,063)**	(74,999)
Proceeds from short term loans	**217,000**	105,062
Proceeds from bank overdraft	**11,068**	-
Interest paid	**(35,905)**	(52,630)
Total changes from financing cash flows	**17,666**	(157,411)
Other changes / liability related		
Interest expense	**43,059**	52,630
Changes in accruals	**(7,154)**	-
Total liability related to other changes	**35,905**	52,630
Balance at the end of the period/year	**901,845**	848,274

12 Trade and other payables

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Trade payables	**416,986**	498,307
Accruals	**55,824**	66,039
VAT payable	**1,681**	2,077
Interest payable	**3,273**	2,073
Other payables	**24,609**	29,237
	502,373	597,733

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

13 Contingencies and commitments

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Letters of credit	**15,294**	34,542
Bank guarantees	**268**	364
Capital commitments	**4,640**	4,640
Financial guarantees provided to associates	**94,739**	94,739

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

14 Segment reporting

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

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

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

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

14 Segment reporting (continued)

For the period ended 30 September 2019 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Revenue from external customers	416,116	165,736	29,164	53,241	11,245	-	-	675,502
Intersegment revenue	22,038	-	-	-	4,012	-	(26,050)	-
Timing of revenue recognition								
At a point in time	416,116	165,736	29,164	53,241	11,245	-	-	675,502
Over time	-	-	-	-	-	-	-	-
Finance cost	41,259	1,171	43	-	-	586	-	43,059
Depreciation and amortization	43,979	13,077	4,110	1,444	167	4,636	-	67,413
Share of profit of associates	-	-	-	-	-	845	-	845
Profit/(loss) for the period	60,736	4,618	(1,290)	2,306	(1,547)	(28,693)	-	36,130
Total assets	4,235,664	431,703	84,111	154,732	41,145	1,473,366	(2,979,869)	3,440,852
Total liabilities	1,586,989	250,934	16,156	23,047	73,270	2,641,333	(2,936,732)	1,654,997

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

14 Segment reporting (continued)

For the period ended 30 September 2018 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Revenue from external customers	443,826	148,582	48,665	56,555	22,090	-	-	719,718
Intersegment revenue	23,956	-	-	-	8,304	-	(32,260)	-
Timing of revenue recognition								
At a point in time	443,826	148,582	48,665	56,555	22,090	-	-	719,718
Over time	-	-	-	-	-	-	-	-
Finance cost	38,190	-	-	-	-	347	-	38,537
Depreciation and amortization	42,123	10,111	4,162	1,458	167	4,707	-	62,728
Share of loss of associates	-	-	-	-	-	(931)	-	(931)
Profit/(loss) for the period	20,724	9,170	7,946	2,806	1,942	(32,380)	-	10,208

14 Segment reporting (continued)

As at 31 December 2018 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Company AED'000
Total assets	3,819,434	404,684	90,341	155,397	45,811	1,442,786	(2,625,125)	3,333,328
Total liabilities	1,280,615	228,498	17,391	29,706	72,638	2,489,218	(2,578,213)	1,539,853

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2019 (continued)

15 Other income

	9 months ended 30 September	
	2019	2018
	AED'000	AED'000
	(unaudited)	(unaudited)
Gain from insurance proceeds	**18,345**	-
Proceeds from sale of scrap	**10,267**	-
Other	**529**	344
	29,141	344

On 19 March 2014, the premises of the Emirates Cement Factory were seriously damaged by the fire. During the period, the insurance claim has been finalized and the Group received proceeds of AED 18,345 thousand.

16 Basic and diluted earnings per share

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

	3 months ended 30 September		9 months ended 30 September	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Profit for the period (AED'000)	**2,351**	(5,038)	**36,130**	10,208
Weighted average number of shares in issue (thousands of shares)	**1,750,000**	1,750,000	**1,750,000**	1,750,000
Earnings per share (AED)	**0.001**	(0.003)	**0.021**	0.006

There were no potentially dilutive securities as at 30 September 2019 and 2018, and accordingly, diluted earnings per share are the same as basic earnings per share.

17 Seasonality of results

No significant income of a seasonal nature was recorded in the condensed consolidated statement of profit or loss for the nine-month period ended 30 September 2019 and 2018.

18 Approval of condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by management and authorised for issue on 3 November 2019.