حديد الإمارات أركان
emirates steel arkan

Annual Report 2022

Shaping the Future Together

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Theme of the Year

Shaping the future together

Last year, two of the UAE's industrial powerhouses with a shared vision for the future joined forces to launch a national industrial champion, Emirates Steel Arkan. The scale and synergies that will be achieved through this momentous transaction have only begun to materialise, but already the financial, operational, and strategic impact has been overwhelmingly positive.

Through the strength of our strategic focus and the dedication of our talented workforce, we have delivered excellent growth in both our steel and building materials businesses. We have succeeded in launching innovative new products, expanding our market reach, and cementing our position as the largest publicly traded steel and building materials company in the nation.

With a clear purpose and great momentum, we move forward with confidence and pride to capitalise on the many opportunities that lie ahead. Our ambition has never been greater, as we seek to fulfil the vast potential created by our merger and generate increasing value for all our stakeholders by shaping the future together.

At a Glance

Financial Highlights

Revenue (AED)

10%

EBITDA (AED)

51%

Debt (AED)

52%

Operational Highlights

Crude Steel Production ('000 tonnes)

6%

Cement Production ('000 tonnes)

14%

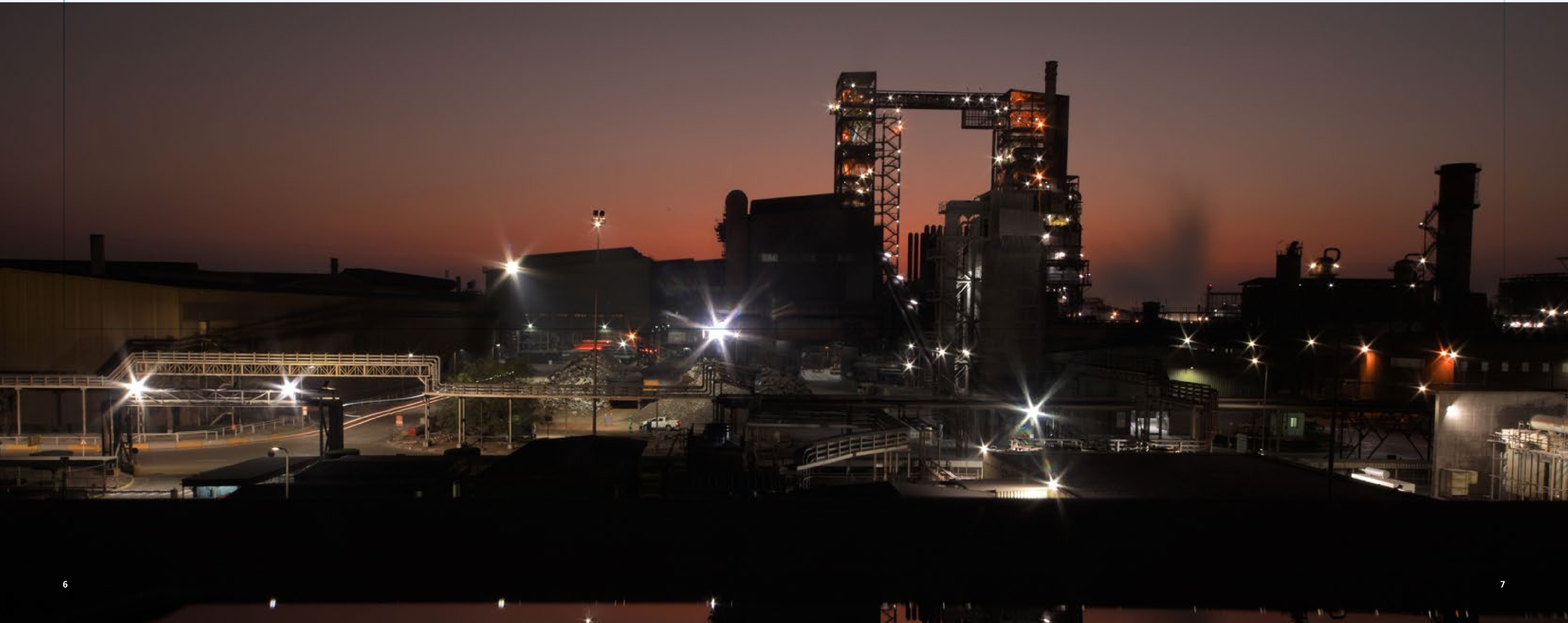
Clinker Production ('000 tonnes)

12%

* All financial and operational results of the Group for 2021 and 2020 in this Annual Report, excluding "Consolidated Financial Statements" chapter, are presented "pro-forma", including pre-merger Emirates Steel performance.

01 Overview

In this section:



About Emirates Steel Arkan

Emirates Steel Arkan Group is a public joint stock company (ADX: EMSTEEL) and the UAE's largest steel and building materials manufacturer. The Group leverages cutting-edge rolling mill technologies to supply the domestic and international markets with high-quality finished products including wire rods, rebars, heavy sections and sheet piles. Additionally, the Group produces premium cement, blocks, pipes, and dry mortar, creating a one-stop shop for the manufacturing and construction sectors.

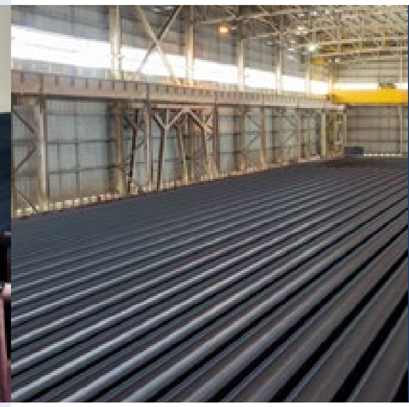
Emirates Steel Arkan is the largest producer of heavy and jumbo sections, the only producer of hot rolled sheet piles in the region and the fourth steelmaker in the world to receive the ASME accreditation to produce nuclear grade rebar. The Group also works with customers around the world to provide bespoke solutions, delivered in a timely manner, that are helping build cleaner, safer and more durable buildings and infrastructure around the world. Emirate Steel Arkan's production process uses 40% less carbon than its competitors due to many decarbonisation initiatives spearheaded by the utilisation of the carbon capturing facility.

Emirates Steel Arkan was the first steelmaker in the world to capture its CO2 emissions and the first manufacturing company in the Middle East to be verified for (LEED) green building system documentation.

The Group is committed to continue harnessing innovative cutting-edge technologies to further reduce its carbon footprint and introduce new, innovative low-carbon products to the market. The range of new products include ES600, a new and sustainable product that will set new standards in the construction industry.

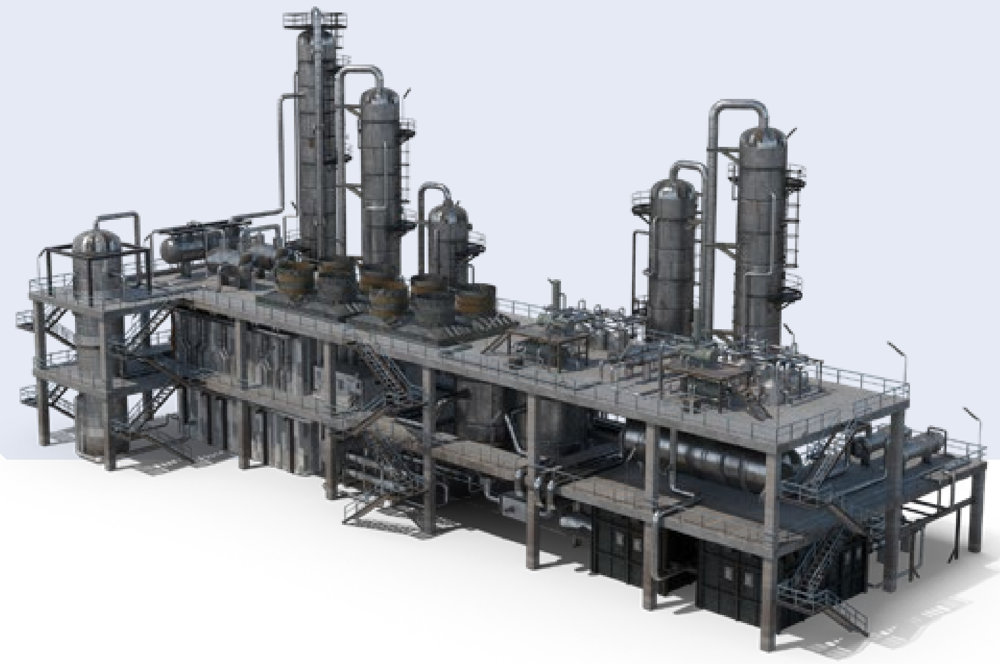
The Group is actively contributing to the UAE's industrial strategy 'Operation 300 billion' by delivering market-leading products to local industries, creating job opportunities for UAE Nationals, and enhancing its sustainable practices. People are at the heart of the Group's business and the priority of Emirates Steel Arkan is to ensure the health and well-being of its employees. The Group aims to lead in safety within the industry, recognising the significance of a safe work environment for the career growth and development of its employees.

Through Senaat, Emirates Steel Arkan is majority owned by ADQ, one of the region's largest holding companies with a broad portfolio of major enterprises spanning key sectors of Abu Dhabi's diversified economy. For more information, please visit our website: www.emiratessteelarkan.com



Proud contributor to UAE's Industrial Sector. Steel - Since 1998; and cement - since 1976.

Our Journey



أركان
ARKAN

1976 – Emirates Cement Factory established in Al Ain

2006 – Arkan Building Materials Company founded

2007 – Arkan listed on ADX

2007 – Al Ain Cement Factory began construction

2014 – Al Ain Cement Factory began operations

Emirates Steel and Arkan forged individual paths of growth and innovation, coming together in 2021 to form Emirates Steel Arkan Group, thus solidifying a position at the forefront of our industry and creating sustainable value for all our stakeholders.

حديد الإمارات
emirates steel

1998 – Emirates Steel founded under SENAAT

2006 – Phase 1 Expansion launched

2008 – Phase 2 Expansion launched

2009 – Phase 1 Inauguration adding 1.4 MTPA of steel capacity

2012 – Phase 2 completed with another 1.4 MTPA capacity increase

حديد الإمارات أركان
emirates steel arkan

May 2021 – Emirates Steel merger with Arkan announced

October 2021 – Successful combination of Emirates Steel and Arkan Group

2022 – Emirates Steel Arkan delivers outstanding performance as a new merged entity, significantly improving results of both Steel and Building Materials Businesses

After the merger we became the UAE's largest steel and building materials manufacturer

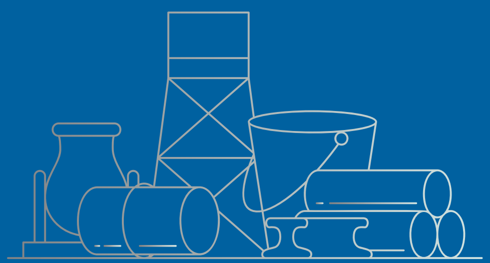
Highlights and Achievements in 2022

In our first full-year following the merger, Emirates Steel Arkan has emerged as a globally-competitive steel and building materials champion for the UAE, achieving momentous milestones, forging new partnerships, posting a strong financial performance and creating increased value for all our shareholders and stakeholders.

January

Emirates Steel Arkan became member of the CARES Rebar Technical Committee

Reflecting our rich history and efficient technical capabilities in producing our flagship product, rebars, Emirates Steel Arkan became a member of the CARES Rebar Technical Committee. The Rebar Technical Committee aims to provide technical input into the development of CARES' approach to improving quality performance, represent the interests of stakeholders across the steel value chain, and identify opportunities for further improvement of the CARES certification platform.



February

Emirates Steel Arkan SCM team recognised at CIPS Middle East Procurement Awards 2022

Emirates Steel Arkan won the "Best Collaborative Teamwork Project" and "Global Sourcing Project of the Year" awards at the Chartered Institute of Purchasing and Supply (CIPS) Middle East Excellence in Procurement Awards 2022 ceremony. These prestigious awards recognise the excellence of our world-class practices based on innovation and new technologies in procurement and supply chain management.

Emirates Steel Arkan honoured at Cyber Game Awards ceremony

Emirates Steel Arkan's cybersecurity team was recognised for our outstanding performance in a state-of-the-art cyber-simulation that involved cyber security and academic professionals, representing both the UAE and Italy, respectively. The Cyber Games Award, organised by Leonardo, a global high-tech company that created this cyber platform, was held at the Italian Pavilion at Expo 2020 Dubai.

March

Emirates Steel Arkan signed MoU with SNIM for vital feedstock supply for UAE steel production

As part of our commitment to continuously expand our access to resources around the world, Emirates Steel Arkan sealed a Memorandum of Understanding (MoU) with Mauritania's Société Nationale Industrielle Et Minière (SNIM) to look into the feasibility of creating a joint venture company to produce iron oxide pellets. Under the 18-month agreement, the companies will study joint plans to produce iron oxide pellets, the primary feedstock required for direct reduction steel plants.

Emirates Steel Arkan Group became World Steel Association Sustainability Charter member

The World Steel Association (WSO) released its revised and expanded Sustainability Charter, which included Emirates Steel Arkan as its newest Sustainability Charter member. This demonstrates our commitment to sustainability and overall efforts to minimise our impact on the environment. Members of the World Steel Association are united in adopting actions that benefit people, the environment, and society as a whole.

April

Emirates Steel Arkan partnered with Khalifa University on research project

In line with our commitment towards providing a platform of knowledge and expertise to the many universities in the UAE, our Risk and Business Continuity Department collaborated with students from Khalifa University on a research project on Asset Criticality and Business Continuity. The importance of this research project was academically vital for students in their journey to graduation, as this assignment aimed to equip the students with the necessary knowledge to identify critical resources, improve productivity, quality, efficiency and optimisation of assets.

Emirates Steel Arkan Group CEO participated in CEOs Roundtable on 'Challenges and Opportunities of Net Zero'

Our Group CEO, Eng. Saeed Ghumran Al Remeithi, participated in a closed-door roundtable that brought together global and regional CEOs and policymakers from the hard-to-abate industries to discuss the challenges and opportunities their organisations face in reaching net zero. The insightful discussions were held in partnership with the Office of the UAE Special Envoy for Climate Change and the Atlantic Council and co-hosted by Abu Dhabi Sustainability Week (ADSW).

Highlights and Achievements in 2022 continued

April

Emirates Steel Arkan Group CEO named among Top CEOs by Etihad Credit Insurance

The Etihad Credit Insurance (ECI), the UAE Federal export credit company, joined hands with CEOforLife, an international community of sustainability movers and impact makers headquartered in Rome, Italy, to honour our Group CEO and other global CEOs who have introduced and inspired sustainability initiatives as an integral part of economic and social development.

Emirates Steel Arkan hosted MOIAT Minister Dr. Sultan Al Jaber

Dr. Sultan Al Jaber, Minister of Industry and Advanced Technology, visited our facilities to discuss the key role Emirates Steel Arkan is currently playing in the industrial sector within the country. The visit is part of the Ministry's efforts to maintain strong, direct ties with its partners in the industrial sector through communicating regularly, discussing various innovative industrial projects and ensuring an environment that contributes to enhancing the sector's success, based on the pillars of innovation, sustainability, and future foresight.

Emirates Steel Arkan appointed global sustainability advisor to accelerate our market-leading green track

To further our sustainability programme, Emirates Steel Arkan appointed ENGIE Impact, a global advisory firm dedicated to accelerating the sustainability transformation of companies. ENGIE Impact will assess the business' CO2 footprint, further strengthen Emirates Steel's pioneering sustainability initiatives, and convert this vision into a detailed roadmap for the next 10 years.

May

Emirates Steel Arkan celebrated Steel Safety Day with outstanding safety record

Emirates Steel Arkan reaffirmed our commitment to developing and implementing best practices in health and safety while celebrating the annual Steel Safety Day. The Group recorded nearly 16 million safe man-hours and a Lost Time Injury (LTI) rate of 0.5 in both 2021 and 2022, which was a 209% increase in safe man-hours and an 80% reduction in LTIs compared to 2020. This achievement highlights our commitment to ensuring a safe and healthy work environment for all our employees.

June

Emirates Steel Arkan ranked third in the Arab world and Africa for crude steel production

With a total production capacity of 3.02 million tons in 2021, Emirates Steel Arkan ranked third in the Arab world and Africa for crude steel production, according to the World Steel Association's report.

Emirates Steel Arkan participated in "Make it in the Emirates" Forum 2022

Emirates Steel Arkan took part in the "Make it in the Emirates" forum, where we highlighted our contribution to the country's industrial output and showcased new products, including the recently introduced ES600 rebar. Emirates Steel Arkan is making significant contributions to the UAE's industrial sector and accounted for more than 11% of Abu Dhabi's industrial output during 2022.

Emirates Steel Arkan signed MoU with Abu Dhabi University for metallurgical laboratory

Emirates Steel Arkan and Abu Dhabi University (ADU) have signed an MoU to establish the UAE's first metallurgical laboratory specialised in steelmaking. Under the agreement, Emirates Steel Arkan will offer comprehensive scholarships to 20 undergraduate Emirati students covering the four-year study, in addition to providing ADU's College of Engineering faculty, staff and students with access to the Company's machinery for advanced research and getting acquainted with the equipment and tools used during steel manufacturing operations.

July

Emirates Steel Arkan hosted DoE Chairman H.E. Eng. Awaidha Murshed Al Marar

His Excellency Eng. Awaidha Murshed Al Marar, Chairman of the Abu Dhabi Department of Energy (DoE), visited Emirates Steel Arkan. During his visit, a complete overview of the Company's operations, product range, and future plans was presented to His Excellency.

Emirates Steel Arkan Group CEO named Top 100 CEO in the Middle East by Forbes

Our Group CEO, Eng. Saeed Ghumran Al Remeithi, has been placed amongst Forbes' list of Top 100 CEOs in the Middle East 2022 for the second year in a row. He ranked 73rd of 100 on the list compared to 86th in 2021.

Emirates Steel Arkan received high ICV Score

As a result of our strategic focus to maximise our contribution to the Ministry of Advanced Industry and Advanced Technology's In-Country Value Programme (ICV), which aims to promote the demand for local products and services, Emirates Steel Arkan spent a total of over AED 2.5 billion on suppliers in the UAE in 2022. As of year-end 2022, 88% of our local suppliers are ICV-certified. This demonstrates our commitment to contributing to the expansion of the UAE's industrial sector, in accordance with the UAE's national industrial strategy.

Emirates Steel Arkan hosted Minister of State for Foreign Trade H.E. Dr. Thani Al Zeyoudi

His Excellency Dr. Thani Al Zeyoudi, Minister of State for Foreign Trade, Ministry of Economics, visited Emirates Steel Arkan headquarters to learn more about our operations, products and export markets.

Highlights and Achievements in 2022 continued

September

Emirates Steel Arkan joined UAE Climate-Responsible Companies pledge

Emirates Steel Arkan became a signatory of the UAE Climate-Responsible Companies Pledge, an initiative by the Ministry of Climate Change and the Environment, which is aimed at driving the engagement of the private sector in advancing national decarbonisation efforts to support the UAE Net Zero 2050 strategic initiative.

Emirates Steel Arkan showcased new products at Middle East Design & Build Week 2022

Emirates Steel Arkan participated in Middle East Design & Build Week 2022, where we highlighted our contribution to the growth of the region's construction industry through our high-quality and durable product range.

Emirates Steel Arkan Group CEO spoke at Saudi International Iron & Steel 2022 Conference

Our Group CEO, Eng. Saeed Ghumran Al Remeithi, was a distinguished speaker at the second annual Saudi International Iron & Steel 2022 Conference. He spoke on the 'MENA Steel Market Landscape' panel in the presence of leading Saudi and international steel producers, traders, end-users and analysts, who participated to discuss their views and debate opportunities and challenges for the global steel industry.

Emirates Steel Arkan supported MOIAT's 2022 ISO Annual Meeting

Emirates Steel Arkan was a Diamond Sponsor of the 2022 ISO Annual Meeting, organised by The Ministry of Industry and Advanced Technology. The event saw discussions on the modernisation and development of international standards, and explored how standardisation can help capitalise on opportunities and face current and future industry challenges.

Emirates Steel Arkan partnered with ITOCHU and JFE Steel to explore creation of Green Iron Supply Chain

Emirates Steel Arkan launched partnership discussions with ITOCHU Corporation and JFE Steel Corporation, a subsidiary of JFE Holdings, to consider the construction of a ferrous raw material production facility in Abu Dhabi that would become an integral part of a global low carbon emission iron supply chain.

October

Emirates Steel Arkan showcased sustainable pipe product range at WETEX 2022

Emirates Steel Arkan participated in WETEX 2022, organised by Dubai Electricity and Water Authority (DEWA), to highlight our latest technological advancements in pipes. We highlighted the use of steel pipes for key applications, including wastewater, potable water, hydropower, industrial pipe systems, irrigation and drainage, and electrical and plumbing (MEP) elements, among others.

Emirates Steel Arkan participated in AICCE25

Emirates Steek Arkan participated in the 25th Arab International Cement Conference and Exhibition (AICCE25), organised by the Arab Union for Cement and Building Materials (AUCBM), which gathered delegates from the Middle East, Africa and beyond.

November

Emirates Steel Arkan took part at 2022 Industrial and Emiratisation Forum

Emirates Steel Arkan participated in the Industrial and Emiratisation Forum organised by Abu Dhabi Vocational Education & Training Institute, where we identified UAE National talent with potential and capabilities in order to provide them with job opportunities and training. During the forum, the Group showcased our efforts in recruitment, Emiratisation and attracting UAE National graduates and technicians, especially in specialised engineering fields.

Emirates Steel Arkan receives Safety and Health Excellence recognition from World Steel Association

Emirates Steel Arkan was recognised for our ongoing commitment to the highest standards of health and safety by the World Steel Association. In line with our Safety and Health Excellence Recognition Programme for 2022, the recognition came as a result of the Group's efforts to enhance crane operations and rigging safety in our steel factories.

Emirates Steel Arkan participated in Arab Iron and Steel Union Summit

Emirates Steel Arkan took part in the 15th Arab Steel Summit, organised by the Arab Iron and Steel Union where we showcased our capabilities and strengthened relationships with other key industry players.

Emirates Steel Arkan delegation attended COP27 Conference in Egypt

Representatives from Emirates Steel Arkan took part in the 2022 United Nations Climate Change Conference, known as COP27, as part of the UAE delegation. The high-profile delegation included over 70 public and private entities, policymakers, negotiators, business leaders, a number of youth and female entrepreneurs, as well as civil society organisations.

December

Emirates Steel Arkan delegation met with key customers in Houston, USA

Headed by our CCO, Eng. Saeed Al Ghafri, Emirates Steel Arkan held a customer meeting in Houston with eight of our biggest customers in North America, where we have built a strong reputation as a reliable and consistent supplier of premium quality steel products.

Emirates Steel Arkan sponsored SteelChallenge-17

Emirates Steel Arkan sponsored the 17th edition of the SteelChallenge Regional Championship, marking the fifth year we have supported this exciting event. SteelChallenge-17 is a competition for both students and industry professionals that aims to showcase their ability to make steel of the highest quality at the lowest cost.

Emirates Steel Arkan sponsored and participated in Big5 Dubai 2022

Emirates Steel Arkan was a sponsor and exhibitor of the key regional construction industry event. Big5 Dubai hosts key stakeholders from across the globe with the aim of connecting construction industries worldwide in Dubai.

Emirates Steel Arkan organised strategic annual customer meeting

To further strengthen our relationships with all our loyal steel and building materials customers, Emirates Steel Arkan hosted a strategic annual customers meeting. During the event, we met with key customers to convey the Company's many achievements and our strategy, ensuring they understood how much we value our long-term partnerships with them.

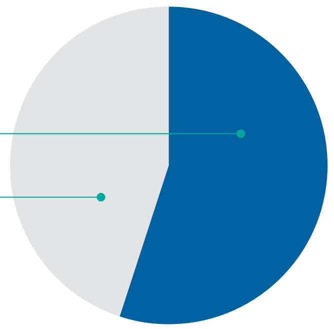
Emirates Steel Arkan sponsored and participated in Middle East Iron & Steel 2022

Emirates Steel Arkan was the Platinum Sponsor of Middle East Iron & Steel 2022, the largest annual meeting of the iron and steel industry in the MENA region. The event, which took place in Dubai, was attended by multiple Emirates Steel Arkan officials and covered various critical industry topics, including raw materials dynamics, iron and steel production fundamentals, and consumption drivers in the MENA region.

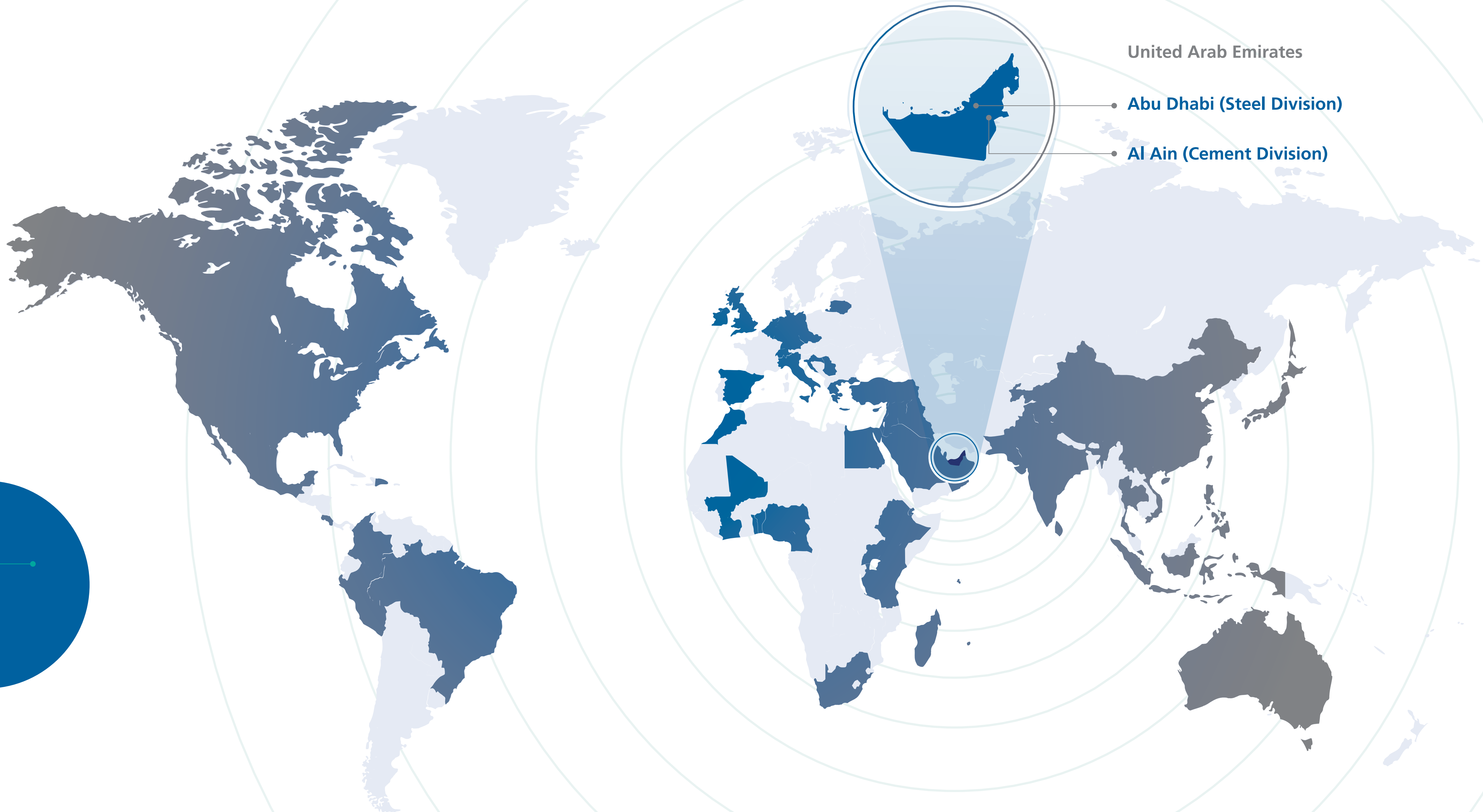
Geographic Footprint

With global attention focusing on carbon reduction, Emirates Steel Arkan is well positioned to capitalise on the unprecedented demand growth for low carbon steel and sustainable building materials.

61%
Domestic sales volume



39%
Export sales volume



70
Countries

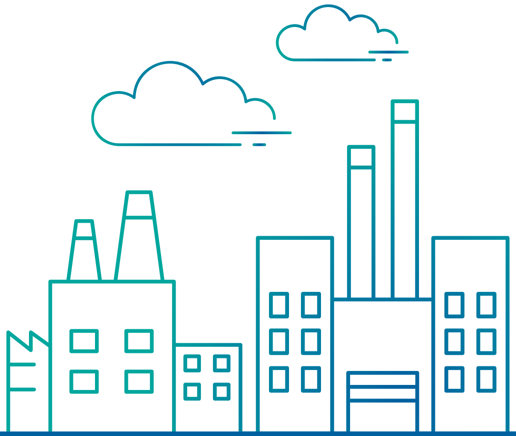
The Group exports steel products to more than 70 countries

The Group supplies a range of products within the UAE and to more than 70 export markets, including Europe, America, Asia, Middle East and North Africa.

Our Value Chains

Production Process

Steel Business

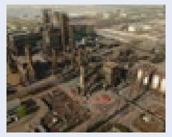


1

Direct Reduction Process

Three direct reduction plants with a capacity of 4.2 MTPA


Iron oxide pellets


Direct reduction iron

2

Steel Making

Three steel making plants with a capacity of 3.6 MTPA


Steel making

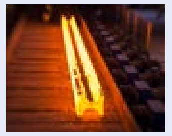

Steel billets


Beam blanks

3

Rolling

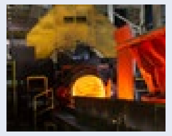
Heavy section mill, three rebar mills, and a wire rod mill


Heavy section mill

Capacity 1.0 Mt


Three rebar mills

Capacity 2.0 Mt


Wire rod mill

Capacity 0.5 Mt

4

Finished Products

Rebar, wire rod, sheet piles and heavy sections


Sheet piles


Wire rod

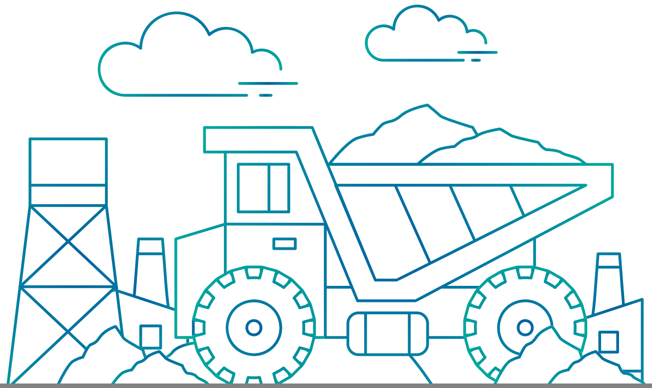

Heavy sections


Rebar in coils


Rebar

Cement Unit

Al Ain Cement Factory



1

Limestone Quarry

1. **Extraction:** The raw materials used to manufacture cement (limestone and clay).
2. **Transport:** The raw materials are loaded into a dumper.
3. **Crushing and transportation:** The raw materials, after crushing, are transported to the plant by conveyor.

2

Raw Grinding and Burning

1. **Raw grinding:** see source document and get expalanation from source doc.
2. **Burning:** The raw mix is preheated before it goes into the klin. The raw mix burns at 1500 °C producing clinker.

3

Grinding, Storage, Packing, and Dispatch

1. **Grinding:** The clinker and the gypsum are very finely ground giving a "pure cement".
2. **Storage, packing, dispatch:** The cement is stored in silos before being dispatched, either in bulk or in bags.

Our Products

At Emirates Steel Arkan, we deliver an extensive range of products, services and solutions that cater to a wide variety of sectors and industries, including construction, energy, and transportation. Our finished products, manufactured in Abu Dhabi, are shipped to more than 70 countries worldwide and are used in applications including maritime engineering, the construction of skyscrapers and buildings, to infrastructure projects in the United States.

A leading producer of high-quality **rebar** with a production capacity of **2 million tonnes annually.**

Steel billets are processed into rebar, wire rod or coil in the Group's rolling mills.

A prominent **wire rod** producer in the GCC with a production capacity of **550,000 tonnes annually.**

The only producer of **hot rolled sheet piles** in the MENA region.

The largest producer of **heavy and jumbo sections** in the GCC with a production capacity of **1 million tonnes annually.**

Rebar in Coils provides greater efficiencies and cost savings.

High-quality **cement** with a production capacity of **3.1 million tonnes** and **clinker** with a production capacity of **4.6 million tonnes annually.**

GRP and PVC Pipes largest centrifugal casting pipe factory in the world with **33,000 tonnes annual capacity.**

Concrete blocks with a production capacity of **85 million blocks annually** and **dry mortar** used in local construction.

Bags with a production capacity of **62 million sacks annually.**

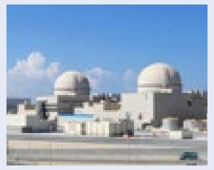
Our Products continued

Applications

Our products are used by our clients across the UAE and around the world to create some of the most important and iconic structures and developments worldwide.

Rebar

Burj Khalifa



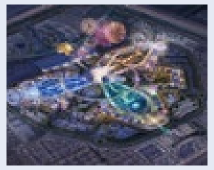
Baraka Nuclear Power Plant

Museum of the Future

Dubai Frame

Steel Section

Golden Pass LNG Texas, USA

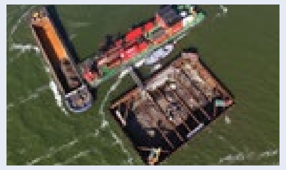


Dubai EXPO 2020 - Dubai, UAE

Hanmaek Power Plant - South Korea

Cameron LNG - UAE

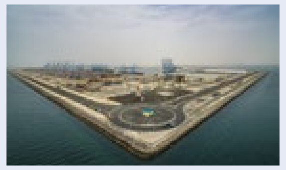
Sheet Piles



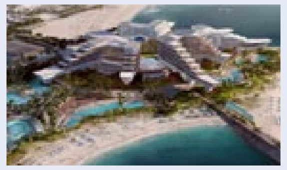
Excavation in Ijsselmeer - Netherlands

Second Suez Canal - Egypt

McDermott Aramco - KSA MCCL



Khalifa Port (Kizad) - Abu Dhabi, UAE



Dubai Island - Dubai, UAE

Service Harbour - Fujairah, UAE

Our Products continued

Certifications

Our products, processes and organisation are certified to the highest international standards and best industry practices.

1 Sustainable production methodology

Pioneering innovative solutions to reduce carbon footprint in steelmaking

Al Reyadah project: CO2 capturing project with ADNOC and Masdar to inject the CO2 in oil wells for oil extraction

2 Product certificates

1st Project in MENA region

Green hydrogen (Hydrogen produced from solar power plants) to enable production of green steel

Health product declaration (HPD)

Recycle Content (RC)

Environmental product declaration (EPE)

3 Documented for LEED certificates

(LEED v4.1: BD+C/ID+C)

Use of ES products, enable projects to get higher credits for LEED certification as ES is documented for LEED certification.

Emirates Steel is the only steel company in GCC to be successfully verified for LEED Documentation

4 Worldsteel Sustainability Charter and Climate Action Membership

A proud member of the recently-issued Worldsteel Sustainability Charter and Climate Action Membership - World Steel Association

5 Develop and implement Sustainability Management system

as per **CARES** Sustainable Constructional Steels (SCS) scheme

6 Implementing the highest international standards in green buildings

by achieving 80 and 82 points respectively (Platinum Rating) from LEED v4 for ESI HQ & WH

7 Complying with Estidama requirements

Estidama Pearl Rating

8 Quality assurance and certifications

02 Strategic Review

In this section:

Chairman's Statement

" Our 2022 results demonstrate the robustness of our business model and the immense value created through the merger."

Hamad Abdullah Al Shurafa Al Hammadi

Chairman
Emirates Steel Arkan

As we close a year of remarkable firsts, we look to the future with great confidence and ambition.

Following the landmark merger of Arkan Building Materials with Emirates Steel to form Emirates Steel Arkan, we now stand tall as a principal player in Abu Dhabi's manufacturing industry. We are committed to being a driving force in the long-term growth of the sector and its sustainable development to contribute to the realisation of the UAE's industrial strategy, which is vital to the economic diversification and prosperity of our nation.

As a sector leader, we place great value on making active contributions to the development of the UAE's manufacturing base. Our participation in the inaugural 'Make it in the Emirates' forum, which brought together leading organisations to foster partnerships and cooperations in the industrial sector, is testament to that.

Our 2022 results demonstrate the robustness of our business model and the immense value created through the merger. We successfully navigated various macroeconomic and sector challenges, proving the resilience of our business, and showcasing agility. Today, as a combined entity, we are stronger, more efficient, and more profitable.

We surpassed sales records to achieve our highest ever returns, we expanded into more markets than ever before, and we accelerated our sustainability programme while achieving unprecedented levels of operational safety.

Through our record performance, we have cemented our position at the forefront of the sector in the UAE while continuing to strengthen our international presence. In 2022, we increased the number of our exports market to over 70, and we have plans to take our globally competitive offering to further countries and beyond in 2023.

We have also solidified our proposition as one of the leading decarbonised steel manufacturers in the world. This provides an unprecedented opportunity to benefit from the rapidly growing demand for low-carbon steel and sustainable building materials.

Our focus on decarbonisation is a key priority ahead of COP 28 and beyond. We will continue to partner with government entities and industry leaders to play a vital role in the UAE's journey to achieve net zero emissions by 2050.

The achievements of this year and the strength of our business are a result of our focus on safety and empowering our talent at every level of the organisation. With more than 3,000 employees across 50 nationalities, we have an extraordinary wealth of diversity and expertise in our workforce, supported by our strong culture and shared values.

As we look ahead to 2023, our focus remains on enhancing shareholder value through the development of new foundations for growth. We aim to strengthen our position in the local market, expand regionally and internationally, explore new growth levers, and introduce a wider range of innovative and low emissions products and solutions to meet the growing demands of our customers.

On behalf of the Emirates Steel Arkan Board of Directors, I would like to thank our valued stakeholders who have contributed to our exceptional progress and success during this year. We are excited about the potential of our business in a dynamic global market and look forward to continuing our journey towards growth and sustainability.

Group CEO's Message

Saeed Ghumran Al Remeithi

Group Chief Executive Officer
Emirates Steel Arkan

Our remarkable successes following the merger of Emirates Steel and Arkan Building Materials have positioned us as a leading contributor to the UAE economy and an increasingly competitive presence in international manufacturing.

Our safety record, recognized by the World Steel Association in 2022, demonstrates our commitment to a safe workplace. We'll keep investing in safety strategies for the well-being of our employees and business success.

With Net profit of AED 510 million compared to a pro-forma loss of AED 637 million in 2021 and a year-on-year increase in Revenue of 10% to AED 9.5 billion, the combination of operational efficiencies, expansion into new markets and product diversification have shown that we are greater than the sum of our parts. Our Namaa cost reduction and transformation programme, stringent checks on inventories to reduce pricing risks and strict working capital controls also contributed to the Group's EBITDA of AED 1.2 billion. In addition, Emirates Steel Arkan's net bank borrowings decreased 52% to AED 1.1 billion.

The building materials business, which accounted for 9% of revenue in 2022, delivered a significant turnaround in its profitability, driven by higher cement and clinker prices and an increase in regional demand. Having completed the integration of legal and support functions to maximise synergies, the Group has grown its export market footprint and we are adding more value-added products to our portfolio. Emirates Steel Arkan not only delivered exceptional results in 2022, we have also paved the way for unprecedented expansion in the future.

With more than AED 11.5 billion worth of assets, the Group became the largest publicly traded steel and building materials company in the UAE and a national champion of the industrial sector. Having created a globally competitive entity, we have increased the number of our markets to 70 and, despite the international economic and geopolitical headwinds of 2022, the increasing reach of our products is testament to consumers' trust and preference for 'Made in UAE' products.

Our investment in sustainable products and practices, along with a commitment to social responsibility have also opened new avenues of revenue as the demand for more environmentally-friendly products increases. We have low-carbon initiatives which will continue to play a growing role in our key export markets and contribute to our 40% reduction in carbon emissions by 2030, in alignment with the nation's target of net zero by 2050.

Having substantially increased the number of our export markets by 25% last year across Europe, America, Asia, the Middle East and North Africa, our primary strategies are to seek new sources of revenue through diversifying our products and expanding geographically.

By broadening our product range to cater for manufacturing industries, we will continue to increase our customer base and reduce our exposure to volatility in the construction sector. We are working to introduce higher-value, higher-margin products that capitalise on our advanced technology processes, utilising highly-efficient direct reduction processes which have significantly improved environmental footprint compared to traditional coal-fired furnaces.

We will also continue to support the UAE's economic development and its major projects, including Etihad Rail and Guggenheim Abu Dhabi. With the nation's vibrant economy set to grow at a faster pace than the global average in the coming years, Emirates Steel Arkan will be even better placed to enter new territories and enhance the competitiveness of Emirati products.

As we established in 2022, the Group has enormously exciting long-term prospects. The organisational changes combined with our sustainable material and manufacturing strategies will help us navigate markets with greater resilience, helping to accelerate our growth through joint ventures, mergers and acquisitions across the region.

An example to this, we have introduced our customers to our planned output of ES600, a new ultra-high-strength high tensile steel rebar which will set new sustainability standards in the construction industry.

We pride ourselves on our commitment to Emiratization and developing local talent within our workforce. As always, we continue to invest in our employees' skills and knowledge to further drive Emirates Steel Arkan on its journey to greater growth. Our unrivalled talent plays a major factor in our success and their wellbeing is paramount across the Group. Our safety record is second to none and in 2022, we received Safety and Health Excellence Recognition from World Steel Association. Our unwavering commitment to safety is a top priority, and we are proud to have received the Safety and Health Excellence Recognition from the World Steel Association in 2022. We believe that our investment in our people, combined with our focus on safety, will continue to drive our success in the years to come.

We have seen a remarkable transformation as a new company and in 2023, we will continue to enhance operational efficiency, pursue environmental excellence, add value-added products and explore new areas of growth.

I would like to express my deep gratitude to our outstanding employees, our shareholders for their continuous support, our partners and to the Government of the UAE for their guidance in industrial development. My thanks also to our customers for their loyal and continued trust in us, as we continue on our growth journey moving forward.

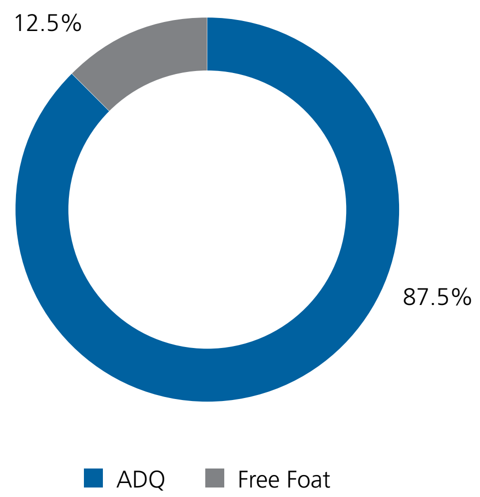
Our finished products are shipped to over 70 countries worldwide.

Shareholders' Information

Emirates Steel Arkan Share Information

Exchange	Abu Dhabi Securities Exchange (ADX)
Symbol	EMSTEEL
ISIN	AEA002801016
Number of shares issued	6.85 billion
Closing price as of 31 December, 2022	AED 1.59
Market cap as of 31 December, 2022	AED 10.9 billion (USD 3 billion)
Free float	12.5%

Ownership Structure



87.5% of Emirates Steel Arkan (ADX: EMSTEEL) is owned by ADQ, an Abu-Dhabi-based investment and holding company with a broad portfolio of major enterprises spanning across key sectors of the Emirate's diversified economy. 12.5% of the shares of Emirates Steel Arkan are free float.

The current ownership structure of Emirates Steel Arkan, the UAE's largest steel and building materials company, is the result of the 2021 merger between Emirates Steel Industries PJSC and Arkan Building Materials Company PJSC.

Prior to the merger, Arkan was a public company that had been listed on ADX since January 2007 (ADX: ARKAN). Arkan's majority shareholder was the General Holding Corporation PJSC (Senaat). Through Senaat's transfer to ADQ in March 2020, Arkan joined ADQ's asset portfolio.

The 2021 merger of Arkan with Emirates Steel, which was a wholly owned subsidiary of ADQ, brought ADQ's ownership to 87.5% of the total share capital of the merged entity.

CFO's Review

Stephen J Pope

Chief Financial Officer
Emirates Steel Arkan

During a year of continued transformation and accelerating achievement, Emirates Steel Arkan demonstrated the strength of our combined capabilities to deliver an excellent financial and operational performance.

Through the faithful execution of our strategy and the dedication of our workforce at every level of the organisation, we achieved robust growth in revenue and profitability, driven by greater operational efficiencies and higher selling prices, determined to deliver on our promises to shareholders and to continue creating sustainable value for our stakeholders.

Outstanding financial performance

The Group's revenue for the full year of 2022 rose to AED 9.5 billion, compared to pro-forma AED 8.6 billion in 2021. This growth was supported by our concerted efforts to diversify our sources of revenue, which resulted in the expansion of our international footprint to 70 countries, up from 56 countries at the end of 2021. EBITDA increased to AED 1.16 billion, a 51% increase compared to pro-forma AED 0.77 billion recorded in the previous year.

Net profit for the year was AED 510 million, an outstanding result compared to a pre-merger pro-forma loss of AED 89 million in 2021 - stated before non-cash impairment charges. This result was driven by higher selling prices, tighter cost controls and enhanced operational efficiencies.

As a result of challenging market conditions for the blocks range produced by the Building Materials Business, the Group established an impairment reserve of AED 150 million against the assets of the Emirates Blocks division. In addition, part of a provision booked in 2020 by Emirates Steel against its heavy section mill, in an amount of AED 150 million, was released. This reflects the substantial performance enhancements realised from our sections and sheet pile products, primarily driven by the enhanced export business to Europe and the Americas. For comparison, in 2021, the Group recorded impairment provisions of AED 700 million and AED 50 million, taken against goodwill and assets associated with the Cement Manufacturing Business and against its non-core associate investment, respectively.

Achieving growth across the business

Our Steel Business contributed 91% of Group revenues for the year, while our Building Materials Business comprised the balance of 9%.

Revenue from the Steel Business during 2022 rose to AED 8.6 billion, compared to AED 7.8 billion for 2021, bolstered by strong sales into Europe and the Americas, as well as an increased volume of orders in the UAE. The growth of revenue and profitability was supported by an increase of the average steel sales price and by higher volumes of heavy sections and sheet pile shipments, which increased 17% year on year to reach 523,000 tonnes.

The Building Materials Business delivered a significant turnaround in its profitability in the year, driven by higher cement and clinker prices and an increase in regional demand, as project activities picked up. On a stand-alone basis, the division delivered a pre-impairment net profit of AED 66.4 million for 2022, compared to a pre-impairment loss of AED 45.9 million in 2021. The increased profitability was further boosted by prudent cost controls. Exports of clinker totalled 738,000 tonnes during 2022, supported by intensified sales and marketing campaigns in the Indian subcontinent.

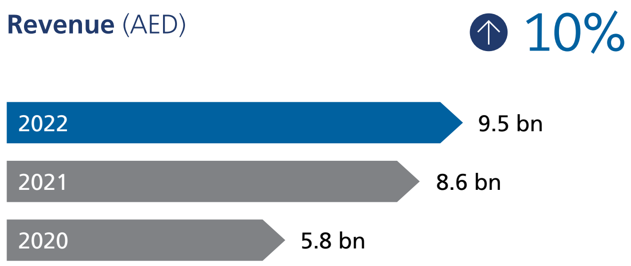
Driving cost efficiency and sustainability

The Group's cost reduction and transformation programme, Namaa, launched in 2021 continued to yield positive results, as a key part of our drive to enhance operational efficiency and profitability. In 2022, Namaa initiatives contributed around AED 400 million to our EBITDA.

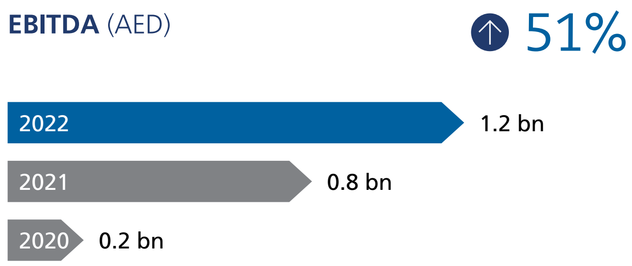
In addition, we succeeded in reducing our debt levels during the year, reflecting our increased profitability and strict working capital controls. As of year-end 2022, our net bank borrowings stood at AED 1.1 billion, a 52% decrease compared to the AED 2.3 billion at the end of the previous year.

During the year, we also made significant progress in mapping our comprehensive net zero plan, which will be fully aligned to the UAE's carbon reduction targets. This was complemented by a wide range of other significant strides in ESG, as we aim to build a more sustainable organisation that will be at the forefront of our industry, creating value for all our stakeholders in a responsible manner moving forward.

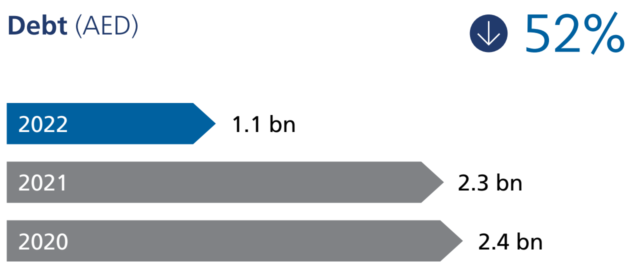
Revenue (AED)



EBITDA (AED)



Debt (AED)



Steel

Production, kt	2022	2021	Change,%	2020
Crude Steel	**3,211**	3,021	6.3%	2,722
Finished Steel Products	**2,711**	2,486	9.1%	2,275

Sales, kt	2022	2021	Change,%	2020
Finished Steel Products + Billets	**3,159**	2,835	11.4%	2,661
Billets	**447**	358	24.9%	335
Finished Steel Products, incl:	**2,712**	2,477	9.5%	2,325
Rebar	**1,676**	1,552	8.0%	1,359
Wire Rod and Rebar in Coil	**512**	477	7.3%	489
Heavy Sections and Sheet Piles	**523**	448	16.7%	477

Finished Steel Products Sales Geography	2022	2021	Change,%	2020
Domestic	**61%**	55%	+6pp	64%
Export	**39%**	45%	-6pp	36%

Cement and Clinker

	2022	2021	Change, %	2020
Production (kt)				
Clinker	**3,244**	2,894	12%	2,653
Cement	**1,568**	1,832	-14%	2,141
Sales (kt)				
Clinker	**1,764**	1,476	20%	982
Cement	**1,662**	1,925	-14%	2,133

03 Sustainability Snapshot

In this section:

Sustainability Snapshot

Emirates Steel Arkan published a full scope Sustainability Report 2022, our first sustainability report since the merger of Emirates Steel and Arkan. As a complementary report to our Integrated Annual Report 2022, it presents a comprehensive overview of our approach to establishing sustainability as a key strategic focus and integral part of our daily operations.

Our Sustainability Report discloses Emirates Steel Arkan's performance for 2022 across all units under our direct control in Abu Dhabi, in alignment with GRI Standards, CARES SCS Scheme requirements, and ADX requirements and WSA sustainability indicators. In it, we highlight our achievements and sustainability programmes, in addition to economic, environmental, and social and governance (ESG) performance, with respect to the relevant topics of material importance to us and to our stakeholders.

Materiality Assessment Results

In line with our materiality assessment results, we identified 25 topics that our management and stakeholders believe are important to report on. Hence, our performance on these material topics and our approach for managing them are presented in our sustainability report. These topics are: Rank Topic

Material Topics

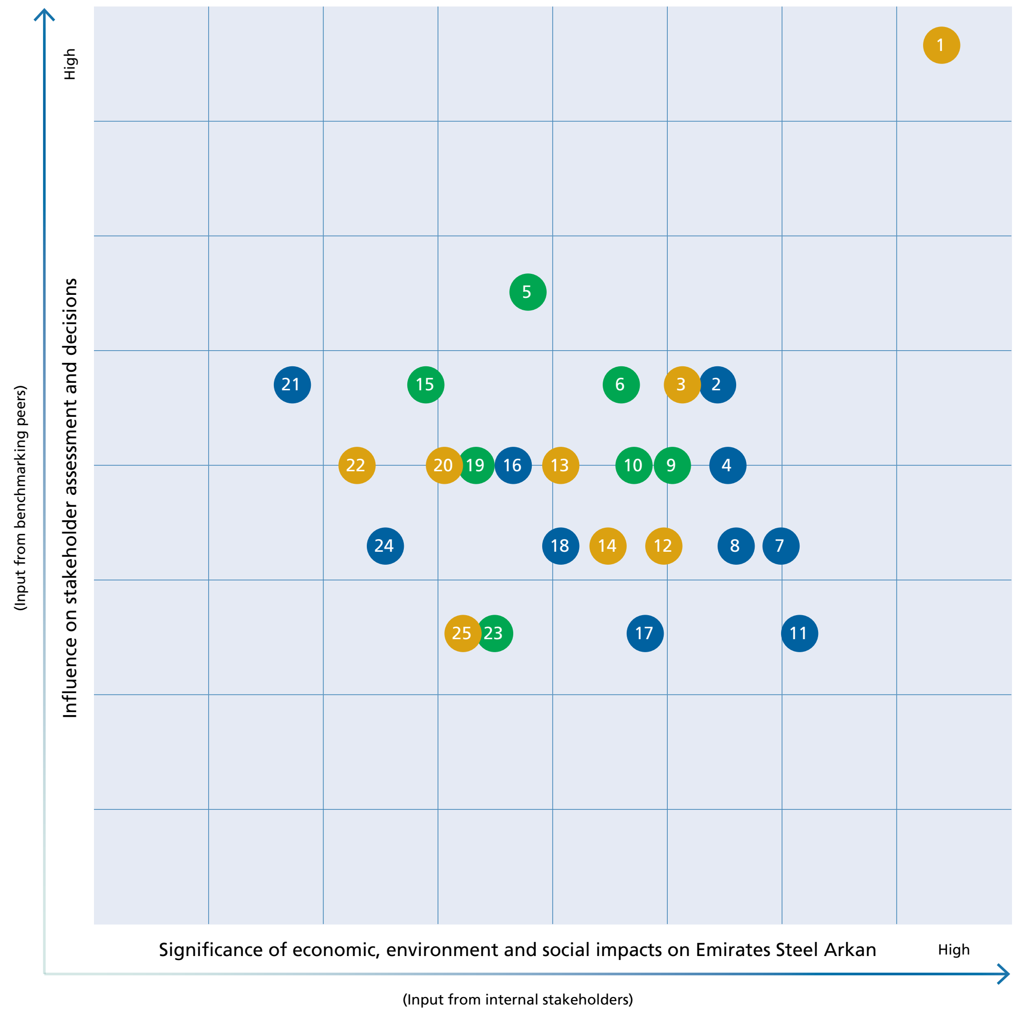
1. Occupational Health and Safety
2. Product and Service Quality
3. Customer Satisfaction
4. Business Integrity and Ethics
5. Emissions
6. Waste
7. Operational Efficiency
8. Economic Performance
9. Energy
10. Environmental Compliance
11. Stable Production and Supply
12. Standards and Health and Safety (HS) Regulatory Compliance
13. Training and Education
14. Emergency Preparedness
15. Water and Effluents
16. Supply Chain Management
17. Product Cost
18. Market Presence
19. Environmental Controls and Management Systems
20. Employment and Fair Compensation
21. Technology, Product and Process Innovation
22. Local Communities
23. Materials
24. Socioeconomic Compliance
25. Emiratisation (Nationalisation)

Materiality Assessment and Matrix

Materiality Matrix

The materiality matrix below represents our 25 material topics, incorporating the input from our internal stakeholders on the X-axis and the input from the peer benchmarking analysis on the Y-axis.

For more information about our maturity assessment, please refer to the Appendices in our 2022 Sustainability Report.



Rank

Economic / governance topics

Environmental topics

Social topics

2022 Highlights

During 2022, Emirates Steel Arkan signed the UAE Climate Responsible Companies pledge with the ultimate goal to reach net zero by 2050. Some of our environmental achievements include receiving an "A" grade in the Ministry of Environment and Climate Change's annual assessment of our Cement units and aligning our integrated policy with the energy commitments outlined in ISO 50001 Energy Management Systems.

At the same time the safety and well-being of our people remains our utmost priority. We reported 16 million safe man-hours and a record-low Lost Time Injury Frequency Rate (LTIFR) of 0.05 for the second year in a row. Our LTIFR is significantly lower than the World Steel Association average of 0.81.

Emirates Steel Arkan keeps pace with cutting-edge technologies and trends to maintain the Group's industry stronghold and persistently create sustainable, safe and high-quality products. Throughout the year we continued to deliver on our commitment to enhance the competitiveness of Emirati products and strengthened the Group's presence to 70 global markets in 2022. Innovation is our priority and is highlighted by the introduction of our new product, ES600, which is expected to propel the industry and economy to the next level as the world moves towards utilising stronger rebars in construction.

Creating Shared Value

AED 9.5bn
Revenue rose 10% year on year in 2022 to AED 9.5 billion, compared to a pro-forma AED 8.6 billion in 2021

AED 508.5m
Net profit increased to AED 508.5 million in 2022 from a pre-merger pro-forma loss of AED 636.7 million in 2021

Zero complaints
Had zero complaints against Emirates Steel Arkan from our suppliers

AED 400m
The Group's "Namaa" cost reduction and transformation programme, launched in 2021, continued to yield positive results, contributing some AED 400 million to the Group's EBITDA.

No monetary
sanctions or cases of non-compliance with laws and regulations were recorded

AED 2,714m
A total of AED 2,714 million spent with local suppliers by the Steel, PVC, Bags and Blocks Businesses

80%
80% Supplier satisfaction rating

88%
88% of our local suppliers are ICV-certified

Producing Sustainable, Safe and High-Quality Products

92.5%
92.5% customer return rate

Global reach
for our products to 70 markets

AED 15,803,743
AED 15,803,743 savings from implementing employee ideas through our ThinkSmart platform

AED 3,380,413
AED 3,380,413 spent on R&D

Caring for People

161,414
161,414 hours of training delivered in Steel businesses

99%
Increase in training hours since 2021 in Steel businesses

23
23 hours of training per employee delivered at the Building Material businesses

61
61 hours of training per employee delivered in Steel businesses

57
57 emergency response drills successfully conducted

16m
16 million safe man-hours

AED 741,204
spent on CSR

Received **Safety excellence award** from World Steel Association

Preserving the Environment

"A" grade
in the Ministry of Environment and Climate Change's annual assessment

1,100 trees
Planted 1,100 trees

- Our Cement plant was awarded the Electrical Tariff Incentive Programme (ETIP) certificate with **"Excellent" rank**
- **7,272,000 GJ** energy consumption from clean energy sources (nuclear and solar)
- **2% decrease** in energy consumption intensity in our Steel Businesses
- Our Group CEO signed the UAE Climate-Responsible Companies Pledge
- Updated our company integrated policy to cover the commitments to energy in line with ISO 50001 (Energy Management System).

For more information about Sustainability and ESG at Emirates Steel Arkan, please refer to our 2022 Sustainability Report available on our website (emiratessteelarkan.com/investor-relations/).

04
Corporate Governance Report

In this section:

Based on the Securities and Commodities Authority's Board Resolution No. (03/RM) of 2020 Pertaining to Corporate Discipline and Public Joint Stock Companies' Governance.

Corporate Governance Report

Governance Overview

Statement of procedures taken to complete the Corporate Governance System, during 2022, and the procedures for the implementation thereof.

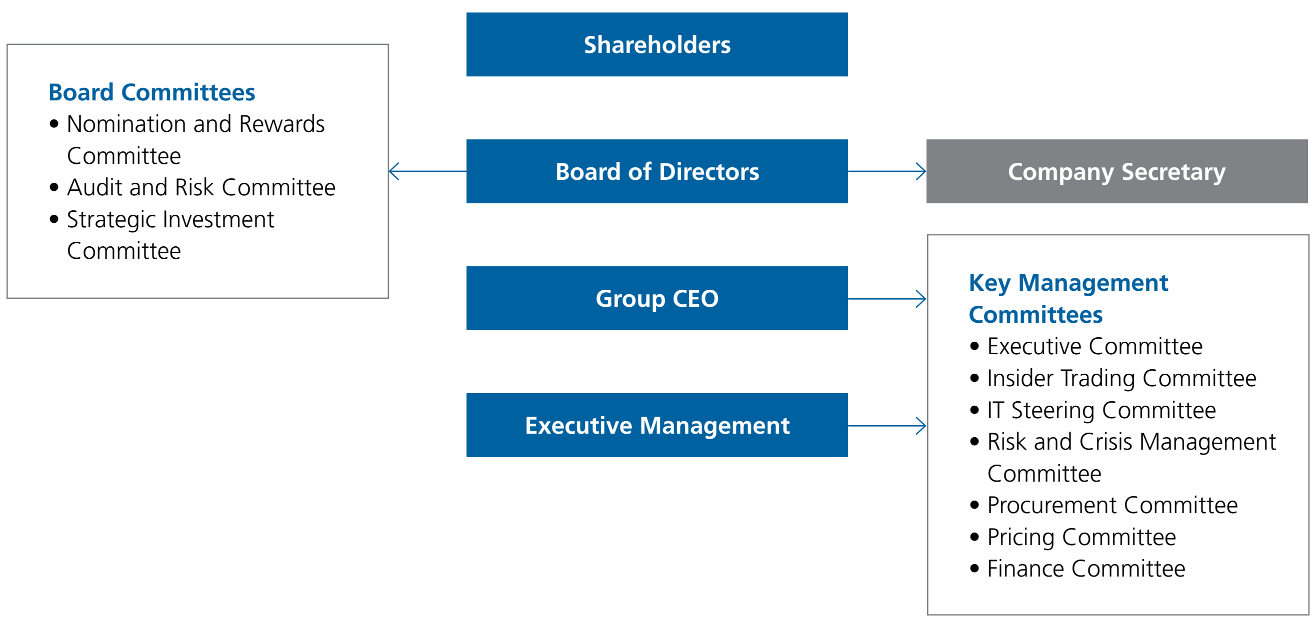
The shareholders have entrusted the affairs of the Group to the Board of Directors. The Group comprises of Arkan Building Materials Company PJSC and its subsidiaries (including Emirates Steel Industries PJSC) and associate investments (collectively "the Group").

The Group recognises its role as a corporate citizen and endeavours to adopt best practices and the highest standards of corporate governance through transparency in business ethics and accountability to its stakeholders. The Group's activities are carried out in accordance with good corporate practices and the Group is constantly striving to enhance them. The Group believes that governance practices enable management to direct and control the affairs of the Group in an efficient manner and to achieve its goal of maximising value for its stakeholders. The Group seeks and strives to focus its resources, strengths, and strategies to achieve its vision, while upholding the core values of transparency, integrity, honesty, and accountability, which are core to its vision. We believe that a solid foundation of good corporate governance and business ethics significantly contributes to our Group's ability to compete effectively and realise our full value potential. This means leadership by a management team of uncompromising integrity under disciplined oversight from our Board of Directors, a commitment to shareholder and stakeholder engagement, and creation of sustainable value through business fundamentals, corporate social responsibility, and health, safety environmental stewardship.

The Group complies with the requirements of the 'Chairman of Authority's Board of Directors' Resolution No. 3 of 2020 concerning the approval of joint-stock companies.

a. Group Governance Structure

An overview of the governance structure of the Group is set out below:



b. Elements of Corporate Governance

- All board members except one are independent.
- Corporate Balanced Score Card is in place which is agreed with the Board of Directors at the beginning of the year. The Balanced Score Card has key financial and non-financial indicators covering all key performance dimensions.
- 3 committees (Audit and Risk Committee, Nomination and Rewards Committee and Strategic Investment Committee) comprised of independent board members have been constituted by the Board of Directors. The mandate and responsibilities of these committees are clearly defined in respective charters. These committees meet on a regular basis.
- Business plan is developed and approved by the Board of Directors.
- A detailed Delegation of Authorities Manual has been developed and approved by the Board of Directors. The document clearly establishes the authorities of the Board of Directors and various levels of management for all key transactions.
- Policies have been developed to govern all key areas of business including finance, information technology, human capital, procurement, and sales. These policies are approved by the Board of Directors. Further procedures have been developed to support the implementation of these policies. The policies and procedures are required to be reviewed every 2 years to ensure they remain current and applicable. Further work instructions have been developed for detailed tasks across support functions and operations to guide staff in the execution of their responsibilities.
- Detailed policies and procedures are in place that govern the functioning of the Executive Committee, Insider Trading Supervision Committee, Information Technology Steering Committee, Risk and Crisis Management Committee, Pricing Committee and Procurement Committee. Further detailed policies are in place around whistleblowing, code of conduct, anti-bribery and corruption, conflict of interest and related party and compliance related transactions and activities.
- The Risk and Business Continuity function is in place. The activities of the function are dictated by the Risk Policy and appropriate procedures which are benchmarked to international standards and local regulatory requirements. The Risk function is involved in carrying out risk assessments across the risk universe which covers all areas across the Group.
- A robust Internal Audit (IA) function is in place. The Group Head of Internal Audit reports directly to the Audit and Risk Committee and the activities of the Internal Audit function are carried out as per the risk based Internal Audit Plan. The IA department further carries out advisory engagements as per the request of stakeholders. Actions agreed, in response to Internal Audit findings, are followed up rigorously by the executive team on a regular basis.
- Legal, Compliance, Quality Assurance, and Health, Safety and Environment functions are in place and carry out their activities as mandated.

Developments during 2022

To effectively support and implement the Group Governance Structure the following documents were revised (where applicable) and rolled out during 2022 post approval of the designated authorities:

- Delegation of Authorities Manual
- Board of Directors Charter
- Audit and Risk Committee Charter
- Strategic Investment Committee Charter
- Nomination and Remuneration Committee Charter
- Insider Trading Supervision Committee Charter
- Information Technology Steering Committee Charter
- Risk and Crisis Management Committee Charter
- Pricing Committee Charter
- Procurement Committee Charter
- Whistleblowing Policy
- Code of Conduct Policy
- Anti-bribery and Corruption Policy
- Finance Policy
- Conflict of Interest and Related Party Policy
- Compliance Policy and Procedure Manual

The above documents were developed incorporating leading practices and were reviewed by relevant stakeholders prior to approval.

The Whistleblowing platform was revamped and rolled out during the year. This platform is available to all employees, customers and suppliers and is also available to other stakeholders on the Group website.

Stock Transactions with Board Members

Statement of ownership and transactions of the Board of Directors (the Board) members, their spouses, and their children in the Company securities during 2022.

All members of the Board of Directors are committed to the provisions of the law, regulations and decisions issued pursuant to their dealings in the Company's securities. The following are the insider trades and statement reports for the year ended 31 December 2022 as provided in the letter received from Abu Dhabi Securities Exchange on 6 February 2023:

Name	Position / Relationship	Shares Owned as at 31 December, 2022	Total Sales	Total Buying
Fatima Abdullah Muhammad Sharif Abdullah Al Fahim	Member of the Board of Directors	1,500	-	-

Board of Directors and Related Information

a. Statement of current Board of Directors

The composition of the Board of Directors of the Group was changed during the General Assembly Meeting held on 4 November 2021.

Hamad Abdullah Mohammed Al Shurafa Al Hammadi

Independent non-executive member

Experience

17+ yrs.

Qualifications

Bachelors Degree in Accounting and Finance

Tenure as Company Board Member from First Election

From 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies

- Chairman of the Board of Directors of Arkan Building Materials Company
- Chairman of the Board of Directors of the Emirates Water and Electricity Company
- Member of the Board of Directors of the Abu Dhabi National Energy Company
- Member of the Board of Directors of T'aziz Company

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience

- Head of the Energy, Utilities and Manufacturing verticals at ADQ Holding Company

Jamal Salim Al Dhaheri

Independent non-executive member

Experience

27 yrs.

Qualifications

Bachelor of Engineering Management Sciences

Master's Degree in Business Administration from Zayed University

Tenure as Company Board Member from First Election

From 29 April 2015 to date

Membership and Designations in any Other Joint Stock Companies

- Member of the Board of Directors of Arkan Building Materials Company
- Chairman of the Ducab Board of Directors
- Chairman of Silal Company

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience

- N/A

Board of Directors and Related Information

Abdulaziz Abdulla Ismail Mohamed Alhajri

Independent non-executive member

Experience
34 yrs.

Qualifications
Bachelor's Degree in Chemical Engineering from the University of Texas at Austin

Tenure as Company Board Member from First Election
From 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies
- Member of the Board of Directors of Arkan Building Materials Company
- Member of the Board of Directors of ADNOC Distribution
- Member of the Board of Directors of Borouge

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience
- Member of the Board of Directors of ADNOC Refining

Saeed Ghumran Saeed Salim Al Remeithi

Non-independent executive member

Experience
22 yrs.

Qualifications
Bachelor of Science in Electrical Engineering from California State University

Tenure as Company Board Member from First Election
From 27 April 2017 to 21 April 2021 and from 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies
- Member of the Board of Directors of Arkan Building Materials Company
- Chairman of the Board of Directors of Al Gharbia Pipe Company (UAE)
- Chairman of Emirates Steel Industries PJSC

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience
- Group CEO – Emirates Steel Arkan
- Head of the Economic Committee of the World Iron and Steel Organisation
- Deputy Treasurer on the Board of Directors of the Abu Dhabi Chamber of Commerce and Industry
- Member of the Board of Directors of the Arab Iron and Steel Union

Board of Directors and Related Information

Farah Abdullah Muhammad Ali Al Mazrui

Independent non-executive member

Experience
14 yrs.

Qualifications
Master's Degree in Risk Management and Financial Engineering from Imperial College London

Bachelor's Degree in Economics from University of London

Tenure as Company Board Member from First Election
From 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies
- Member of the Board of Directors of Arkan Building Materials Company
- Member of the Board of Directors of RAK Ceramics

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience
- Head of Investments at Aliph Capital Limited

Fatima Abdullah Muhammad Sharif Abdullah Al Fahim

Independent non-executive member

Experience
16 yrs.

Qualifications
Master's Degree in Business Administration from University of Pennsylvania

Bachelor's Degree in Business Administration from American University of Sharjah

Tenure as Company Board Member from First Election
From 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies
- Member of the Board of Directors of Arkan Building Materials Compan

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience
- Senior Principal – Technology at Mubadala Investment Company

Board of Directors and Related Information

Nabeel Qadir

Independent non-executive member

Experience

21 yrs.

Qualifications

Chartered Financial Analyst – CFA

Bachelor's Degree in Administration Studies from York University, Canada

Tenure as Company Board Member from First Election

From 4 November 2021 to date

Membership and Designations in any Other Joint Stock Companies

- Member of the Board of Directors of Arkan Building Materials Company
- Member of the Board of Directors of General Holding Company P.J.S.C. " Senaat"
- Member of the Board of Directors of Abu Dhabi Chemical Derivatives Company RSC LTD "TA'ZIZ"

Designations in any Other Supervisory, Government or Other Commercial Offices

Qualifications and Experience

- Chief Strategy Officer at Abu Dhabi Growth Fund "ADG"

b. Board Induction and Training

The Nominations and Remuneration Committee has established on-boarding procedures whereby all newly appointed board members are provided with a customised and tailored induction session on the Group and its businesses as well as other subjects that will assist them in properly performing their duties.

c. Female Representation on the Group's Board of Directors for the fiscal year 2022

The female representation on the Group's Board of Directors on 31 December 2022 was 28%.

d. Board of Directors Remuneration

The remuneration of board members is determined as per Article 29.8 of the Company's Articles of Association, which states the remuneration of the Chairman, and the Board members shall be a percentage of the net profits that shall not exceed 10% of the net profits for the concerned financial year. Additional amounts can be paid as expenses, fees, additional remuneration or a monthly salary in amounts determined by the Board for any of its members if such member is also a member of any committee or exerts any special efforts or carries out any additional work for the benefit of the entity that is in addition to his/her normal duties as a member of the Board. No allowance shall be paid to the Chairman or any member of the Board for attending board meetings. The Annual General Assembly at its meeting held on 20 April 2022 approved a total remuneration for the Board and its committees in an amount of AED 1,003,970 (including Value Added Tax) for the year ended 31 December 2021.

The Board is scheduled to meet on 3 March 2023 where the amounts for the Board and Board committee fees will be proposed for the year ending 31 December 2022, which will then be presented for the approval of the shareholders at the Annual General Assembly meeting, and to be validated by legal and finance.

e. Board of Directors Meetings

#	Meeting Date	No. of Attendees	No. of Attendees by Proxy	Absent Members Names
1	21 Jan 2022	7	-	
2	14 Feb 2022	6	-	Fatima Abdullah Muhammad Sharif Abdullah Al Fahim
3	24 Mar 2022	6	1	Fatima Abdullah Muhammad Sharif Abdullah Al Fahim
4	9 May 2022	6	1	Abdulaziz Abdulla Ismail Mohamed Alhajri
5	1 Aug 2022	7	-	
6	31 Oct 2022	7	-	

* The reasons for absence and acceptance of a board member were verified by the Board

f. The number of board resolutions issued by passing during the fiscal year 2022 with an indication of the dates of their holding

The board passed 1 (one) resolution by circulation during 2022 on 18 April 2022.

g. Statement of Board duties and mandates performed by a board member or a member of executive management during 2022 based on board authorisation along with identifying the term and validity of authorisation according to the following schedule

There were no special tasks delegated to any of the Board members or executive management during 2022 other than those delegated in the normal course of business.

h. Statement of the details of the transactions that took place with the related parties (stakeholders), with a description of the nature of the relationship and the type of transaction

Statement of the Related Party	Clarification of the Nature of the Relationship	Type of Transaction	Value of the Transaction, AED
Abu Dhabi Distribution Company PJSC	Sister company	Electricity and water expenses	497,207,464
Abu Dhabi Ports Company PJSC	Sister company	Clearance and export charges	41,863,599
Abu Dhabi Marine Services Safeen LLC (ADPMS)	Sister company	Transhipment charges	99,084,234
Zones Corp Infrastructure Fund	Sister company	Purchase - natural gas	36,946,926
Abu Dhabi National Exhibitions Company PJSC (ADNEC)	Sister company	Exhibitions	240,203
National Health Insurance Company PJSC (Daman)	Sister company	Medical insurance cost	24,734,991
Al Ain Foods & Beverages PJSC	Sister company	Drinking water	1,029,494
SENAAT – Corporate and other expenses	Parent company	Interest expenses	644,038
Alain Distribution Company PJSC	Sister company	Electricity cost	59,088,765
Abu Dhabi Media Company PJSC	Sister company	Advertisements	133,339
Abu Dhabi Securities Exchange PJSC (ADX)	Sister company	ADX fees	103,500

i. Organisation Chart (approved by the Board of Directors as of 31 December 2022)

The Internal Audit function reports directly to the Audit and Risk Committee and administratively to the Group CEO. Compliance and Risk functions have a direct reporting line to the Audit and Risk Committee.

j. Detailed statement of senior executive employees in the Company, their designations and dates of appointment

#	Name	Major	Designation	Nationality	Date of Birth	Joining Date	Years of Experience
1	Saeed Ghumran Al Remeithi	Bachelor of Science in Electrical Engineering	Group Chief Executive Officer	UAE National	19 Jan 1975	07 Jan 2001	20
2	Abdulaziz Mohamed Asad	Master's in Quality Management Bachelor of Electrical Engineering	Arkan General Manager	UAE National	01 Jun 1967	15 May 1991	31
3	Saeed Khalfan Ali Al Ghafri	Master's in Strategy Development	Chief Supply Chain and Planning Officer	UAE National	22 Jan 1980	06 Jun 2006	17
4	Jasem Mohamed Rashed Al Khateri	Executive Master's in Business Administration (EMBA)	Chief Human Capital Officer	UAE National	13 Nov 1976	02 Apr 2017	21
5	Hassan Salim Rawhi Sha'sha'a	Master's in Chemical Engineering	Chief Strategy and Transformation Officer	Jordanian	30 Jan 1954	01 Aug 2007	40
6	Stephen John Pope	Bachelor of Science in Business Studies	Chief Financial Officer	British	19 Jul 1960	5 Mar 2007	37
7	Medhat Hashem	Master's in Metallurgical Engineering	Acting Chief Operating Officer - ESI	Egypt	29 Jan 1972	16 Dec 2006	25

#	Name	Designation	Aggregate Salaries with Allowances for 2022 AED	Annual Rewards (bonuses) Paid during 2022 AED
1	Saeed Ghumran Al Remeithi	Group Chief Executive Officer	3,193,311	2,091,600
2	Abdulaziz Mohamed Asad	General Manager Arkan	1,836,000	355,392
3	Saeed Khalfan Ali Al Ghafri	Chief Supply Chain and Planning Officer	1,926,718	582,300
4	Jasem Mohamed Rashed Al Khateri	Chief Human Capital Officer	1,693,615	550,800
5	Hassan Salim Rawhi Sha'sha'a	Chief Strategy and Transformation Officer	1,800,000	675,000
6	Stephen John Pope	Chief Financial Officer	2,151,577	675,000
7	Medhat Hashem	Acting Chief Operating Officer - ESI	1,036,292	217,370

All values are actual cash paid in the year 2022 excluding gratuity, employer contribution to pension, and medical and life insurance for continuing senior executives.

External Auditor

a. About the External Auditor

Deloitte & Touche (M.E.) is one of the largest professional services firms globally and one of the big 4 audit firms alongside KPMG, EY, and PwC. Its key international place of business is in the United Kingdom. It employs 412,000 personnel worldwide. The firm provides services such as audit, tax, consulting, and risk management. The Group appointed Deloitte & Touché as its external auditor on 15 March 2018 i.e., since the second quarter of 2018.

During 2022, the external auditor did not provide any services other than auditing the Group's financial statements.

b. Statement of the fees and costs of the audit or the services provided by the external auditor

Name of the firm	Deloitte & Touche (M.E.)
Number of years lapsed as Group's external auditor	5 years
Number of years lapsed for auditing of the Group's accounts by the same audit partner	1 year
Total audit fees for 2022 (AED) (Arkan and Emirates Steel)	AED 805,000
Fees and costs of other special services other than auditing financial statements for 2022 (AED) (Arkan and Emirates Steel)	AED 225,000
Details and nature of other rendered services	A report on the effectiveness of the Internal Control Systems for the preparation of financial statements in accordance with the requirements of the Abu Dhabi Accountability Authority, at a cost of AED 225,000
Statement of other services provided by another external auditor other than the Group's external auditor during 2022	None

c. Statement clarifying the qualifications that the Group's auditor included in the interim and annual financial statements for the year 2022 and in the absence of any reservations, this must be mentioned explicitly

- Q1, 2022: There are no qualifications included in the auditor's review report on the Group's consolidated financial statements for the first quarter of 2022.
- Q2, 2022: There are no qualifications included in the auditor's review report on the Group's interim financial statements for the second quarter of 2022.
- Q3, 2022: There are no qualifications included in the auditor's review report on the Group's interim financial statements for the third quarter of 2022.
- 2022 Annual Report: The auditor's report for 2022 has been issued with a clean opinion.

Audit and Risk Committee

a. Acknowledgement and Roles

Abdulaziz Abdulla Alhajri, the Chairman of the Audit and Risk Committee, acknowledges his responsibility for the committee system in the Company and for his review of its work mechanisms and for ensuring its effectiveness.

The current Audit and Risk Committee was constituted on 11 November 2021. The Audit and Risk Committee currently comprises the following 3 members who are all independent and non-executive board members.

1. Abdulaziz Abdulla Alhajri – Chairman
2. Fatima Abdullah Al Fahim – Member
3. Nabeel Qadir – Member

b. Meetings of the Audit and Risk Committee during 2022

During 2022, the Audit and Risk Committee convened 8 meetings as set out below.

Name	5 Jan 22	4 Feb 22	14 Feb 22	8 Mar 22	18 Apr 22	9 May 22	27 Jul 22	26 Oct 22	Attendance
Abdulaziz Abdulla Alhajri	✓	✓	✓	✓	✓	✓	✓	✓	8/8
Fatima Abdullah Al Fahim	✓	✓	×	✓	×	✓	✓	✓	6/8
Nabeel Qadir	✓	✓	✓	✓	✓	✓	✓	✓	8/8

c. Key Responsibilities

The role and responsibility of the Audit and Risk Committee is defined in its Charter which is approved by the Board of Directors. The Charter defines the role of the committee in terms of:

- Review of financial statements.
- Internal controls, governance and Risk Management Framework.
- Reports from external agencies including Government.
- Compliance, whistleblowing and fraud.
- Internal Audit.
- External auditor.
- Risk management.
- Self-evaluation.
- Reporting to the Board of Directors

Nomination and Rewards Committee

a. Acknowledgement and Roles

Jamal Salem Obaid Al Dhaheri, the Chairman of the Nominations and Rewards Committee, acknowledges his responsibility for the committee system in the Company and for his review of its working mechanism and ensuring its effectiveness.

The current Nomination and Rewards Committee was constituted on 11 November 2021. The Nomination and Rewards Committee currently comprises the following 3 members who are all independent and non-executive board members.

1. Jamal Salim Al Dhaheri – Chairman
2. Farah Abdullah Muhammad Al Mazrui – Member
3. Nabeel Qadir – Member

b. Meetings of the Nomination and Rewards Committee during 2022

During 2022, the Nomination and Rewards Committee convened 4 meetings as set out below.

Name	14 Mar 22	25 Jul 22	29 Nov 22	23 Dec 22	Attendance
Jamal Salim Al Dhaheri	✓	✓	✓	✓	4/4
Farah Abdullah Muhammad Al Mazrui	✓	✓	✓	✓	4/4
Nabeel Qadir	✓	✓	×	✓	3/4

c. Key Responsibilities

The role and responsibility of the Nomination and Rewards Committee is defined in its Charter which is approved by the Board of Directors. The Charter defines the role of the committee in terms of:

- Nomination of membership of the Board and executive management.
- Remuneration, entitlements, and incentives, if any, for the Board and board committees on an annual basis.
- Annual performance evaluation of the Board, its members, and committees.
- Development and awareness programmes for members of the Board.
- Verification of independence of board members.
- Remuneration of senior management and staff.
- Determining targets for any performance related pay schemes.
- Changes in Human Capital Policy and high-level organisation structure.
- Self-evaluation.
- Reporting to the Board of Directors.

Strategic Investment Committee

a. Roles

The current Strategic Investment Committee was constituted on 11 November 2021. The Strategic Investment Committee currently comprises the following 3 members who are all independent and non-executive board members.

1. Nabeel Qadir – Chairman
2. Farah Abdullah Muhammad Al Mazrui – Member
3. Abdulaziz Abdulla Alhajri – Member

b. Meetings of the Strategic Investment Committee during 2022

During 2022, the Strategic Investment Committee convened 10 meetings as set out below.

Name	7 Jan 22	14 Jan 22	31 Jan 22	15 Mar 22	14 Apr 22	15 Jun 22	30 Jun 22	22 Jul |22	7 Oct 22	11 Nov 22	Attendance
Nabeel Qadir	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Farah Abdullah Muhammad Al Mazrui	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	10/10
Abdulaziz Abdulla	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10

c. Key Responsibilities

The key role and responsibility of the SIC in terms of the Delegation of Authority Manual of the Company would include review and endorsement of the following prior to approval by the Board of Directors:

- Corporate strategy, medium and long-term business plans including the 5-year business plan.
- Annual plan and budget and amendments thereto (incl. assumptions).
- Project feasibility studies and budgets.
- Changes in capital structure - incremental bank / credit facilities and guarantees, issue of shares and issue of bonds/sukuk.
- Bank mandate (incl. bank signatories, limits, letters of credit, and guarantees).
- Investment protocols (investment in equity or debt instruments, derivatives, associates, REIT and others).
- Opening and closing bank accounts.
- Bank signatory and limits.

The SIC Charter, approved by the Board of Directors, outlines the scope of the SIC's activities by detailing its roles and responsibilities pertaining to investment activities across 3 main categories: organic growth investments, inorganic growth investments and treasury investments. The SIC is not a permanent committee and is to be convened on a need basis at the discretion of the Board.

Insider Trading Supervision Committee

a. Roles

The current Insider Trading Supervision Committee was constituted on 11 December 2021. The Strategic Investment Committee currently comprises the following 4 members

1. Stephen Pope (Group Chief Financial Officer) – Chairman
2. Walid El Helaly (Head of Legal and Compliance) – Member
3. Gleb Diachkov-Gertcev (Head of Investor Relations) – Member
4. Vikas Puri (Group Head of Internal Audit) – Member

b. Meetings of the Insider Trading Supervision Committee during 2022

During 2022, the Insider Trading Supervision Committee convened 1 meeting as set out below.

Name	29 Dec 22	Attendance
Stephen Pope	✓	1/1
Walid El Helaly	✓	1/1
Gleb Diachkov-Gertcev	✓	1/1
Vikas Puri	✓	1/1

c. Key Responsibilities

The ITSC is responsible to establish, publish and enforce effective procedures applicable to the purchase and sale of the Company's shares by insiders, designed not only to prevent improper trading, but also to avoid any question of the propriety of insider purchases or sales. The ITSC shall undertake the following roles and responsibilities:

- Preserve the reputation and integrity of the Company as well as that of all persons affiliated with the Company.
- Ensure no person with material, non-public information about the Company can purchase or sell any Company securities.
- Maintain and monitor Insiders' Register on a quarterly basis (i.e., an updated list of insiders / covered persons and their owned securities, investor numbers (if available), undertakings, pre-clearance of trade) and inform the Board regarding any changes.
- Provide an updated list of insiders / covered persons to relevant authorities at the beginning of the fiscal year and whenever amendments are made.
- Review changes to the applicable laws frequently and update the Insider Trading Policy accordingly.
- Establish a pre-clearance procedure of all trades by all officers, directors and certain employees to protect employees from insider trading liability.
- Define trading blackout periods during which employees trading is restricted (especially during announcements of financial results or transaction-based events, such as a merger).
- Communicate the Securities Dealing Policy (once applicable) including insider trading policies to all employees regularly and conduct routine trainings.
- Define penal consequences for violating Insider Trading Policy (i.e., disciplinary action up to termination of employment, relationship or lawsuit).
- Conduct enquiries / investigations regarding alleged violations of the Securities Dealing Policy.

Internal Control Systems

a. Acknowledgment

The Group's Internal Control System aims to ensure the ability of the Board of Directors and management to achieve the Group's business goals and contribute to protecting shareholders' investments and the Group's assets.

The objective of the Group's Internal Control Framework is to ensure that internal controls are established, policies and procedures are properly documented, maintained, and adhered to, and are incorporated by the Group within its normal management and governance processes. It also acknowledges that this system is designed to reduce the risks of failure to achieve the Group's business goals and not eliminate them permanently and thus provides reasonable and not absolute assurance of the error of financial statements or serious losses. The Group has also established formal procedures whereby the main risks faced by the Group are continuously identified and managed with an estimate of their potential impact.

The Board of Directors acknowledges its responsibility for the Internal Control System, its independence in the Group, and its review and effectiveness.

b. Group Head of Internal Audit - Qualifications, experience and date of appointment

Vikas Puri was appointed by the Audit and Risk Committee as Group Head of Internal Audit with effect from 18 April 2022 in terms of the authority delegated to the committee by the Board of Directors. Previously, he served as the Head of Internal Audit for Emirates Steel Industries PJSC from 2012. He is a Chartered Accountant with over 30 years of professional experience including 11 years with a "Big 4" firm. Across his career he has gained diverse experience in internal audits, internal controls, risk management, corporate governance, IFRS, finance, financial reporting, assurance, transaction services, corporate finance, business re-engineering, business plan preparation, financial advisory, financial process documentation, diagnostic business reviews, business operating model reviews, and management audit engagements across a wide range of industries. He is a Fellow member of the Institute of Chartered Accountants of India and holds a B. Com (Hons) from the prestigious Sri Ram College of Commerce, Delhi University.

c. Compliance Officer - Qualifications, experience and date of appointment

Atif Waheed was appointed as Compliance Officer at the Company, a position he has held since 1 November 2022. He is an Associate member of the Institute of Chartered Accountants in England and Wales (ICAEW) and Fellow member of the Association of Chartered Certified Accountants (ACCA). He has more than 10 years of experience in the field of audit, risk, and compliance. The Compliance Officer is supported by Walid El Helaly, Head of Legal and Compliance to oversee and manage the ethics and compliance mandates.

d. Dealing with Important Problems / Issues

Internal Audit

The Internal Audit department provides independent assurance and consulting services using a disciplined systematic approach to improve the effectiveness of risk management, internal control and governance processes across the Group's operations. It also aims to assist management in achieving its goals by making the necessary effort to positively improve the efficiency and effectiveness of operations. The Internal Audit department abides by the rules and regulations that define its work and exercises independence that enables it to perform its duties and work in accordance with the relevant requirements of the Authority Board Resolution number (03/RM) of 2020.

The scope and frequency of audits depend on several factors, including, for example: the results of previous years' audits, the results of the business risk assessment related to the various activities in the Group, the materiality, the efficiency of the Internal Control Systems, and the resources available to implement internal audits. The Internal Audit department works in accordance with the directives of the Audit and Risk Committee, and the Audit and Risk Committee plays a fundamental role in matters related to auditing and governance through review, approval of the risk based annual audit plan and the participation of the Chairman, the Board of Directors and executive management in discussing the audit results. On the administrative side, the Group Head of Internal Audit reports to the Group CEO.

Compliance

The Compliance department is responsible for monitoring the compliance of the Group and its employees with the applicable laws, regulations, statutory requirements, resolutions, policies and procedures, and rules of business through effective coordination with all internal and external stakeholders. The Compliance function has a direct reporting line to the Company's Audit and Risk Committee and reports operationally to the Group Chief Executive Officer.

The Compliance function is responsible for:

- Reviewing the employees' compliance with the Code of Business Conduct.
- Reviewing the appropriateness of practices and procedures for compliance with applicable laws, regulations, and resolutions.
- Reviewing and assessing effectiveness of the Compliance System with inclusion and disclosure requirements and other legal and legislative requirements related to the Company's activities.
- Developing and updating key compliance procedures related to Anti-Money Laundering (AML) and Sanctions Screening of key counterparties.

The Group's Compliance function has launched the following policies and procedures in 2022:

- Whistleblowing and Speaking-up Policy: provides guidance to encourage stakeholders to report unethical activities within the Group and to reiterate the Group's zero tolerance towards wrong-doing.
- Anti-Bribery and Corruption Policy: sets out guidance for identifying and dealing with bribery and corruption issues.
- Conflict of Interest and Related Party Policy: provides guidance on how to effectively manage all conflicts of interest and how to make required disclosures.

Risk

The Group has implemented an effective Risk Management Framework that is consistent with the Group achieving its corporate and departmental objectives. Risk Management deals with understanding, documenting, and managing the Company's risk environment and taking measures, where necessary, to ensure those risks are contained to acceptable levels consistent with the Group's risk appetite. Risk Management is a critical function of ESA's management. The Risk Policy is applicable for all business lines, departments, and sections. It is also applicable for strategic and corporate governance activities that are undertaken by the Executive Committee (EXCO) and senior management.

The Board of Directors (BoD) has an oversight responsibility pertaining to the Company's Risk Management Framework. The BoD has approved the Risk Policy and provides the necessary support to ensure that risk management is incorporated into the culture of ES. The Risk Management (RM) section has been established to facilitate the implementation of the Risk Management Framework and Risk Policy.

The Audit and Risk Committee (ARC) provides oversight to the RM section. The Risk function has a direct reporting line to the Company's Audit and Risk Committee and reports operationally to the Chief Strategy and Transformation Officer.

e. The Number of Reports issued by the Internal Control Department of the Company's Board of Directors

During 2022, reports related to 27 engagements were issued by the Internal Audit department based on the Group Internal Audit Plans approved by the Audit and Risk Committee.

Details of Violations during 2022

The Group observes all applicable laws, resolutions and regulations and was not subject, during the year 2022, to any sanctions, limitations or violations whether from the Securities and Commodities Authority or any other regulatory body.

Statement of Monetary and In-kind Contributions

Below is a statement of monetary and in-kind contributions made by the Company during 2022:

During the year the Group participated in numerous initiatives incurring a spend of AED 742,000 impacting 11,700 beneficiaries. Some of the key initiatives included:

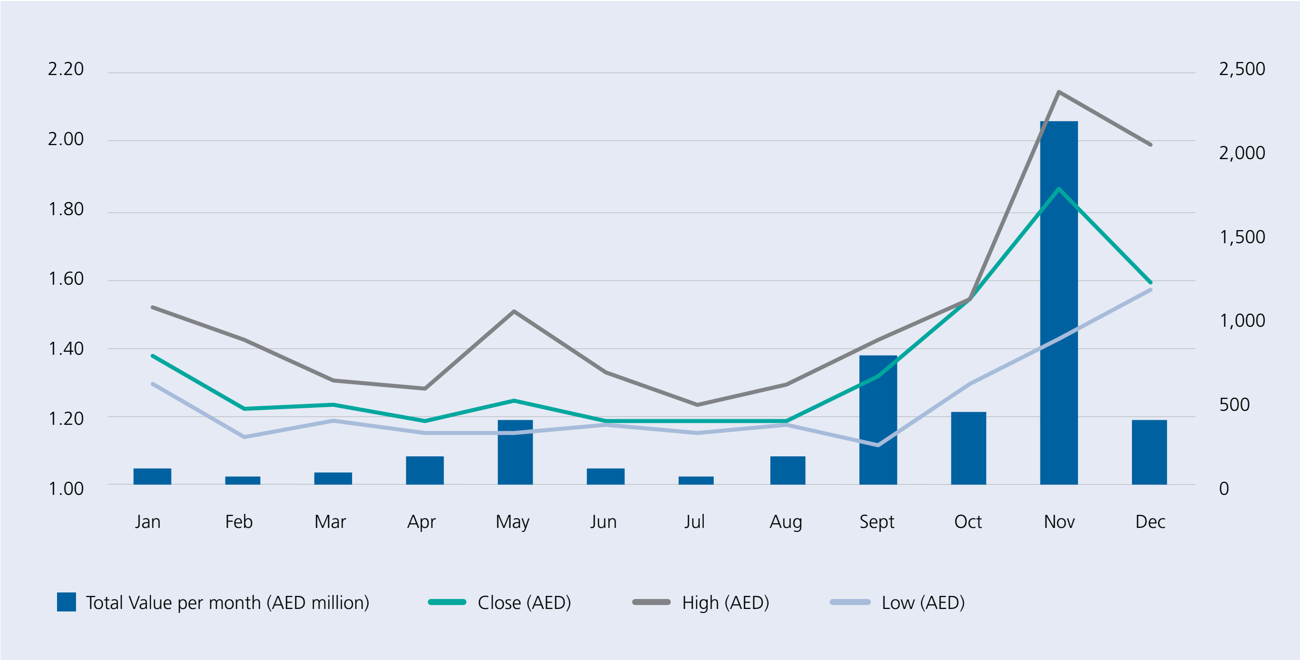
- Providing **recycled** water bottles to staff.
- **We give you smile** - providing food boxes to needy families.
- Sponsored **Ramadan Tent** during holy month of Ramadan.
- **"Our Journey to the Steel Plant"** - an event where children learn about steel manufacturing and enjoy several activities.
- Conducted a **"No Single Use Plastic"** campaign as it has been announced by the Environment Agency Abu Dhabi (EAD) starting from June 2022, to increase the awareness for its employees and distribute cloth grocery bags for multiple use.
- Main Sponsor for dinner for kids of determination organised by SAAD Association.
- Sponsor for International Day for Persons of Disabilities.
- Partnered with Tawam Hospital to increase the awareness of breast cancer.
- Participated in other events such as Earth Day, World Environment Day and other socially relevant events.

General Information

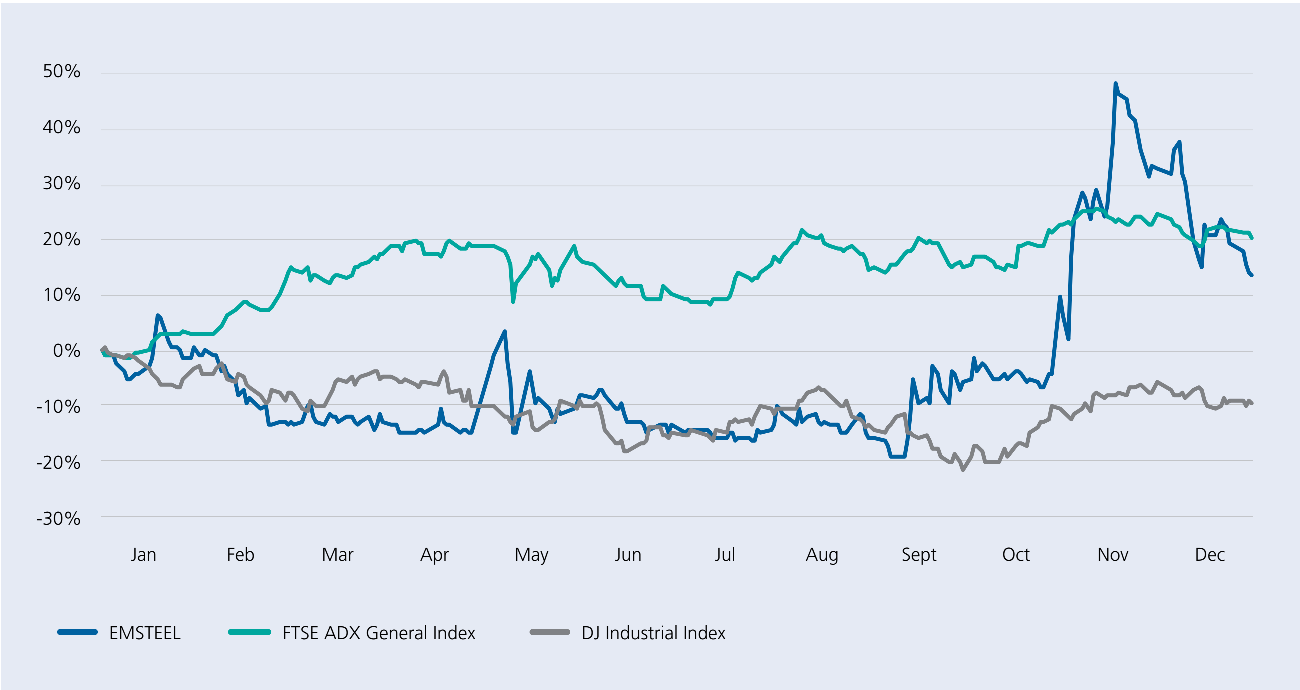
a. Share price on the market (the highest price, the lowest price and the closing price) for each month during the fiscal year 2022

Month	Close AED	High AED	Low AED	Total Value per Month AED million	Total Volume per Month (# of shares, million)
January	1.38	1.52	1.29	101	73
February	1.22	1.42	1.14	45	34
March	1.24	1.31	1.19	72	58
April	1.19	1.28	1.15	181	148
May	1.25	1.51	1.15	389	291
June	1.19	1.33	1.18	95	76
July	1.19	1.24	1.15	54	45
August	1.19	1.29	1.18	182	148
September	1.32	1.43	1.12	780	595
October	1.54	1.54	1.30	444	317
November	1.86	2.14	1.42	2,200	1,214
December	1.59	1.99	1.57	389	216
				4,932	**3,216**

EMSTEEL Performance during 2022



b. Statement of comparative performance of share to the general market index and a relevant industrial index



c. Statement of the ownership distribution of shareholders on 31 December 2022 (individuals, companies, government entities) classified as follows: Local, Gulf, Arab, and Foreign)

	% of Shares Held			
Shareholder	Individuals	Corporates	Government	Total
UAE	8.97%	1.96%	88.26%	99.19%
Arabs	0.58%	0.03%	-	0.4%
Foreigners	0.17%	0.03%	-	0.2%
Total	**9.72%**	**2.02%**	**88.26%**	**100%**

d. Statement of shareholders holding 5% or more of the Company's share capital

Shareholder	Quantity	Citizenship	%
General Holding Corporation PJSC ("SENAAT")	5,992,500,000	UAE	87.48%

e. Statement of shareholding distribution according to the volume of shares held as of 31 December 2022

Shareholder (shares)	No. of Shareholders	Shares Held	Held Shares Ratio to Total Capital
Less than 50,000	79,020	169,370,794	2.47%
From 50,000 to less than 500,000	691	109,861,151	1.60%
From 500,000 to less than 5,000,000	153	208,507,423	3.04%
More than 5,000,000	16	6,362,260,632	92.88%
Total	**79,880**	**6,850,000,000**	**100%**

f. Statement of actions taken pertaining to investors relations

- **Investor relations in-charge and contact details:**

Gleb Diachkov-Gertcev is Head of Investor Relations. The Investor Relations department can be contacted via ir@emiratessteel.com

- **Investor relations web pages on Company website:**

A webpage designated for investors relations has been developed within the Company's website, available via the link https://www.emiratessteelarkan.com/investor-relations/. It is updated and maintained to keep abreast with international best practice including investors relations information and contact details together with all reports and presentations relating to the Company's financial results, General Assembly minutes, annual corporate governance reports and any other significant information of assistance to existing shareholders and potential investors.

g. Statement of special resolutions proposed within the General Assembly convened during 2022 and key actions

No special resolutions proposed at the General Assembly meeting convened during 2022.

h. Board of Directors Secretary

No special resolutions proposed at the General Assembly meeting convened during 2022.

Name of Board's Secretary	Alex Ghazi
Appointment Date	8 November 2021
Qualification and Experience	• Alex is Partner of Al Tamimi's Abu Dhabi Office and a specialist corporate lawyer. Since 2015 and until recently, Alex was the Group General Counsel and Company Secretary for Arabtec Holding PJSC, based in Abu Dhabi. • Alex obtained his Master's Degree in International Business Law in 1993 after training and working with Clifford Chance (Paris and Dubai). • Alex spent most of his working career as a corporate and commercial lawyer, involved in various international transactions. Over the years, he led various legal teams and departments in different industrial sectors, starting from real estate development, to automotive, to construction.
Job Description	• Proposing the agenda of board meetings, organising and recording the activities of board meetings and sub-committees. • Provide sound and professional advice to the Chairman of the Board on matters related to corporate governance. • Ensure that the quorum of the Board and its committees is achieved and that the related documents are distributed in a timely manner. • Ensure effective management of all logistical arrangements related to the board's activities. • Ensure accurate and effective records are kept of board decisions in compliance with legal requirements. • Record the minutes of all meetings of the Board as well as the records of any committees, ensuring that all procedures have been duly observed, recording the time and place of the meeting, the names of the attendees or representatives at the meeting in the minutes and retain the original copies of the minutes at the Company's headquarters. • Keeping the Board and Company executives fully informed of current and new legislative requirements. • Prepare for the Annual General Meeting of shareholders. • Follow up on board affairs (decisions and requests), track and coordinate board requests between the Board and management. • Maintain strict confidentiality of all tasks performed. • Perform all duties that may be required by the Law, the Company's Articles of Association or internal regulations, and any other matters which may be assigned to him from time to time by the Board.

i. A detailed statement of the major events and important disclosures that the Company encountered during 2022

Following an acquisition of Emirates Steel Industries PJSC (Emirates Steel) that was completed in October 2021, the year 2022 was aimed at integration of 2 companies into one efficient Group. Success of this process is evidenced by significant improvement of financial results in 2022 versus 2021 as disclosed in the enclosed consolidated financial statements.

j. Statement of Emiratisation percentage in the Company at the end of 2020, 2021 and 2022 (workers are excluded for companies working in the field of contracting)

Year	Emiratisation
2020	7.7%
2021	19%
2022	25%

k. Statement of innovative projects and initiatives undertaken by the Group or being developed during 2022

The management presented several initiatives that would add value to the Group's business and are under review and evaluation by the executive management and the Board of Directors. Selected initiatives are set out below:

Initiative	Impact Category	Description	Benefits	Status
Use of lower-cost bricks (reasonable bricks) in furnace cold zone areas	Consumable purchasing cost optimisation	Use of lower-cost bricks (still a reasonable quality) instead of High MgC EAF bricks in furnace cold zone areas such as EBT house. Reduce furnace refractory cost by 10% to 15%.	Reduce process line consumable costs	Started cost saving recurrence
Shrink fitted roll instead of integrated roll for sheet pile production	Spares purchasing cost enhancement	Use of shrink fitted rolls, which are in 2 parts, the arbor and the sleeve, instead of using integrated solid rolls cast in one piece. This resolved cracking issues and reduced costs.	Reduce heavy spares costs	Started cost saving recurrence
Durapol coating to reduce corrosion in CO_2 removal system in DRP	Process line durability enhancement	Durapol coating resolves corrosion issues in the CO_2 removal system in DRP2 to increase the availability of the plant.	An alternative with corrosion-resistance to avoid intermittent replacements of vessels and pipes	Started cost saving recurrence
Main ferro alloys cost reduction	Raw material sourcing cost optimisation	Consumption of ferro alloys (silico-manganese and ferro-silicon) in oval shaped briquettes which costs less than other forms of the material. Now in use at Emirates Steel (silico-manganese, ferro-silicon) across all steel plants.	Reduce production costs and increase profitability	Started cost saving recurrence
Reduce production charge mix material cost by using low-cost steel scrap material (Tiers wire scrap)	Reduce production cost	The increased use of steel scrap (substitute for iron ore) in our steelmaking plants. Vehicle tires after crushing process and separation of the rubber material from the steel wire inside tire body. This has crystallized cost savings and is environmentally friendly.	Reduce production costs, increase profitability and enhance the Company's green credentials	Started cost saving recurrence
Trial of Silicon Carbide (SiC) to replace ferro silicon in order to reduce ferro alloys cost and use alternative material	Reduce production cost	Trial of silicon carbide (SiC) as a substitute for ferro silicon to reduce the cost of ferro alloys.	Reduce production costs and increase profitability	Started cost saving recurrence

Hamad Abdulla Mohammed Al Shurafa Al Hammadi
Chairman - Board of Directors

Abdulaziz Abdulla Ismail Mohamed Alhajri
Chairman - Audit and Risk Committee

Jamal Salim Al Dhaheri
Chairman - Nomination and Rewards Committee

Vikas Puri
Group Head of Internal Audit

05 Financial Statements

In this section:

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Board of Directors' Report to the Shareholders for the year ended 31 December 2022

On behalf of Arkan Building Materials Company PJSC's (the "Group" or the "Company") Board of Directors, I am pleased to present the Board of Directors' report and the audited consolidated financial statements for the year ended 31 December 2022.

On 6 October 2021, the Company completed the acquisition of the entire issued share capital of Emirates Steel Industries PJSC ("Emirates Steel") from its majority shareholder, General Holding Corporation PJSC ("SENAAT"), for the issue of 5.1 billion new ordinary shares in the Company. From this date, Emirates Steel became a direct 100% subsidiary of the Company and as a result of this transaction SENAAT's investment in Arkan increased from 51% to 87.5% of its issued share capital.

The acquisition of Emirates Steel created the largest steel and building materials manufacturing and distribution business in the UAE, a regional champion that is globally competitive. The transaction crystallised a significant expansion in the scope of the Company's scale as well as providing diversification in the scope of its operations. The first full year results of the Group clearly demonstrate the value of combining the businesses. Despite the global economic headwinds, the increasing reach of our products is a clear testament to consumers' trust and preference for 'Made in UAE' products.

2022 was a transformational year for the newly established Group, and our focus on boosting output and reducing costs has borne fruit. More importantly, we have been able to exceed many of our production targets without losing sight of ensuring the most rigorous health, safety, and environmental protocols across our plants. As evidence of this, during 2022 the Group preserved Lost Time Injury Frequency Rate at a record low of 0.13, significantly lower than World Steel Association average of 0.81.

Throughout the year, the Group made significant progress in mapping its comprehensive Net Zero plan following the appointment of a global sustainability advisory firm. The Group is working closely with its advisors to ensure its Net Zero plan is fully aligned to the UAE's carbon reduction targets.

The consolidated results as set out in the annexed consolidated financial statements reflect the full year's performance of the Group for the year ended 31 December 2022; in the previous year the performance of Emirates Steel was only included for the period from 6 October 2021 to 31 December 2021, being the period following the combination of the two businesses.

Overall Group revenues in 2022 totalled AED 9,452.6 million, compared to AED 3,022.2 million for the year 2021.

The Group recorded a net profit of AED 510.2 million for the year; this compares with a net loss of AED 744.6 million as reported in 2021. In the current year the Group recorded an impairment provision of AED 150 million against the goodwill and assets associated with certain of the downstream businesses of the cement division, the Blocks factories, in addition part of a provision booked in 2020 by Emirates Steel against its section mill, similarly in an amount of AED 150 million, has been released in the year. In 2021 the Group recorded impairment provisions of AED 700 million and AED 50 million, taken against goodwill and assets associated with the cement manufacturing business and against its non-core associate investment respectively.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Board of Directors' Report to the Shareholders for the year ended 31 December 2022 (continued)

Review of Operations

Steel

On a stand-alone basis the Group's Steel division generated revenues of AED 8,565.2 million compared to AED 7,841.7 million in 2021 (full year); generated earnings before interest, tax, depreciation and amortisation of AED 988.6 million, full year 2021: AED 499.2 million; and a profit for the year of AED 593.1 million stated after the partial reversal of an impairment loss, initially recorded in 2020, in an amount of AED 150 million against a loss of AED 35.2 million for the full year in 2021.

In its outlook for 2023, the Group notes that the easing of financial conditions globally following a rapid increase of interest rates in 2022 would be supportive of higher demand for steel as many of the trends witnessed last year, including high inflation and a slowdown in China, show signs of reversal. The latest World Bank estimate forecasts UAE's GDP to grow 4.1% in 2023, outpacing the 1.7% global growth forecast, which should support the Group's performance throughout the year.

Cement, Blocks and Head Office

Revenue from the Cement and Blocks division was AED 710.0 million, compared to AED 620.1 million in 2021. The Group projects that its mining rights relating to its captive quarry in Al Ain provide access to sufficient reserves of limestone, taken together with available feedstock, to maintain cement production for a further two years. The Group continues to assess alternative sources of feedstock for its longer-term operations.

In 2021, as a consequence of the uncertainty associated with the longer-term operating model for the cement plant the Group booked an impairment charge of AED 700 million against the related goodwill and assets. Following a further review as at 31 December 2022, management determined that no additional impairment was required against the cement manufacturing plant.

As a result of significant over supply in the domestic market, an impairment reserve of AED 150 million has however been booked against the goodwill and operating assets associated with Emirates Blocks, the division's downstream activities comprising the manufacture of blocks and dry mortar.

Before the impairment charges in both 2022 and 2021 the division recorded a net profit of AED 54.4 million as compared to a profit of AED 5.2 million in 2021. The improvement in the underlying profitability has resulted from cost optimization initiatives and enhanced sales prices for the manufacturing plant's cement and clinker products.

Other

The Group's other businesses comprise the manufacture and distribution of PVC pipes, GRP pipes and bags. Collectively these businesses reported revenues of AED 177.5 million, compared with AED 169.2 million in 2021. The businesses generated a profit of AED 12.8 million in the year, against a profit of AED 6.5 million in 2021. Whilst the businesses secured increases in sales prices profitability was impacted by low demand.

Liquidity

Bank borrowings totaled AED 1,451.0 million as at 31 December 2022 (31 December 2021: AED 2,623.4 million). In addition, the Group held cash and cash equivalents of AED 357.0 million as of 31 December 2022 (31 December 2021: AED 335.6 million), giving net gearing levels of 14% and 32% as at 31 December 2022 and 2021 respectively.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Board of Directors' Report to the Shareholders for the year ended 31 December 2022 (continued)

Total Assets & Shareholders' Equity

The Group's total assets were AED 11.5 billion as at 31 December 2022 (31 December 2021: AED 12.1 billion). The value of shareholders' equity was at AED 7.7 billion as of 31 December 2022 compared to AED 7.2 billion as of 31 December 2021.

Investments

The share of profit from associates was AED 7.8 million in 2022, compared to a loss of AED 22.7 million in 2021. The Group did not receive a cash dividend of in the year (2021: dividends received of AED 1.2 million). The Group recorded an impairment of AED 50 million on the goodwill associated with this investment in the year ended 31 December 2021; this provision having been charged on the re-assessment of the projected future free cash flows that will be generated by these companies. Management have reviewed the performance of the investment in 2022 and its future projected performance and it has been concluded that no further impairment is required against the investment.

Directors

The Directors who held office during the financial year subject to review, and through to the date of this report, are detailed below.

Hamad A. Al Hammadi	- Chairman
Jamal S. Al Dhaheri	- Vice Chairman
Abdulaziz Al Hajri	
Farah Abdulla Al Mazrui	
Fatima Abdulla Al Fahim	
Nabeel Qadir	
Saeed G. Al Remeithi	- Group Chief Executive Officer

Auditor

The Directors release from liabilities the external auditor, Deloitte & Touche (M.E.), in connection with their duties for the year ended 31 December 2022.

For and on behalf of the Board of Directors

Hamad A. Al Hammadi
Chairman
3 March 2023

Deloitte.

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arkan Building Materials Company (ARKAN) PJSC (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISAs) and the applicable requirements of Abu Dhabi Accountability Authority ("ADAA") Chairman Resolution No. 88 of 2021 Regarding financial statements Audit Standards for the Subject Entities. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

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

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Carrying value of cash generating unit relating to cement and blocks business	
As of 31 December 2022, the carrying value of the cash generating unit of the cement business and blocks business were AED 939 million and AED 159 million, respectively, which amounted to 9.57% of total assets. Management determined that the recoverable amount of the blocks business was less than its carrying amount and consequently recognised an impairment charge of AED 150 million (2021: nil) in the consolidated statement of profit or loss. No impairment charge was recognized for cement business (2021: AED 700 million). We considered the determination of the recoverable amount of the cement business as a key audit matter as management is required to apply significant judgements and make significant estimates including the estimated value of future cash flows, associated discount rates and long-term growth rates based on management's view of future business prospects. Refer to Note 6 in the consolidated financial statements for more details relating to this matter.	We have performed the following procedures, inter alia, in response to the key audit matter identified: • Assessed the design and tested the implementation of the Group's controls relating to the determination of the recoverable amount of the cement and blocks business; • Reconciled the net carrying amount of goodwill allocated to the CGU to the Group's accounting records; • Engaged our valuation specialist to assess the discount rate and growth rates applied by benchmarking against independent data; • Challenged each of the key assumptions with management, including budget estimates underlying the cash flows used in the valuation models are based. For this purpose, we also compared the estimates of cash flow projections of previous periods with actual corresponding results, to assess the pertinence and reliability of the process for making forecasts; • Reviewed management's sensitivity analysis in relation to the key inputs used in the model used to determine the recoverable amount, as well as performing our own sensitivity analysis of the factors and assumptions used; • Reperformed the arithmetical accuracy of the valuations used by the Group; and • Assessed the method of allocating the impairment charge for the blocks business to the various asset classes within this business. We also assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

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

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Impairment of property, plant and equipment of Emirates Steel Industries PJSC	
As of 31 December 2022, the carrying amount of the Group's property was AED 6,904 million. AED 5,769 million of this amount relates to the Group's subsidiary, Emirates Steel Industries PJSC ("ESI"), representing 83.6% of total assets. No impairment charge was recorded in the consolidated statement of profit or loss. A partial reversal of previously recognised impairment losses relating to ESI, of AED 150 million was recorded in the consolidated statement of profit or loss. As a result of the Ukraine-Russia conflict, and other economic factors, demand for the ESI's products in both its regional and international markets was impacted. These matters are considered to be external macro-economic impairment indicators. We considered this to be a key audit matter as the determination of the recoverable amount requires management to apply significant judgements and make significant estimates that are affected by expected future market or economic conditions including, inter alia, expected future cash flows, utilisation rates, the associated discount rate applied and long-term growth rates based on management's view of future business prospects. Refer to Note 6 in the consolidated financial statements for more details relating to this matter.	We have performed the following procedures, inter alia, in response to the key audit matter: • Assessed the design of relevant controls over the process of determining the allowance against property, plant and equipment for impairment and determined if they had been appropriately implemented. These controls included, inter alia, controls over the accuracy and completeness of the impairment assessment model and controls over management's annual preparation of the impairment assessment, including calculations performed and estimates applied: • Engaged our internal valuation specialists to assess the impairment model, including the discount rate used to discount the future cash flows attributable to property, plant and equipment; • Evaluated whether the impairment model used by management to calculate the value in use of each cash-generating unit complies with the requirements stipulated in IFRSs; • Assessed the inputs into the impairment assessment models to determine whether they are reasonable and supportable; • Challenged the growth rates and other key cash flow assumptions used in the impairment models; • Reviewed management's sensitivity analysis in relation to key inputs used in the model in addition to performing our own sensitivity analysis over the key estimates applied by management to ascertain the extent of change in those assumptions that either individually or collectively would be required for an additional impairment charge; • Reperformed the mathematical accuracy of the impairment models; and • Agreed the results of the impairment models to the amounts reported in the consolidated financial statements. We also assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Deloitte.

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

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Board of Directors' Report to the Shareholders, which we obtained prior to the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and the applicable provisions of the articles of association of the Company and the UAE Federal Law No. 32 of 2021, and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the applicable requirements of ADAA Chairman Resolution No. 88 of 2021 Regarding financial statements Audit Standards for the Subject Entities will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Deloitte.

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

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

As part of an audit in accordance with ISAs and the applicable requirements of ADAA Chairman Resolution No. 88 of 2021 Regarding financial statements Audit Standards for the Subject Entities, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Deloitte.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. 32 of 2021, we report that for the year ended 31 December 2022 that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Federal Law No. 32 of 2021;
- The Group has maintained proper books of account;
- The financial information included in the Board of Directors' Report to the Shareholders is consistent with the books of account and records of the Group;
- The Group has not purchased or invested in any shares during the financial year ended 31 December 2022;
- Note 13 to the consolidated financial statements discloses material related party balances, transactions and the terms under which they were conducted; and
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the Federal Law No. 32 of 2021 or, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022.

Further, as required by the ADAA Chairman Resolution No. 88 of 2021 Regarding financial statements Audit Standards for the Subject Entities, we report, in connection with our audit of the consolidated financial statements for the year ended 31 December 2022, that nothing has come to our attention that causes us to believe that the Group has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars as applicable, which would materially affect its activities or the financial statements as at 31 December 2022:

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

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
3 Maarch 2023
Abu Dhabi
United Arab Emirates

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Consolidated statement of financial position as at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**6,903,559**	7,238,822
Goodwill	6	**-**	14,050
Right-of-use assets	14	**381,279**	450,944
Investment in associates	7	**87,539**	79,728
Investment property	8	**13,264**	13,973
Intangible assets	9	**5,901**	4,802
Total non-current assets		**7,391,542**	7,802,319
Current assets			
Inventories	10	**2,066,613**	2,288,793
Trade and other receivables	11	**1,656,171**	1,636,766
Amounts due from related parties	13	**-**	184
Cash and cash equivalents	12	**357,042**	335,588
Total current assets		**4,079,826**	4,261,331
Total assets		**11,471,368**	12,063,650
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	**6,850,000**	6,850,000
Statutory reserve	16	**136,469**	85,448
Merger reserve	17	**1,092,817**	1,092,817
Capital reserve	17	**3,783**	3,783
Other reserves	17	**45,760**	(2,297)
Accumulated losses		**(400,456)**	(850,642)
Net equity		**7,728,373**	7,179,109
Non-current liabilities			
Lease liabilities	21	**461,215**	479,833
Provision for employees' end of service benefits	18	**189,143**	217,075
Bank borrowings	19	**134,934**	269,901
Total non-current liabilities		**785,292**	966,809
Current liabilities			
Bank borrowings	19	**1,316,102**	2,353,547
Trade and other payables	20	**1,609,619**	1,514,826
Loan from a related party	13	**18,361**	18,361
Lease liabilities	21	**13,621**	30,998
Total current liabilities		**2,957,703**	3,917,732
Total liabilities		**3,742,995**	4,884,541
Total equity and liabilities		**11,471,368**	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 31 December 2022, and for the periods presented in the report.

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Consolidated statement of profit or loss for the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Revenue	22	**9,452,642**	3,022,239
Cost of sales	23	**(8,483,242)**	(2,745,117)
Gross profit		**969,400**	277,122
Selling and distribution expenses	24	**(53,114)**	(51,167)
General and administrative expenses	25	**(357,984)**	(162,956)
Other income	27	**28,265**	7,547
Share of profit/(loss) of associates	7	**7,811**	(22,721)
Impairment losses on non-financial assets (net)	28	**-**	(750,000)
Finance income	26	**5,331**	19
Finance cost	26	**(89,504)**	(42,476)
Profit/(loss) for the year		**510,205**	(744,632)
Basic and diluted profit/(loss) per share (AED)	33	**0.074**	(0.245)

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Consolidated statement of comprehensive income for the year ended 31 December 2022

	Note	2022 AED'000	2021 AED'000
Profit/(loss) for the year		**510,205**	(744,632)
Other comprehensive income			
Items that will not be reclassified subsequent to profit or loss:			
Re-measurement of provision for employees' end of service benefits	18	**39,059**	6,792
Total comprehensive income/(loss) for the year		**549,246**	(737,840)

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Consolidated statement of changes in equity for the year ended 31 December 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	Net equity AED'000
As at 1 January 2021	1,750,000	85,448	-	3,783	(9,089)	(106,010)	1,724,132
Loss for the year	-	-	-	-	-	(744,632)	(744,632)
Other comprehensive income	-	-	-	-	6,792	-	6,792
Total comprehensive loss for the year	-	-	-	-	6,792	(744,632)	(737,840)
Issue of ordinary shares (note 15)	5,100,000	-	-	-	-	-	5,100,000
Acquisition of Emirates Steel Industries PJSC (note 31)	-	-	1,092,817	-	-	-	1,092,817
As at 1 January 2022	6,850,000	85,448	1,092,817	3,783	(2,297)	(850,642)	7,179,109
Profit for the year	-	-	-	-	-	510,205	510,205
Other comprehensive income	-	-	-	-	39,059	-	39,059
Total comprehensive income for the year	-	-	-	-	39,059	510,205	549,264
Transfer to statutory reserve	-	51,021	-	-	-	(51,021)	-
Transfer to other reserves	-	-	-	-	8,998	(8,998)	-
As at 31 December 2022	**6,850,000**	**136,469**	**1,092,817**	**3,783**	**45,760**	**(400,456)**	**7,728,373**

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Consolidated statement of cash flows for the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Cash flows from operating activities			
Profit/(loss) for the year		**510,205**	(744,632)
Adjustments for:		**-**	
Depreciation of property, plant and equipment	5	**535,242**	158,617
Depreciation of right-of-use assets and re-measurement	14	**34,690**	33,131
Depreciation of investment property	8	**709**	177
Amortisation of intangible assets	9	**4,923**	1,054
Impairment of property, plant and equipment and right-of-use assets	5, 14	**135,950**	585,620
Impairment of goodwill	6	**14,050**	114,380
Impairment loss on investment in associates	7	**-**	50,000
Reversal of impairment of property, plant and equipment and assets right-of-use	5, 14	**(150,000)**	-
Impairment loss on financial assets (net)	11	**(4,639)**	27,578
Employees' end of service benefit charge	18	**23,039**	16,828
Share of (profit)/loss of associates	7	**(7,811)**	22,721
Finance income	26	**(5,331)**	(19)
Finance cost	26	**89,504**	42,476
Loss on disposal of property, plant and equipment	5	**4,874**	-
Impairment loss on inventories (net)	10	**(6,096)**	8,262
Operating cash flows before movements in working capital		**1,179,309**	316,193
Decrease in inventories	10	**228,276**	557,167
Increase in trade and other receivables	11	**(14,766)**	(125,993)
Decrease in amounts due from related parties	13	**184**	571
Increase in trade and other payables	20	**88,962**	81,033
Decrease in amounts due to a related party	13	**-**	(20)
Cash generated from operations		**1,481,965**	828,951
Employees' end of service benefit paid	18	**(11,912)**	(5,844)
Net cash generated from operating activities		**1,470,053**	823,107
Cash flows from investing activities			
Payments for purchase of property, plant and equipment	5	**(155,828)**	(67,459)
Payments for purchase of intangible assets	9	**(6,022)**	(754)
Interest received	26	**5,331**	19
Dividends received from associates		**-**	1,200
Net cash used in investing activities		**(156,519)**	(66,994)
Cash flows from financing activities			
Repayment of borrowings	19	**(5,501,642)**	(1,962,055)
Proceeds from borrowings	19	**4,329,230**	1,267,549
Interest paid	26	**(63,422)**	(30,363)
Principal repayment and re-measurement of lease liabilities	21	**(35,995)**	(15,299)
Interest paid on lease liabilities	21	**(20,251)**	(12,113)
Net cash used in financing activities		**(1,292,080)**	(752,281)
Net increase in cash and cash equivalents		**21,454**	3,832
Cash and cash equivalents at beginning of year	12	**335,588**	73,962
Cash acquired in Emirates Steel	31	**-**	257,794
Cash and cash equivalents at end of year	12	**357,042**	335,588

Significant non-cash transaction in 2021: the acquisition of 100% of the issued share capital of Emirates Steel Industries PJSC for the issue of 5,100 million ordinary shares in the Company (notes 15 and 31).

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 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 SENAAT's 100% interest in the issued share capital of Emirates Steel Industries PJSC to the Company for the issue of 5.1 billion additional ordinary shares. The Ultimate Parent Company of Arkan is Abu Dhabi Developmental Holding Company PJSC (ADQ) which is wholly owned by the Government of Abu Dhabi.

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

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

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

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting held by the Group		Principal activity
		2022	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 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 (notes 15 and 31).

[2] Operations of Emirates Cement Factory were discontinued in December 2016 and currently Emirates Cement Factory does not have any operations.

The Group made no purchases or investments in shares during the financial year ended 31 December 2022. In the financial year ended 31 December 2021 the Group acquired Emirates Steel, as detailed above.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

2 Adoption of new and revised Standards

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use

The Group has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract

The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

2 Adoption of new and revised Standards (continued)

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

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

IFRS 9 Financial Instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. IFRS 16 Leases The amendment removes the illustration of the reimbursement of leasehold improvements.

IAS 41 Agriculture
The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

The amendment extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

2 Adoption of new and revised Standards (continued)

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 17 Insurance Contracts	1 January 2023

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

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

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

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

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date not yet decided

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1 January 2023

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of accounting policies	1 January 2023

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

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

Amendments to IAS 8 - Definition of Accounting Estimates	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". The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

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

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023

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

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and applicable provisions of UAE Federal Law No. (32) of 2021.

Going concern

The Group has reported a profit for the year of AED 510.2 million (2021: reported a loss of AED 744.6 million, stated after non-cash charges of AED 750.0 million for impairment losses on non-financial assets). At 31 December 2022, the Group had net current assets of AED 1,122.1 million which included AED 1,316.1 million of external borrowings (note 19) and an AED 18.4 million loan from a related party (note 13).

Based on the Group's existing cash position, the funds available from undrawn facilities which amounted to AED 1,404.2 million at the reporting date and the free cash flow expected to be generated from operations 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 consolidated financial statements.

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

Basis of preparation

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

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

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

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

The principal accounting policies adopted by the Group are set out in the subsequent pages.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Basis of consolidation

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

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date when the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interest having deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flow relating to transactions between members of the Group are eliminated in full on consolidation.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Subsidiaries

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

Business combinations

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

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Business combination (continued)

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

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

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

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

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

Business combinations between entities under common control
Acquisition of interest in entities that are under common control of the ultimate shareholder which lack commercial substance and are based on a decision by the shareholder are accounted for in accordance with the pooling of interest method of accounting using predecessor values method. Under the pooling of interests method, the consolidated financial statements of the combined entities are presented as if the business had been combined from the date when the combining entities were first brought under common control, without restating and presenting prior periods. The assets and liabilities are accounted for at the carrying amounts previously recorded in the books of the transferor, except for necessary adjustments related to adopting the Group's accounting policies.

The financial information for periods prior to the business combination are not restated, the transferred business continues within the combined entity as if pooling had been applied since the combining parties were under common control of the same controlling party (or parties). The pre-combination history of the assets and liabilities of the transferred business are carried over as at the date of transaction and are reflected in the post-combination consolidated financial statements of the receiving entity.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Business combination (continued)

Business combinations between entities under common control (continued)
Associated transaction costs paid for such combinations is recognized directly in equity and any difference between the fair value of the consideration paid and the corresponding net assets acquired is recognised in equity as merger reserve.

Disposals of interest in entities to parties under common control of the shareholder, which lack commercial substance and are based on a decision by the shareholder are accounted for on the date of transfer without restatement of prior years. Any gain or loss arising on such transaction is recorded directly in equity.

Acquisition of interest in entities that are under common control of the Shareholder which have commercial substance are accounted for using the acquisition accounting method.

Revenue recognition

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

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

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

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

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

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

Revenue is measured at an amount that reflects the considerations, to which an entity expects to be entitled in exchange for transferring goods or services to customer, excluding amounts collected on behalf of third parties. Revenue is adjusted for expected discounts and volume discounts, which are estimated based on the historical data or forecast and projections. The Group recognises revenue when it transfers control over goods or services to its customers.

Revenue is recorded net of value added tax (VAT).

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

Property, plant and equipment

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

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

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

	Years
Leasehold improvements and buildings	4 - 40
Plant and equipment	2 - 25
Furniture and fixtures	4 - 6
Motor vehicles	4 - 7

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Capital work in progress

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

Investment property

The investment property is a property held to earn rental income and for capital appreciation, but not for sale in the ordinary course of business, for use in the production or supply of goods or services or for administrative purposes. The investment property was evaluated by a third-party professional valuer on initial recognition and subsequently at revalued amount less accumulated depreciation. Depreciation on the investment property, excluding the value of the freehold land, is calculated using the straight-line method to bring it to the residual value, assumed at AED nil, over the estimated useful life of 20 years.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the consolidated statement of profit or loss.

Intangible assets

Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets primarily comprise the Group's investment in its SAP based ERP systems and are amortised over 4 years.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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.

Investment in associates

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Investment in associates (continued)

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Goodwill

Goodwill is initially recognised and measured as set out above.

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

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

Leases

The Group as lessee

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

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

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

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Leases (continued)

The Group as lessee (continued)

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

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

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

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

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

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

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

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Inventories

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

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

Provision for employees’ end of service benefit

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

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

(a) Bonus and long-term incentive plans

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

(b) Defined contribution plan

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

(c) Defined benefit plan

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Provision for employees' end of service benefit (continued)

(c) Defined benefit plan (continued)

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

Foreign currencies

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

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

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

Provisions

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments

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

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

Initial recognition

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

Initial recognition (continued)

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

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

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

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

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

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

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

Subsequent measurement and gain or losses

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

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

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

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

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

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

Reclassification

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

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

Modifications of financial assets and financial liabilities

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Modifications of financial assets and financial liabilities (continued)

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

De-recognition

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

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

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

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

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

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

Financial liabilities
The Group de-recognises a financial liability when its contractual obligations are discharged or cancelled or expired.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

Measurement of ECL

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Measurement of ECL (continued)

Definition of default

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

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

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

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

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

4 Critical accounting judgments and key sources of estimation uncertainty

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Business combination

Significant judgment is required to determine whether a common control transaction should be accounted for using the acquisition method or pooling of interest method. Under established accounting practice guidance there is a policy choice available for management to choose either the pooling of interest or acquisition accounting for common control transactions. The choice will be determined by the substance and the specific facts and circumstances surrounding each particular business combination under common control.

Considering the specific circumstances relevant to different common control transactions may well result in different business combinations under common control being accounted for differently by the reporting entity, where the specific facts and circumstances indicate that the transactions are not similar in nature and warrant different treatment.

Detailed below are factors relevant to the Arkan and Emirates Steel business combination under common control, as completed in October 2021, that directed management to conclude that the pooling of interest best reflected the substance of the transaction:

- The transaction was undertaken to effect an internal simplification and restructuring, and both sub-groups continued to be managed and run separately as they were prior to the common control transaction;
- The transaction was driven by the ultimate parent shareholder (i.e., ADQ), in order simply and better organize their investment in the two sub-groups; and
- The transaction was not undertaken to achieve any identified synergies between the two sub-groups, given the underlying nature of the businesses under the common control transaction.

Based on the above, management determined that the pooling of interest was the most relevant presentation for the shareholders and users of the consolidated financial statements, to reflect this transaction.

Provision for rehabilitation and restoration of cement quarry

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

Revenue recognition

Management considered the detailed criteria for the recognition of revenue from sale of goods as set out in IFRS 15 - Revenue from Contract with Customers. Management has judged that revenue has been recognised only when the outcome of the transaction involving the sale of goods can be estimated reliably and the control have been transferred to the customer.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

Critical judgments in applying accounting policies (continued)

Capitalisation of capital work in progress

In determining the timing of the transfer of property, plant and equipment from capital work in progress to operational assets management consider the principles of IAS 16, *Property*, *Plant and Equipment*, Management critically considers the capability of the assets to operate in the manner intended by management, taking into consideration the levels of performance in the commissioning period.

Capitalisation of expenses

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off to the consolidated statement of profit or loss. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of profit or loss when the expense is incurred.

Leases

Judgement in identifying whether a contract includes a lease
The Group has entered into various contracts with The Higher Corporation for Specialized Economic Zones (ZonesCorp) for the lease of land. Management have assessed whether or not the Group has contracted for the rights to substantially all of the land and whether the contracts contain leases such that the Group does have the right to obtain substantially all of the economic benefits from the use of the land. As a result, the Group has concluded that the contracts do contain leases.

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Determination of the appropriate rate to discount the lease payment
The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). Management estimated the IBR by using its credit spread from similar arrangements and the Emirates Interbank Offered Rate applicable to the remaining lease term as a reference yield.

Key sources of estimation uncertainty

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, are discussed below:

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

Key sources of estimation uncertainty (continued)

Impairment of goodwill, property, plant and equipment and right-of-use assets

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

- long term growth rates in cash flows;
- future sales volumes and price forecasts; and
- the selection of discount rates to reflect the risks involved.

Cement Division
In 2021 management assessed the remaining volumes of limestone that can be extracted from its captive quarry in Al Ain. It was estimated that the continuing mining operations could be sustained, on a commercially acceptable basis, for a further two years, 2023 and 2024, after which the further extraction of the limestone feedstock would no longer be economically viable. The inventories of limestone and clinker currently held at the plant and the continuance of quarrying for a further two years were expected to support the production of cement, at current volumes, for a further two years from the end of 2022, i.e., through to the end of 2024. After such inventories are exhausted, the business would have to source its limestone feedstock from an alternate provider and transport it to the Al Ain plant.

Management assessed the future cash flows of the business, based on this revised business model, and impairments were booked in 2021 on the allocated goodwill, the associated right-of-use assets and the plant's property, plant and equipment (notes 5, 6 and 14). A similar assessment has been completed at the end of 2022 and management concluded that no further impairment losses were required to be recognized over and above the losses booked in 2021.

Steel Division
As a result of the COVID-19 pandemic, and other economic factors, demand for the Steel division's products in both its regional and international markets was adversely impacted in both 2020 and 2021. As a consequence, decisions were taken to moth-ball certain of the group's plants in 2020 and to reduce production volumes in others. This situation continued in 2021, although certain of the moth-balled plants were re-commissioned in the year but were operated at sub-capacity levels.

Management assessed the impairment of property, plant and equipment and right-of-use assets during the year ended 31 December 2020 which led to the full impairment of the moth-balled facilities and a partial impairment provision on certain other assets (notes 5 and 6). These impairment losses were reviewed at 31 December 2021 and 31 December 2022 and, as a result of the continuing uncertainties faced in the market, it was concluded that whilst no additional impairment losses were required, the impairment losses as established in 2020 should be retained in full on the moth-balled facilities. The partial provision booked against certain of the division's other assets was retained at 31 December 2021, management have however concluded that in the context of the general recovery in performance as witnessed in 2022 that this reserve can be released in part; the balance of the reserve being retained in the context of the continuing element of uncertainty and volatility faced across the global steel sector.

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

Key sources of estimation uncertainty (continued)

Impairment of goodwill, property, plant and equipment and right-of-use assets (continued)

Blocks Division
Similarly, management have assessed the recoverability of the Block's business and the key assumptions used are detailed in notes 5, 6 and 14 of these consolidated financial statements. Whilst no impairment losses have been recorded against this down-stream activity of the Blocks division in the past, management has determined that given the deterioration in the financial performance of the business in 2022, as a result of significant over-supply to the market married with a failure of the business to be able to pass on the price increases in its feedstock to its customers in increased sales prices, that an impairment loss on the associated allocated goodwill, the businesses property, plant and equipment and right-of-use assets should be recorded. An impairment loss, in total of AED 150 million having been recorded in these consolidated financial statements against such.

Impairment of investments in associates

Management regularly reviews its investments in associates for indicators of impairment. The determination of whether investments in associates are impaired entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and in the foreseeable future. Any adverse changes in the investees future profitability, liquidity, solvency and ability to generate future cash flows could lead to an impairment of investments in associates and the associated goodwill. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in consolidated profit or loss. Based on the management's evaluation in 2021, an impairment of AED 50 million has been provided on its investments in associates (note 7). A further review was undertaken by management at 31 December 2022 and it was determined that no further impairment provisions were required over and above the losses booked in prior years.

Changes in the key assumptions and forecasts could result in different conclusions as to whether impairment provisions are required and the quantum of such provisions.

Allowance for impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impaired inventory. Management performed a review of the spare parts and consumables which involved a line-by-line physical inspection of each inventory item to assess obsolescence and usability. The allowance for obsolete inventories at 31 December 2022 is AED 108.1 million (2021: AED 114.2 million).

Calculation of loss allowance

The Group assesses the impairment of its trade and other receivables based on ECL.

When measuring ECL, the Group 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. Loss given default 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.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

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

Key sources of estimation uncertainty (continued)

Calculation of loss allowance (continued)

Probability of default constitutes a key input in measuring ECL. Probability of default 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. As at 31 December 2022, the Group's allowance for impairment of trade receivables amounted to AED 227.9 million (2021: AED 234.4 million).

Decommissioning cost

The Group does not record any obligations with respect to the decommissioning of its property, plant and equipment and the associated rehabilitation of the surrounding areas unless there is a specific plan to discontinue the operation of a particular asset, since any such significant costs would be incurred no earlier than when the facility is closed. The Group's plants are currently expected to operate for a significantly longer period due to the perpetual nature of the manufacturing and processing plants and the continuing maintenance and upgrade programmes resulting in the fair values of any such liabilities being negligible.

End of service benefits

The determination of the Group's employee defined benefit liabilities depends on certain assumptions, which include selection of the discount rate. According to IAS 19, the rate used to discount liabilities should be determined by reference to market yield at the balance sheet date on high quality bonds. As there is no deep market in corporate bonds in UAE, management decided to rely on US AA rated corporate bonds market as proxy for determining as appropriate discount rate. The discount rate was determined to be 5.20% - 5.25% per annum (2021: 2.7% per annum). The assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Group's consolidated financial statements within the next year. Further information on the carrying amounts of the Group's defined benefit and the sensitivity of those amounts to changes in discount rate are provided in note 18.

Useful lives of property, plant and equipment, investment properties and intangible assets

Management determines the estimated useful lives and residual values of its property, plant and equipment investment properties and intangible assets for calculating depreciation and amortisation. These estimates are determined after considering the expected usage of the assets and physical wear and tear. Management reviews the residual values and useful lives annually and the future depreciation charge and amortisation charge is adjusted where management believes that the residual values and/or useful lives differ from previous estimates.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

5 Property, plant and equipment

	Land, leasehold improvements and buildings AED'000	Plant and equipment AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
1 January 2021	782,014	2,642,502	92,640	28,603	17,249	3,563,008
Acquisition of Emirates Steel (note 31)	1,195,441	10,726,974	102,539	129,577	3,524	12,158,055
Additions	1,597	53,971	1,774	932	9,185	67,459
Transfers	-	247	-	-	(247)	-
Reclassified to inventories	-	(80,877)	-	-	-	(80,877)
Disposals	-	(8,387)	-	(3,588)	-	(11,975)
1 January 2022	1,979,052	13,334,430	196,953	155,524	29,711	15,695,670
Additions	3,416	128,857	8,614	231	14,710	155,828
Transfers	-	1,892	-	-	(1,892)	-
Disposals	-	(10,360)	-	-	-	(10,360)
31 December 2022	**1,982,468**	**13,454,819**	**205,567**	**155,755**	**42,529**	**15,841,138**
Accumulated depreciation and impairment						
1 January 2021	368,842	1,233,573	71,889	27,942	664	1,702,910
Acquisition of Emirates Steel (note 31)	333,240	5,527,681	92,854	112,378	-	6,066,153
Charge for the year	19,242	132,198	4,591	2,586	-	158,617
Impairment (note 6)	69,935	471,208	-	-	-	541,143
Disposals	-	(8,387)	-	(3,588)	-	(11,975)
1 January 2022	791,259	7,356,273	169,334	139,318	664	8,456,848
Charge for the year	33,077	485,231	7,230	9,704	-	535,242
Impairment charge (note 6)	36,512	61,009	-	-	-	97,521
Impairment release (note 6)	-	(146,546)	-	-	-	(146,546)
Disposals	-	(5,486)	-	-	-	(5,486)
31 December 2022	**860,848**	**7,750,481**	**176,564**	**149,022**	**664**	**8,937,579**
Carrying amount						
31 December 2022	**1,121,620**	**5,704,338**	**29,003**	**6,733**	**41,865**	**6,903,559**
31 December 2021	1,187,793	5,978,157	27,619	16,206	29,047	7,238,822

At 31 December 2022, properties with a carrying amount of AED 825 million (2021: AED 854 million) are held to secure bank loans (note 19).

Plant and equipment include an amount of AED 98.4 million (2021: AED 70.0 million) pertaining to spares parts.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

5 Property, plant and equipment (continued)

Capital work in progress

At 31 December 2022, capital work in progress amounting to AED 42.1 million (2021: AED 29.7 million) relates to construction of additional storage facilities at Al Ain Cement Factory, a new extruder line for the PVC Pipes business together with various upgrades to Emirates Steel's plants.

6 Goodwill and impairment

The aggregate carrying amount of goodwill allocated for impairment testing is as follows:

	2022 AED'000	2021 AED'000
Blocks	**-**	14,050

No goodwill has been allocated to the Steel, PVC Pipes, GRP Pipes or the Bags businesses. Goodwill previously allocated to Cement of AED 114.38 million was fully impaired in 2021.

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

During the year, the Group assessed the recoverable amount of goodwill in accordance with its strategic business structure and determined that the goodwill associated with the Blocks business is impaired.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units where the goodwill is monitored for internal management purposes. The recoverable amount of the Blocks cash generating unit was based on its value-in-use determined by management. The carrying amount as allocated to Blocks was determined to be higher than its recoverable amount and impairment provision was charged in 2022 for Blocks.

The recoverable amounts of the cash-generating unit were determined based on value in use calculations which use cash flow projections based on financial budgets approved by the Directors of the Group covering a five-year period. Cash flows were projected based on past experience and the five-year forecast business plan based on the key assumptions described below.

Cement Division

In 2021, the recoverable amount of the Cement cash-generating unit was determined to be less than the carrying amount; accordingly, the associated goodwill was impaired. In addition, management have also recorded impairment losses against the associated property, plant and equipment and right-of-use assets.

Management re-assessed the recoverable amount of the Cement cash generating unit at 31 December 2021 using value in use methodologies; the division recorded an AED 541.14 million impairment loss on property, plant and equipment (note 5) together with an impairment loss of AED 44.48 million on associated right-of-use assets (note 14). Management concluded that no further impairment losses were required and that impairment losses as established in 2021 be retained in full.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

6 Goodwill and impairment (continued)

Blocks Division

The recoverable amount of the Blocks cash-generating unit was determined to be less than the carrying amount; accordingly, the associated goodwill has been impaired.

In addition to the full impairment loss against the goodwill balance associated, management have also recorded impairment losses against the associated property, plant and equipment and right-of-use assets. In summary, management have recorded the following impairment provisions at 31 December 2022, based on a comparison of the recoverable amounts against the assets comprising the cash generating units:

	2022 **AED'000**
Goodwill	**14,050**
Property, plant and equipment (note 5)	**97,521**
Right-of-use assets (note 14)	**38,429**
	150,000

Steel Division

As a result of the COVID-19 pandemic, and other economic factors, demand for the Steel division's products in both its regional and international markets was adversely impacted in both 2020 and 2021. As a consequence, decisions were taken to moth-ball certain of the Group's plants and to reduce production volumes in others. Accordingly, management assessed the impairment of property, plant and equipment and right-of-use assets.

Management re-assessed the recoverable amounts of these facilities at 31 December 2020 using value in use methodologies; the division recorded an AED 1,078.5 million impairment loss on property, plant and equipment together with an impairment loss of AED 55.4 million on associated right-of-use assets (note 14). This assessment was also undertaken at 31 December 2021 and management concluded that no further impairment losses were required and that, in the context of the continuing uncertainties faced by the business, that the impairment losses as established in 2020 be retained in full.

Similarly, an assessment was completed as at 31 December 2022 and management concluded that no further impairment losses were required and that, in the context of the continuing uncertainties faced by the business, that the impairment losses as established in 2020 on the moth-balled assets be retained in full and that a partial release of the impairment loss recorded on the division's other assets be released: a release of AED 146.5 million on property, plant and equipment (notes 5 and 28) together with a release of AED 3.5 million on the associated right-of-use assets (note 14 and 28).

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

6 Goodwill and impairment (continued)

Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment tests to changes in the key assumptions used to determine the recoverable amounts for each cash generating unit. Management believes that any reasonably possible changes in the key assumptions on which the recoverable amounts of the Cement, Blocks and Steel cash generating units is based would crystallise differences in the aggregate recoverable amounts and accordingly the conclusions drawn on the impairment adjustments recorded. The key assumptions utilized by management are summarized as follows:

	Cement	**Blocks**	**Steel**
Projected annual sales volumes	3.4m Mt	575 (units)	3.4m Mt
Discount rate applied	10%	10%	10.29%
Growth rate	2.5%	2.5%	2%

Cement Division

- A 10% under-performance against the division's assumed EBITDA is considered possible based on recent experience (and can be caused by a number of factors including, reduced sales volumes, reduced prices and/or increased electricity tariff) and would lead to an incremental impairment charge of AED 80 million (2021: AED 98.8 million).
- A growth rate of 1.5% would lead to an incremental impairment charge of AED 55 million (2021: AED 60.4 million).
- Each 1% increase in the discount rate applied would lead to an incremental impairment charge of AED 74 million (2021: AED 80.9 million).

Blocks Division

- A 10% under-performance against the division's assumed EBITDA is considered possible based on recent experience (and can be caused by a number of factors including, reduced sales volumes, reduced prices and/or increased electricity tariff) and would lead to an incremental impairment charge of AED 27 million.
- A growth rate of 1.5% would lead to an incremental impairment charge of AED 14 million.
- Each 1% increase in the discount rate applied would lead to an incremental impairment charge of AED 17 million.

In 2021, there were not impairment indicators in relation to this business.

Steel Division

- The key sensitivity is in relation to the discount rate applied and it is noted that a 1% increase in the assumed WACC, to 11.29%, would lead to a reduction in the headroom against making an incremental impairment charge by AED 1,312 million (2021: AED 811 million).

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

7 Investment in associates

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

Name of associate	Principal activities	Proportion of ownership interest and voting rights held by the Group		Place of incorporation and principal place of business
		2022	2021	
Vision Hotel Apartment LLC	Ownership and management of hotel apartments	**40%**	40%	UAE
Deco Vision LLC	Property fit outs, decorations, ownership, and management of apartments	**40%**	40%	UAE
Vision Furniture and Decoration Factory LLC	Carpentry of household, decoration, loose furniture, and other woodwork	**40%**	40%	UAE
Deco Vision Properties LLC	Real estate enterprises investment	**40%**	40%	UAE
Vision Links Hotel Apartments LLC	Deluxe hotel apartments	**40%**	40%	UAE

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

The movement in the investment in associates is as follows:

	2022 **AED'000**	2021 AED'000
As at 1 January	**79,728**	153,649
Share of profit/(loss) of associates in the year	**7,811**	(22,721)
Dividends received during the year	**-**	(1,200)
Impairment during the year (note 28)	**-**	(50,000)
As at 31 December	**87,539**	79,728

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

7 Investment in associates (continued)

No dividends were received from the Group's associates during the year (2021: AED 1,200 thousand received from Vision Furniture and Decoration Factory LLC). The summary information following represents amounts included in the IFRS management accounts and financial statements of the associates, not the Group's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

In the context of the associate investments having historically reported shortfalls against their projected annual budgets and projections management determined, in the year ended 31 December 2021, to moderate the projected profitability data as prepared by management and approved by the directors of the associate companies. On the basis of this moderation procedure, it was determined that the current value of the expected future cash flows from the investments (discounted at a weighted average cost of capital of 10%) was less than their then current carrying values; accordingly, an impairment provision of AED 50 million was made against the carrying values recorded.

The future profitability and projected cash flows of the associates has been similarly assessed at 31 December 2022, and management have concluded that no further impairment provisions are required over and above the AED 50 million as recorded in the prior year.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

7 Investment in associates (continued)

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

	Deco Vision LLC		Vision Furniture and Decoration Factory LLC		Vision Hotel Apartments LLC		Others		Total	
	2022 AED'000	2021 AED'000	**2022 AED'000**	2021 AED'000	**2022 AED'000**	2021 AED'000	**2022 AED'000**	2021 AED'000	**2022 AED'000**	2021 AED'000
Total assets	**220,649**	183,913	**88,882**	65,179	**6,044**	6,044	**3,585**	3,585	**319,160**	258,721
Total liabilities	**143,877**	118,823	**50,257**	34,398	**1,944**	1,944	**14,133**	14,133	**210,211**	169,298
Net assets	**76,772**	65,090	**38,625**	30,781	**4,100**	4,100	**(10,548)**	(10,548)	**108,949**	89,423
Group's share of net assets	**30,709**	26,036	**15,450**	12,312	**1,640**	1,640	-	-	**47,799**	39,988
Goodwill on acquisition	**79,883**	79,883	**9,857**	9,857	**28,821**	28,821	-	-	**118,561**	118,561
Impairment on goodwill	**(44,579)**	(44,579)	**(5,421)**	(5,421)	**(28,821)**	(28,821)	-	-	**(78,821)**	(78,821)
Carrying amount	**66,013**	61,340	**19,886**	16,748	**1,640**	1,640	-	-	**87,539**	79,728
Revenue	**228,642**	216,681	**68,301**	57,492	-	694	-	-	**296,943**	274,867
Profit/(loss) for the year	**12,523**	(60,661)	**7,004**	4,442	-	(583)	-	-	**19,527**	(56,802)
Group's share of profit/ (loss) for the year at 40%	**5,009**	(24,264)	**2,802**	1,776	-	(233)	-	-	**7,811**	(22,721)

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

7 Investment in associates (continued)

Unrecognised share of losses of associates

	2022 AED'000	2021 AED'000
Unrecognised share of loss of associates for the year	-	-
Cumulative share of loss of associates	**7,538**	7,538

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

8 Investment property

	Land AED'000	**Buildings AED'000**	**Plant and machinery AED'000**	**Total AED'000**
Cost				
At 1 January 2022 and 31 December 2022	**4,000**	**10,000**	**4,175**	**18,175**
Accumulated depreciation				
At 1 January 2021	-	-	-	-
Acquisition of Emirates Steel (note 31)	-	2,875	1,150	4,025
Charge for the period	-	125	52	177
At 1 January 2022	-	3,000	1,202	4,202
Charge for the year	-	500	209	709
At 31 December 2022	-	**3,500**	**1,411**	**4,911**
Net carrying value				
At 31 December 2022	**4,000**	**6,500**	**2,764**	**13,264**
At 31 December 2021	4,000	7,000	2,973	13,973

The investment property represents a rebar processing and distribution facility, comprising freehold land, buildings and equipment. The property was leased to a third party from 4 December 2016 on a five-year full on a full repairing lease arrangement. After the expiry of this lease in December 2021, the investment property has not been leased to any other party. The Group is currently assessing the possibility of operating the plant in its own right. An insurance valuation conducted during the year ended 31 December 2018 indicated a replacement value (same location and condition as the existing assets) of AED 24,077 thousand.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

9 Intangible assets

Intangible assets comprise the Group's investment in computer software, in particular its SAP based ERP systems.

	2022 AED'000	2021 AED'000
Cost		
As at 1 January	**40,197**	-
Acquisition of Emirates Steel (note 31)	**-**	39,443
Additions	**6,022**	754
As at 31 December	**46,219**	40,197
Accumulated amortisation		
As at 1 January	**35,395**	-
Acquisition of Emirates Steel (note 31)	**-**	34,341
Charge for the year	**4,923**	1,054
As at 31 December	**40,318**	35,395
Net carrying amount	**5,901**	4,802

10 Inventories

	2022 AED'000	2021 AED'000
Finished goods and by-products	**521,598**	725,552
Semi-finished products: steel billets and direct reduced iron	**277,104**	487,148
Raw materials	**549,295**	500,375
Goods in transit	**198,252**	159,725
Spare parts and consumables	**628,489**	530,214
	2,174,738	2,403,014
Less: Allowance for impairment of inventories	**(108,125)**	(114,221)
	2,066,613	2,288,793

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

10 Inventories (continued)

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

	2022 AED'000	2021 AED'000
As at 1 January	**114,221**	54,942
Acquisition of Emirates Steel (note 31)	**-**	51,017
Reversal during the year	**(16,167)**	-
Impairment during the year (note 28)	**10,071**	8,262
As at 31 December	**108,125**	114,221

11 Trade and other receivables

	2022 AED'000	2021 AED'000
Non-current portion		
Trade receivables	**69,797**	84,745
Less: allowance for expected credit losses	**(69,797)**	(84,745)
	-	-
Current portion		
Trade receivables	**1,561,820**	1,329,695
Less: loss allowance	**(158,063)**	(149,697)
	1,403,757	1,179,998
Prepayments	**34,125**	31,953
Advances to suppliers	**93,047**	144,241
Other receivables	**125,242**	280,574
	1,656,171	1,636,766

The normal credit period on sale of goods or services rendered is up to 60-120 days (2021: 60-120 days) depending on the business segment, security provided and the credit standing of the customer. No interest is charged on outstanding trade receivables.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

11 Trade and other receivables (continued)

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

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

The Group has adopted a policy of dealing only with creditworthy counterparties. Adequate credit assessments are made before accepting an order for services or sale of goods from any counterparty. As of the reporting date, an amount of AED 559 million representing 36% of the trade receivables (2021: AED 487 million representing 34% of the trade receivables) is due from the Group's five largest customers (2021: five largest customers). The Group considers these customers to be reputable and creditworthy with the balance receivable from the top five customers at 31 December 2022 being supported by irrevocable letters of credit. There are no other customers which represent more than 2.5% of the total balance of the receivables.

The following tables detail the risk profile of trade receivables (for which there are no associated bank guarantees) based on the Group's provision matrix. As the Group's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished between the Group's different customer base.

Cement, Blocks, Pipes and Bags

31 December 2022

	Trade receivables - days past due							
	Not past due AED'000	< 30 AED'000	31 - 60 AED'000	61 -90 AED'000	91-120 AED'000	120 - 365 AED'000	> 365 AED'000	Total AED'000
Weighted average loss rates	0.96%	3.58%	4.68%	6.83%	9.39%	31.32%	100%	43.24%
Exposure at default	135,287	23,348	19,563	9,117	6,329	26,420	145,515	365,579
Lifetime ECL	1,305	836	916	623	594	8,274	145,515	158,063

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

11 Trade and other receivables (continued)

Steel

Apart from certain long outstanding receivable balances, which are carrying appropriate provisions, the Steel division has not had any instances of significant defaults on its trade receivables in the recent past; principally all current trading is undertaken on the basis of irrevocable letters of credit issued by the customer prior to the despatch of materials. The following table details the risk profile of the Steel division's trade receivables:

	Up to 60 days AED'000	61-180 days AED'000	181-365 days AED'000	Over one year AED'000	Total AED'000
31 December 2022					
Expected credit loss rate	0.00%	0.00%	0.00%	99.64%	6.12%
Estimated total gross carrying amount at default	1,065,325	2,035	2,797	70,047	1,140,204
Lifetime expected credit loss	-	-	-	69,797	69,797

The following table shows the movement in loss allowance:

	2022 AED'000	2021 AED'000
Balance as at 1 January	**234,442**	130,789
Acquisition of Emirates Steel (note 31)	**-**	160,151
Net remeasurement of loss allowance	**(4,639)**	27,578
Receivable balances written-off	**(1,943)**	(84,076)
Balance as at 31 December	**227,860**	234,442

12 Cash and cash equivalents

	2022 AED'000	2021 AED'000
Cash in hand	**191**	386
Cash at banks in current accounts	**356,851**	335,202
	357,042	335,588

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

13 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% (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 31 December 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.

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

	2022 AED'000	2021 AED'000
Amounts due from related parties		
National Petroleum (NPCC) - sister company	**-**	151
Others	**-**	33
	-	184
Loan from a related party - Parent Company		
Current	**18,361**	18,361

During 2011, the Group obtained a loan of USD 40 million (AED 146.9 million equivalent) from SENAAT (the "Shareholder Loan") with interest at prevailing market rates. The Group renegotiated the terms of the loan with the parent company on 30 November 2016.

The original maturity of the loan was a bullet payment due on 31 December 2016. Subsequently, the loan was restructured to be paid over four-years, semi-annually, commencing from December 2016 carrying interest at prevailing market rates.

An amount of USD 5 million (AED 18.369 million equivalent) was repaid in the year ended 31 December 2020. As part of the amendment agreement entered into with its Term Loan 1 lenders in the prior year, the Group did not repay any principal or interest under the Shareholder Loan up to 17 December 2022. To date no further repayments have been made on the loan.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

13 Related parties (continued)

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

	2022 AED'000	2021 AED'000
Interest on loan from the Parent Company	**644**	415
Sales to a related party - Emirates Steel Industries PJSC (pre-acquisition)	**-**	2,191
Purchases from a related party - Emirates Steel Industries PJSC (pre acquisition)	**-**	73
Sales to a related party - National Petroleum Construction Company	**-**	5,070
Key management personnel compensation		
Short term benefits	**19,129**	9,458
Post-employment benefits	**1,175**	1,008
	20,304	10,466
Financial guarantees provided to associates (note 29)	**53,400**	61,600

No fees were paid to the Directors of the Group in the year (2021: AED nil).

Terms and conditions of transactions with related parties

The sales to and services from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free except for loan from a related party and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

In the year ended 31 December 2021, the Group has not recorded any impairment provisions against receivables relating to amounts due from related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the respective related party operates.

There were no loans provided to Directors in either the year ended 31 December 2022 or 2021.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

14 Right-of-use assets

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

	Years
Land and land rights	15 - 30
Equipment	2 - 3
Motor vehicles	2 - 3

Amounts recognised in consolidated statement of financial position

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

	Land AED'000	**Equipment AED'000**	**Motor vehicles AED'000**	**Land rights* AED'000**	**Total right-of-use assets AED'000**
Carrying amount					
As at 1 January 2022	374,015	-	75	76,854	450,944
Disposals/remeasurement	(4,555)	-	-	-	(4,555)
Depreciation expense	(21,599)	-	(75)	(8,461)	(30,135)
Impairment (note 6)	-	-	-	(38,429)	(38,429)
Impairment release (note 6)	3,454	-	-	-	3,454
As at 31 December 2022	**351,315**	**-**	**-**	**29,964**	**381,279**

	Land AED'000	Equipment AED'000	Motor vehicles AED'000	Land rights* AED'000	Total right-of-use assets AED'000
Carrying amount					
As at 1 January 2021	146,713	398	671	85,315	233,097
Acquisition of Emirates Steel (note 31) **	295,454	-	1	-	295,455
Disposals/remeasurement	(12,179)	-	-	-	(12,179)
Depreciation expense	(11,496)	(398)	(597)	(8,461)	(20,952)
Impairment (note 6)	(44,477)	-	-	-	(44,477)
As at 31 December 2021	374,015	-	75	76,854	450,944

* As part of the Purchase Price Allocation (PPA) exercise relating to the acquisition of the Cement Blocks Factories in 2006, land rights which pertain to a right of use of a certain land at favourable terms of AED 211.5 million was recorded representing the right of use of said assets. The asset is being amortised over a period of 30 years. Upon adoption of IFRS 16, such rights are presented under right-of-use assets.

** The net value acquired from Emirates Steel comprised:

	2021 AED'000
Cost	407,442
Impairment provision	(55,400)
Depreciation	(56,587)
Carrying value at date of acquisition	295,455

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

14 Right-of-use assets (continued)

At 31 December 2022, right-of-use assets with a carrying amount of AED 113.91 million (2021: AED 118.36 million) are held to secure bank loans (note 19).

Amounts recognised in consolidated statement of profit and loss

	2022 AED'000	2021 AED'000
Depreciation	**(30,135)**	(20,952)
Impairment (notes 6 and 28)	**(38,429)**	(44,477)
Finance costs (notes 21 and 26)	**(20,251)**	(12,113)
	(88,815)	(77,542)

15 Share capital

Share capital comprises of 6,850 million (2021: 6,850 million) authorised, issued and fully paid ordinary shares with a par value of AED 1 each.

In the year ended 31 December 2021, 5,100 million shares were issued at a par value of AED 5,100 million for the acquisition of the entire issued share capital of Emirates Steel Industries PJSC from SENAAT (note 31).

This issue of shares for non-cash consideration was in addition to a further 892.5 million shares, which had been issued for in-kind consideration in previous years.

16 Statutory reserve

In accordance with the Articles of Association of the Company and UAE Federal Law No. 32 of 2021, the Company is required to transfer annually to a legal reserve account an amount equal to 10% of its net profit, until such reserve reaches 50% of the issued and fully paid-up share capital of the Company. This reserve is not available for distribution.

17 Reserves

Merger reserve: The merger reserve represents the difference between the nominal value of the ordinary shares issued in for the acquisition of Emirates Steel and the net value of the assets acquired in the company (note 31).

Capital reserve: Capital reserve represents the excess proceeds collected against offering cost for AED 857.5 million shares issued during 2006 at AED 0.025 per offer share after deducting actual expenses.

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

18 Provision for employees' end of service benefits

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

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

	2022 AED'000	2021 AED'000
Amounts recognised in consolidated statement of financial position		
Balance at 1 January	**217,075**	49,028
Acquisition of Emirates Steel (note 31)	**-**	163,855
Current service cost (including interest cost)	**23,039**	16,828
Benefit payments	**(11,912)**	(5,844)
Reduction on re-measurement	**(39,059)**	(6,792)
Balance at 31 December	**189,143**	217,075
Amounts recognised in consolidated statement of profit or loss		
Current service cost	**17,708**	14,532
Interest expense (note 26)	**5,331**	2,296
	23,039	16,828
Amounts recognised in consolidated statement of comprehensive income		
Gain due to experience adjustments	**39,059**	6,792
Significant actuarial assumptions		
Discount rate	**5.2% - 5.25%**	2.7%
Rate of salary increase	**2.5% - 5%**	5%
Turnover rate - voluntary rate	**5%**	5%

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

18 Provision for employees' end of service benefits (continued)

	Increase AED'000	**Decrease AED'000**
Sensitivity analysis:		
2022		
Provision - discount rate (0.5% movement)	**182,634**	**195,481**
Provision - future salary (0.5% movement)	**195,588**	**182,453**
2021		
Provision - discount rate (0.5% movement)	208,543	226,324
Provision - future salary (0.5% movement)	226,255	208,435

19 Bank borrowings

Bank borrowings are repayable as follows:

	2022 AED'000	2021 AED'000
Non-current		
After one year	**134,934**	269,901
Current		
Within one year	**1,316,102**	2,353,547
	1,451,036	2,623,448

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

19 Bank borrowings (continued)

The details of the bank borrowings are stated as follows:

		Outstanding at 31 December 2022			Outstanding at 31 December 2021		
	Maturity	Current AED'000	Non-current AED'000	Total AED'000	Current AED'000	Non-current AED'000	Total AED'000
Arkan							
Term loan 1	**2024**	**133,734**	**134,934**	**268,668**	266,667	268,667	535,334
Term loan 2	**2022**	**-**	**-**	**-**	1,644	1,234	2,878
Short term loan 1	**2023**	**95,000**	**-**	**95,000**	110,000	-	110,000
Short term loan 2	**2023**	**68,500**	**-**	**68,500**	118,683	-	118,683
Short term loan 3	**2023**	**52,400**	**-**	**52,400**	70,827	-	70,827
Short term loan 4	**2023**	**10,000**	**-**	**10,000**	10,000	-	10,000
Emirates Steel							
Term loan	**2022**	**-**	**-**	**-**	183,625	-	183,625
Working capital facilities	**2023**	**956,468**	**-**	**956,468**	1,592,101	-	1,592,101
		1,316,102	**134,934**	**1,451,036**	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 Plant. 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 939 million (2021: AED 972 million) (note 5 and note 14). Subsequent to the 2020-year end, the Group entered into an agreement with its Term Loan 1 lenders for a repayment holiday through to 17 December 2022. On the expiry of this moratorium period AED 266.7 million was repaid to the lenders on 17 December 2022 and all subsequent repayments will be paid on their respective due-dates.

Term loan 2 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new head office of the Group. The loan was repayable in 36 equal quarterly installments from November 2014 and carried variable interest at three-month EIBOR plus 3.0%. This loan was repaid in full in 2022.

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

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

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

19 Bank borrowings (continued)

Arkan (continued)

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

Emirates Steel
The term 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 LIBOR. The final repayment on the loan was processed on 30 June 2022.

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

Changes from financing cash flows related to borrowings

	2022 AED'000	2021 AED'000
Balance at the beginning of the year	**2,623,448**	933,005
Acquisition of Emirates Steel (note 31)	**-**	2,384,949
Settlement of term loans	**(453,169)**	(185,269)
Settlement of short-term loans	**(5,048,473)**	(1,776,786)
Proceeds from short term loans	**4,329,230**	1,272,680
Interest paid	**(58,091)**	(31,944)
Restructuring fee payable	**-**	1,334
Total changes from financing cash flows	**(1,230,503)**	1,664,964
Other changes / liability related		
Interest expense	**63,922**	35,110
Changes in accruals	**(5,831)**	(9,631)
Total liability related to other changes	**58,091**	25,479
Balance at the end of the year	**1,451,036**	2,623,448

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

20 Trade and other payables

	2022 AED'000	2021 AED'000
Trade payables	**1,301,965**	1,177,315
Accruals	**96,997**	268,117
VAT payable	**13,740**	13,286
Interest payable	**8,749**	2,918
Other payables	**188,168**	53,190
	1,609,619	1,514,826

The average credit period on purchase of goods and services is 60 to 90 days (2021: 60 to 90 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest is charged on trade and other payables.

Trade payables includes an amount payable to Al Ain City Municipality of AED 5.7 million (2021: AED 11.4 million), AED 38.5 million due to Abu Dhabi Distribution Company (2021: AED 60.2 million), Al Ain Distribution Company AED 0.6 million (2021: AED 2.1 million) and AED 221.9 million (2021: AED 217.9 million) to Abu Dhabi National Oil Company.

21 Lease liabilities

	2022 AED'000	2021 AED'000
As at 1 January	**510,831**	149,840
Acquisition of Emirates Steel (note 31)	**-**	376,291
Disposals/ re-measurement during the year	**(4,545)**	(13,234)
Accretion of interest during the year (note 26)	**20,251**	12,113
Payments during the year	**(51,701)**	(14,179)
As at 31 December	**474,836**	510,831

	2022 AED'000	2021 AED'000
Maturity analysis		
Not later than 1 year	**13,621**	30,998
Later than 1 year and not later than 5 years	**65,015**	67,471
Later than 5 years	**396,200**	412,362
	474,836	510,831

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

22 Revenue

The Group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the following product lines. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 *Operating Segments* (note 30).

	2022 AED'000	2021 AED'000
Analysis of revenue recognised at point in time		
Steel	**8,565,157**	2,232,938
Cement and Blocks	**709,987**	572,678
Pipes and Others	**177,498**	165,568
Transportation revenue	**-**	51,055
	9,452,642	3,022,239

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2022 and 2021 are set out below.

	2022 AED'000	2021 AED'000
Revenue		
Steel	**741,046**	497,791

Management expects that the transaction price allocated to the unsatisfied contracts as at 31 December 2022 will be recognised as revenue during 2023.

Primary geographical markets

	2022 AED'000	2021 AED'000
United Arab Emirates	**6,222,672**	1,745,078
Sultanate of Oman	**330,783**	184,496
Kingdom of Bahrain	**145,385**	39,609
Kingdom of Saudi Arabia	**131,140**	22,385
Other	**2,622,662**	1,030,671
	9,452,642	3,022,239

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

23 Cost of sales

	2022 AED'000	2021 AED'000
Materials consumed in production	**5,215,071**	1,627,076
Utility supplies	**1,137,144**	441,156
Consumable and maintenance expenditure	**496,457**	237,460
Salaries and related expenditure	**550,682**	186,750
Depreciation and amortisation expenses	**545,514**	163,629
Transportation charges	**396,730**	34,382
Other expenses	**141,644**	54,664
	8,483,242	2,745,117

24 Selling and distribution expenses

	2022 AED'000	2021 AED'000
Salaries and related expenses	**29,749**	23,573
Depreciation and amortisation expenses	**2,372**	1,912
Other expenses	**20,993**	25,682
	53,114	51,167

25 General and administrative expenses

	2022 AED'000	2021 AED'000
Salaries and related expenses	**235,290**	81,150
Provision for impairment on financial assets	**17,662**	27,578
Depreciation and amortisation expenses	**23,123**	15,259
Other expenses	**81,909**	38,969
	357,984	162,956

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

26 Finance income and cost

	2022 AED'000	2021 AED'000
Finance income		
Interest income on bank deposits	**5,331**	19
Finance cost		
Interest on borrowings	**63,922**	28,067
Interest on lease liabilities (note 21)	**20,251**	12,113
Interest expense on defined benefit obligation (note 18)	**5,331**	2,296
	89,504	42,476

27 Other income

	2022 AED'000	2021 AED'000
Bad debt recovered (note 11)	**13,005**	-
Foreign exchange gains	**-**	3,858
Others	**15,260**	3,689
	28,265	7,547

28 Impairment losses on non-financial assets (net)

	2022 AED'000	2021 AED'000
Impairment loss on plant and equipment (note 5)	**61,009**	471,208
Impairment loss on land and buildings (note 5)	**36,512**	69,935
Impairment loss on right-of-use assets (note 14)	**38,429**	44,477
Impairment loss on goodwill (note 6)	**14,050**	114,380
Reversal of impairment loss on plant and equipment (note 5)	**(146,546)**	-
Reversal of impairment loss on right-of-use assets (note 14)	**(3,454)**	-
Impairment loss on an associate (note 7)	**-**	50,000
	-	750,000
Charged to cost of sales (note 23)		
Impairment loss on inventories (note 10)	**10,071**	8,262
Charged to general and administrative expenses (note 25)		
Provision for impairment on financial assets	**17,662**	27,578

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

29 Contingent liabilities and commitments

	2022 AED'000	2021 AED'000
Bank guarantees and letters of credit	**209,263**	224,386
Capital commitments	**31,093**	12,355
Performance guarantees provided to associates	**53,400**	61,600

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

30 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.

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, concrete blocks and dry mortar;
- 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 the 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.

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Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

30 Segment reporting (continued)

	Steel AED'000	Cement, Blocks and Head Office AED'000	Pipes and others AED'000	Eliminations AED'000	Group AED'000
For the year ended 31 December 2022					
External revenues	**8,565,157**	**709,987**	**177,498**	**-**	**9,452,642**
Intersegment revenue	**-**	**32,090**	**5,088**	**(37,178)**	**-**
Timing of revenue recognition					
At a point in time	**8,565,157**	**709,987**	**177,498**	**-**	**9,452,642**
Over time					
Interest expense	**48,907**	**40,597**	**-**	**-**	**89,504**
Depreciation and amortization	**501,394**	**62,577**	**7,260**	**-**	**571,010**
Impairment reversal/(losses)	**150,000**	**(165,349)**	**(2,313)**	**-**	**(17,662)**
Share of profit of equity accounted investees	**-**	**7,811**	**-**	**-**	**7,811**
Profit/(loss) for the year	**593,062**	**(95,610)**	**12,753**	**-**	**510,205**
Total assets	**9,348,845**	**1,893,141**	**236,271**	**(6,889)**	**11,471,368**
Total liabilities	**(2,737,542)**	**(836,191)**	**(176,151)**	**6,889**	**(3,742,995)**

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

30 Segment reporting (continued)

For the year ended 31 December 2021	Steel AED'000	Cement, Blocks and Head Office AED'000	Pipes and others AED'000	Eliminations AED'000	Group AED'000
External revenues	2,232,938	620,128	169,173	-	3,022,239
Intersegment revenue	-	27,449	6,946	(34,395)	-
Timing of revenue recognition					
At a point in time	2,232,938	620,128	169,173	-	3,022,239
Over time	-	-	-	-	-
Interest expense	7,366	34,991	119	-	42,476
Depreciation and amortization	88,587	72,658	14,089	-	175,334
Impairment losses	8,670	759,758	9,150	-	777,578
Share of loss of equity accounted investees	-	(22,721)	-	-	(22,721)
Profit/(loss) for the year	51,301	(744,760)	(51,173)	-	(744,632)
Total assets	9,764,650	1,860,666	438,334	-	12,063,650
Total liabilities	(3,520,535)	(1,284,961)	(79,045)	-	(4,884,541)

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

31 Acquisition of Emirates Steel

On 6 October 2021 the issue of the 5,100 million ordinary shares in the Company was completed in relation to the acquisition of 100% of the issued share capital of Emirates Steel; the purchase being made from the Company's controlling shareholder, SENAAT.

The Company did not apply IFRS 3 Business Combinations as the business combination was effected between companies under common control and accordingly, was excluded from the scope of said IFRS. The Company had accounted for the effect of the acquisition under the "pooling of interest" method and predecessor accounting was applied prospectively. Retained earnings are not retained and together with the difference between the fair value of the consideration given and the net assets acquired are disclosed in equity as merger reserves.

In accordance with IFRS 10 Consolidated Financial Statements, the Company has elected to consolidate the income, expenses, assets and liabilities of the above-mentioned entities from the date of the completion of the acquisition in the consolidated financial statements.

The net assets acquired and the merger reserve arising from the acquisition are summarized as follows:

	2021 AED'000
Property, plant and equipment (net) (note 5)	6,091,902
Right-of-use assets (net) (note 14)	295,455
Investment property (net) (note 8)	14,150
Intangible assets (net) (note 9)	5,102
Inventories (net of provisions of AED 51,017 thousand)	2,376,527
Trade and other receivables (net of provisions of AED 160,151 thousand*)	1,125,627
Cash and bank balances	257,794
Lease liabilities	(376,290)
Provision for employees' end of service benefits (note 18)	(163,855)
Trade and other payables	(1,048,646)
Bank borrowings	(2,384,949)
Net asset value acquired	6,192,817
Nominal value of ordinary shares issued	(5,100,000)
Merger reserve	1,092,817

* Of the bad debt provision acquired in Emirates Steel of AED 160,151 thousand an amount of AED 84,076 thousand was released on the write-off of the associated receivable balances.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

32 Financial instruments

Capital risk management

The Group manages its capital to be able to continue as a going concern while maximising the return to Shareholders. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Group is currently assessing its term loan and working capital facilities following the acquisition of Emirates Steel; this review will include the development of target leverage ratios, in line with the Group's peer companies, and will allow flexibility for future fund raising for the further expansion of the Group's operations.

Financial risk management objectives

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

Credit risk

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

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

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

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in note 11. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its trade customers

Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the UAE Central Bank. Trade receivables are secured by bank guarantees and letter of credits totaling AED 1,225 million (2021: AED 1,027 million) and post-dated cheques of AED 59.7 million (2021: AED 164 million). Balances with banks are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

32 Financial instruments (continued)

Liquidity risk

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

	Less than 1 year AED'000	1 - 5 Years AED'000	More then 5 years AED'000	Total AED'000
2022				
Non-interest bearing	**1,512,622**	**-**	**-**	**1,512,622**
Interest bearing instruments	**1,347,433**	**199,949**	**396,851**	**1,944,233**
	2,860,055	**199,949**	**396,851**	**3,456,855**
2021				
Non-interest bearing	1,246,709	-	-	1,246,709
Interest bearing instruments	2,402,906	337,372	412,362	3,152,640
	3,649,615	337,372	412,362	4,399,349

Foreign currency risk

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

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

32 Financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Group. The Group is exposed to interest rate risk on its bank borrowings that carry both fixed and floating interest rates which are detailed in note 19.

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2022 would decrease/increase by AED 14.51 million (2021: decrease/increase by AED 14.1 million).

Fair value of financial instruments

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

33 Basic and diluted profit/(loss) per share

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

	2022	2021
Profit/(loss) attributable to equity holders of the parent (AED'000)	**510,205**	(744,632)
Weighted average number of shares in issue (thousands of shares)	**6,850,000**	3,035,479
Earnings per share (AED)	**0.074**	(0.245)

The Group does not have potentially dilutive shares and, accordingly, diluted earnings per share is equivalent to the basic earnings per share as detailed above.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the consolidated financial statements
for the year ended 31 December 2022 (continued)

34 Corporate income tax

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

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

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

35 The Russia-Ukraine conflict

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.

36 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 3 March 2023.

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