ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and consolidated financial statements for the year ended 31 December 2019

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Board of Directors' Report to the shareholders for the year ended 31 December 2019

On behalf of the Board of Directors of Arkan Building Materials Company (Arkan) PJSC ("Arkan" or the "Company"), I am pleased to present the Board of Directors' Report and audited consolidated financial statements for the year ended 31 December 2019.

Arkan's revenue for the year 2019 was AED 902.44 million, compared to AED 967.63 million for the year 2018, as a result of intense competition leading to downward pressure on selling prices. The Company's profit for the year 2019 reached AED 46.01 million compared to AED 53.46 million for the year 2018. The adverse impact on revenue was compensated by cost saving initiatives, an income recognised 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 successfully enrolled in the 'Electricity Tariff Incentive Programme', which recognises the economic contribution towards the Emirate of Abu Dhabi and supports the growth of the industrial sector.

Review of Operations

Cement Operations:
Revenue from Arkan's Cement segment was AED 543.47 million for the year 2019, compared to AED 596.87 million for the year 2018. Profit from this segment for year 2019 increased to AED 72.91 million as compared to AED 69.24 million for the year 2018 due to higher plant efficiency coupled with an optimized raw material mix and lower electricity cost.

Concrete Blocks and Dry Mortar:
Revenue from Arkan's Blocks segment reached to AED 222.37 million for the year 2019, compared to AED 211.39 million for the year 2018. Profit from this segment for the year 2019 was AED 7.55 million as compared to a profit of AED 13.77 million for the year 2018. Although, the segment increased its sales volume by extending its product range, the profit declined as a result of an increase in the land lease tariff and a provision for accounts receivables as per IFRS 9 (Financial Instruments).

GRP Pipes:
Revenue from Arkan's GRP Pipes segment reached AED 46.99 million for the year 2019, compared to AED 61.62 million for the year 2018. Profit from this segment amounted to AED 2.38 million in year 2019 compared to AED 10.66 million for the year 2018. Lower profit resulted from significant delays incurred in export projects.

PVC Pipes:
Arkan's PVC Pipes segment sales revenue was AED 74.57 million for the year 2019, compared to AED 75.14 million for the year 2018. Profit from this segment increased to AED 4.16 million for the year 2019 compared to AED 3.33 million for the year 2018. The increase in profitability resulted from strategic procurement of key raw materials.

Bags:
Arkan's Bags segment sales revenue was AED 15.04 million for the year 2019, compared to AED 22.61 million for the year 2018. Loss from this segment amounted to AED 1.96 million for the year 2019, compared to a profit of AED 3.73 million for the year 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 year ended 31 December 2019 (continued)

The Company's cash and cash equivalents were AED 81.29 million as of 31 December 2019 (31 December 2018: AED 53.65 million).

Total Assets & Shareholders' Equity

The total assets of the Company equaled AED 3.481 billion at the end of December 2019 (31 December 2018: AED 3.333 billion). The value of shareholders' equity was at AED 1.793 billion as of 31 December 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 18 April 2019.

Investments

The share of profit from associates for the year 2019 was AED 3.70 million compared to loss of AED 4.79 million for the year 2018. The Company received a cash dividend of AED 7.20 million from its investments during the period.

On behalf of the Board of Directors

Jamal Salem Al Dhaheri
Chairman
25 February 2020

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. We have communicated the key audit matters to the Audit Committee but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. On the following pages, we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC (continued)

Key Audit Matters (continued)

The key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Carrying value of goodwill	
As of 31 December 2019, the carrying value of goodwill amounted to AED 128 million, or 4% of total assets, as disclosed in note 6. In accordance with IAS 36 *Impairment of Assets*, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. An impairment is recognised when the recoverable amount is less than the net carrying amount in accordance with IAS 36, as described in note 3 to the consolidated financial statements. The determination of the recoverable amount is mainly based on discounted future cash flows. We considered the impairment of goodwill to be a key audit matter, given the method for determining the recoverable amount and the significance of the account in the Group's consolidated financial statements. In addition, the recoverable amounts are based on the use of important assumptions, estimates and assessments made by management, in particular future cash flow projections, the determination of discount and long-term growth rates.	We have evaluated the process implemented by the Group to determine the recoverable amount of goodwill grouped in cash-generating units (CGU). Our procedures consisted of: • assessing the principles and method used for determining the recoverable amounts of the CGU to which goodwill is allocated and assessing that the method used is in accordance with requirements of IAS 36; • reconciling the net carrying amount of goodwill allocated to the CGU traced to the Group's accounting records; • engaging our valuation specialist to assess the discount rate applied by benchmarking against independent data; • challenging each of the key assumptions with management, including budget estimates underlying the cash flows used in the valuation models are based. For this purpose, we have also compared the estimates of cash flow projections of previous periods with actual corresponding results, to assess the pertinence and reliability of the process for making forecasts; • reviewing management's sensitivity analysis in relation to the key inputs used in the goodwill impairment test model, as well as performing our own sensitivity analysis of the factors and assumptions used; • assessing the design and tested the implementation of the Company's controls relating to review of impairment of goodwill; and • verifying the arithmetical accuracy of the valuations used by the Company. We have also assessed the appropriateness of the disclosures provided in note 6 to the consolidated financial statements.

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Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Application of IFRS 16 *Leases*	
The Group adopted IFRS 16 Leases with effect from 1 January 2019, which resulted in changes to the accounting policies. The Group has elected not to restate comparative information in accordance with the transitional provisions contained within IFRS 16. The impact of IFRS 16 is a change in the accounting policy for operating leases. This change in accounting policy results in right-of-use assets and lease liabilities being recognised in the statement of financial position. The incremental borrowing rate ("IBR") method has been applied where the implicit rate in a lease is not readily determinable. The adoption of IFRS 16 has resulted in changes to processes, systems and controls. Because of the number of judgements which have been applied and the estimates made in determining the impact of IFRS 16, this area is considered as a key audit matter. The transitional impact of IFRS 16 has been disclosed in note 2 to the consolidated financial statements.	We obtained an understanding of the Group's adoption of IFRS 16 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard. We assessed the design and implementation of key controls pertaining to the application of IFRS 16. We assessed the appropriateness of the discount rates applied in determining lease liabilities with input from our internal specialists. We verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts or other supporting information and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment. We determined if the disclosures made in the financial statements pertaining to leases, including disclosures relating to the transition to IFRS 16, were in compliance with IFRSs.

Other Information

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

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

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

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Other Information (continued)

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

When we will read the Chairman's Message, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Federal Law No. (2) of 2015, and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY
(ARKAN) PJSC (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OFARKAN BUILDING MATERIALS COMPANY
(ARKAN) PJSC (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Company has maintained proper books of account;
- The financial information included in the Board of Directors' Report to the shareholders is consistent with the books of account and records of the Group;
- As disclosed in note 1 to the consolidated financial statements, the Group has not purchased or invested in shares during the financial year ended 31 December 2019;
- Note 12 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- 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 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.

Further, as required by the Resolution of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Company has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars as applicable, which would materially affect its activities or the financial statements as at 31 December 2019:

- Ministerial resolution No. 228 for the year 2006; and
- Relevant provisions of the applicable laws, resolutions and circulars organising the Company's operations.

Deloitte & Touche (M.E.)

Obada Alkowatly
Registration No. 1056
25 February 2020
Abu Dhabi
United Arab Emirates

Consolidated statement of financial position as at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,919,298	1,975,243
Goodwill	6	128,430	128,430
Other intangible assets	7	93,776	102,237
Right-of-use assets	13	155,903	-
Investment in associates	8	188,867	192,365
Total non-current assets		2,486,274	2,398,275
Current assets			
Inventories	9	416,986	387,339
Trade and other receivables	10	495,814	493,250
Amounts due from related parties	12	1,016	819
Cash and cash equivalents	11	81,286	53,645
Total current assets		995,102	935,053
Total assets		3,481,376	3,333,328
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	1,750,000	1,750,000
Statutory reserve	15	85,448	80,848
Capital reserve	16	3,783	3,783
Other reserves	16	(6,596)	(4,029)
Accumulated losses		(39,468)	(37,127)
Total equity		1,793,167	1,793,475
Non-current liabilities			
Lease liabilities	13, 20	149,992	-
Provision for employees' end of service benefit	17	44,544	37,967
Borrowings	18	4,522	6,167
Loan from a related party	12	-	18,368
Total non-current liabilities		199,058	62,502
Current liabilities			
Borrowings	18	938,844	842,107
Trade and other payables	19	508,679	597,733
Amounts due to a related party	12	561	805
Loan from a related party	12	36,730	36,706
Lease liabilities	13, 20	4,337	-
Total current liabilities		1,489,151	1,477,351
Total liabilities		1,688,209	1,539,853
Total equity and liabilities		3,481,376	3,333,328

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Company as of 31st December 2019, and for the periods presented in the report.

Jamal Salem Al Dhaheri
Chairman

Abdellatif Sfaxi
Chief Executive Officer

Faizal Amod
Chief Financial Officer

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

Consolidated statement of profit or loss for the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Revenue	21	902,436	967,634
Direct costs	22	(699,401)	(750,178)
Gross profit		203,035	217,456
Selling and distribution expenses	23	(25,826)	(25,290)
General and administrative expenses	24	(88,974)	(90,894)
Other income	26	28,852	22,399
Share of gain/(loss) of associates	8	3,702	(4,793)
Impairment losses	27	(17,389)	(12,802)
Finance income	25	56	13
Finance cost	25	(57,447)	(52,629)
Profit for the year		46,009	53,460
Basic and diluted earnings per share	31	0.026	0.031

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 AED'000	2018 AED'000
Profit for the year		**46,009**	53,460
Other comprehensive income			
Items that will not be reclassified subsequent to profit or loss:			
Re-measurement of provision for employees' end of service benefit	**17**	**(2,567)**	16,429
Total comprehensive income for the year		**43,442**	69,889

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

Consolidated statement of changes in equity
for the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Other reserve AED'000	Accumulated losses AED'000	Total equity AED'000
As at 1 January 2018	1,750,000	75,502	3,783	(20,458)	(85,241)	1,723,586
Re-measurement of provision for employees' end of service benefit	-	-	-	16,429	-	16,429
Profit for the year	-	-	-	-	53,460	53,460
Transfer to statutory reserve	-	5,346	-	-	(5,346)	-
As at 31 December 2018	1,750,000	80,848	3,783	(4,029)	(37,127)	1,793,475
Profit for the year	-	-	-	-	46,009	46,009
Transfer to statutory reserve	-	4,600	-	-	(4,600)	-
Dividend paid (note 32)	-	-	-	-	(43,750)	(43,750)
Re-measurement of provision for employees' end of service benefit	-	-	-	(2,567)	-	(2,567)
As at 31 December 2019	**1,750,000**	**85,448**	**3,783**	**(6,596)**	**(39,468)**	**1,793,167**

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

Consolidated statement of cash flows
for the year ended 31 December 2019

	2019 AED'000	2018 AED'000
Cash flows from operating activities		
Profit for the year	**46,009**	53,460
Adjustments for:		
Depreciation of property, plant and equipment	**72,665**	75,827
Amortisation of other intangible assets	**8,461**	8,461
Amortisation of right-of-use assets	**8,483**	-
Gain on disposal of property, plant and equipment	**(48)**	(66)
Impairment loss on financial assets	**17,071**	12,802
Employees' end of service benefit charge	**6,643**	3,821
Share of (profit)/loss of associates	**(3,702)**	4,793
Finance income	**(56)**	(13)
Finance cost	**57,447**	52,629
Reversal of provision of inventory obsolescence	**(1,156)**	(1,450)
Impairment loss on inventories	**318**	-
Operating cash flows before movements in working capital	**212,135**	210,264
Increase in inventories	**(28,809)**	(37,840)
Increase in trade and other receivables	**(19,635)**	(22,122)
(Decrease)/increase in trade and other payables	**(85,046)**	75,873
(Increase)/decrease in amounts due from related parties	**(197)**	142
Decrease in amounts due to a related party	**(244)**	(14,646)
Cash generated from operations	**78,204**	211,671
Employees' end of service benefit paid	**(2,633)**	(2,193)
Net cash from operating activities	**75,571**	209,478
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	**(16,820)**	(32,039)
Proceeds on disposal of property, plant and equipment	**148**	66
Interest received	**56**	13
Dividends received from associates	**7,200**	3,200
Net cash used in investing activities	**(9,416)**	(28,760)
Cash flows from financing activities		
Repayment of borrowings	**(174,908)**	(209,843)
Proceeds from borrowings	**270,000**	105,062
Repayment of loan from a related party	**(18,344)**	(36,738)
Dividend paid	**(43,750)**	-
Interest paid	**(47,007)**	(52,630)
Principal repayment of lease liabilities	**(14,065)**	-
Interest paid on lease liabilities	**(10,440)**	-
Net cash used in financing activities	**(38,514)**	(194,149)
Net increase/(decrease) in cash and cash equivalents	**27,641**	(13,431)
Cash and cash equivalents at beginning of year	**53,645**	67,076
Cash and cash equivalents at end of year (note 11)	**81,286**	53,645

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

Notes to the consolidated financial statements
for the year ended 31 December 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 consolidated financial statements include the performance and financial position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Group		Principal activity
		2019	2018	
Emirates Blocks Factory	UAE	100%	100%	Production and sale of cement blocks.
Emirates Cement Factory[1]	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.

[1] Operations of Emirates Cement Factory were discontinued in December 2016 and currently Emirates Cement Factory does not have any operations (note 26).

The Group did not purchase or invest in shares during the financial year ended 31 December 2019.

2 Adoption of new and revised Standards

2.1 New and amended IFRS Standards that are effective for the current year

In the current year, the Group, for the first time, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). 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".

2 Adoption of new and revised Standards (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. The impact of the adoption of IFRS 16 on the Group's financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

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 recognised lease liabilities as of 1 January 2019.

Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

Impact on Lessee Accounting (continued)

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within direct costs and selling and administrative expenses in the statement of profit or loss.

Former finance leases
The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's financial statements.

Financial impact of initial application of IFRS 16

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the year 31 December 2019

Impact on profit or loss

	2019 AED'000
Increase in depreciation and amortisation expense	8,483
Increase in finance costs	10,440
Decrease in direct costs	(14,836)
	4,087

Impact on statement of cash flows

	2019 AED'000
Amortisation of right-of-use assets	8,483
Finance cost	10,440
Net cash flows from operating activities	**18,923**

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

Financial impact of initial application of IFRS 16 (continued)

Impact on statement of cash flows (continued)

	2019 AED'000
Payment of principal portion of lease liabilities	(14,065)
Payment of principal portion of finance lease liabilities	(10,440)
Net cash flows from financing activities	**(24,505)**

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 recognised lease liabilities as of 1 January 2019:

	AED' 000
Operating lease commitments as of 31 December 2018	-
Add: operating lease commitments in existence not disclosed in the prior year	344,520
Less: effect of discounting using the lessee's incremental borrowing rate at the date of initial application	(170,570)
Less: short term leases recognised on a straight line basis as expense	(4,585)
Lease liability recognised as at 1 January 2019	**169,365**
Of which are:	
Current lease liabilities	20,109
Non-current lease liabilities	149,256
	169,365

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.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.1 New and amended IFRS Standards that are effective for the current year (continued)

Financial impact of initial application of IFRS 16 (continued)

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

	31 December 2019 AED'000	1 January 2019 AED'000
Land and building	**152,780**	135,140
Plant and equipment	**1,283**	29,079
Vehicles	**1,840**	1,119
Total right-of-use assets	**155,903**	165,338

Group as a lessee

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortisation expense and in interest expense.

Impact on segment disclosures:

Segment assets and segment liabilities 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 1 January 2019 AED'000**	**Segment liabilities 1 January 2019 AED'000**
Cement	**128,465**	**126,142**
Blocks	**26,668**	**27,396**
GRP Pipes	**770**	**791**
Total	**155,903**	**154,329**

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.2 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements. The application of these revised IFRSs did not have any material impact on the amounts reported for the current period and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*	1 January 2019
The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.	
The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.	
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures.	1 January 2019
These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	
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*	1 January 2019
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.*	1 January 2019

The *Annual Improvements* include amendments to four Standards.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.2. New and amended IFRS applied with no material effect on the financial statements (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IAS 12 *Income Taxes*	1 January 2019
The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.	
IAS 23 *Borrowing costs*	1 January 2019
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	
IFRS 3 *Business Combinations*	1 January 2019
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.	
IFRS 11 *Joint Arrangements*	1 January 2019
The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.	
Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*	1 January 2019
The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.	

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.2. New and amended IFRS applied with no material effect on the financial statements (continued)

<u>New and revised IFRSs</u>	**Effective for annual periods <u>beginning on or after</u>**
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	

2.3 New and revised IFRSs in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	**Effective for annual periods <u>beginning on or after</u>**
Definition of Material - Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	1 January 2020
The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	
Definition of a Business – Amendments to IFRS 3 *Business Combinations*	1 January 2020
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

2 Adoption of new and revised Standards (continued)

2.3 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to *References to the Conceptual Framework in IFRS Standards*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards related 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.	
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments	1 January 2020
Amendments regarding pre-replacement issues in the context of the IBOR reform.	
IFRS 17 *Insurance Contracts*	1 January 2022
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at 1 January 2022.	
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.	Effective date deferred indefinitely. Adoption is still permitted.

Management do not expect the adoption of the standards listed above to have a material impact on the consolidated financial statements of the Group in future periods.

3 Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and applicable provisions of UAE Federal Law No. (2) of 2015.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for provision for employees' end of service benefits which are measured on an actuarial basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As at 31 December 2019, the Group had net current liabilities of AED 494,049 thousand primarily due to classification of the term loan facility as current, following non-compliance of a financial covenant of the facility (note 18). Management has received a conditional waiver related to the term loan facility and is currently assessing the terms. Management does not expect any changes to the original repayment terms. The Company's business plan for 2020 has been approved by the Board of Directors, who are satisfied that the Group will continue to operate as a going concern. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Fair value is the price that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of a financial asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 input are quoted price (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted by the Group are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and the entities controlled by the Group (its subsidiary). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3 Summary of significant accounting policies (continued)

Subsidiaries

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Business combination

Business combinations falling within the scope of IFRS 3 are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in consolidated statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed an asset or liability will be recognised in accordance with IFRS 9 either in consolidated statement of profit or loss or as a charge to consolidated statement of other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

3 Summary of significant accounting policies (continued)

Business combination (continued)

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognised as of that date.

The measurement period ends as soon as the Group receives the necessary information about the facts and circumstances that existed as of the acquisition date or learns that the information is not obtainable. However, the measurement period cannot exceed one year from the acquisition date.

Revenue recognition

For contracts determined to be within the scope of revenue recognition, the Group is required to apply a five-step model to determine when to recognise revenue, and at what amount. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it ransfers control of a product or service to a customer.

The Group recognises revenue from contracts with customers based on the five step model set out in IFRS 15:

Step 1: Identify the contract(s) with a customer
A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify the performance obligations in the contract
A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price
The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Step 4: Allocate the transaction price to the performance obligations in the contract
For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

The Group primarily generates revenue from simply structured sales of building materials, such as cement, blocks, cement bags and pipes, for which the control passes to the customer at a specific point in time. Revenue is recorded net of value added tax (VAT).

Based on IFRS 15, management concluded that, it would be more appropriate to reflect transportation services as principal rather than agent, impacting revenue, direct costs and other income. Accordingly, for revenue contracts where the control of the goods transfers to customer on receipt by the customer (e.g. FOB destination), the Group considers to be the principal in the transportation service.

Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss in the period in which they are incurred.

3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated so as to write off the cost of fixed assets over their estimated useful lives using the straight line method on the following basis:

	Years
Buildings	4 - 40
Plant and equipment	2 - 20
Furniture and fixtures	4
Motor vehicles	4 - 7

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

Leases *(applicable from 1 January 2019)*

The Group as lessee

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

3 Summary of significant accounting policies (continued)

Leases (continued)

Leases (*applicable from 1 January 2019*) (continued)

The Group as lessee (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

Leases (continued)

Leases under IAS 17 (*applicable before January 1, 2019*)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the asset including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment or intangible asset category and is depreciated or amortised in accordance with the Group's policies.

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

3 Summary of significant accounting policies (continued)

Investment in associates (continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of. When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

3 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

3 Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Net realisable value represents the estimated selling price, less the estimated cost of completion and costs to be incurred in marketing, selling and distribution.

Work in progress mainly pertain to clinker which a semi-finished goods as of the reporting.

Provision for employees' end of service benefit

End of service benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases.

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

(a) Bonus and long-term incentive plans

The Group recognises the liability for bonuses and long-term incentives in profit and loss on an accrued basis. The benefits for the management are subject to board's approval and are linked to business performance.

(b) Defined contribution plan

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

3 Summary of significant accounting policies (continued)

Provision for employees' end of service benefit (continued)

(c) Defined benefit plan

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

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

Foreign currencies

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

Initial recognition

On initial recognition, a financial asset is classified as measured at: amortised cost or fair value through profit or loss ("FVTPL").

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss account:

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

Financial assets at FVTPL
On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

Business model assessment
The Group entities make an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the frequency, volume and timing of trades of financial assets in prior periods, the reasons for such trades and its expectations about the future trading activity. However, information about trading activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised;
- how the performance of the portfolio is evaluated and reported to the management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows, nor held both to collect contractual cash flows and to sell financial assets.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

Initial recognition (continued)

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the outstanding principal.

In assessing whether the contractual cash flows are solely payments of principal and interest on the outstanding principal, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial liabilities
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Financial liabilities, at initial recognition, may be designated at FVTPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in consolidated statement of profit or loss.

Subsequent measurement and gain or losses

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

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

***Subsequent measurement and gain or losses* (continued)**

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated statement of profit or loss.

Financial liabilities at FVTPL
These liabilities are subsequently measured at fair value and net gains or losses are recognised in the consolidated income statement.

Financial liabilities at amortised cost
Mainly includes borrowings and trade and other payables. After initial recognition, the aforementioned liabilities are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Reclassification

Financial assets
The Group reclassifies financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Group's operations and demonstrable to external parties.

Financial liabilities
The Group determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not permitted.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of profit or loss.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

Financial liabilities
If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of profit or loss.

Derecognition

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but assumes an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Any interest in transferred financial assets that qualify for derecogniton that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Measured at amortised cost
Any gain or loss on derecognition of financial assets measured at amortised cost is recognised in the consolidated statement of profit or loss.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit losses' ('ECL') model. Assessing how changes in economic factors affect ECL requires considerable judgement. ECL are determined on a probability-weighted basis.

The Group recognises loss allowances for ECLs on the following instruments that are not measured at FVTPL:

- financial assets measured that are debt instruments carried at amortised cost or FVOCI; and
- financial guarantee contracts issued.

The Group measures loss allowances either using a general or simplified approach as considered appropriate.

Under the general approach, loss allowances are measured at an amount equal to 12-month expected credit loss except when there has been a significant increase in credit risk since inception. In such cases, the Group measures loss allowances at an amount equal to lifetime expected credit loss.

Under the simplified approach, loss allowances are always measured at an amount equal to lifetime expected credit loss.

Lifetime ECL: These losses are the ECL that result from all possible default events over the expected life of a financial instrument, if there is significant increase in credit risk or under simplified approach.

12-month ECL: These losses are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired: as the difference between the gross carrying amount and the present value of estimated future cash flows.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Measurement of ECL (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Reversals of impairment
If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated statement or profit or loss.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4 Critical accounting judgments and key sources of estimation uncertainty

While applying the accounting policies as stated in note 3, management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The critical accounting judgment and significant estimates made by management are summarised below.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

Impairment of goodwill

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

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

The key assumptions used are detailed in note 6 of these consolidated financial statements. A change in the key assumptions and forecasts might result in an impairment of goodwill and other assets (if the impairment amount exceeds the value of goodwill).

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

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

Provision for rehabilitation and restoration of cement quarry

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

Impairment of investments in associates

Management regularly reviews its investments in associates for indicators of impairment. This determination of whether investments in associates are impaired entails Management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. Any adverse changes in the investees future profitability, liquidity, solvency and ability to generate future cash flows could lead to an impairment of investments in associates. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in consolidated profit or loss. Management is satisfied that no impairment provision is necessary on its investments in associates (2018: AED Nil).

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impaired inventory. Management performed a review of the spare parts and consumables which involved a line by line physical inspection of each inventory item to assess obsolescence and usability. The allowance for obsolete inventories at 31 December 2019 is AED 54.9 million (2018: AED 55.8 million).

Determining lease liability

The determination of the lease liability on initial adoption of IFRS 16 requires management's judgement to estimate the incremental borrowing rate. Judgment is required to determine an appropriate IBR as certain leases are beyond the current borrowing facilities of the Group. A change to the incremental borrowing rate would lead to higher/lower lease liability/right of use assets.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

5 Property, plant and equipment

	Land and buildings AED'000	Plant and equipment AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
1 January 2018	780,617	2,604,284	84,880	28,984	3,160	3,501,925
Additions	911	11,380	4,876	234	14,638	32,039
Capitalized	-	-	1,438	-	(1,438)	-
Disposals	-	-	-	(674)	-	(674)
1 January 2019	781,528	2,615,664	91,194	28,544	16,360	3,533,290
Additions	208	12,684	751	-	3,177	16,820
Disposals	-	(381)	-	-	-	(381)
31 December 2019	**781,736**	**2,627,967**	**91,945**	**28,544**	**19,537**	**3,549,729**
Accumulated depreciation						
1 January 2018	333,771	1,065,075	57,157	26,227	664	1,482,894
Charge for the year	11,790	54,317	8,272	1,448	-	75,827
Disposals	-	-	-	(674)	-	(674)
1 January 2019	345,561	1,119,392	65,429	27,001	664	1,558,047
Charge for the year	11,749	57,368	2,880	668	-	72,665
Disposals	-	(281)	-	-	-	(281)
31 December 2019	**357,310**	**1,176,479**	**68,309**	**27,669**	**664**	**1,630,431**
Carrying amount						
31 December 2019	**424,426**	**1,451,488**	**23,636**	**875**	**18,873**	**1,919,298**
31 December 2018	435,967	1,496,272	25,765	1,543	15,696	1,975,243

At 31 December 2019, properties with a carrying amount of AED 1,523 million (2018: AED 1,647 million) are held to secure bank loans (note 18).

Plant and equipment include an amount of AED 25.17 million (2018: AED 25.12 million) pertaining to spares parts. The depreciation charge has been allocated in profit or loss as follows:

	2019 AED'000	2018 AED'000
Direct costs (notes 22 & 33)	**66,159**	67,334
Selling and distribution expenses (notes 23 & 33)	**1,099**	1639
General and administrative expenses (notes 24 & 33)	**5,407**	6,854
	72,665	75,827

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

5 Property, plant and equipment (continued)

Capital work in progress

At 31 December 2019, capital work in progress amounting to AED 16.2 million (2018: AED 15.7 million) relates to a clinker storage shed currently being constructed at Al Ain Cement Factory.

6 Goodwill

The aggregate carrying amount of goodwill allocated for impairment testing to each cash-generating unit is as follows:

	2019	2018
	AED'000	AED'000
Cement	**114,380**	114,380
Blocks	**14,050**	14,050
	128,430	128,430

Goodwill is stated at cost less any accumulated impairment losses if any, which are charged to profit or loss. An impairment test for goodwill is carried out annually or more frequently if events or changes in the circumstances indicate that the carrying value may be impaired.

During the year, the Group assessed the recoverable amount of goodwill in accordance with its strategic business structure, and determined that the goodwill is not impaired. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units where the goodwill is monitored for internal management purposes. The recoverable amounts of Cement and Blocks cash generating units were based on their value-in-use determined by management. The carrying amounts of both units were determined to be lower than their recoverable amounts.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Directors of the Company covering a five-year period. Cash flows were projected based on past experience and the five year forecasted business plan based on the following key assumptions:

	2019	2018
	%	%
Discount rate	**6.4**	7.3
Terminal growth rate	**1.5**	3.0

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

6 Goodwill (continued)

The cash flows beyond that five-year period have been extrapolated using a steady 1.5% per annum growth rate which is the projected long-term average growth rate for the UAE economy. The cash flows assume no material change to the operations of the cash-generating units. The Directors of the Group believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

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

Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. Management believe that any reasonably possible change in the key assumptions on which the recoverable amount of 'Cement' and 'Blocks' is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

A 15% underperformance against budgeted EBITDA would reduce the headroom in 'Cement' and 'Blocks' but would not result in an impairment charge. Similarly, an increase in the discount rate by 2% would reduce the headroom in 'Cement' and 'Blocks' but would not result in an impairment charge.

7 Other intangible assets

	2019	2018
	AED'000	AED'000
Cost		
As at 1 January	**213,024**	213,024
As at 31 December	**213,024**	213,024
Accumulated amortisation		
As at 1 January	**110,787**	102,326
Amortisation	**8,461**	8,461
As at 31 December	**119,248**	110,787
Carrying amount	**93,776**	102,237

As part of the Purchase Price Allocation (PPA) exercise relating to the acquisition of the Cement Blocks Factories in 2006, an intangible asset of AED 211.5 million was recorded representing the right of use of certain assets. The asset is being ammortised over a period of 30 years.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

8 Investment in associates

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Principal activities	Proportion of ownership interest and voting rights held by the Group		Place of incorporation and principal place of business
		2019	2018	
Vision Hotel Apartment LLC	Ownership and management of hotel apartments	**40%**	40%	UAE
Deco Vision LLC	Property fit outs, decorations, ownership and management of apartments	**40%**	40%	UAE
Vision Furniture and Decoration Factory LLC	Carpentry of household, decoration, loose furniture and other woodwork	**40%**	40%	UAE
Deco Vision Properties LLC	Real estate enterprises investment	**40%**	40%	UAE
Vision Links Hotel Apartments LLC	Deluxe hotel apartments	**40%**	40%	UAE

All of the above associates are accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies in note 3.

The movement in the investment in associates is as follows:

	2019 AED'000	2018 AED'000
As at 1 January	**192,365**	209,036
Impact of change in accounting policy due to application of IFRS 9	**-**	(8,678)
Share of profit/(loss) of associates	**3,702**	(4,793)
Dividends received during the year	**(7,200)**	(3,200)
As at 31 December	**188,867**	192,365

Dividends received from associates above represent the actual amounts attributable and hence received by the Group. The other summary information that precedes the reconciliation to the Group's carrying amount represents amounts included in the IFRS financial statements of the associates, not the entity's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

8 Investment in associates (continued)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts in associates' draft financial statements prepared in accordance with IFRS Standards:

	Deco Vision LLC		Vision Furniture and Decoration Factory LLC		Vision Hotel Apartments		Others		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Total assets	**228,207**	227,180	**60,313**	66,526	**17,326**	15,396	**3,585**	3,585	**302,261**	305,517
Total liabilities	**97,757**	89,690	**27,053**	31,783	**5,311**	3,174	**14,133**	14,133	**144,254**	138,780
Net assets	**130,450**	137,490	**33,260**	34,743	**12,015**	12,222	**(10,548)**	(10,548)	**158,007**	166,737
Group's share of net assets	**52,196**	54,996	**13,304**	13,897	**4,806**	4,889	-	-	**70,306**	73,782
Goodwill on acquisition	**79,883**	79,883	**9,857**	9,857	**28,821**	28,821	-	-	**118,561**	118,561
Carrying amount	**132,079**	134,879	**23,161**	23,754	**33,627**	33,710	-	-	**188,867**	192,343
Revenue	**143,786**	150,952	**58,382**	67,314	**7,801**	7,725	-	836	**209,969**	226,827
Profit/(loss) for the year	**2,960**	(20,445)	**6,516**	9,155	**(219)**	(692)	-	-	**9,258**	(11,982)
Group's share on profit for the year at 40%	**1,184**	(8,178)	**2,606**	3,662	**(88)**	(277)	-	-	**3,702**	(4,793)

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

8 Investment in associates (continued)

	2019 AED'000	2018 AED'000
Unrecognised share of losses of an associate		
The unrecognised share of loss of an associate for the year	-	991
Cumulative share of loss of an associate	**6,133**	6,133

The Group has discontinued recognising share of losses from its associates Deco Vision Properties LLC and Vision Links Hotel Apartments L.L.C. as the Group does not have any legal or constructive obligation to fund further losses.

9 Inventories

	2019 AED'000	2018 AED'000
Raw materials	**115,927**	140,644
Work in progress	**171,208**	113,875
Finished goods	**45,778**	52,115
Goods in transit	**58**	58
Spare parts and consumable materials	**138,936**	136,406
	471,907	443,098
Less: Allowance for impairment of inventories	**(54,921)**	(55,759)
	416,986	387,339

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

	2019 AED'000	2018 AED'000
As at 1 January	**55,759**	57,209
Reversal for the year	**(1,156)**	(1,450)
Impairment during the year	**318**	-
As at 31 December	**54,921**	55,759

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

10 Trade and other receivables

	2019 AED'000	2018 AED'000
Trade receivables	**566,416**	552,778
Less: Loss allowance	**(101,560)**	(84,489)
	464,856	468,289
Prepayments	**29,297**	20,444
Advances to suppliers	**1,497**	3,292
Other receivables	**164**	1,225
	495,814	493,250

The average credit period on sale of goods or services rendered is up to 365 days depending on the business segment, security provided and the credit standing of the customer. No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The Group has adopted a policy of dealing only with creditworthy counterparties. Adequate credit assessment is made before accepting an order for services or sale of goods from any counterparty. As of the reporting date, an amount of AED 27.2 million representing 4.8% of the trade receivables (2018: AED 29.8 million representing 5% of the trade receivables) is due from one customer (2018: one customer). The Group considers this customer to be reputable and creditworthy. There are no other customers who represent more than 5% of the total balance of the receivables.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished between the Group's different customer base.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

10 Trade and other receivables (continued)

Cement and blocks

31 December 2019

	Trade receivables - days past due							
	Not past due AED'000	< 30 AED'000	31 - 60 AED'000	61 -90 AED'000	91-120 AED'000	120 - 365 AED'000	> 365 AED'000	Total AED'000
Weighted average loss rates	0.92%	3.39%	4.43%	7.23%	10.41%	30.09%	100%	
Exposure at default	105,138	26,190	12,333	9,376	4,775	31,117	64,108	253,037
Lifetime ECL	967	888	546	678	497	9,363	64,108	77,047

Expected credit loss rates are based on actual credit loss experience over the past three years.

Pipe and bags

31 December 2019

	Trade receivables - days past due							
	Not past due AED'000	< 30 AED'000	31 - 60 AED'000	61 -90 AED'000	91-120 AED'000	120 - 365 AED'000	> 365 AED'000	Total AED'000
Weighted average loss rates	1.27%	3.73%	4.35%	5.30%	7.01%	17.02%	100%	
Exposure at default	32,451	7,572	3,232	3,116	3,160	9,371	21,696	80,598
Lifetime ECL	412	282	141	165	222	1,595	21,696	24,513

Expected credit loss rates are based on actual credit loss experience over the past two years.

The following table shows the movement in loss allowance:

	2019 AED'000	2018 AED'000
Balance as at 1 January	84,489	71,687
Net remeasurement of loss allowance	17,071	12,802
Balance as at 31 December	101,560	84,489

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

11 Cash and cash equivalents

	2019 AED'000	2018 AED'000
Cash in hand	**98**	100
Cash at banks in current accounts	**81,188**	53,545
	81,286	53,645

12 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.

The Government of Abu Dhabi, indirectly owns 51% of the Company's outstanding shares. The Company's significant transactions with the Government of Abu Dhabi and other entities controlled, jointly controlled or significantly influenced by the Government of Abu Dhabi are a large portion of its direct cost, lease rental payments and interest payments on certain loans.

The Group also has, at 31 December 2019, loans and cash balances with banks under the common control of the Government of Abu Dhabi, lease liabilities with and payables to Government municipalities and payables to a distribution company owned by the Government of Abu Dhabi.

Balances with these related parties generally arise from commercial transactions in the normal course of business on arm's length basis. Balances with related parties reflected in the consolidated statement of financial position at the reporting date comprised:

	2019 AED'000	2018 AED'000
Amounts due from related parties		
Emirates Steel Industries PJSC – sister company	**983**	786
Others	**33**	33
	1,016	819
Amounts due to a related party		
General Holding Corporation PJSC (SENAAT)	**561**	805

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Related parties (continued)

	2019` AED'000	2018 AED'000
Loan from a related party – the Parent Company*		
Non-current	-	18,368
Current	**36,730**	36,706
	36,730	55,074

* During 2011, the Group obtained a loan of USD 40 million (AED 146.9 million equivalent) from SENAAT with interest at prevailing market rates. The Group renegotiated the terms of the loan with the parent company on 30 November 2016. The original maturity of the loan was a bullet payment on 31 December 2016. The restructured loan is payable over 4 years semi-annually commencing from December 2016 and carries interest at prevailing market rates. The loan will be fully repaid by June 2020.

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

	2019 AED'000	2018 AED'000
Interest on loan from the Parent Company	**2,122**	3,545
Sales to a related party – Emirates Steel Industries PJSC	**3,172**	3,443
Purchases from a related party – Emirates Steel Industries PJSC	**362**	-
Key management personnel compensation		
Short term benefits	**8,390**	8,262
Post-employment benefits	**677**	673
	9,067	8,935
Financial guarantees provided to associates (note 28)	**104,568**	94,739

Terms and conditions of transactions with related parties

The sales to and services from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free except for loan from a related party and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which related party operates.

There were no loans provided to directors for the year ended 31 December 2019 and 2018.

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

13 Leases

Group as a Lessee

The Group leases several assets including land, equipment and motor vehicles. The lease term of the assets are as follows:

	Years
Land	15 - 30
Equipment	2 - 3
Motor vehicles	2 - 3

Amounts recognised in statement of financial position

The Group's obligations are secured by the lessor's title to the leased assets for such leases.

	Land	Equipment	Motor vehicles	Total right-of-use assets	Total lease liabilities
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
As at 1 January 1	158,822	2,452	4,064	165,338	169,364
Additions	-	-	92	92	92
Disposals	-	(493)	(552)	(1,044)	(1,062)
Amortisation expense	(6,042)	(676)	(1,764)	(8,483)	-
Interest expense	-	-	-	-	10,440
Payments	-	-	-	-	(24,505)
As at 31 December	**152,780**	**1,283**	**1,840**	**155,903**	**154,329**

Amounts recognised in profit and loss

	2019	2018
	AED'000	AED'000
Amortisation	**(8,483)**	-
Finance costs (notes 20 and 25)	**(10,440)**	-
	(18,923)	

As at 1 January 2019, the Group is committed to AED 4.6 million (2018: AED Nil) for short-term leases.

14 Share capital

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

The share capital includes 892.5 million shares at a par value of AED 1 each, which had been issued for in-kind consideration.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

15 Statutory reserve

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

16 Reserves

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

Other reserves
Other reserve represents cumulative gain or loss recorded due to re-measurement of provision for employees' end of service benefit resulting from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred).

17 Provision for employees' end of service benefit

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

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

	2019 AED'000	2018 AED'000
Amounts recognised in consolidated statement of financial position		
Balance at 1 January	**37,967**	52,768
Current service cost (including interest cost)	**6,643**	3,821
Benefit payments	**(2,633)**	(2,193)
Loss/(gain) on re-measurement	**2,567**	(16,429)
Balance at 31 December	**44,544**	37,967
Amounts recognised in consolidated statement of profit or loss		
Current service cost	**5,129**	3,821
Interest expense	**1,514**	-
	6,643	3,821
Amounts recognised in consolidated statement of comprehensive income		
Loss/(gain) due to experience adjustments	**2,567**	(16,429)

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

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

Significant actuarial assumptions	**2019**	2018
Discount rate	**3.1%**	4.1%
Rate of salary increase	**5%**	5%
Turnover rate – voluntary rate	**5%**	5%

Sensitivity analysis:	**Increase AED'000**	**Decrease AED'000**
2019		
Provision - discount rate (0.5% movement)	**46,943**	**42,495**
Provision - future salary (0.5% movement)	**42,522**	**46,889**
2018		
Provision - discount rate (0.5% movement)	39,996	36,098
Provision - future salary (0.5% movement)	36,105	39,968

18 Borrowings

Bank borrowings are repayable as follows:

	2019 AED'000	2018 AED'000
Non-current		
After one year	**4,522**	6,167
Current		
Within one year	**938,844**	842,107
	943,366	848,274

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

18 Borrowings (continued)

The details of the bank borrowings are stated as follows:

		31 December 2019			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**	**4,522**	**6,166**	1,644	6,167	7,811
Short term loan 1	**2020**	**90,000**	**-**	**90,000**	15,000	-	15,000
Short term loan 2	**2020**	**90,000**	**-**	**90,000**	10,063	-	10,063
Short term loan 3	**2020**	**90,000**	**-**	**90,000**	15,000	-	15,000
		938,844	**4,522**	**943,366**	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 31 December 2019, the Group was in non-compliance of one of the covenants of Term loan 1, 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, the 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 and management do not expect any changes to the original payments terms. In addition, the Group was also in default as at 31 December 2018 however payments in 2019 were made in accordance with the original repayment terms.

Term loan 2 of AED 14.80 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. The loan carries variable interest at EIBOR plus a margin.

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

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

18 Borrowings (continued)

Changes from financing cash flows related to borrowings

	31 December 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Balance at the beginning of the year	**848,274**	953,055
Settlement of term loans	**(134,845)**	(134,844)
Settlement of short term loans	**(40,063)**	(74,999)
Proceeds from short term loans	**270,000**	105,062
Interest paid	**(47,007)**	(52,630)
Total changes from financing cash flows	**48,085**	(157,411)
Other changes / liability related		
Interest expense	**57,447**	52,630
Changes in accruals	**(10,440)**	-
Total liability related to other changes	**47,007**	52,630
Balance at the end of the year	**943,366**	848,274

19 Trade and other payables

	2019 AED'000	2018 AED'000
Trade payables	**414,329**	498,307
Accruals	**56,556**	66,039
VAT payable	**1,298**	2,077
Interest payable	**3,267**	2,073
Other payables	**33,229**	29,237
	508,679	**597,733**

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

Trade payables includes an amount payable to Al Ain City Municipality of AED 22.9 million (2018: 28.7 million) and AED 275.7 million (2018: AED 348.0 million) to ADNOC.

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

20 Lease liabilities

	2019 AED'000	2018 AED'000
As at 1 January	**169,365**	-
Additions during the year	**92**	-
Disposals during the year	**(1,063)**	-
Accretion of interest during the year (notes 13 and 25)	**10,440**	-
Payments during the year	**(24,505)**	-
As at 31 December	**154,329**	-

	2019 AED'000	2018 AED'000
Maturity analysis		-
Not later than 1 year	**4,337**	-
Later than 1 year and not later than 5 years	**20,532**	-
Later than 5 years	**129,460**	-
	154,329	-

The Group does not face a significant liquidity risk with regard to its liabilities. Lease liabilities are monitored within the Group's treasury function.

21 Revenue

The Group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the following product lines. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 *Operating Segments* (Note 29).

	2019 AED'000	2018 AED'000
Disaggregation of revenue		
Cement	**511,937**	565,806
Blocks	**197,443**	184,051
GRP pipes	**45,590**	61,616
PVC pipes	**73,149**	75,143
Bags	**15,035**	22,613
Transportation revenue	**59,282**	58,405
	902,436	967,634

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

22 Direct costs*

	2019 AED'000	2018 AED'000
Raw materials consumed	**309,251**	336,270
Fuel and electricity	**181,099**	151,324
Salaries and benefits	**65,296**	64,481
Depreciation of property, plant and equipment	**66,159**	67,334
Transportation charges	**58,532**	61,000
Other expenses	**19,064**	69,769
	699,401	750,178

23 Selling and distribution expenses*

	2019 AED'000	2018 AED'000
Salaries and related expenses	**21,447**	19,682
Depreciation of property, plant and equipment	**1,099**	1,639
Other expenses	**3,280**	3,969
	25,826	25,290

24 General and administrative expenses*

	2019 AED'000	2018 AED'000
Salaries and related expenses	**61,986**	62,851
Depreciation of property, plant and equipment	**5,407**	6,854
Amortisation of other intangible assets	**8,461**	8,461
Other expenses	**13,120**	12,728
	88,974	90,894

Refer to note 33 for reclassification of certain comparative figures.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

25 Finance income and cost

	2019 AED'000	2018 AED'000
Finance income		
Interest income on bank deposits	**56**	13
Finance cost		
Interest on borrowings	**(47,007)**	(52,629)
Interest accreted on lease liabilities (notes 13 and 20)	**(10,440)**	-
	(57,447)	(52,629)

26 Other income

	2019 AED'000	2018 AED'000
Sale of scrap assets of Emirates Cement Factory*	**10,267**	21,900
Proceed from ECF insurance claim	**18,345**	-
Others	**240**	499
	28,852	22,399

*In December 2016, the Group had discontinued operations of its Emirates Cement Factory ("ECF"). In 2018, via a tender process, management shortlisted a buyer for scrap assets of ECP with a total value of AED 50 million (including VAT). The Group received AED 32.1 million (excluding VAT) from the buyer as of the reporting date and has provided access to the buyer to scrap assets corresponding to the amount received from the buyer. Accordingly, the amount received from the buyer was recorded as other income since the Group has satisfied its performance obligation related to the amount received. The Group will provide access to the buyer for remaining scrap items once the remaining amount is collected from the buyer.

27 Impairment losses

	2019 AED'000	2018 AED'000
Impairment loss on inventories (note 9)	**318**	-
Loss allowance on trade receivables (note 10)	**17,071**	12,802
	17,389	12,802

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

28 Contingent liabilities and commitments

	2019 AED'000	2018 AED'000
Bank guarantees and letters of credit	**8,531**	34,906
Capital commitments	**13,306**	4,640
Financial guarantees provided to associates	**104,568**	94,739

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

29 Segment reporting

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

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

- Cement segment, which includes production and sale of cement;
- Blocks segment, which includes production and distribution of blocks;
- Glass Reinforced Polyester ("GRP") Pipes; and Pipes segments, which include the production and sale of Poly-Vinyl Chloride ("PVC") 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 consolidated financial statements
for the year ended 31 December 2019 (continued)

29 Segment reporting (continued)

For the year ended 31 December 2019	Cement AED'000	Blocks AED'000	GRP Pipes AED'000	PVC Pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	543,472	222,369	46,989	74,571	15,035	-	-	902,436
Intersegment revenue	29,083	-	-	-	5,431	-	(34,514)	-
Timing of revenue recognition								
At a point in time	543,472	222,369	46,989	74,571	15,035	-	-	902,436
Over time	-	-	-	-	-	-	-	-
Interest expense	55,137	1,612	-	-	-	698	-	57,447
Depreciation and amortization	57,695	17,685	5,895	1,927	223	6,184	-	89,609
Impairment losses	7,336	9,016	627	208	202	-	-	17,389
Share of profit of equity accounted investees	-	-	-	-	-	3,702	-	3,702
Profit/(loss) for the year	72,913	7,545	2,376	4,163	(1,960)	(39,028)	-	46,009
Total assets	4,326,414	424,310	91,215	151,589	42,084	1,520,352	(3,074,588)	3,481,376
Total liabilities	1,654,705	240,358	19,955	30,297	74,472	2,710,832	(3,042,410)	1,688,209

**Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)**

29 Segment reporting (continued)

For the year ended 31 December 2018	Cement AED'000	Blocks AED'000	GRP Pipes AED'000	PVC Pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	596,872	211,390	61,616	75,143	22,613	-	-	967,634
Intersegment revenue	31,774	-	-	-	11,215	-	(42,989)	-
Timing of revenue recognition								
At a point in time	596,872	211,390	61,616	75,143	22,613	-	-	967,634
Over time	-	-	-	-	-	-	-	-
Interest expense	52,165	-	-	-	-	464	-	52,629
Depreciation and amortization	56,161	13,686	5,557	1,961	223	6,700	-	84,288
Impairment losses	-	-	-	-	-	-	-	-
Share of loss of equity accounted investees	-	-	-	-	-	(4,793)	-	(4,793)
Profit/(loss) for the year	69,235	13,766	10,661	3,329	3,727	(47,258)	-	53,460
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 consolidated financial statements
for the year ended 31 December 2019 (continued)

30 Financial instruments

Capital risk management

The Group manages its capital to be able to continue as a going concern while maximising the return to Shareholders. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Group's overall strategy remains unchanged from the prior year.

Financial risk management objectives

The Group is exposed to the following risks related to financial instruments - credit risk, liquidity risk, foreign currency risk and price risk. The Group has not framed formal risk management policies, however, the risks are monitored by management on a continual basis. The Group does not enter into or trade in financial instruments, investment in securities, including derivative financial instruments, for speculative or risk management purposes.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are trade and other receivables and bank and cash balances (liquid assets).

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its trade customers

Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the central bank. Trade receivables are secured by bank guarantees and letter of credits totaling AED 189 million (2018: AED 168.38 million) and post-dated cheques of AED 222 million (2018: AED 199 million). Balances with banks are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

30 Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. The table below summarises the maturity profile of the Group's non-derivative financial liabilities. The contractual maturities of the financial liabilities have been determined on the basis of the remaining period at the end of reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the non-derivative financial liabilities at the end of reporting period based on contractual repayment arrangements are as follows:

	Less than 1 year AED'000	1 – 5 Years AED'000	More then 5 years AED'000	Total AED'000
2019				
Non-interest bearing	**509,240**	-	-	**509,240**
Variable interest rate instruments*	**975,574**	**4,522**	-	**980,096**
	1,484,814	**4,522**	-	**1,489,336**
2018				
Non-interest bearing	598,538	-	-	598,538
Variable interest rate instruments	897,181	6,167	-	903,348
	1,495,719	6,167	-	1,501,886

* The lenders did not request accelerated repayment of the facility as of the signing date and management do not expect any changes to the original payments terms. Accordingly, an amount of AED 133.2 million is expected to be repaid within 1 year.

Foreign currency risk

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

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

30 Financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its bank borrowings that carry both fixed and floating interest rates which are detailed in note 17.

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would decrease/increase by AED 9.4 million thousand (2018: decrease/increase by AED 9.80 million).

Fair value of financial instruments

The Group's management considers that the carrying amount of financial assets and financial liabilities approximates their fair value.

31 Basic and diluted earnings per share

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

	2019	2018
Profit attributable to equity holders of the parent (AED'000)	**46,009**	53,460
Weighted average number of shares in issue (thousands of shares)	**1,750,000**	1,750,000
Earnings per share (AED)	**0.026**	0.031

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

32 Dividends

The Board resolved, on 12 March 2019, to declare a dividend of AED 43.75 million. The amount was fully paid on 18 April 2019.

33 Comparative figures

Depreciation charge for the prior year has been reclassified between direct costs, selling and distribution expenses and general and administrative expenses to conform to current period presentation. The reclassification had no impact on the overall result for the prior year, and as such, a statement of financial positon as at the beginning of earliest comparative period has not been presented.

	As Previously reported AED	Reclassification AED	As reclassified AED
Statement of profit and loss and other comprehensive income for the year ended 31 December 2018			
Direct costs	755,229	(5,051)	750,178
Selling and distribution expenses	25,646	(356)	25,290
General and administrative expenses	85,487	5,407	90,894

34 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 February 2020.

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ARKAN

Management discussion and analysis report of the board of directors of Arkan Building Materials PJSC for the period ending 31st December 2019.

Overview of the main results during the financial period	Arkan's revenue for the year 2019 was AED 902.44 million, compared to AED 967.63 million for the year 2018, as a result of intense competition leading to downward pressure on selling prices. The Company's profit for the year 2019 reached AED 46.01 million compared to AED 53.46 million for the year 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 successfully enrolled in the 'Electricity Tariff Incentive Programme', which recognizes the economic contribution towards the Emirate of Abu Dhabi and supports the growth of the industrial sector.
Securities issued during the financial period	No securities were issued during the year 2019
Summary of the most important non-financial events and developments during the financial period	N/A
Summary of operational performance during the financial period	Arkan's revenue for the year 2019 was AED 902.44 million, compared to AED 967.63 million for the year 2018, below are the operational performance for each sector: *Cement Operations:* Revenue from Arkan's Cement segment was AED 543.47 million for the year 2019, compared to AED 596.87 million for the year 2018. *Concrete Blocks and Dry Mortar:* Revenue from Arkan's Blocks segment reached to AED 222.37 million for the year 2019, compared to AED 211.39 million for the year 2018. *GRP Pipes:* Revenue from Arkan's GRP Pipes segment reached AED 46.99 million for the year 2019, compared to AED 61.62 million for the year 2018. *PVC Pipes:* Arkan's PVC Pipes segment sales revenue was AED 74.57 million for the year 2019, compared to AED 75.14 million for the year 2018. *Bags:* Arkan's Bags segment sales revenue was AED 15.04 million for the year 2019, compared to AED 22.61 million for the year 2018.
Summary of profit and loss during the financial period	The Company's net profit for the year 2019 reached AED 46.01 million compared to AED 53.46 million for the year 2018.
Summary of financial position as at the end of the financial period	The total assets of the Company equaled AED 3.481 billion at the end of December 2019 (31 December 2018: AED 3.333 billion). The value of shareholders' equity remained at AED

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	1.793 billion as of 31 December 2019 after the payment of a dividend of AED 43.75 million
Summary of cash flows during the financial period	Net cash generated from operating activities was 75,571 and cash and cash equivalents amounted to AED 81.29 million on 31 December 2019 compared to AED 53.65 million on 31 December 2018.
Main performance indicators	Revenue: AED 902.43 million. Gross Profit: AED 203.035 million. Net profit: AED 46.01 million.
Expectations regarding the economy and its impact on the company and the sector	The IMF expects the UAE economy to expand at 2.5% in 2020 which will enhance the construction market growth.
Expectations for the sector and the company's role in these expectations	➢ Meed and Venture databases show expected construction market growth in UAE to be at 5% p.a. for the next 3-4 years. ➢ Arkan will maintain its market share.
Future plans for the growth and changes in operations in future periods	Product range to be enhanced in several Business Units by adding specialty production lines.
The size and impact of current and projected capital expenditures on the company	Total planned expansion initiatives in the range of AED 80 million in addition to AED 25 million of assets' replacement.
The developments of the implementation of projects, plans and transactions and deals that were discussed by the company's board of directors in the report for the previous fiscal year	N/A

Chairman or Authorized Signatory:

Mabkhoot Taleb Al Menhali – BoD Member

Date: 25th February 2020

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