ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and condensed consolidated interim financial statements for the three-month period ended 31 March 2023

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Board of Directors' report to the shareholders for the three-month period ended 31 March 2023

On behalf of Arkan Building Materials Company (Arkan) PJSC's Board of Directors ("Arkan" or the "Group"), I am pleased to present the Board of Directors' report for the three-month period ended 31 March 2023, together with the reviewed condensed consolidated interim financial statements for the period.

Change of Company name

The change of the name of the Company to EMSTEEL Building Materials Company PJSC ("EMSTEEL") was approved at the General Meeting of Shareholders held on 10 April 2023. The change of the legal name of the Company to EMSTEEL better reflects the nature of our expanded business following the integration of Emirates Steel Industries PJSC ("Emirates Steel") into the Group on 6 October 2021. The use of the new name will be adopted once the associated legal formalities have been finalised.

Strategic combination with Emirates Steel Industries PJSC

Emirates Steel is a leading integrated steel manufacturer in the Middle East. The combination of the Company's building materials businesses and Emirates Steel (the "Group") has created the UAE's largest steel and building materials company with a compelling strategic proposition and strong potential for growth in the UAE and internationally. The transaction provided significant revenue diversification for the Group and marked the first time that investors had access to a steel producer on a UAE public market.

The Group is well placed to scale and grow, create new business opportunities and ensure that homegrown manufacturers are at the forefront of driving a sustainable, diversified national economy.

Financial performance in the three months ended 31 March 2023

The Group's revenue in the first three months of 2023 was AED 2,405.5 million compared to AED 2,040.5 million in the same period in 2022. The Group's net profit for the period was AED 152.2 million, compared to a net profit of AED 72.6 million in the first three months of 2022.

The enhancement in profitability reflects the anticipated profit performance as envisaged at the time of the business combination with Emirates Steel. The Steel Division contributed a profit of AED 137.5 million and the three-month period witnessed a continuing recovery in the underlying performance of the Group's traditional business units, which collectively generated a profit of AED 14.7 million.

Review of operations

Emirates Steel

Revenue from Emirates Steel totalled AED 2,141.0 million for the first three months of 2023 from AED 1,814.4 million in the equivalent period in 2022. Profit from the Steel Division for the first three months of 2023 was AED 137.5 million as compared to a net profit of AED 61.1 million for the same period in 2022. The enhanced levels of profitability were associated with enhanced margins being realised as supported by a continuing increase in the manufacture and sale of higher value added products, from both the division's domestic and export sales; being bolstered by an upturn in construction activities in the UAE and the broader GCC.

Cement, Blocks and Head Office

Revenue from the Cement and Blocks division was AED 211.2 million for the first three months of 2023, compared to AED 183.2 million in the equivalent period in 2022. Profit from this segment for the first three months of 2023 was AED 10.6 million as compared to a profit of AED 9.3 million for the same period in 2022. The enhanced levels of both sales and profitability reflect the continued recovery in the performance of the Al Ain Cement plant, as initially witnessed in the prior year, as a result of increased prices and margins, married with a return to profitability of the downstream Blocks division.

Board of Directors' report to the shareholders
for the three-month period ended 31 March 2023 (continued)

Review of operations (continued)

Other

The Company's other businesses comprise the manufacture and distribution of PVC pipes, GRP pipes and bags. Collectively these businesses reported revenues of AED 53.3 million for the first three months of 2023, compared with AED 42.9 million in the equivalent period in 2022. The businesses generated a profit of AED 4.1 million for the first three months of the year, against a profit of AED 2.2 million in the equivalent period in 2022. The enhanced performance levels of these divisions reflect enhanced levels of demand, in particular for the GRP pipes division which has returned a profit in the quarter after a challenging year in 2022.

Liquidity

The Group's cash and bank balances were AED 680.9 million as of 31 March 2023 (31 December 2022: AED 357.0 million) and total bank borrowings AED 1,644.4 million (31 December 2022: AED 1,451.0 million) giving a reduction in the Group's gearing level to 12.2% at 31 March 2023 as against 14.2% at 31 December 2022.

Investments

The share of profit from associates for the first three months of 2023 was AED 2.2 million compared to loss of AED 0.02 million in the same period in 2022. The Group received dividends from the investments totalling AED 10.0 million in the period (2022: nil).

Total assets and shareholders' equity

The total assets of the Group equaled AED 11.68 billion at 31 March 2023 (31 December 2022: AED 11.47 billion). The value of shareholders' equity was at AED 7.88 billion as of 31 March 2023 compared to AED 7.73 billion as of 31 December 2022.

On behalf of the Board of Directors

Hamad A. Al Hammadi
Chairman
9 May 2023

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arkan Building Materials Company (Arkan) PJSC (the "Company") and its subsidiaries (together referred to as the "Group") as at 31 March 2023 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended. Management of the Group is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34, "*Interim Financial Reporting (IAS 34)*". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
9 May 2022
Abu Dhabi
United Arab Emirates

Condensed consolidated statement of financial position as at 31 March 2023

	Notes	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,793,591	6,903,559
Right-of-use assets	13	373,904	381,279
Investment in associates	6	79,763	87,539
Investment property	7	13,087	13,264
Intangible assets	8	6,404	5,901
Total non-current assets		7,266,749	7,391,542
Current assets			
Inventories	9	1,967,275	2,066,613
Trade and other receivables	10	1,765,106	1,656,171
Cash and bank balances	11	680,893	357,042
Total current assets		4,413,274	4,079,826
Total assets		11,680,023	11,471,368
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		6,850,000	6,850,000
Statutory reserve		136,469	136,469
Merger reserve		1,092,817	1,092,817
Capital reserve		3,783	3,783
Other reserves		45,760	45,760
Accumulated losses		(248,278)	(400,456)
Net equity		7,880,551	7,728,373
Non-current liabilities			
Lease liabilities	13	463,082	461,215
Provision for employees' end of service benefits		191,123	189,143
Bank borrowings	14	68,067	134,934
Total non-current liabilities		722,272	785,292
Current liabilities			
Bank borrowings	14	1,576,370	1,316,102
Trade and other payables	15	1,468,351	1,609,619
Loan from a related party	12	18,361	18,361
Lease liabilities	13	14,118	13,621
Total current liabilities		3,077,200	2,957,703
Total liabilities		3,799,472	3,742,995
Total equity and liabilities		11,680,023	11,471,368

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 Group as of 31 March 2023, and for the periods presented in the report.

Hamad A. Al Hammadi	**Saeed G. Al Remeithi**	**Stephen J. Pope**
Chairman	Director and Chief Executive Officer	Chief Financial Officer

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

Condensed consolidated statement of profit or loss for the three-month period ended 31 March 2023

	Notes	Three-month period ended 31 March	
		2023	2022
		AED'000	AED'000
		(unaudited)	(unaudited)
Revenue		**2,405,550**	2,040,517
Direct costs		**(2,139,471)**	(1,867,750)
Gross profit		**266,079**	172,767
Selling and distribution expenses		**(13,942)**	(12,238)
General and administrative expenses		**(77,894)**	(77,788)
Other income	**18**	**2,603**	4,823
Share of profit/(loss) from associates	**6**	**2,224**	(17)
Finance costs		**(28,770)**	(15,055)
Finance income		**1,878**	93
Profit for the period		**152,178**	72,585
Basic and diluted earnings per share	**19**	**0.022**	0.011

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

Condensed consolidated statement of comprehensive income
for the three-month period ended 31 March 2023

	Three-month period ended 31 March	
	2023	2022
	AED'000	AED'000
	(unaudited)	(unaudited)
Profit for the period	**152,178**	72,585
Other comprehensive income	-	-
Total comprehensive income for the period	**152,178**	72,585

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

Condensed consolidated statement of changes in equity for the three-month period ended 31 March 2023

	Share capital AED'000	Statutory reserve AED'000	Merger reserve AED'000	Capital reserve AED'000	Other reserves AED'000	Accumulated losses AED'000	Total equity AED'000
As at 1 January 2022 (audited)	6,850,000	85,448	1,092,817	3,783	(2,297)	(850,642)	7,179,109
Total comprehensive income for the period	-	-	-	-	-	72,585	72,585
As at 31 March 2022 (unaudited)	**6,850,000**	**85,448**	**1,092,817**	**3,783**	**(2,297)**	**(778,057)**	**7,251,694**
As at 1 January 2023 (audited)	6,850,000	136,469	1,092,817	3,783	45,760	(400,456)	7,728,373
Total comprehensive income for the period	-	-	-	-	-	152,178	152,178
As at 31 March 2023 (unaudited)	**6,850,000**	**136,469**	**1,092,817**	**3,783**	**45,760**	**(248,278)**	**7,880,551**

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

Condensed consolidated statement of cash flows
for the three-month period ended 31 March 2023

	Notes	Three-month period ended 31 March 2023 AED'000 (unaudited)	31 March 2022 AED'000 (unaudited)
Cash flows from operating activities			
Profit for the period		**152,178**	72,585
Adjustments for:			
Depreciation of property, plant and equipment	**5**	**132,729**	131,730
Depreciation of right-of-use assets	**13**	**7,375**	7,075
Amortisation of intangible assets	**8**	**669**	1,122
Depreciation of investment property	**7**	**177**	177
Impairment charge on financial assets	**10**	**4,681**	1,569
Reversal of allowance for slow moving inventories, net	**9**	**(3,165)**	(10,955)
Provision for employees' end of service benefits charge		**4,479**	5,694
Share of (profit)/loss from associates	**6**	**(2,224)**	17
Finance costs		**28,770**	15,055
Finance income		**(1,878)**	(93)
Operating cash flows before movements in working capital		**323,791**	223,976
Movements in working capital:			
Decrease in inventories	**9**	**102,503**	226,770
(Increase)/decrease in trade and other receivables	**10**	**(113,616)**	195,123
Increase in amounts due from related parties		**-**	(336)
Decrease in trade and other payables	**15**	**(149,077)**	(112,182)
Cash generated from operations		**163,601**	533,351
End of service benefits paid		**(2,499)**	(2,513)
Net cash generated from operating activities		**161,102**	530,838
Cash flows from investing activities			
Acquisition of property, plant and equipment	**5**	**(22,761)**	(77,754)
Acquisition of intangible assets	**8**	**(1,172)**	(2,079)
Term deposits with maturities exceeding three months		**-**	(110,175)
Finance income received		**1,878**	93
Dividends received from associates	**6**	**10,000**	-
Net cash used in investing activities		**(12,055)**	(189,915)
Cash flows from financing activities			
Proceeds from new borrowings	**14**	**1,093,223**	1,086,231
Repayment of borrowings	**14**	**(899,822)**	(1,449,331)
Finance costs paid	**14**	**(16,040)**	(10,024)
Principal repayment of lease liabilities	**13**	**(1,166)**	(17,128)
Interest paid on lease liabilities	**13**	**(1,391)**	(5,031)
Net cash generated from/(used in) financing activities		**174,804**	(395,283)
Net increase/(decrease) in cash and cash equivalents		**323,851**	(54,360)
Cash and cash equivalents at the beginning of the period	**11**	**357,042**	335,588
Cash and cash equivalents at the end of the period	**11**	**680,893**	**281,228**

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

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023

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.

The name of the Company was approved to be changed to EMSTEEL Building Materials Company PJSC during the General Meeting of Shareholders held on 10 April 2023. The use of the new name will be adopted once the associated legal formalities have been finalised.

General Holding Corporation PJSC (SENAAT) (the "Parent Company") owned 51% of the Company's shares; this ownership interest was increased to 87.5% on 6 October 2021 as a result of the sale of SENAAT's 100% interest in the issued share capital of Emirates Steel Industries PJSC ("Emirates Steel") to the Company for the issue of 5.1 billion additional ordinary shares. The Ultimate Parent Company of Arkan is Abu Dhabi Developmental Holding Company PJSC (ADQ) which is wholly owned by the Government of Abu Dhabi.

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

These condensed consolidated interim 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**
		31 March 2023	31 December 2022	
Emirates Steel Industries PJSC[1]	UAE	100%	100%	Production and sale of long-steel products
Emirates Blocks Factory	UAE	100%	100%	Production and sale of cement blocks
Emirates Cement Factory[2]	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 Pipe Manufacturing Factories	UAE	100%	100%	Production and sale of plastic pipes and paper bags

[1] Emirates Steel Industries PJSC ("Emirates Steel") was acquired on 6 October 2021 from a related party for the issue of 5,100,000,000 ordinary shares.

[2] The operations of Emirates Cement Factory were discontinued in December 2016 and currently the Company is not operational.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

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

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these condensed consolidated interim financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

IFRS 17 - Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach.

The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9-Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

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

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial statements (continued)

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively.

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of accounting policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

Amendments to IAS 8 - Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error;
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

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

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated interim financial statements (continued)

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities;
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the` opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date not yet decided
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.	
Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.	

The above stated new standards and amendments are not expected to have any significant impact on the consolidated financial statement of the Group.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

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

2.2 New and revised IFRS in issue but not yet effective (continued)

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that would be expected to have a material impact on the consolidated financial statement of the Group.

3 Summary of significant accounting policies

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the U.A.E. They do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2022. In addition, results for the three-month period ended 31 March 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

Basis of preparation

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

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

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards and interpretations effective 1 January 2023.

4 Critical judgements and key sources of estimation uncertainty

Changes in judgements and estimation uncertainty

The critical judgements and estimates used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

5 Property, plant and equipment

During the three-month period ended 31 March 2023, the Group acquired assets with a cost of AED 22,761 thousand (31 March 2022: AED 77,754 thousand). The property, plant and equipment of Al Ain Cement Factory, with a net carrying value of AED 818 million, have been pledged against a loan received from a consortium of banks for the construction of the factory (note 14). No assets were disposed of during the period (2022: none).

The depreciation charge for the period amounted to AED 132,729 thousand (31 March 2022: AED 131,730 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	31 March 2023 AED’000 (unaudited)	31 December 2022 AED’000 (audited)
Balance at the beginning of the period/year	**87,539**	79,728
Share of profit of associates for the period/year	**2,224**	7,811
Dividends received during the period/year	**(10,000)**	-
Balance at the end of the period/year	**79,763**	87,539

7 Investment property

No acquisitions or disposals were made to the Group’s investment properties in the three-month period ended 31 March 2023 (31 March 2022: none). The depreciation charge for the period amounted to AED 177 thousand (31 March 2022: AED 177 thousand).

8 Intangible assets

During the three-month period ended 31 March 2023, the Group acquired intangible assets with a cost of AED 1,172 thousand (31 March 2022: AED 2,079). The amortisation charge for the period amounted to AED 669 thousand (31 March 2022: AED 1,122).

9 Inventories

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Finished goods and by-products	**466,006**	521,598
Semi-finished products: steel billets and direct reduced iron	**259,390**	277,104
Raw materials	**517,140**	549,295
Goods in transit	**202,104**	198,252
Spare parts and consumables	**627,595**	628,489
	2,072,235	2,174,738
Less: allowance for slow moving inventories	**(104,960)**	(108,125)
	1,967,275	2,066,613

The movement in the allowance for slow moving inventories is as follows:

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Balance at the beginning of the period/year	**108,125**	114,221
Reversal for the period/year	**(13,582)**	(16,167)
Impairment during the period/year	**10,417**	10,071
Balance at the end of the period/year	**104,960**	108,125

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

10 Trade and other receivables

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Trade receivables	**69,797**	69,797
Less: allowance for expected credit loss	**(69,797)**	(69,797)
	-	-
Current portion		
Trade receivables	**1,755,992**	1,561,820
Less: allowance for expected credit loss	**(162,744)**	(158,063)
	1,593,248	1,403,757
Prepayments	**51,274**	34,125
Advances to suppliers	**89,525**	93,047
Other receivables	**31,059**	125,242
	1,765,106	1,656,171

The following table shows the movement in allowance for expected credit loss:

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Balance as at 1 January	**227,860**	234,442
Net remeasurement of loss allowance	**4,681**	(4,639)
Bad debts written-off	**-**	(1,943)
Balance at the end of the period/year	**232,541**	227,860

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

11 Cash and bank balances

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Cash in hand	**481**	191
Cash at banks in current accounts	**680,412**	356,851
Cash and bank balances	**680,893**	357,042

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 (IAS 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 87.5% (31 December 2022: 87.5%) of the Company's outstanding shares. The Group has elected to use the exemption under IAS 24 for government related entities on disclosing transactions and related outstanding balances with government related entities owned by the Government of Abu Dhabi other than the Parent Company and entities it owns and controls. The Group'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 March 2023, 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.

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Loan from a related party - the Parent Company		
General Holding Corporation PJSC (SENAAT)	**18,361**	18,361

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

12 Related parties (continued)

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

	Three-month period ended 31 March	
	2023 AED'000 (unaudited)	2022 AED'000 (unaudited)
Interest on loan from the Parent Company	**312**	106
Purchases from related parties		
- Agthia PJSC, sister concern	**615**	87
Key management compensation		
- Short term benefits	**8,620**	3,524
- Post-employment benefits	**346**	306
	8,966	3,830

13 Leases

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

Right-of-use assets

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
As at 1 January	**381,279**	450,944
Disposals/remeasurement	**-**	(4,555)
Depreciation expense	**(7,375)**	(30,135)
Impairment	-	(38,429)
Impairment release	-	3,454
	373,904	381,279

The right-of use assets of Al Ain Cement Factory, with a net carrying value of AED 70 million, have been pledged against a loan received from a consortium of banks for the construction of the factory (note 14).

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

13 Leases (continued)

Lease liabilities

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
As at 1 January	**474,836**	510,831
Disposals/ re-measurement during the period/ year	**-**	(4,545)
Accretion of interest during the period/year	**4,921**	20,251
Payments during the period/year	**(2,557)**	(51,701)
	477,200	474,836
Current		
Within one year	**14,118**	13,621
Non-current		
After one year	**463,082**	461,215

14 Bank borrowings

Bank borrowings are contractually repayable as follows:

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Non-current		
After one year	**68,067**	134,934
Current		
Within one year	**1,576,370**	1,316,102

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

14 Bank borrowings (continued)

The details of the bank borrowings are stated as follows:

		Outstanding at 31 March 2023			Outstanding at 31 December 2022		
	Maturity	**Current AED'000 (unaudited)**	**Non-current AED'000 (unaudited)**	**Total AED'000 (unaudited)**	Current AED'000 (audited)	Non-current AED'000 (audited)	Total AED'000 (audited)
Arkan							
Term loan 1	**2024**	**133,734**	**68,067**	**201,801**	133,734	134,934	268,668
Short term loan 1	**2023**	**80,000**	-	**80,000**	95,000	-	95,000
Short term loan 2	**2023**	-	-	-	68,500	-	68,500
Short term loan 3	**2023**	**63,230**	-	**63,230**	52,400	-	52,400
Short term loan 4	**2023**	-	-	-	10,000	-	10,000
Emirates Steel							
Working capital facilities	**2023**	**1,299,406**	-	**1,299,406**	956,468	-	956,468
		1,576,370	**68,067**	**1,644,437**	1,316,102	134,934	1,451,036

Arkan Building Materials Company (Arkan) PJSC

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 2.6%. The term loan is secured by assets with a carrying amount of AED 888 million (2022: AED 939 million) (note 5 and note 13). Subsequent to 2020 year end, the Group entered into an agreement with its Term loan 1 lenders for a repayment holiday up to 17 December 2022. On the expiry of this moratorium period, AED 266.7 million was repaid to the lenders on 17 December 2022 and all subsequent repayments will be paid on their respective due-dates.

Short term loan 1 with facility amount of AED 150 million was obtained from an Islamic bank for financing the working capital of the Group. The loan is repayable in 180 days and carries variable interest at three-month EIBOR plus 1.5%.

Short term loan 2 of AED 150 million was obtained from Islamic bank for financing the working capital of the Company. The loan is repayable in 180 days and carries variable interest at EIBOR plus 1.5%.

Short term loan 3 with facility amount of AED 100 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 180 days carries variable interest at EIBOR plus 1.5%.

Short term loan 4 with facility amount of AED 50 million was obtained from a commercial bank for financing the working capital of the Group. The loan is repayable in 90 days carries variable interest at EIBOR plus 1.5%.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

14 Bank borrowings (continued)

Emirates Steel Industries PJSC

Working capital balances relate to facilities extended by two local banks to finance the purchases of certain raw materials and spare parts. These facilities mature within one year and carry effective interest rates of 0.60-0.65% over LIBOR. These short-term loans are revolving loans facilities.

Changes from financing cash flows related to borrowings

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Balance at the beginning of the period/year	**1,451,036**	2,623,448
Settlement of term loans	**(66,867)**	(453,169)
Settlement of short-term loans	**(832,955)**	(5,048,473)
Proceeds from short term loans	**1,093,223**	4,329,230
Interest paid	**(16,040)**	(58,091)
Total changes from financing cash flows	**177,361**	(1,230,503)
Other changes/liability related		
Interest expense	**23,849**	63,922
Changes in accruals	**(7,809)**	(5,831)
Total liability related to other changes	**16,040**	58,091
Balance at the end of the period/year	**1,644,437**	1,451,036

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

15 Trade and other payables

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Trade payables	**1,163,763**	1,301,965
Accruals	**106,438**	96,997
VAT payable	**20,921**	13,740
Interest payable	**16,558**	8,749
Other payables	**160,671**	188,168
	1,468,351	1,609,619

16 Contingencies and commitments

	31 March 2023 AED'000 (unaudited)	31 December 2022 AED'000 (audited)
Bank guarantees and letters of credit	**113,806**	209,263
Capital commitments	**100,783**	31,093
Financial guarantees provided to associates	**53,400**	53,400

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

Notes to the condensed consolidated interim financial statements
for the three-month period ended 31 March 2023 (continued)

17 Segment reporting

The Group has three 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 technologies and marketing strategies. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

Previously the Group was managed under five reportable segments. Following the acquisition of Emirates Steel, however, this has been rationalized to three segments. This reflects the quantum of Emirates Steel, with a number of the smaller business units having been consolidated for management control purposes.

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

- Steel - the manufacture and distribution of long-steel products;
- Cement and Blocks - the production and sale of cement and concrete blocks;
- Other - including the production and distribution of glass reinforced polyester ("GRP") pipes; poly-vinyl chloride ("PVC") pipes; and bags.

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

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

17 Segment reporting (continued)

For the period ended 31 March 2023 (unaudited):	**Steel AED'000**	**Cement, Blocks and Head Office AED'000**	**Pipes and others AED'000**	**Eliminations AED'000**	**Group AED'000**
External revenues	**2,141,037**	**211,209**	**53,304**	-	**2,405,550**
Intersegment revenue	-	**-**	**1,183**	**(1,183)**	-
Timing of revenue recognition					
At a point in time	**2,141,037**	**211,209**	**53,304**	-	**2,405,550**
Over time	-	-	-	**-**	-
Interest expense	**18,273**	**10,412**	**85**	-	**28,770**
Depreciation and amortisation	**123,496**	**15,675**	**1,779**	-	**140,950**
Share of profit of equity accounted investees	-	**2,224**	**-**	-	**2,224**
Profit for the period	**137,544**	**10,556**	**4,078**	-	**152,178**
Total assets	**9,674,813**	**1,853,860**	**230,877**	**(79,527)**	**11,680,023**
Total liabilities	**(2,925,966)**	**(788,191)**	**(164,842)**	**79,527**	**(3,799,472)**

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

17 Segment reporting (continued)

For the period ended 31 March 2022 (unaudited):	**Steel AED'000**	**Cement, Blocks and Head Office AED'000**	**Pipes and others AED'000**	**Eliminations AED'000**	**Group AED'000**
External revenues	1,814,412	183,211	42,894	-	2,040,517
Intersegment revenue	155	507	2,308	(2,970)	-
Timing of revenue recognition					
At a point in time	1,814,412	183,211	42,894	-	2,040,517
Over time	-	-	-	-	-
Interest expense	6,501	8,310	244	-	15,055
Depreciation and amortisation	123,912	14,361	1,831	-	140,104
Share of loss of equity accounted investees	-	(17)	-	-	(17)
Profit for the period	61,075	9,322	2,188	-	72,585
For the year ended 31 December 2022 (audited):					
Total assets	9,348,845	1,893,141	236,271	(6,889)	11,471,368
Total liabilities	(2,737,542)	(836,191)	(176,151)	6,889	(3,742,995)

18 Other income

	Three-month period ended 31 March	
	2023	2022
	AED'000	AED'000
	(unaudited)	(unaudited)
Foreign exchange gains	**19**	4,580
Other	**2,584**	243
	2,603	4,823

19 Basic and diluted earnings per share

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

	Three-month period ended 31 March	
	2023	2022
	(unaudited)	(unaudited)
Profit for the period (AED'000)	**152,178**	72,585
Weighted average number of shares in issue (thousands of shares)	**6,850,000**	6,850,000
Earnings per share (AED)	**0.022**	0.011

There were no potentially dilutive securities as at 31 March 2023 or at 2022 and, accordingly, diluted earnings per share is equivalent to the basic earnings per share.

20 Seasonality of results and the Russia-Ukraine conflict

No significant income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the three-month periods ended 31 March 2023 and 2022.

The current Russia-Ukraine conflict has not had a material impact on the Group's supply chain; whilst certain volumes of iron ore feedstock have, in the past, been sourced from Russia, together with certain consumable materials, alternate lines of supply have been established to replace such materials. It is further noted that the Group has no significant customers based in the CIS region.

Whilst the crisis has impacted global commodity prices, the Group has recovered the cost increases incurred in increased sales prices.

Notes to the condensed consolidated interim financial statements for the three-month period ended 31 March 2023 (continued)

21 Corporate income tax

On 3 October 2022, the United Arab Emirates (UAE) Ministry of Finance (“MoF”) issued Federal Decree-Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law (“CT Law”) to implement a new CT regime in the UAE. The new CT regime is applicable for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate, however a rate of 0% will be applied to taxable income not exceeding AED 375,000 or to certain types of entities, as prescribed by way of a Cabinet Decision.

The Group is currently assessing the impact of these laws and regulations and will apply the requirements as further guidance is provided by the relevant tax authorities.

22 Approval of condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 9 May 2023.