ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Reports and condensed consolidated interim financial statements for the nine-month period ended 30 September 2022

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Board of Directors' report to the shareholders for the nine-month period ended 30 September 2022

On behalf of Arkan Building Materials Company's (Arkan) PJSC Board of Directors ("Arkan" or the "Group"), I am pleased to present the Board of Directors' report for the nine months ended 30 September 2022, together with the reviewed condensed consolidated interim financial statements for the period.

Strategic combination with Emirates Steel Industries PJSC
On 6 October 2021, Arkan completed its combination with Emirates Steel Industries PJSC ("Emirates Steel"), a leading integrated steel manufacturer in the Middle East.

The combination of Arkan and Emirates Steel (the "Combined Group") creates the UAE's largest steel and building materials company with a compelling strategic proposition and strong potential for growth in the UAE and internationally. The transaction provides significant revenue diversification for the Combined Group and marks the first time that investors have access to a steel producer on a UAE public market.

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

Financial performance in the nine months ended 30 September 2022
The results for the financial period include the results of Emirates Steel following the business combination completed on 6 October 2021; a transaction which created the UAE's largest steel and building materials group.

Arkan's revenue in the first nine months of 2022 was AED 7,122.5 million compared to AED 591.2 million in the same period in 2021. The Group's earnings before interest, tax and depreciation (EBITDA) the period was AED 863.8 million, compared to AED 61.2 million for the first nine months of 2021.

The enhancement in profitability reflects the anticipated profit performance as envisaged at the time of the business combination with Emirates Steel. Emirates Steel contributed EBITDA of AED 736.1 million and the nine-month period witnessed a recovery in the underlying performance of the Group's traditional business units, which collectively generated EBITDA of AED 127.7 million.

Review of Operations
Emirates Steel
Revenue from Emirates Steel totalled AED 6,445.2 million for the first nine months of 2022 from an unconsolidated pre-acquisition revenue of AED 5,608.7 million in the equivalent period in 2021. EBITDA from the Emirates Steel for the first nine months of 2022 was AED 736.1 million as compared to AED 306.8 million for the corresponding period in 2021. The enhanced levels of profitability were associated with increased sales prices and margins, both domestic and export; together with increased efficiency levels.

Cement and Blocks
Revenue from the Cement and Blocks division was AED 543.53 million for the first nine months of 2022, compared to AED 465.13 million in the equivalent period in 2021. EBITDA from this segment for the first nine months of 2022 was AED 120.51 million as compared to AED 77.22 million for the same period in 2021. The significant increase in profitability was primarily due to higher sales prices secured by the Cement division.

Board of Directors' report to the shareholders for the nine-month period ended 30 September 2022 (continued)

Review of Operations (continued)

Other

The Group's other businesses comprise the manufacture and distribution of PVC pipes, GRP pipes, bags and certain corporate costs. Collectively these businesses reported revenues of AED 133.86 million for the first nine months of 2022, compared with AED 126.03 million in the equivalent period in 2021. The businesses generated EBITDA of AED 7.19 million for the first nine months of the year, against negative EBITDA of AED 16.02 million in the equivalent period in 2021. Whilst the businesses secured increases in sales prices profitability was adversely impacted by low demand, particularly for the GRP division's products, whereas the PVC division performed significantly better than the equivalent period in 2021.

Liquidity

The Group's cash and bank balances were AED 641.1 million as at 30 September 2022 (31 December 2021: AED 335.6 million) and total bank borrowings amounted to AED 1,981.3 million (31 December 2021: AED 2,623.4 million) giving a reduction in the Group's gearing level to 17.7% at 30 September 2022 as against 31.9% at 31 December 2021.

Investments

The share of profit from associates for the nine months of 2022 was AED 5.3 million compared to a loss of AED 1.1 million in the same period of 2021.

Total Assets & Shareholders' Equity

The total assets of the Group equaled AED 11.82 billion as at 30 September 2022 (31 December 2021: AED 12.06 billion). The value of shareholders' equity was at AED 7.56 billion as at 30 September 2022 compared to AED 7.18 billion as at 31 December 2021.

On behalf of the Board of Directors

Hamad A. AlHammadi
Chairman
31 October 2022

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (together referred to as the "Group") as at 30 September 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management of the Group is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34, "*Interim Financial Reporting (IAS 34)*". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

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

Conclusion

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
31 October 2022
Abu Dhabi
United Arab Emirates

Akbar Ahmad (1141), Cynthia Corby (995), Georges Najem (809), Mohammad Jallad (1164), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem M. Dajani (726), Obada Alkowatly (1056), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

Condensed consolidated statement of financial position as at 30 September 2022

	Notes	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**6,962,909**	7,238,822
Goodwill		**14,050**	14,050
Right-of-use assets	13	**429,634**	450,944
Investment in associates	6	**85,002**	79,728
Investment property	7	**13,441**	13,973
Intangible assets	8	**4,753**	4,802
Total non-current assets		**7,509,789**	7,802,319
Current assets			
Inventories	9	**2,147,454**	2,288,793
Trade and other receivables	10	**1,516,873**	1,636,766
Amounts due from related parties	12	**1,532**	184
Cash and bank balances	11	**641,115**	335,588
Total current assets		**4,306,974**	4,261,331
Total assets		**11,816,763**	12,063,650
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**6,850,000**	6,850,000
Statutory reserve		**85,448**	85,448
Merger reserve		**1,092,817**	1,092,817
Capital reserve		**3,783**	3,783
Other reserves		**(2,297)**	(2,297)
Accumulated losses		**(467,488)**	(850,642)
Net equity		**7,562,263**	7,179,109
Non-current liabilities			
Lease liabilities	13	**473,350**	479,833
Provision for employees' end of service benefit		**226,383**	217,075
Bank borrowings	14	**134,934**	269,901
Total non-current liabilities		**834,667**	966,809
Current liabilities			
Bank borrowings	14	**1,846,373**	2,353,547
Trade and other payables	15	**1,534,108**	1,514,826
Loan from a related party	12	**18,361**	18,361
Lease liabilities	13	**20,991**	30,998
Total current liabilities		**3,419,833**	3,917,732
Total liabilities		**4,254,500**	4,884,541
Total equity and liabilities		**11,816,763**	12,063,650

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Group as of 30 September 2022, and for the periods presented in the report.

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

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

Condensed consolidated statement of profit or loss for the nine-month period ended 30 September 2022

	Notes	3 months ended 30 September		9 months ended 30 September	
		2022 AED'000 (unaudited)	2021 AED'000 (unaudited)	**2022 AED'000 (unaudited)**	2021 AED'000 (unaudited)
Revenue	17	**2,510,395**	173,074	**7,122,546**	591,157
Direct costs		**(2,303,723)**	(145,380)	**(6,404,621)**	(511,695)
Gross profit		**206,672**	27,694	**717,925**	79,462
Selling and distribution expenses		**(10,286)**	(4,703)	**(38,738)**	(14,181)
General and administrative expenses		**(74,790)**	(19,970)	**(248,026)**	(71,180)
Other income	18	**970**	894	**1,477**	4,075
Share of profit/(loss) from associates	6	**3,226**	(2,629)	**5,274**	(1,074)
Finance costs		**(24,210)**	(7,234)	**(57,126)**	(26,313)
Finance income		**1,709**	1	**2,368**	24
Profit/(loss) for the period		**103,291**	(5,947)	**383,154**	(29,187)
Basic and diluted earnings per share	19	**0.015**	(0.003)	**0.056**	(0.017)

Condensed consolidated statement of comprehensive income for the nine-month period ended 30 September 2022

	Notes	3 months ended 30 September		9 months ended 30 September	
		2022 AED'000 (unaudited)	2021 AED'000 (unaudited)	**2022 AED'000 (unaudited)**	2021 AED'000 (unaudited)
Profit/(loss) for the period		**103,291**	(5,947)	**383,154**	(29,187)
Other comprehensive income		**-**	-	**-**	-
Total comprehensive profit/(loss) for the Period		**103,291**	(5,947)	**383,154**	(29,187)

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

Condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2022

	Share capital AED'000	Statutory reserve AED'000	Merger reserve AED'000	Capital reserve AED'000	Other reserves AED'000	Accumulated losses AED'000	Total equity AED'000
As at 1 January 2021 (audited)	1,750,000	85,448	-	3,783	(9,089)	(106,010)	1,724,132
Total comprehensive loss for the period	-	-	-	-	-	(29,187)	(29,187)
As at 30 September 2021 (unaudited)	1,750,000	85,448	-	3,783	(9,089)	(135,197)	1,694,945
As at 1 January 2022 (audited)	6,850,000	85,448	1,092,817	3,783	(2,297)	(850,642)	7,179,109
Total comprehensive income for the period	-	-	-	-	-	383,154	383,154
As at 30 September 2022 (unaudited)	**6,850,000**	**85,448**	**1,092,817**	**3,783**	**(2,297)**	**(467,488)**	**7,562,263**

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

Condensed consolidated statement of cash flows for the nine-month period ended 30 September 2022

	Notes	Nine-month period ended 30 September 2022 AED'000 (unaudited)	2021 AED'000 (unaudited)
Cash flows from operating activities			
Profit/(loss) for the period		**383,154**	(29,187)
Adjustments for:			
Depreciation of property, plant and equipment	**5**	**397,847**	52,520
Depreciation of right-of-use assets	**13**	**21,310**	11,741
Amortisation of intangible assets	**8**	**4,009**	-
Depreciation of investment property	**7**	**532**	-
Amortisation of restructuring fee		**-**	1,001
Loss/(gain) on disposal of property, plant and equipment	**5, 18**	**2,175**	(1,121)
Income from sale of scrap	**18**	**(3,417)**	(2,536)
Impairment charge on trade receivables	**10**	**4,539**	16,913
Allowance for impairment of inventories, net	**9**	**44,722**	674
Provision for employees' end of service benefit		**19,613**	4,639
Share of (profit)/loss from associates	**6**	**(5,274)**	1,074
Finance costs		**57,126**	26,313
Finance income		**(2,368)**	(24)
Operating cash flows before movements in working capital		**923,968**	83,007
Movements in working capital:			
Decrease in inventories	**9**	**96,617**	44,614
Decrease in trade and other receivables	**10**	**115,354**	39,046
Increase in amounts due from related parties	**12**	**(1,348)**	(186)
Increase/(decrease) in trade and other payables	**15**	**13,501**	(70,538)
Increase in amounts due to a related party		**-**	208
Cash generated from operations		**1,148,092**	96,151
End of service benefits paid		**(10,305)**	(3,074)
Net cash generated from operating activities		**1,137,787**	93,077
Cash flows from investing activities			
Payments for property, plant and equipment	**5**	**(126,809)**	(16,968)
Payments for intangible assets	**8**	**(3,960)**	-
Proceeds from sale of property, plant and equipment	**5**	**2,700**	1,121
Proceeds from sale of scrap	**18**	**3,417**	2,536
Interest received		**2,368**	24
Deposits placed with a maturity of greater than three months	**11**	**(146,900)**	-
Dividends received from associates	**6**	**-**	1,200
Net cash used in investing activities		**(269,184)**	(12,087)
Cash flows from financing activities			
Proceeds from borrowings	**14**	**3,407,113**	586,093
Repayment of borrowings	**14**	**(4,049,254)**	(648,958)
Finance costs paid	**14**	**(35,930)**	(19,173)
Principal repayment of lease liability	**13**	**(16,490)**	(5,919)
Interest paid on lease liabilities	**13**	**(15,415)**	(7,140)
Net cash used in financing activities		**(709,976)**	(95,097)
Net increase/(decrease) in cash and cash equivalents		**158,627**	(14,107)
Cash and cash equivalents at the beginning of the period	**11**	**335,588**	73,962
Cash and cash equivalents at the end of the period	**11**	**494,215**	59,855

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022

1 General information

Arkan Building Materials Company (ARKAN) PJSC ("Arkan" or the "Company") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") as a Public Joint Stock Company pursuant to Ministerial Resolution No. 228 for the year 2006.

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

In accordance with IFRS 10 Consolidated Financial Statements, the Company has elected to consolidate the income, expenses, assets and liabilities of Emirates Steel Industries PJSC from the date of the completion of the acquisition, 6 October 2021, in the consolidated financial statements.

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

These condensed consolidated interim financial statements include the performance and financial position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates.

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Group		Principal activity
		30 September 2022	31 December 2021	
Emirates Steel Industries PJSC[1]	UAE	100%	100%	Production and sale of long-steel products
Emirates Blocks Factory	UAE	100%	100%	Production and sale of cement blocks.
Emirates Cement Factory[2]	UAE	100%	100%	Production and sale of packed and bulk cement.
Al Ain Cement Factory	UAE	100%	100%	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	100%	100%	Production and sale of pipes, manufacturing pipes, plastic and paper bags.

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

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

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

2.1 New and amended standard adopted by the Group

In the current period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current period but may affect the accounting for the Group's future transactions or arrangements.

- *Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37*
  An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

  The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Reference to the Conceptual Framework - Amendments to IFRS 3*
  The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

  The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

- *Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16*
  The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter*
  The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

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

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

- *IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

- *IAS 41 Agriculture - Taxation in fair value measurements* The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

- *Annual Improvements to IFRS Standards 2018–2020 (effective from 1 January 2022).* The Annual Improvements include amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from January 1, 2022), IFRS 9 Financial Instruments (effective from 1 January 2022), IFRS 16 Leases (effective date not yet decided) and IAS 41 Agriculture (effective from 1 January 2022).

Other than the above, there are no other material IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2022.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

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

- *Classification of Liabilities as Current or Non-Current - amendments to IAS 1 (effective from 1 January 2023).* The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

- *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 an investor to its associate or joint venture. (Effective date deferred indefinitely. Adoption is still permitted).

- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (effective from 1 January 2023).* The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

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

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

- *Definition of Accounting Estimates - Amendments to IAS 8 (effective from 1 January 2023).* The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS12 (effective from 1 January 2023*). The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph IAS12.22A.

- *IFRS 17: Insurance Contracts (effective from 1 January 2023)*. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at 1 January 2023.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards and amendments are not expected to have a material impact on the consolidated financial statements of the Group in the period of initial application.

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

3 Summary of significant accounting policies

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the UAE. They do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2021. In addition, results for nine-month period ended 30 September 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

Basis of preparation

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

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

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards and interpretations effective 1 January 2022.

Going concern

Based on the Group's existing cash position, the funds available from undrawn facilities which amounted to AED 1,142 million at the reporting date and the free cash flow expected to be generated from operations, funds will be sufficient for the Group to meet its obligations as they fall due for a period of at least 12 months from the date of these condensed consolidated interim financial statements.

Accordingly, these condensed consolidated interim financial statements have been prepared on a going concern basis.

4 Critical judgements and key sources of estimation uncertainty

Changes in judgements and estimation uncertainty

The critical judgements and estimates used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021.

5 Property, plant and equipment

During the nine-month period ended 30 September 2022, the Group acquired assets with a cost of AED 126,809 thousand (30 September 2021: AED 16,968 thousand).

Property, plant and equipment of Al Ain Cement Factory, with a net carrying value of AED 877 million, have been pledged against a loan received from a consortium of banks for the construction of the factory (note 14).

Assets with net carrying value of AED 4,875 thousand (30 September 2021: AED nil) were disposed of during the period with net proceeds from sales amounting to AED 2,700 thousand (30 September 2021: AED 1,121 thousand).

The depreciation charge for the period amounted to AED 397,847 thousand (30 September 2021: AED 53,520 thousand).

6 Investment in associates

The movement in investment in associates is as follows:

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Balance at the beginning of the period/year	**79,728**	153,649
Share of profit/(loss) of associates for the period/year	**5,274**	(22,721)
Dividends received during the period/year	**-**	(1,200)
Impairment during the period/year	**-**	(50,000)
Balance at the end of the period/year	**85,002**	79,728

7 Investment property

No acquisitions or disposals were made to the Group's investment properties in the nine-month period ended 30 September 2022 (30 September 2021: none). The depreciation charge for the period amounted to AED 532 thousand (30 September 2021: AED nil).

8 Intangible assets

During the nine-month period ended 30 September 2022, the Group acquired intangible assets with a cost of AED 3,960 thousand (30 September 2021: AED nil). The amortisation charge for the period amounted to AED 4,009 thousand (30 September 2021: AED nil).

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

9 Inventories

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Finished goods and by-products	**664,722**	725,552
Semi-finished products: steel billets and direct reduced iron	**301,329**	487,148
Raw materials	**481,755**	500,375
Goods in transit	**252,627**	159,725
Spare parts and consumables	**605,964**	530,214
	2,306,397	2,403,014
Less: allowance for impairment of inventories	**(158,943)**	(114,221)
	2,147,454	2,288,793

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

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Balance at the beginning of the period/year	**114,221**	54,942
Acquisition of Emirates Steel	**-**	51,017
Allowance for impairment during the period/year	**44,722**	8,262
Balance at the end of the period/year	**158,943**	114,221

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

10 Trade and other receivables

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Non-current portion		
Trade receivables	**84,745**	84,745
Less: loss allowance	**(84,745)**	(84,745)
	-	-
Current portion		
Trade receivables	**1,322,719**	1,329,695
Less: loss allowance	**(154,236)**	(149,697)
	1,168,483	1,179,998
Prepayments	**7,001**	31,953
Advances to suppliers	**173,038**	144,241
Other receivables	**168,351**	280,574
	1,516,873	1,636,766

The following table shows the movement in loss allowance:

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Balance as at 1 January	**234,442**	130,789
Acquisition of Emirates Steel	**-**	160,151
Net remeasurement of loss allowance	**4,539**	27,578
Bad debts written-off	**-**	(84,076)
Balance at the end of the period/year	**238,981**	234,442

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

11 Cash and bank balances

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)	30 September 2021 AED'000 (unaudited)
Cash in hand	**561**	386	170
Cash at banks in current accounts	**493,654**	335,202	59,685
Cash and cash equivalents for cash flow purposes	**494,215**	335,588	59,855
Deposits with maturities over 3 months	**146,900**	-	-
Cash and bank balances	**641,115**	335,588	59,855

12 Related parties

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

The Government of Abu Dhabi indirectly owns 87.5% (31 December 2021: 87.5%) of the Company's outstanding shares. The Group has elected to use the exemption under IAS 24 for government related entities on disclosing transactions and related outstanding balances with government related entities owned by the Government of Abu Dhabi other than the Parent Company and entities it owns and controls. The Group's significant transactions with the Government of Abu Dhabi and other entities controlled, jointly controlled or significantly influenced by the Government of Abu Dhabi are a large portion of its direct cost, lease rental payments and interest payments on certain loans.

The Group also has, at 30 September 2022, loans and cash balances with banks under the common control of the Government of Abu Dhabi, lease liabilities with and payables to Government municipalities and payables to a distribution company owned by the Government of Abu Dhabi.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

12 Related parties (continued)

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

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Amounts due from related parties		
Silal Food and Technology LLC	**275**	-
National Petroleum (NPCC) - sister company	**1,257**	151
Others	**-**	33
	1,532	184
Loan from a related party - the Parent Company		
General Holding Corporation PJSC (SENAAT)	**18,361**	18,361

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

	Nine-month period ended 30 September	
	2022 AED'000 (unaudited)	2021 AED'000 (unaudited)
Interest on loan from Parent Company	**375**	315
Sales to a related party - Emirates Steel Industries PJSC, sister concern	**-**	2,128
Purchases from related parties		
- Emirates Steel Industries PJSC, sister concern	**-**	315
- Agthia PJSC, sister concern	**498**	-
Key management compensation		
- Short term benefits	**17,220**	5,477
- Post-employment benefits	**1,088**	582
	18,308	6,059

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

13 Leases

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

Right-of-use assets

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
As at 1 January	**450,944**	233,097
Acquisition of Emirates Steel	**-**	295,455
Disposals/remeasurement	**-**	(12,179)
Depreciation expense during the period/year	**(21,310)**	(20,952)
Impairment	**-**	(44,477)
Balance at the end of the period/year	**429,634**	450,944

The right-of use assets of Al Ain Cement Factory, with a net carrying value of AED 71 million, have been pledged against a loan received from a consortium of banks for the construction of the factory (note 14).

Lease liabilities

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
As at 1 January	**510,831**	149,840
Acquisition of Emirates Steel	-	376,291
Disposals	-	(13,234)
Accretion of interest	**15,415**	12,113
Payments	**(31,905)**	(14,179)
Balance at the end of the period/year	**494,341**	510,831

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Current		
Within one year	**20,991**	30,998
Non-current		
After one year	**473,350**	479,833

14 Bank borrowings

Bank borrowings are contractually repayable as follows:

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Non-current		
After one year	**134,934**	269,901
Current		
Within one year	**1,846,373**	2,353,547

The details of the bank borrowings are stated as follows:

		Outstanding at 30 September 2022			Outstanding at 31 December 2021		
	Maturity	**Current AED'000 (unaudited)**	**Non-current AED'000 (unaudited)**	**Total AED'000 (unaudited)**	Current AED'000 (audited)	Non-current AED'000 (audited)	Total AED'000 (audited)
Arkan							
Term loan 1	**2024**	**400,401**	**134,934**	**535,335**	266,667	268,667	535,334
Term loan 2	**2023**	**1,644**	**-**	**1,644**	1,644	1,234	2,878
Short term loan 1	**2022**	**90,000**	**-**	**90,000**	110,000	-	110,000
Short term loan 2	**2022**	**78,000**	**-**	**78,000**	118,683	-	118,683
Short term loan 3	**2022**	**66,650**	**-**	**66,650**	70,827	-	70,827
Short term loan 4	**2022**	**30,000**	**-**	**30,000**	10,000	-	10,000
Emirates Steel							
Term loan	**2022**	**-**	**-**	**-**	183,625	-	183,625
Working capital facilities	**2022**	**1,179,678**	**-**	**1,179,678**	1,592,101	-	1,592,101
		1,846,373	**134,934**	**1,981,307**	2,353,547	269,901	2,623,448

Arkan

Term loan 1 is a 10-year term loan of AED 1,200 million obtained in 2014 by the Group to finance the construction of the Group's Al Ain Cement Factory. The term loan is payable over 9 years semi-annually commencing from March 2016. The loan carries variable interest at EIBOR plus 2.6%. The term loan is secured by assets with a carrying amount of AED 948 million (2021: AED 975 million) (notes 5 and 13). In 2021 the Group entered into an agreement with its Term loan 1 lenders for a repayment holiday through to 17 December 2022.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new offices of the Group. The loan is repayable in 36 equal quarterly installments from November 2014 and carries variable interest at three-month EIBOR plus 3.0%.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

14 Bank borrowings (continued)

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

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

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

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

Emirates Steel
The loan was established in November 2018, being a USD 400 million (AED 1,469 million) Commodity Murabaha with a tenor of four years and a profit rate of 0.85% over 3-month USD LIBOR. Repayments were made on a straight-line basis every six-months, each repayment being in an amount of USD 50 million (AED 183.63 million). The facility was unsecured and was subject to a limited guarantee from SENAAT relating to the availability of gas and electricity. The term loan was settled in full during the period ended 30 June 2022.

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

Changes from financing cash flows related to borrowings

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Balance at the beginning of the period/year	**2,623,448**	933,005
Acquisition of Emirates Steel	**-**	2,384,949
Settlement of term loans	**(184,858)**	(185,269)
Settlement of short-term loans	**(3,864,396)**	(1,776,786)
Proceeds from short term loans	**3,407,113**	1,272,680
Interest paid	**(35,930)**	(31,944)
Restructuring fee payable	**-**	1,334
Total changes from financing cash flows	**1,945,377**	1,664,964
Other changes/liability related		
Interest expense	**41,711**	35,110
Changes in accruals	**(5,781)**	(9,631)
Total liability related to other changes	**35,930**	25,479
Balance at the end of the period/year	**1,981,307**	2,623,448

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

15 Trade and other payables

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Trade payables	**1,234,565**	1,177,315
Accruals	**251,472**	268,117
VAT payable	**13,496**	13,286
Interest payable	**8,699**	2,918
Other payables	**25,876**	53,190
	1,534,108	1,514,826

16 Contingencies and commitments

	30 September 2022 AED'000 (unaudited)	31 December 2021 AED'000 (audited)
Bank guarantees and letters of credit	**240,701**	224,386
Capital commitments	**645**	12,355
Financial guarantees provided to associates	**61,600**	61,600

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

17 Segment reporting

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

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

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

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

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

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

17 Segment reporting (continued)

For the period ended 30 September 2022 (unaudited):	Steel AED'000	Cement and Blocks AED'000	Pipes and others AED'000	Eliminations AED'000	Group AED'000
External revenues	**6,445,151**	**543,533**	**133,862**	**-**	**7,122,546**
Intersegment revenue	**-**	**-**	**5,984**	**(5,984)**	**-**
Timing of revenue recognition					
At a point in time	**6,445,151**	**543,533**	**133,862**	**-**	**7,122,546**
Interest expense	**28,760**	**28,319**	**47**	**-**	**57,126**
Depreciation and amortization	**375,488**	**38,125**	**10,085**	**-**	**423,698**
Share of profit of equity accounted investees	**-**	**-**	**5,274**	**-**	**5,274**
Profit/(loss) for the period	**334,207**	**54,072**	**(5,125)**	**-**	**383,154**
As at 30 September 2022 (unaudited):					
Total assets	**9,498,290**	**1,788,416**	**530,057**	**-**	**11,816,763**
Total liabilities	**(2,919,966)**	**(1,234,579)**	**(99,955)**	**-**	**(4,254,500)**

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

17 Segment reporting (continued)

For the period ended 30 September 2021 (unaudited):	Steel AED'000	Cement and Blocks AED'000	Pipes and others AED'000	Eliminations AED'000	Group AED'000
External revenues	-	465,127	126,030	-	591,157
Intersegment revenue	-	-	5,035	(5,035)	-
Timing of revenue recognition					
At a point in time	-	465,127	126,030	-	591,157
Interest expense	-	26,196	117	-	26,313
Depreciation and amortization	-	54,633	10,628	-	65,261
Share of loss of equity accounted investees	-	-	(1,074)	-	(1,074)
Loss for the period	-	(2,491)	(26,696)	-	(29,187)
As at 31 December 2021 (audited):					
Total assets	9,764,649	1,860,666	438,334	-	12,063,650
Total liabilities	(3,520,532)	(1,284,961)	(79,045)	-	(4,884,541)

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

18 Other income

	Nine-month period ended 30 September	
	2022 AED'000 (unaudited)	2021 AED'000 (unaudited)
Proceeds from sale of scrap	**3,417**	2,536
(Loss)/gain on sale of property, plant and equipment	**(2,175)**	1,121
Other	**235**	418
	1,477	4,075

19 Basic and diluted earnings per share

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

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2022 (unaudited)	2021 (unaudited)	**2022 (unaudited)**	2021 (unaudited)
Profit/(loss) for the period (AED'000)	**103,291**	(5,947)	**383,154**	(29,187)
Weighted average number of shares in issue (thousands of shares)	**6,850,000**	1,750,000	**6,850,000**	1,750,000
Earnings per share (AED)	**0.015**	(0.003)	**0.056**	(0.017)

There were no potentially dilutive securities as at 30 September 2022 or at 2021 and, accordingly, diluted earnings per share is equivalent to the basic earnings per share.

Notes to the condensed consolidated interim financial statements for the nine-month period ended 30 September 2022 (continued)

20 Reclassification of comparative figures

In the current period, comparative figures related to impairment losses on financial and non-financial assets have been reclassified to general and administrative expenses and direct costs, respectively, in the condensed consolidated statement of profit or loss to conform with current period presentation in accordance with Group reporting requirements. These reclassifications have no impact on the previously reported profit and equity of the Group.

	As previously reported AED'000	Reclassification AED'000	As reclassified AED'000
Condensed consolidated statement of profit or loss for the nine months ended 30 September 2021			
Direct costs	(511,021)	(674)	(511,695)
Gross profit	**80,136**	**(674)**	**79,462**
Impairment losses on non-financial assets	(674)	674	-
General and administrative expenses	(54,267)	(16,913)	(71,180)
Impairment losses on financial assets	(16,913)	16,913	-
Condensed consolidated statement of profit or loss for the three months ended 30 September 2021			
Direct costs	(144,857)	(523)	(145,380)
Gross profit	**28,217**	**(523)**	**27,694**
Impairment losses on non-financial assets	523	(523)	-
General and administrative expenses	(16,239)	(3,731)	(19,970)
Impairment losses on financial assets	(3,731)	3,731	-

21 Seasonality of results and the Russia-Ukraine conflict

No significant income of a seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the nine-month periods ended 30 September 2022 and 2021.

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

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

22 Approval of condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by the Board of Directors and authorised for issue on 31 October 2022.