GULF CEMENT COMPANY P.S.C.

Independent auditor's report and financial statements for the year ended 31 December 2018

GULF CEMENT COMPANY P.S.C.

Contents

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Gulf Cement Company P.S.C.
Ras Al Khaimah
United Arab Emirates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Gulf Cement Company P.S.C. (the "Company") - Ras Al Khaimah, United Arab Emirates**, which comprise the statement of financial position as at 31 December 2018, and the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the **Gulf Cement Company P.S.C. - Ras Al Khaimah, United Arab Emirates,** as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Cont'd...

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GULF CEMENT COMPANY P.S.C. (continued)

Key Audit Matters (Continued)

	Key Audit Matters	How our audit addressed the key audit matters
1	***Allowance for slow-moving inventories***	
	Inventories include various types of inventory which are reported at the lower of cost or net realizable value. Assessing net realizable value of inventory is an area of significant judgement, in particular with regard to the estimation of allowance for slow-moving and obsolete inventory. The management has relied upon their experience, physical verification, operational condition and understanding of the nature and use of spare parts, and has accordingly made estimations for allowance for slow moving and obsolete inventory. Since significant judgement is involved in assessing the required allowance, we have identified this as a key area of focus. Note 9 to the financial statements include disclosure and Note 4.1.6 includes Critical judgments in applying accounting policies.	Our procedures to test the management estimate of allowance for slow-moving and obsolete inventory included the following: • Held meetings with management to understand the procedures undertaken as part of the inventory review and assessment of allowance for slow moving and obsolete items. • Verified the physical existence and good condition of selected samples of the inventories. • Tested the valuation of year-end inventory, including review of judgements considered regarding obsolescence and net realizable value.
2	***Impairment of property, plant and equipment***	
	The Company has significant amounts of property, plant and equipment and during the current year the Company incurred a loss which indicates existence of certain impairment indicators. Impairment assessment involves significant estimation uncertainty, use of subjective assumptions and judgments. Since significant judgement, assumptions and estimation uncertainty is involved in assessing the impairment, we have identified this as a key audit matter. Note 5 to the financial statements include disclosure and Note 4.2.3 includes key source of estimation uncertainty.	Our procedures to test the impairment analysis prepared by the Company included the following: • Evaluated the appropriateness of assumptions and judgments including input data used to estimate the cash flow forecasts; • Assessed the appropriateness of growth rate by comparing it with previous year's actual results; • Verified the computation of Weighted Average Cost of Capital ("WACC") used in the determination of cash flow forecasts; • With the assistance of our internal valuation experts we assessed the appropriateness of WACC and terminal growth rate used in the estimation of cash flow forecasts; and • Verified whether the recoverable amount of the property, plant and equipment is higher of fair value less cost to sell or value in use (present value of future cash flows expected to be derived from the assets).

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GULF CEMENT COMPANY P.S.C. (continued)

Other information

Management is responsible for the other information. The other information comprises the Directors Report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibility of the Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GULF CEMENT COMPANY P.S.C. (continued)

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

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

b) 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 internal control.

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

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF GULF CEMENT COMPANY P.S.C. (continued)

Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Company has maintained proper books of account;

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

v) as disclosed in Note 7 to the financial statements, the Company has purchased or invested in shares during the financial year ended 31 December 2018;

vi) Note 15 to the financial statements discloses material related party transactions, and the terms under which they were conducted;

vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and

viii) Note 22 to the financial statements discloses the social contributions made during the financial year ended 31 December 2018.

Deloitte & Touche (M.E.)

Signed by:
Obada Alkowatly
Registration No. 1056
24 February 2019
Sharjah, United Arab Emirates

Statement of financial position
At 31 December 2018

	Notes	2018 AED	2017 AED
ASSETS			
Non-current assets			
Property, plant and equipment	5	815,750,345	796,330,646
Investment property	6	12,011,300	8,253,725
Trade and other receivables	8	3,167,283	4,500,000
Investments carried at fair value through other comprehensive income (FVTOCI)	7	43,078,839	39,518,251
Total non-current assets		874,007,767	848,602,622
Current assets			
Inventories	9	173,487,716	175,185,315
Trade and other receivables	8	130,107,084	151,181,354
Investments carried at fair value through profit or loss (FVTPL)	7	45,395,737	51,359,841
Bank balances and cash	10	23,053,928	78,046,829
Total current assets		372,044,465	455,773,339
Total assets		1,246,052,232	1,304,375,961
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	821,096,820	821,096,820
Treasury shares	11	(451,248)	(451,248)
Reserves	12	410,220,302	460,220,302
Cumulative change in fair value - FVTOCI	7	(169,971,238)	(172,867,317)
(Accumulated losses)/retained earnings		(18,331,315)	33,617,768
Total equity		1,042,563,321	1,141,616,325
Non-current liabilities			
Provision for employees' end of service indemnity	13	11,540,995	11,862,974
Finance lease liability	14	-	15,744,434
Total non-current liabilities		11,540,995	27,607,408
Current liabilities			
Finance lease liability	14	15,789,198	30,579,575
Trade and other payables	16	176,158,718	104,572,653
Total current liabilities		191,947,916	135,152,228
Total liabilities		203,488,911	162,759,636
Total equity and liabilities		1,246,052,232	1,304,375,961

Kayed Omar Saqr Mohamed Al Qassimi
Chairman

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

Statement of income
For the year ended 31 December 2018

	Notes	2018 AED	2017 AED
Revenue	17	475,707,250	583,203,932
Cost of sales	18	(485,797,979)	(523,456,197)
Gross (loss)/profit		(10,090,729)	59,747,735
Other operating income		4,877,826	8,789,083
Selling, general and administrative expenses		(43,859,476)	(44,176,234)
Loss allowances on trade and other receivables	8	(87,273)	-
Investment income	19	10,385,914	3,794,648
Finance cost		(1,376,644)	(2,221,695)
Other income	20	7,159,931	14,679,914
(Loss)/profit for the year		(32,990,451)	40,613,451
Basic (loss)/earnings per share	21	(0.04)	0.05

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

Statement of comprehensive income
For the year ended 31 December 2018

	2018 AED	2017 AED
(Loss)/profit for the year	**(32,990,451)**	40,613,451
Other comprehensive income/(loss) :-		
Items that will not be reclassified subsequently to profit or loss		
Increase/(decrease) in fair value of investments at FVTOCI	**2,288,930**	(631,139)
Total other comprehensive income/(loss) for the year	**2,288,930**	(631,139)
Total comprehensive (loss)/income for the year	**(30,701,521)**	39,982,312

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

GULF CEMENT COMPANY P.S.C.

Statement of changes in equity
For the year ended 31 December 2018

	Share capital AED	Treasury shares AED	Reserves AED	Cumulative change in fair value - FVTOCI AED	Retained earnings/ (accumulated losses) AED	Total AED
Balance at 31 December 2016	821,096,820	(451,248)	487,097,612	(172,922,454)	50,470,965	1,185,291,695
Profit for the year	-	-	-	-	40,613,451	40,613,451
Total other comprehensive loss for the year	-	-	-	(631,139)	-	(631,139)
Total comprehensive income for the year	-	-	-	(631,139)	40,613,451	39,982,312
Loss on disposal of equity investment at FVTOCI	-	-	-	686,276	(686,276)	-
Transfer from voluntary reserve (Note 12)	-	-	(35,000,000)	-	35,000,000	-
Board of Directors' remuneration	-	-	-	-	(1,598,000)	(1,598,000)
Dividends distribution	-	-	-	-	(82,059,682)	(82,059,682)
Transfer to reserves (Note 12)	-	-	8,122,690	-	(8,122,690)	-
Balance at 31 December 2017	821,096,820	(451,248)	460,220,302	(172,867,317)	33,617,768	1,141,616,325
Impact of adopting IFRS 9 (Note 8)	-	-	-	-	(1,403,737)	(1,403,737)
Balance at 1 January 2018	821,096,820	(451,248)	460,220,302	(172,867,317)	32,214,031	1,140,212,588
Loss for the year	-	-	-	-	(32,990,451)	(32,990,451)
Total other comprehensive income for the year	-	-	-	2,288,930	-	2,288,930
Total comprehensive loss for the year	-	-	-	2,288,930	(32,990,451)	(30,701,521)
Loss on disposal of equity investment at FVTOCI	-	-	-	607,149	(607,149)	-
Transfer from voluntary reserve (Note 12)	-	-	(50,000,000)	-	50,000,000	-
Board of Directors' remuneration	-	-	-	-	(1,300,000)	(1,300,000)
Dividends distribution (Note 23)	-	-	-	-	(65,647,746)	(65,647,746)
Balance at 31 December 2018	**821,096,820**	**(451,248)**	**410,220,302**	**(169,971,238)**	**(18,331,315)**	**1,042,563,321**

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

Statement of cash flows
For the year ended 31 December 2018

	2018 AED	2017 AED
Cash flows from operating activities		
(Loss)/profit for the year	**(32,990,451)**	40,613,451
Adjustments for:		
Depreciation of property, plant and equipment	**58,867,389**	50,505,460
Finance cost	**1,376,644**	2,221,695
Provision for employees' end of service indemnity	**901,033**	1,197,535
Allowance for doubtful debts	**87,273**	-
Fair value gain on investment property	**(3,757,575)**	-
Unrealised loss on investments at FVTPL	**3,799,301**	1,646,964
(Gain)/loss on disposal of investments at FVTPL	**(5,203,404)**	328,243
Interest and dividend income	**(5,224,236)**	(5,769,855)
Operating cash flows before changes in operating assets and liabilities	**17,855,974**	90,743,493
Decrease/(increase) in trade and other receivables	**20,915,977**	(4,431,980)
Decrease in inventories	**(67,355,145)**	(4,887,529)
Increase/(decrease) in trade and other payables	**70,649,556**	(4,915,307)
Cash generated from operations	**42,066,362**	76,508,677
Employees' end of service indemnity paid	**(1,223,012)**	(761,321)
Finance cost paid	**(1,376,644)**	(2,221,695)
Net cash generated by operating activities	**39,466,706**	73,525,661

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

Statement of cash flows
For the year ended 31 December 2018 (continued)

	2018 AED	2017 AED
Cash flows from investing activities		
Purchase of property, plant and equipment	**(9,234,344)**	(57,004,334)
Purchase of investments carried at FVTPL	**(3,020,293)**	(707,989)
Purchase of investments carried at FVTOCI	**(5,824,044)**	(3,465,625)
Proceeds on disposal of investments in securities	**14,940,886**	4,127,423
Decrease in fixed deposits with original maturities of over three months	**18,000,000**	49,000,000
Interest received	**528,194**	2,096,339
Dividends received	**4,696,042**	3,673,516
Net cash generated from/(used in) investing activities	**20,086,441**	(2,280,670)
Cash flows from financing activities		
Board of Directors remuneration paid	**(1,300,000)**	(1,598,000)
Repayment of finance lease liability	**(30,534,811)**	(29,508,420)
Dividend paid	**(64,711,237)**	(79,490,620)
Net cash used in financing activities	**(96,546,048)**	(110,597,040)
Net decrease in cash and cash equivalents	**(36,992,901)**	(39,352,049)
Cash and cash equivalents at the beginning of the year	**60,046,829**	99,398,878
Cash and cash equivalents at the end of the year (Note 10)	**23,053,928**	60,046,829

Non-cash transactions (Note 28)

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

1. General information

Gulf Cement Company P.S.C. (a Public Shareholding Company) - Ras Al Khaimah (the "Company") is incorporated as a public shareholding company by Emiri decree number 24/77 issued by His Highness, The Ruler of Ras Al Khaimah, U.A.E., in 1977. The address of the Company's registered office is P. O. Box 5295, Ras Al Khaimah, United Arab Emirates.

The principal activities of the Company are production and marketing of all types of cement.

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

2.1 New IFRS applied with material effect on the financial statements

- In 2011, the Company adopted IFRS 9 relating to the classification and measurement requirements for financial assets in advance of its effective date. During the year, the Company fully implemented IFRS 9 Financial Instruments (2014), which mainly includes implementing the impairment model under IFRS 9. The effect of change in accounting policy related to impairment is applied retrospectively with adjustments made in the opening balance of equity.

  After the adoption of 2014 final version, the Company is impacted by the new 'Expected Credit Loss' (ECL) model at the date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised.

  As permitted by transitional provisions of IFRS 9, the Company elected not to restate the comparative figures. All adjustments to at the date of transitions were recognised in opening retained earnings as at 1 January 2018. Set out below are the disclosures relating to the impact on the Company and significant accounting policies introduced on adoption of IFRS 9.

  The classification and measurement requirement of IFRS 9 (2014) does not have a material impact on the financial statements. Refer to notes 3.14 for the accounting policies regarding financial instruments including change in accounting policies for impairment model. Refer to note 3.15 for the accounting policies regarding impairment accounting under IAS 39.

  As required by IAS 8, the nature and effect of these changes are disclosed below.

Financial asset	Credit risk attributes	AED
Trade and other receivables	The Company applies the simplified approach and recognises lifetime ECL for these assets.	1,403,737
Bank balances and cash	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable financial institutions.	-
		1,403,737

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

2.1 New IFRS applied with material effect on the financial statements (continued)

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 on 1 January 2018 is disclosed below:

	IAS 39 provision AED	Remeasurement AED	IFRS 9 provision AED
Trade and other receivables	-	1,403,737	1,403,737
Bank balances and cash	-	-	-
	-	**1,403,737**	**1,403,737**

- IFRS 15 Revenue Recognition: The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition. Management has assessed that sale of goods represents a single performance obligation and accordingly, revenue is recognised for the performance obligation when control over the corresponding goods is transferred to the customer. The timing of revenue recognition of this performance obligation will be at a point in time for sale of goods when the goods are delivered to the customer. Refer note 3.3 for change in the accounting policy. However change in policy had no impact on revenue recognition for the Company.

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

The application of the following standards, has not had material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements:

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (2015).
- Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Amendment to IAS 40 Investment Property paragraph 57

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments* 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.	1 January 2019
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. 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.	1 January 2019
IFRS 17 *Insurance Contracts* 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 of 1 January 2021. The IASB board has tentatively decided to postpone the effective date of the Standard from January 1, 2021 to January 1, 2022.	1 January 2021

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

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

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 19 *Employees Benefits Plan Amendment, Curtailment or Settlement*. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).	1 January 2019
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 anticipates that these new and revised standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new and revised standards, interpretations and amendments, may have no material impact on the financial statements of the Company in the period of initial application. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards as the Company is in the process of performing a detailed review.

3. Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of financial instruments and investment property. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

3.3 Revenue recognition

3.3.1 Change in accounting policy

During the year ended 31 December 2018, the Company has adopted IFRS 15 Revenue from Contracts with Customers. As a result, the Company has changed its accounting policy for revenue recognisition as detailed below:

3. Summary of significant accounting policies (continued)

3.3 Revenue recognition (continued)

3.3.2 IFRS 15, *Revenue from contracts with customers*

IFRS 15 "Revenue from contracts with customers" outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers:

Step 1 **Identify the contract 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 each of those rights and obligations.

Step 2 **Identify the performance obligations in the contract:** A performance obligation in a contract is a promise to transfer a good or service to the customer.

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

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

Step 5 **Recognise revenue as and when the entity satisfies a performance obligation.**

The Company recognises revenue over time if any one of the following criteria is met:

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

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue is measured at the fair value of consideration received or receivable, taking into account the contractually agreed terms of payment. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent and has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognised in the financial statements to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs, if and when applicable, can be measured reliably.

3. Summary of significant accounting policies (continued)

3.3 Revenue recognition (continued)

3.3.2 IFRS 15, *Revenue from contracts with customers* (continued)

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

3.3.3 Previous accounting policy IAS 18, *Revenue*

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

3.4 Operating leases

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

3.5 Leasing

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

Assets held under finance leases are initially recognised as assets of the Company 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 liability.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

3. Summary of significant accounting policies (continued)

3.6 Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (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.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3.8 Employee benefits

Defined contribution plan

U.A.E. national employees of the Company are members of the Government-managed retirement pension and social security benefit scheme pursuant to Federal Labour Law No. 7 of 1999. The Company is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions (12.5%). The contributions are charged to profit or loss.

Annual leave

An accrual is made for the estimated liability for employees' entitlement to annual leave as a result of services rendered by eligible employees up to the end of the year.

3. Summary of significant accounting policies (continued)

3.8 Employee benefits (continued)

Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period.

The accrual relating to annual leave is disclosed as a current liability, while the provision relating to end of service indemnity is disclosed as a non-current liability.

3.9 Property, plant and equipment

Property, plant and equipment, except capital work in progress, are stated at their cost, less any subsequent accumulated depreciation and any subsequent identified impairment losses.

Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than capital work in progress, over their estimated useful lives, using the straight-line method. 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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

	Years
Building and roads	27 – 35
Plant and machinery	5 – 30
Power stations	10 – 30
Vehicles and equipment	2 – 5
IT computer & hardware	3

3.10 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the end of reporting period. Gains or losses arising from changes in the fair value of investment property are included in profit or loss.

3. Summary of significant accounting policies (continued)

3.11 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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 in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.12 Inventories

Finished products are stated at the lower of cost and net realisable value. Cost comprises raw materials, wages and industrial costs that contribute in transforming raw materials into finished products. Cost is calculated using the weighted average method.

Products in process are stated at the lower of cost and net realisable value. Cost comprises raw materials, wages and industrial costs that contribute in transforming raw materials into products in process.

Raw materials and consumable spare parts are stated at the lower of cost and replacement cost.

Inventories of bags, fuel and lubricants are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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

3.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3. Summary of significant accounting policies (continued)

3.13 Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of 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.

3.14 Financial Instruments

Classification and measurement - Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Company may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and

- the Company may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Notes to the financial statements
For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.14 Financial Instruments (continued)

Bank balances, cash, trade and other receivables

Bank balances, cash and trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short- term receivables when the recognition of interest would be immaterial.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

Equity instruments at FVTOCI

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair value of securities reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments, but reclassified to retained earnings. The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI.

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Debt instruments at amortised cost or at FVTOCI

The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

At initial recognition of a financial asset, the Company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Company has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

3. Summary of significant accounting policies (continued)

3.14 Financial Instruments (continued)

Financial assets at FVTPL

Financial assets at FVTPL are:
(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option: A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch").

Reclassifications

If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made.

Change in accounting policies

The Company has adopted IFRS 9, *Financial Instruments* which has resulted in changes in accounting policies for "financial instruments" as detailed below:

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss model (ECLs). The Company recognises loss allowances for expected credit losses on the following financial instruments that are not measured at FVTPL:

- Cash and bank balances; and
- Trade and other receivables; and

3. Summary of significant accounting policies (continued)

3.14 Financial Instruments (continued)

Impairment (continued)

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Company has elected to measure loss allowances for cash and bank balances and trade and other receivables at an amount equal to life time ECLs.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets. For debt securities at FVTOCI, the loss allowance is recognized in the OCI, instead of reducing the carrying amount of the asset.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on Company's historical experience and informed credit assessment and including forward-looking information.

For certain categories of financial asset, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment losses related to cash and bank balances, trade and other receivables and due from a related party, are presented separately in the statement of income.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

3. Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

Definition of default

The Company constitutes an event of default for internal credit risk management purposes as historical experience indicates that financial assets are generally not recoverable if the information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement of ECL

The Company employs statistical models for ECL calculations. ECLs are a probability-weighted estimate of credit losses. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from our internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. At each reporting date, the Company assesses whether financial assets carried at amortised costs and debt securities at FVTOCI are credit-impaired.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost or measured at FVTPL, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value of securities reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

3. Summary of significant accounting policies (continued)

3.14 Financial Instruments (continued)

Presentation of allowance for ECL in the financial information

Loss allowances for ECL are presented in the in the financial information as follows:

- for financial assets measured at amortised cost (loans and advances, cash and bank balances): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in revaluation reserve and recognised in other comprehensive income;

3.15 Financial instruments – Previous Accounting policies under IAS 39

3.15.1 Impairment of financial assets

Financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.15.2 Derecognition of financial assets

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

Notes to the financial statements
For the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

3.15 Financial instruments – Previous Accounting policies under IAS 39 (continued)

3.15.3 Financial liabilities and equity instruments

3.15.3.1 Classification as debt or equity

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

3.15.3.2 Equity instruments

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

3.15.3.3 Treasury shares

Treasury shares are presented in the statement of financial position as a deduction from equity, and the acquisition of treasury shares are presented in the financial statements as a change in equity. Treasury shares are not reported as an asset. Additionally, no gain or loss is recognised in the income statement on the sale, issuance or cancellation of treasury shares and consideration received is presented in the financial statements as a change in equity.

3.15.3.4 Other Financial liabilities

Trade and other payables and finance lease liability are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised by applying the effective interest rate, except for short term payables when the recognition of interest would be immaterial.

There were no changes to the classification and measurement of financial liabilities on adoption of IFRS 9.

3.15.3.5 Derecognition of financial liabilities

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

3.16 Dividend distribution

Dividend distribution to the Company's Shareholders is recognised as liability in the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described in Note 3, management has made judgements that have the most significant effect on the amounts recognised in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

4.1.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI or FVTPL. In judging whether investments in securities are as at FVTOCI or FVTPL, Management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments and accordingly management is satisfied that its investments in securities are appropriately classified.

4.1.2 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI (Solely Payments of Principal and Interest) and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised Company's cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

4.1.3 Significant increase of credit risk

ECL are measured as an allowance equal to lifetime ECL for stage 2 or stage 3 assets. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Company takes into account qualitative and quantitative reasonable and supportable forward-looking information. A significant increase in credit risk is presumed if a customer is more than 90 days past due in making a contractual payment.

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

4.1.4 Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

4.1.5 Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

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

4.1 Critical judgments in applying accounting policies (continued)

4.1.6 Allowance for slow moving inventories

Inventories are stated at the lower of cost or net realizable value. Adjustments to reduce the cost of inventory to its realizable value, if required, are made at the product level for estimated excess, obsolescence or impaired balance. Factors influence these adjustments include technological changes, physical deterioration and quality issues.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Impairment of trade receivables (Applied under IAS - 39)

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. This determination of whether these trade receivables are impaired, entails the Company evaluating, the credit and liquidity position of the customers, historical recovery rates and collateral requirements from certain customers in certain circumstances. The difference between the estimated collectible amount and the carrying amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

4.2.2 Property, plant and equipment

The cost of property, plant and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

4.2.3 Impairment of property, plant and equipment

The Company reviews its property, plant and equipment to assess, if there is an indication of impairment. In determining, whether impairment losses should be reported in profit and loss, the Company makes judgements as to whether there is any observable data indicating that there is an reduction in the carrying value of property, plant and equipment. Accordingly, an allowance for impairment is made where there is an identified loss, event or condition which, based on previous experience, is evidence of a reduction in the carrying value of property, plant and equipment.

In arriving at the "value in use" of the assets (property, plant and equipment), the Company has used projected future cash flow for a five-year period, growth rate of 3% to 6%, discount rate of 12.5%, and terminal period growth rate of 3%.

A new "boiler plant" is under construction at the reporting date (Note 5). The Company expects the "boiler plant" to be fully operational by April 2019 and does not expect any further capital expenditure before it is placed in service in a working condition. Once fully operational, the Company expects significant reduction in cost of operations on account of internal power generation facilitated by the new "boiler plant ". The Company expect reduction in cost of power by approximately AED 0.08 per unit of power consumed with a payback period of 5 years. Further the Company has planned to utilize substitutes for fuel and expects reduction in annual "fuel costs" by approximately 10%.

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

4.2 Key sources of estimation uncertainty (continued)

4.2.4 Valuation of unquoted equity instruments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arms length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for the items and with similar terms and risk characteristics; or
- Other valuation models

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Company calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

4.2.5 Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Company determined the amount within a range of reasonable fair value estimates. In making its judgment, the Company considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

GULF CEMENT COMPANY P.S.C.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

5. Property, plant and equipment

(a)	Building and roads AED	Plant and machinery AED	Power stations AED	Vehicles and equipment AED	IT Computer & Hardware AED	Capital work in progress and spares AED	Total AED
Cost							
At 31 December 2016	154,434,012	928,082,057	390,567,880	16,259,383	5,237,929	96,216,068	1,590,797,329
Additions	-	17,351,617	-	393,000	236,620	39,023,097	57,004,334
Transfers	1,024,052	8,186,953	-	-	4,592,455	(13,803,460)	-
Transfers from inventories	-	-	-	-	-	12,916,870	12,916,870
At 31 December 2017	155,458,064	953,620,627	390,567,880	16,652,383	10,067,004	134,352,575	1,660,718,533
Additions	-	6,635,206	-	-	45,918	2,553,220	9,234,344
Transfers	1,987,545	10,731,277	-	-	125,129	(12,843,951)	-
Transfers from inventories	-	63,028,271	-	-	-	6,024,473	69,052,744
At 31 December 2018	**157,445,609**	**1,034,015,381**	**390,567,880**	**16,652,383**	**10,238,051**	**130,086,317**	**1,739,005,621**
Accumulated depreciation							
At 31 December 2016	126,964,675	582,390,720	83,871,147	15,890,360	4,765,525	-	813,882,427
Charge for the year	1,830,886	36,514,045	11,251,838	227,017	681,674	-	50,505,460
At 31 December 2017	128,795,561	618,904,765	95,122,985	16,117,377	5,447,199	-	864,387,887
Charge for the year	1,914,203	44,288,349	11,251,838	182,633	1,230,366	-	58,867,389
At 31 December 2018	**130,709,764**	**663,193,114**	**106,374,823**	**16,300,010**	**6,677,565**	-	**923,255,276**
Carrying amount							
At 31 December 2018	**26,735,845**	**370,822,267**	**284,193,057**	**352,373**	**3,560,486**	**130,086,317**	**815,750,345**
At 31 December 2017	26,662,503	334,715,862	295,444,895	535,006	4,619,805	134,352,575	796,330,646

Notes to the financial statements
For the year ended 31 December 2018 (continued)

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

(b) At 31 December 2018, the cost of fully depreciated property, plant and equipment that is still in use amounted to AED 524,687,072 (2017: AED 501,513,478).

(c) Capital work-in-progress includes AED 97 million representing amounts paid towards a "boiler plant" under construction as at 31 December 2018, which will be transferred to plant and machinery when the boiler plant is ready for use. Depreciation on capital work-in-progress is not charged until such time as these assets are placed in service and transferred to the respective categories of property, plant and equipment. During the year ended 31 December 2018 AED 12,843,951 (2017: AED 13,803,460) has been transferred to property, plant and equipment.

(d) During the year ended 31 December 2018, the Company has capitalised inventories amounting to AED 69,052,744 (2017: AED 12,916,870) which mainly includes spares parts utilised (Note 28).

(e) The factory and its related buildings are constructed on plots of land leased from the Government of Ras Al Khaimah.

(f) All property, plant and equipment is located in the UAE.

(g) The useful life's of property, plant and equipment are disclosed in Note 3.9.

6. **Investment property**

	2018 AED	2017 AED
Fair value, at the beginning of the year	**8,253,725**	8,253,725
Change in fair value	**3,757,575**	-
Fair value, at the end of the year	**12,011,300**	8,253,725

Investment property represents plots of land in Ras Al Khaimah.

The fair value of the Company's investment property at 31 December 2018 has been arrived at on the basis of a valuation carried out at by independent and competent valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. There has been no change to valuation technique compared to previous years and during the year.

At 31 December 2018 and 2017 the Company's investment properties are classified as Level 3 in the fair value hierarchy and there were no transfers between Levels 1,2,3 during the year 2018 and 2017.

7. **Investments in securities**

(a) **Investments carried at fair value through other comprehensive income (FVTOCI)**

	2018 AED	2017 AED
Quoted	**40,997,579**	37,436,991
Unquoted	**2,081,260**	2,081,260
	43,078,839	39,518,251

7. Investments in securities (continued)

(a) Investments carried at fair value through other comprehensive income (FVTOCI) (continued)

	2018 AED	2017 AED
In U.A.E.	**181,250**	629,862
In other countries	**42,897,589**	38,888,389
	43,078,839	39,518,251

The cumulative change in fair value of investments carried at FVTOCI amounting to AED 169,971,238 (2017: AED 172,867,317) is shown under equity.

(b) Investments carried at fair value through profit or loss (FVTPL)

	2018 AED	2017 AED
Quoted	**45,395,737**	51,359,841
In U.A.E.	**27,461,694**	30,326,387
In other GCC countries	**17,934,043**	21,033,454
	45,395,737	51,359,841

Movements on investments in securities were as follows:

	2018 AED	2017 AED
Fair value of investments at the beginning of the year	**90,878,092**	93,438,247
Additions made during the year	**8,844,337**	4,173,614
Disposals made during the year	**(9,737,482)**	(4,455,666)
Unrealised loss on revaluation of investments carried at FVTPL	**(3,799,301)**	(1,646,964)
Increase/(decrease) in the fair value of investments carried at FVTOCI	**2,288,930**	(631,139)
Fair value of investments at the end of the year	**88,474,576**	90,878,092

8. Trade and other receivables

	2018 AED	2017 AED
Trade receivables	112,115,083	132,647,095
Other receivables	17,483,011	17,034,259
Receivable from sale of an associate	5,167,283	6,000,000
	134,765,377	155,681,354
Less: Loss allowances	(1,491,010)	-
	133,274,367	155,681,354
Receivable from sale of an associate due after one year	(3,167,283)	(4,500,000)
	130,107,084	151,181,354

The movement on allowance for doubtful debts during the period was as follows:-

	2018 AED	2017 AED
Balance at the beginning of the year	-	-
Effect of adoption of IFRS 9 charged to retained earnings as at 1 January 2018	1,403,737	-
Allowance for the year	87,273	-
Balance at the end of the year	1,491,010	-

Analysis of trade receivables are set out below:

	2018 AED	2017 AED
Secured against unconditional bank guarantees	75,913,342	92,096,724
Secured against letter of credit	16,836,550	20,800,110
Unsecured	19,365,191	19,750,261
	112,115,083	132,647,095

The average credit period on sales of goods is 140 days.

Before accepting new customers, the Company generally obtains bank guarantees or letter of credit from the potential customers. Of the trade receivable balance at 31 December 2018 AED 43 million (38%) (2017: AED 35 million (27%)) is due from the Company's largest customer. There are 4 (2017: 4 customers) other customers who represent about 48% (2017: 53%) of the total balance of trade receivables.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

8. Trade and other receivables (continued)

The Company measures the loss allowance for trade receivables at an amount equal to life time 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 Company has recognised a loss allowance of AED 1,491,010 as on 31 December 2018.

The Company 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 or when the trade receivables are over three years past due, whichever occurs earlier.

As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different customer base.

The expected credit loss rate used to compute the loss allowance for the trade receivables outstanding between 0-90 days was between 0.77% to 20.18% and outstanding more than 90 days 25.73%.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

In determining the recoverability of a trade receivable, the Company considers any significant change in the credit quality of the trade receivable from the date credit was initially granted upto the reporting date. Since the majority of trade receivables are secured against bank guarantees or letters of credit, the directors believe that the allowance for ECL at the reporting date is sufficient.

Aging of trade receivables

	2018 AED	2017 AED
0 – 90 days	**89,429,917**	120,487,966
91-180 days	**18,703,542**	5,900,497
Above 180 days	**3,981,624**	6,258,632
	112,115,083	132,647,095

9. Inventories

	2018 AED	2017 AED
Finished goods	**2,241,853**	5,033,031
Raw materials	**8,627,783**	9,429,631
Work in progress	**12,734,120**	11,032,019
Bags, fuel and lubricants	**32,668,474**	21,519,930
	56,272,230	47,014,611
Spare parts - maintenance department	**115,136,660**	121,730,799
Consumable items	**19,808,787**	24,182,335
Tools	**471,859**	459,390
	135,417,306	146,372,524
Allowance for slow-moving inventories	**(18,201,820)**	(18,201,820)
	117,215,486	128,170,704
	173,487,716	175,185,315

10. Bank balances and cash

	2018 AED	2017 AED
Cash on hand	**77,396**	52,301
Bank balances:		
Current accounts	**1,951,617**	4,664,883
Call deposits	**21,024,915**	3,819,395
Short term deposits	-	69,510,250
	22,976,532	77,994,528
Total bank balances and cash	**23,053,928**	78,046,829
Less : Fixed deposits with original maturity greater than three months	-	(18,000,000)
Cash and cash equivalents	**23,053,928**	**60,046,829**
Bank balances		
In U.A.E.	**22,114,438**	75,496,988
In other GCC countries	**862,094**	2,497,540
	22,976,532	77,994,528

11. Share capital

	2018 AED	2017 AED
Issued and fully paid:		
821,096,820 ordinary shares of AED 1 each	**821,096,820**	821,096,820

During the year ended 31 December 2016, the Company bought back 500,000 ordinary shares from the stock market for a total cash consideration of AED 451,248. These shares are held as treasury shares as at 31 December 2018 and 31 December 2017. This buyback program of up to 10% of the Company's shares was approved by the Securities and Commodities Authority and the Company's shareholders. The fair value of these securities as at 31 December 2018 is AED 375,500 (2017: AED 465,000).

12. Reserves

According to the Company's Articles of Association and the requirements of the U.A.E. Federal Law No (2) of 2015, 10% of the profit for the year is transferred to the statutory reserve and another 10% to the voluntary reserve. The transfer to statutory reserve shall be suspended when it reaches 50% of the paid-up share capital. Statutory reserve is not available for distribution except as stipulated by the Law. The transfer to voluntary reserve shall be suspended by the general assembly at the recommendation of the Board of Directors or when it reaches 20% of the Company's paid-up share capital.

	Statutory reserve AED	**Voluntary reserve AED**	**Total AED**
Balance at 31 December 2016	360,396,632	126,700,980	487,097,612
Transferred to retained earnings	-	(35,000,000)	(35,000,000)
Movement during the year 2017	4,061,345	4,061,345	8,122,690
Balance at 31 December 2017	364,457,977	95,762,325	460,220,302
Transferred to retained earnings	-	(50,000,000)	(50,000,000)
Balance at 31 December 2018	**364,457,977**	**45,762,325**	**410,220,302**

At the Annual General Meeting held on 11 April 2018, the shareholders approved the transfer of AED 50 million from voluntary reserve to retained earnings (2017: approved the transfer of AED 35 million from voluntary reserve to retained earnings).

13. Provision for employees' end of service indemnity

Movements in the net provision for employees' end of service indemnity were as follows:

	2018 AED	2017 AED
Balance, at the beginning of the year	**11,862,974**	11,426,760
Amounts charged to income during the year	**901,033**	1,197,535
Amounts paid during the year	**(1,223,012)**	(761,321)
Balance, at the end of the year	**11,540,995**	11,862,974

Notes to the financial statements
For the year ended 31 December 2018 (continued)

14. Finance lease liability

During 2012, The Company entered into a leasing arrangement with a leasing company registered in the United Arab Emirates to finance the purchase and installation of a waste heat recovery plant. The finance charges are based on 3 months LIBOR plus a margin of 2.5% per annum. The lease is repayable on quarterly installments over the term of the lease of five years, the Company has utilized AED 146,301,950 (2017: AED 146,301,950) out of available lease facility of AED 192,500,000.

The payments due under leasing arrangement are as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	31 December		**31 December**	
	2018	2017	**2018**	2017
	AED	AED	**AED**	AED
Due within one year	**16,080,843**	31,952,205	**15,789,198**	30,579,575
Due in the second through fifth year	**-**	15,976,103	**-**	15,744,434
	16,080,843	47,928,308	**15,789,198**	46,324,009
Less: Embedded future finance costs	**(291,645)**	(1,604,299)	**-**	-
	15,789,198	46,324,009	**15,789,198**	46,324,009

Included in the financial statements as:

	2018	2017
	AED	AED
Current portion of finance lease liability	**15,789,198**	30,579,575
Non-current portion of finance lease liability	**-**	15,744,434
	15,789,198	46,324,009

15. Related party transactions

Related parties include the Company's major Shareholders, directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

Compensations of Key Management Personnel and the Board of Directors

	2018 AED	2017 AED
Board of Directors' remuneration	**1,300,000**	1,598,000
Attendance expenses for Board of Directors and Committees' meetings	**697,078**	811,700
Key management staff:		
Short-term benefits	**3,544,688**	3,095,594
Long-term benefits	**632,360**	599,886

16. Trade and other payables

	2018 AED	2017 AED
Trade payables	**134,950,153**	54,421,193
Dividend payable	**28,383,894**	27,447,385
Accrued expenses	**9,425,915**	15,810,276
Other payables	**3,398,756**	6,893,799
	176,158,718	104,572,653

17. Revenue

(a) The Company's revenue comprises of:

	2018 AED	2017 AED
Local sales	**137,273,765**	168,660,932
Export sales	**338,433,485**	414,543,000
	475,707,250	583,203,932

(b) Revenue includes AED 419,877,964 which represents 88% of total revenue (2017: AED 395,564,809 which represents 68% of total revenue) from 7 (2017: 7) customers.

(c) During the last quarter of the current year 2018, due to mechanical reasons there was stoppage of production in one of the biggest capacity "kiln". This stoppage of production has resulted in lower production in the last quarter of the year 2018.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

18. Cost of sales

(a)

	2018 AED	2017 AED
Raw material used in production	**117,042,946**	142,685,838
Fuel [18 (c)]	**195,550,061**	221,972,780
Electricity [18 (b)]	**25,177,541**	15,283,570
Water	**35,019,071**	32,211,156
Payroll and related expenses	**24,920,523**	28,828,900
Spare parts consumption and consumables	**14,900,422**	14,334,382
Other direct operating expenses	**13,230,949**	17,199,316
Depreciation of property, plant and equipment	**58,867,389**	50,505,460
Total manufacturing costs	**484,708,902**	523,021,402
Decrease in inventory of finished and semi-finished goods	**1,089,077**	434,795
	485,797,979	523,456,197

(b) Electricity charges for the current year, compared to the previous year, have increased mainly due to increase in purchase of power from an external source and lower generation of internal power during the year on account of stoppage of production in one of the biggest capacity "kiln" as fully explained in Note 17.

(c) Fuel costs incurred represent consumption of coal and gas in the process of production of clinker. In the current year, fuel costs include cost of wasted material and other resources amounting to AED 26 million incurred in the self-installation of the "boiler plant" which have been expensed.

19. Investment income

	2018 AED	2017 AED
Unrealised loss on investments carried at FVTPL	**(3,799,301)**	(1,646,964)
Gain on fair valuation of investment property	**3,757,575**	-
Gain/(loss) on disposal of investments carried at FVTPL	**5,203,404**	(328,243)
Interest income	**528,194**	2,096,339
Dividend received	**4,696,042**	3,673,516
	10,385,914	3,794,648

20. Other income

	2018 AED	2017 AED
Provision no longer required	**5,970,000**	14,000,000
Miscellaneous income	**1,189,931**	679,914
	7,159,931	14,679,914

21. Basic (loss)/earnings per share

	2018	2017
(Loss)/profit for the year (in AED)	**(32,990,451)**	40,613,451
Weighted average number of shares	**820,596,820**	820,596,820
Basic (loss)/earnings per share (in AED)	**(0.04)**	0.05

The denominator for the purpose of calculating basic earnings per share has been adjusted to reflect the buyback of own shares (Note 11).

There were no potentially dilutive shares as at 31 December 2018 and 2017.

22. Social contributions

The social contributions (including donations and charity) made during the year amounting to AED 217,600 (2017: AED 235,584).

23. Dividend

At the Board meeting held on 19 February 2019, the Board of Directors proposed a cash dividend at 5% of outstanding share capital amounting to AED 41.03 million for the year ended 31 December 2018 (2018: approved cash dividends at 8% of share capital amounting to AED 65.65 million for the year 2017).

24. Commitments and contingent liabilities

	2018 AED	2017 AED
Letters of credit	**21,972,063**	1,537,598
Letters of guarantee	**200,000**	200,000

25. Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debts and equity balance.

The capital structure of the Company consists of bank balances and cash and equity, comprising issued share capital, reserves and retained earnings.

Notes to the financial statements
For the year ended 31 December 2017 (continued)

25. Capital risk management (continued)

The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associated with capital.

26. Financial instruments

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and financial liabilities are interest rate risk and equity price risk.

26.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

26.2 Categories of financial instruments

	2018 AED	2017 AED
Financial assets		
Trade and other receivables and bank balances and cash at amortized cost	**149,395,061**	222,458,380
Investments carried at FVTPL	**45,395,737**	51,359,841
Investments carried at FVTOCI	**43,078,839**	39,518,251
	237,869,637	313,336,472
Financial liabilities		
Finance lease liability	**15,789,198**	46,324,009
Other financial liabilities	**174,501,725**	102,761,776
	190,290,923	149,085,785

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded in the financial statements carried at amortized cost approximate their fair values.

26.3 Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

26. Financial instruments (continued)

26.3 Fair value measurement (continued)

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

26.3.1 Fair value of the Company's financial assets that are measured at fair value on recurring basis

Some of the Company's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

Financial assets	Fair value as at 31 December 2018 AED'000	Fair value as at 31 December 2017 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Quoted equity investments – FVTOCI	**40,998**	37,437	Level 1	Quoted bid prices in an active market.	None.	NA
Unquoted equity investments – FVTOCI	**2,081**	2,081	Level 3	Net assets valuation method.	Net assets value.	Management has used net assets valuation method, which is appropriate fair value as per management.
Quoted equity instruments – FVTPL	**45,396**	51,360	Level 1	Quoted bid prices in an active market.	None.	NA

26.3.2 Fair value hierarchy

The following table provides an analysis of financial and nonfinancial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements
For the year ended 31 December 2018 (continued)

26. Financial instruments (continued)

26.3 Fair value measurement (continued)

26.3.2 Fair value hierarchy (continued)

31 December 2018

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Investment property	-	-	12,011,300	**12,011,300**
Financial assets at FVTPL	45,395,737	-	-	**45,395,737**
FVTOCI				
Quoted equities	40,997,579	-	-	**40,997,579**
Unquoted equities	-	-	2,081,260	**2,081,260**
	86,393,316	-	**14,092,560**	**100,485,876**

31 December 2017

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Investment property	-	-	8,253,725	8,253,725
Financial assets at FVTPL	51,359,841	-	-	51,359,841
FVTOCI				
Quoted equities	37,436,991	-	-	37,436,991
Unquoted equities	-	-	2,081,260	2,081,260
	88,796,832	-	10,334,985	99,131,817

There were no transfers between levels during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table.

26.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity price risk.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

26. Financial instruments (continued)

26.5 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018	2017	**2018**	2017
	AED	AED	**AED**	AED
US Dollars	**81,006,692**	61,195,446	**12,330,990**	22,034,741
Euro	**6,239,874**	136,570	**-**	-
Kuwaiti Dinar	**-**	-	**49,141,845**	52,237,973
Japanese Yen	**107,900**	10,039	**-**	-
Others	**-**	-	**9,399,920**	9,399,920

26.6 Foreign currency sensitivity analysis

The Company is mainly exposed to United States Dollars (USD), Kuwaiti Dinar, Euro and Japanese Yen. Based on the sensitivity analysis to a 10% increase or decrease in the AED against Kuwaiti Dinar, Euro and Japanese Yen, the Company's profit for the year ended 31 December 2018 and equity as of 31 December 2018 would have increased or decreased by approximately AED 5.2 million (2017: AED 6.2 million). There is no impact on USD because of dollar peg. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

26.7 Interest rate risk management

The Company's exposure to interest rate risk is limited to call and short term deposits with banks at fixed interest rates and borrowings at floating rates of interest linked to LIBOR for some facilities and EIBOR for certain other facilities. At 31 December 2018 bank deposits carried an interest rate in the range of 1.25% to 2.5% per annum (31 December 2017: 1.25% to 3.3% per annum).

The Company's sensitivity to interest rates has not changed significantly from the prior year.

26.8 Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

26. Financial instruments (continued)

26.8 Credit risk management (continued)

The credit risk associated with the Company's trade receivables is considered limited as the Company holds receivables amounting to AED 92,749,893 (2017: AED 112,896,834) fully covered by unconditional bank guarantees and letters of credit to secure the collectability of these trade receivables. Ongoing credit evaluation is performed on the financial condition of trade receivable.

Credit risk with respect to concentration of trade receivables by geographical area is as follows:

	2018 AED	2017 AED
United Arab Emirates	**97,454,446**	122,627,501
Other Gulf Cooperation Council countries	**14,660,637**	10,019,594
	112,115,083	132,647,095

The credit risk on liquid funds is limited because the counter parties are banks registered in United Arab Emirates or other GCC Countries.

26.9 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

26. Financial instruments (continued)

26.9 Liquidity risk management (continued)

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the assets and liabilities at the reporting date based on contractual repayment arrangements was as follows:

31 December 2018

	Less than 30 days AED	30-180 days AED	181-360 days AED	After 360 days AED	Total AED
Financial assets					
Investment at FVTOCI	-	-	-	43,078,839	**43,078,839**
Trade and other receivables	91,036,659	28,300,512	3,836,679	3,167,283	**126,341,133**
Investments at FVTPL	45,395,737	-	-	-	**45,395,737**
Bank balances and cash	23,053,928	-	-	-	**23,053,928**
	159,486,324	28,300,512	3,836,679	46,246,122	**237,869,637**
Financial liabilities					
Trade and other payables	48,267,482	126,234,243	-	-	**174,501,725**
Finance lease liability	7,842,951	7,946,247	-	-	**15,789,198**
	56,110,433	134,180,490	-	-	**190,290,923**

26. Financial instruments (continued)

26.9 Liquidity risk management (continued)

31 December 2017

	Less than 30 days AED	30-180 days AED	181-360 days AED	After 360 days AED	Total AED
Financial assets					
Investment at FVTOCI	-	-	-	39,518,251	39,518,251
Trade and other receivables	127,954,583	9,597,307	2,359,661	4,500,000	144,411,551
Investments at FVTPL	51,359,841	-	-	-	51,359,841
Bank balances and cash	45,536,579	32,510,250	-	-	78,046,829
	224,851,003	42,107,557	2,359,661	44,018,251	313,336,472
Financial liabilities					
Trade and other payables	52,610,316	50,151,460	-	-	102,761,776
Finance lease liability	-	-	30,579,575	15,744,434	46,324,009
	52,610,316	50,151,460	30,579,575	15,744,434	149,085,785

26.10 Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Company's statement of income and comprehensive income would have increased/decreased by AED 4.54 million (2017: AED 5.14 million) and by AED 4.31 million (2017: AED 3.95 million) respectively.

26. Financial instruments (continued)

26.10 Equity price risk (continued)

Sensitivity analysis **(continued)**

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

26.11 Price risk

The Company has exposure to market price risk which has significant impact on it revenue, results of operations and cash flows which can vary with fluctuations in the market prices. These are affected by factors outside the Company's control, including the market forces of supply and demand and regulatory issues. The Company mitigates the price risk through entering in to long term contracts with certain customers as well as focusing on new markets for export.

27. Segment information

The Company is organised into two main segments:

Manufacturing of all types of cement and investments in marketable equity securities, deposits with banks and investment properties.

Notes to the financial statements
For the year ended 31 December 2018 (continued)

27. Segment information (continued)

	2018				2017			
	Manufacturing AED	Investments AED	Other AED	Total AED	Manufacturing AED	Investments AED	Other AED	Total AED
Segment revenue	475,707,250	-	-	475,707,250	583,203,932	-	-	583,203,932
Depreciation	(58,867,389)	-	-	(58,867,389)	(50,505,460)	-	-	(50,505,460)
Finance cost	(1,376,644)	-	-	(1,376,644)	(2,221,695)	-	-	(2,221,695)
Segment result	(43,376,365)	10,385,914	-	(32,990,451)	36,818,803	3,794,648	-	40,613,451
Segment assets	1,118,145,145	125,878,074	2,029,013	1,246,052,232	1,121,197,315	178,461,462	4,717,184	1,304,375,961
Segment liabilities	203,488,911	-	-	203,488,911	162,759,636	-	-	162,759,636

There are no transactions between the segments.

28. Non-cash transactions

	2018 AED	2017 AED
Transfer of inventories to property, plant and equipment (Note 5 (d))	**69,052,744**	12,916,870

29. Exposure to Abraaj Group

As required by the Emirates Securities and Commodities Authority, the Company's management has reviewed its accounts and concluded that the Company has no exposure to Abraaj Group.

30. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 24 February 2019.