

National Cement Company
Public Shareholding Company

Financial statements
31 December 2008

National Cement Company Public Shareholding Company

Financial statements

31 December 2008

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National Cement Company (PSC)
Dubai, United Arab Emirates

**BOARD OF DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED ON
31.12.2008**

, Dear Shareholders

"Assalam Alaikum",

On my behalf and also on behalf of the Board of Directors of National Cement Company (PSC), Dubai, we are pleased to welcome you and would like to thank all the shareholders for attending to this General Assembly Meeting. It is our pleasure to put forward a brief report about the results of the Company based on the Audited Financial Statements for the year 2008.

First : Production

By the grace of God Almighty, the Company has completed 15 months of operation after its kiln modification and then stopped the kiln for maintenance. After maintenance, the production capacity of kiln has been made to improve to 3,500 M Tons/per day.

Second Project:

After studying the situation of gulf economy, local market and the civil developments, the Management has suggested to increase kiln target capacity from 2,200 Tons per day to 3,400 Tons per day by removing old kiln and to establish new kiln and its related equipments keeping in view of environmental standards. The capacity of kiln cooler will also be increased with an additional filter after which the capacity will further increase to 3,650 per day.

It has also been decided to modify the Cement Mill No.1 to increase its capacity from 57 Tons per hour to 70 Tons per hour for slag grinding by removing moisture from slag with the usage of flash drier. By this modification an additional production capacity of 13 Tons per hour will be processed.



Third : Profit

The profit for the year ended on 31.12.2008 is amounting to Dhs.193,980,000. After discussion about the financial accounts, the Board Directors suggest to pay dividend for the year 2008 as below:-

- 1- A cash payment 45% of paid-up capital;
- 2- 10% from the profit to be transferred to statutory reserve;
- 3- Since the General Reserve is already more than 10% of the paid up capital, there is no need to transfer any further amount;
- 4- The Board of Directors fees has been fixed at Dhs.250,000/- for each sitting Director;
- 5- The balance profit is carried to the balance sheet;

Four : Balance Sheet

The Company has completed its annual accounts and prepared financial statement for the year ended on 31.12.2008 and handed over to the Auditors, M/s K.P.M.G. and the Representative of the Auditors, to audit and discuss the matter about the Financial Statement.

The Board of Directors finally on the occasion of the closing of the Accounts of the Company, would like to thank all the concerned who have contributed their efforts for the development of the Company and express the good wishes in the future endeavors.

“Assalam Alaikum”

CHAIRMAN

ABDULLA AHMED AL-GHURAIR





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Independent auditors' report

The Shareholders
National Cement Company Public Shareholding Company

Report on the financial statements

We have audited the accompanying financial statements of National Cement Company Public Shareholding Company ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company, that a physical count of inventories was carried out by Management in accordance with established principles, and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2008, which may have had a material adverse effect on the business of the Company or its financial position.

19 FEB 2009

National Cement Company Public Shareholding Company

Income statement

for the year ended 31 December 2008

	Note	2008 AED'000	2007 AED'000
Revenue	5	557,572	532,737
Cost of sales	6	(439,233)	(314,703)
Gross profit		118,339	218,034
Administrative and general expenses	7	(49,424)	(34,970)
Other income	8	15,818	24,560
Share in (loss)/profit of an associate	13	(49)	1,366
Profit before financial income and expense		84,684	208,990
Financial income and expense (net)	9	109,296	(7,070)
Net profit for the year		193,980	201,920
Basic and diluted earnings per share (AED)	27	0.54	0.56

The notes set out on pages 8 to 34 form part of these financial statements.

The independent auditor's report is set out on page 2.

National Cement Company Public Shareholding Company

Balance sheet

at 31 December 2008

	Note	2008 AED'000	2007 AED'000
Non-current assets			
Property, plant and equipment	10	191,075	203,404
Investment properties	11	2,924	2,924
Long term portion of available-for-sale investments	12	2,132,175	2,175,278
Investment in an associate	13	52,758	52,807
Long term receivables	14	1,000	1,000
		<u>2,379,932</u>	<u>2,435,413</u>
Current assets			
Current portion of available-for-sale investments	12	9,847	8,648
Inventories	15	81,184	84,017
Trade and other receivables	16	150,326	155,521
Due from related parties	19	51,691	50,680
Cash in hand and at bank	17	129,002	218,182
		<u>422,050</u>	<u>517,048</u>
Current liabilities			
Trade and other payables	18	144,476	161,875
Due to related parties	19	45,054	2,644
		<u>189,530</u>	<u>164,519</u>
Net current assets		232,520	352,529
Provision for end of service benefits	20	(28,185)	(21,992)
		<u>2,584,267</u>	<u>2,765,950</u>
Represented by:			
Share capital	21	358,800	276,000
Share application money payable		26	26
Development and investment reserve	22	300,000	300,000
Cumulative changes in fair value of available-for-sale investments		1,289,027	1,566,340
General reserve	23	69,000	69,000
Statutory reserve	24	107,203	87,805
Retained earnings		298,751	287,379
Proposed dividend	25	161,460	179,400
		<u>2,584,267</u>	<u>2,765,950</u>

The notes set out on pages 8 to 34 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 19 FEB 2009 and were signed on their behalf by:

Chairman

Director

The independent auditor's report is set out on page 2.

National Cement Company Public Shareholding Company

Statement of cash flows

for the year ended 31 December 2008

	2008 AED'000	2007 AED'000
Operating activities		
Net profit for the year	193,980	201,920
<i>Adjustments for:</i>		
Depreciation	19,230	19,317
Gain on sale of property, plant and equipment (net)	(291)	(397)
Share in loss/(profit) of an associate	49	(1,366)
Financial income and expense (net)	(109,671)	7,244
Provision for end of service benefits	8,544	5,390
	-----	-----
<i>Operating profit before working capital changes</i>	111,841	232,108
Change in inventories	2,833	(9,579)
Change in trade and other receivables	5,195	(33,891)
Change in due from related parties	(1,011)	(6,269)
Change in trade and other payables	(15,416)	417
Change in due to related parties	42,410	(374)
Payment of end of service benefits	(2,351)	(1,113)
Change in long term receivables	-	3,123
	-----	-----
<i>Cash flows from operating activities</i>	143,501	184,422
	-----	-----
Investing activities		
Additions to property, plant and equipment	(7,317)	(17,075)
Proceeds from sale of property, plant and equipment	707	3,418
Purchase of available-for-sale investments	(473,262)	(167,125)
Proceeds from disposal of available-for-sale investments	301,825	166,456
Net movement in deposit accounts	88,434	(125,881)
Dividends received	10,583	13,653
Interest received	31,383	46,828
	-----	-----
<i>Cash used in investing activities</i>	(47,647)	(79,726)
	-----	-----
Financing activities		
Dividend paid	(96,600)	(90,180)
Interest paid	-	(106)
	-----	-----
<i>Cash used in financing activities</i>	(96,600)	(90,286)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(746)	14,410
Cash and cash equivalents at the beginning of the year	77,208	62,798
	-----	-----
Cash and cash equivalents at the end of the year	76,462	77,208
	=====	=====
These comprise the following:		
Cash at bank – in current accounts	75,934	76,617
Cash in hand	528	591
	-----	-----
	76,462	77,208
	=====	=====

The notes set out on pages 8 to 34 form part of these financial statements.

The independent auditor's report is set out on page 2.

National Cement Company Public Shareholding Company

Statement of changes in equity for the year ended 31 December 2008

	Share capital AED'000	Share application money AED'000	Development and investment reserve AED'000	Cumulative changes in fair value of available- for-sale investments AED'000	General reserve AED'000	Statutory reserve AED'000	Retained earnings AED'000	Proposed dividend AED'000	Total AED'000
At 1 January 2007	184,000	26	300,000	973,346	69,000	67,613	378,801	92,000	2,064,786
Net movement in changes in fair value (refer note 12)	-	-	-	599,836	-	-	-	-	599,836
Transfer of unrealised gain on sale of investments (refer notes 9 and 12)	-	-	-	(21,186)	-	-	-	-	(21,186)
Impairment loss recognized in the income statement (refer note 9)	-	-	-	14,344	-	-	-	-	14,344
Directors' fees (refer note 29)	-	-	-	-	-	-	(1,750)	-	(1,750)
Net income and expense recognized directly in equity	-	-	-	592,994	-	-	(1,750)	-	591,244
Net profit for the year	-	-	-	-	-	-	201,920	-	201,920
Total recognized income and expense	-	-	-	592,994	-	-	200,170	-	793,164
Dividend paid	-	-	-	-	-	-	-	(90,180)	(90,180)
Amount transferred to other payables and accruals	-	-	-	-	-	-	-	(1,820)	(1,820)
Issue of bonus shares by capitalizing retained earnings (refer note 21)	92,000	-	-	-	-	-	(92,000)	-	-
Transfer to statutory reserve	-	-	-	-	-	20,192	(20,192)	-	-
Proposed dividend (refer note 25)	-	-	-	-	-	-	(179,400)	179,400	-
At 31 December 2007	276,000	26	300,000	1,566,340	69,000	87,805	287,379	179,400	2,765,950

National Cement Company Public Shareholding Company

Statement of changes in equity (continued)

for the year ended 31 December 2008

	Share capital AED'000	Share application money AED'000	Development and investment reserve AED'000	Cumulative changes in fair value of available- for-sale investments AED'000	General reserve AED'000	Statutory reserve AED'000	Retained earnings AED'000	Proposed dividend AED'000	Total AED'000
At 1 January 2008	276,000	26	300,000	1,566,340	69,000	87,805	287,379	179,400	2,765,950
Net movement in changes in fair value (refer note 12)	-	-	-	(206,203)	-	-	-	-	(206,203)
Transfer of unrealised gain on sale of investments (refer notes 9 and 12)	-	-	-	(80,363)	-	-	-	-	(80,363)
Impairment loss recognized in the income statement (refer note 9)	-	-	-	9,253	-	-	-	-	9,253
Directors' fees (refer note 29)	-	-	-	-	-	-	(1,750)	-	(1,750)
Net income and expense recognized directly in equity	-	-	-	(277,313)	-	-	(1,750)	-	(279,063)
Net profit for the year	-	-	-	-	-	-	193,980	-	193,980
Total recognized income and expense	-	-	-	(277,313)	-	-	192,230	-	(85,083)
Dividend paid	-	-	-	-	-	-	-	(96,600)	(96,600)
Issue of bonus shares (refer note 21)	82,800	-	-	-	-	-	-	(82,800)	-
Transfer to statutory reserve	-	-	-	-	-	19,398	(19,398)	-	-
Proposed dividend (refer note 25)	-	-	-	-	-	-	(161,460)	161,460	-
At 31 December 2008	358,800	26	300,000	1,289,027	69,000	107,203	298,751	161,460	2,584,267

In accordance with the interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 by the Ministry of Economy & Commerce, directors' fees have been treated as an appropriation of retained earnings.

The notes on pages 8 to 34 form part of these financial statements.

National Cement Company Public Shareholding Company

Notes

(forming part of the financial statements)

1 Legal status and principal activities

National Cement Company Public Shareholding Company (“the Company”) is registered in accordance with the decree issued by His Highness the Ruler of Dubai on 10 April 1968 establishing a cement company in the Emirate of Dubai and in accordance with the provisions of the UAE Federal Law No. 8 of 1984 (as amended). The registered address of the Company is PO Box 4041, Dubai, United Arab Emirates.

The principal activity of the Company is to manufacture and sell cement and cement related products. The Company also invests in investment securities and derivative products. The Company was listed on the Dubai Financial Market in 2005.

2 Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

Basis of measurement

These financial statements are prepared under the historical cost convention except in respect of available-for-sale investments and derivative financial instruments which are stated at fair values.

Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirham (“AED”), which is also the Company’s functional currency. All financial information presented in AED has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in these financial statements are described in note 32.

National Cement Company Public Shareholding Company

Notes (continued)

3 Significant accounting policies

The following accounting policies set out below, which comply with IFRS, have been applied consistently to all periods presented in these financial statements.

Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy on impairment), if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

Assets	Life (years)
Buildings	3 – 14
Plant and machinery	3 – 25
Furniture, fixtures and equipment	4 – 7
Mobile equipments and vehicles	3

Land is not depreciated. The depreciation methods, useful lives and residual value of property, plant and equipment are reassessed at the reporting date.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon completion of construction, the cost of such assets together with the cost directly attributable to construction (including capitalized borrowing costs) are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

Investment properties

Land and buildings owned by the Company for the purposes of generating rental income or capital appreciation or both are classified as investment properties.

Investment properties are accounted for under the 'cost model' under IAS 40 *Investment Property* and are stated at cost less accumulated depreciation and impairment losses, if any. Land is not depreciated. Buildings forming part of investment properties have been depreciated from the date of acquisition so as to write off the cost of buildings in equal instalments over their estimated useful life that ranges from 3 to 14 years.

National Cement Company Public Shareholding Company

Notes *(continued)*

3 Significant accounting policies *(continued)*

Associate

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence exists when the Company has the power to participate in the financial and operating policy decisions of an entity, but does not have control over financial and operating policies. These financial statements include the Company's share of the total recognized gains and losses of an associate, accounted for on an equity accounting basis from the date that significant influence commences and until the date that significant influence ceases. When the Company's share of losses exceed the carrying amount of the investment in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligation in respect of that associate.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

(i) Raw materials

The cost of raw material is based on weighted average cost basis and includes expenditure incurred in acquiring raw material and bringing them to their present location and condition.

(ii) Work in progress and Finished goods

The cost of work in progress and finished goods is based on weighted average cost basis and includes the cost of raw material and attributable production labour and overheads.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise available-for-sale investments, long-term receivables, trade and other receivables, amounts due from related parties, cash in hand and at bank, trade and other payables and amounts due to related parties.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Available-for-sale financial assets

These assets are those financial assets that are not loans or receivables originated by the Company, held to maturity investments or financial assets held for trading. Available-for-sale investments are initially recognized at cost, being the fair value of the consideration given including charges associated with the acquisition of the investment. Subsequent to initial recognition, investments are stated at fair value with unrealised gains and losses reported in equity, except for impairment losses, under the caption, "Cumulative changes in fair value of available-for-sale investments". When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in income statement. The fair value of quoted available-for-sale investments is the quoted bid price in an active market at the balance sheet date. For investments where there is no market price, fair value is estimated on the basis of the market price of comparable investments or by reference to the expected future cash flows.

National Cement Company Public Shareholding Company

Notes (continued)

3 Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial instruments (continued)

Others

Other non-derivative financial instruments are measured at amortized cost using the effective interest method less impairment losses, if any.

Derivative financial instruments

Derivative financial instruments are categorized as held for trading unless they are designated as hedges. The Company has derivative instruments which do not qualify for hedge accounting. Changes in the fair value of such derivative financial instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Impairment

Financial asset

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in the income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in the income statement though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in the income statement.

Non-financial asset

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. All impairment losses are recognized in the income statement.

National Cement Company Public Shareholding Company

Notes (continued)

3 Significant accounting policies (continued)

Employees' end of service benefits

(i) Expatriate staff – Gratuities

The provision for staff gratuities, payable at the end of service period, is calculated in accordance with the UAE Federal Labour Law. This is based on the liability that would arise if employment of all staff were terminated at the balance sheet date.

(ii) UAE nationals – Pension and Social Security

Effective 1 January 2003, the Government of Dubai has joined Federal Labour Law No.7 of 1999 for pension and social security. Under this law, employers are required to contribute 15% of the 'contribution calculation salary' of those employees who are UAE nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognized as an expense in the income statement as incurred.

Provision

A provision is recognized in the balance sheet, when the Company has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Turnover

Turnover represents the invoiced value of goods sold less any returns or discounts allowed in the ordinary course of business.

Revenue recognition

Revenue from sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the customer. Significant risks and rewards are deemed to be transferred upon dispatch of goods.

Rental income

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

Finance income and expenses

Finance income comprises interest income, dividend income, foreign exchange gains and gains on derivative financial instruments that are recognized in the income statement. Interest income is recognized as it accrues in the income statement, using the effective interest method. Dividend income is recognized in the income statement on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprise losses on derivative financial instruments, foreign exchange losses and impairment losses recognized on financial assets that are recognized in the income statement. All borrowing costs are recognized in the income statement using the effective interest method.

National Cement Company Public Shareholding Company

Notes *(continued)*

3 Significant accounting policies (continued)

Operating lease payments/receipts

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made/receipts under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives allowed by the lessor are recognized in the income statement as an integral part of the total lease payments made/receipts obtained.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into AED and recorded at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling at the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the income statement.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investment property and related revenue, corporate assets and head office expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and available-for-sale investments.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

National Cement Company Public Shareholding Company

Notes (continued)

3 Significant accounting policies (continued)

New standards and interpretations not yet effective

The new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2008 and therefore have not been applied in preparing these financial statements are as follows:

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Company’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company’s General Manager in order to assess each segment’s performance and to allocate resources to them.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company’s 2009 financial statements. The adoption of the revised IAS 23 is not expected to have a material impact on the financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company’s 2009 financial statements, is not expected to have a significant impact on the presentation of the financial statements.

4 Financial risk management and capital management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly attributable to trade and other receivables, amounts due from related parties, cash at bank and investment in debt securities. The Company limits its exposure to investments by investing in securities where counterparties have credible market reputation. The Company’s management does not expect any counterparty to fail. The exposure to credit risk on trade receivables and amounts due from related parties is monitored on an ongoing basis by the management and these are considered recoverable by the Company’s management. The Company’s cash is placed with banks of repute.

National Cement Company Public Shareholding Company

Notes (continued)

4 Financial risk management and capital management (continued)

Credit risk (continued)

Trade receivables

For receivables on sale of cement and cement related products, the risk of financial loss to the Company is low as bank guarantees act as collateral. In case of default in payment from its customer, the Company has the right to encash the bank guarantee provided by the customer. The five largest customers of the Company account for approximately 65% (2007: 59%) of the trade receivables against which the Company has bank guarantee to the extent of the outstanding amount. Trade receivables consist of a number of customers which are based in the UAE.

A majority of the Company's customers have been regularly transacting with the Company and losses have occurred infrequently. Accordingly, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity risk mainly relates to trade and other payables and amounts due to related parties. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Market risk

Market risk is the risk that changes in market prices, such as investment prices, interest rates and currency rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Investment price risk

Investment price risk arises from available-for-sale investments. Management of the Company monitors the mix of investments in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors. The primary goal of the Company's investment strategy is to maximise investment returns.

Interest rate risk

The interest rate on the Company's financial instruments is based on market rates. Furthermore, the Company has entered into interest rate swaps to earn interest income on account of changes in interest rates.

Currency risk

Currency risk faced by the Company is minimal as there are minimal foreign currency transactions. In respect of monetary assets and liabilities in United States Dollar ("USD"), there is no exchange risk involved presently as AED is pegged to USD. However, the Company is exposed to foreign currency risk (i.e. Sterling Pounds) on certain available-for-sale investments.

National Cement Company Public Shareholding Company

Notes (continued)

4 Financial risk management and capital management (continued)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

During the current year, the shareholders have approved the proposed dividend of AED 179.4 million which was paid by way of cash dividend of AED 96.6 million and by issue of bonus shares of AED 82.8 million and the Directors have proposed a cash dividend of AED 161.5 million for the current year. The proposed dividend will be submitted for formal approval and declaration at the Annual General Meeting.

5 Revenue

	2008 AED'000	2007 AED'000
Domestic sale of cement	557,414	532,240
Foreign sale of cement	158	497
	-----	-----
	557,572	532,737
	=====	=====

6 Cost of sales

	2008 AED'000	2007 AED'000
<i>These include:</i>		
Material expenses	361,729	251,720
Factory utilities	32,833	30,605
Staff costs	22,481	17,071
Depreciation	13,571	12,893
	=====	=====

7 Administrative and general expenses

	2008 AED'000	2007 AED'000
<i>These include:</i>		
Staff costs	26,250	15,459
Depreciation	5,659	6,424
Selling expenses	9,048	6,599
	=====	=====

8 Other income

	2008 AED'000	2007 AED'000
Rental income	12,225	7,813
Income from scrap sales	625	1,622
Gain on sale of property, plant and equipment	291	397
Other miscellaneous income	2,677	5,453
Write back of excess provision no longer required	-	9,275
	-----	-----
	15,818	24,560
	=====	=====

National Cement Company Public Shareholding Company

Notes (continued)

9 Financial income and expense (net)

	2008 AED'000	2007 AED'000
Interest income from		
- interest rate swap contracts	18,239	27,831
- bank deposits	2,692	1,918
- available-for-sale investments	10,452	17,079
Net revaluation gain (unrealised) on		
- interest rate swap contracts (refer note (i) below)	3,364	-
Net gain on unwinding of		
- interest rate swap contracts (refer note (i) below)	26,558	6,042
- commodity derivative swap contracts (refer note (i) below)	22,994	-
Gain on disposal of available-for-sale financial assets (refer note 12(v))		
- transferred from equity	80,363	21,186
- attributable to difference between selling price and carrying value	13,511	13,513
Dividend income on available-for-sale financial assets	10,583	13,653
Gain on foreign exchange differences (net)	-	174
Financial income	<u>188,756</u>	<u>101,396</u>
Net revaluation loss (unrealised) on		
- interest rate swap contracts (refer note (i) below)	(30,061)	(27,833)
- commodity derivative contract (refer note (i) below)	(19,122)	(66,183)
Impairment loss on available-for-sale financial assets (refer note (ii) below)	(9,253)	(14,344)
Impairment provision for available-for-sale financial assets (refer note (iii) below)	(18,368)	-
Loss on foreign exchange differences (net)	(2,656)	-
Interest expense on financial liabilities	-	(106)
Financial expense	<u>(79,460)</u>	<u>(108,466)</u>
Financial income/(expense) recognized in the income statement-(net)	<u>109,296</u>	<u>(7,070)</u>

- (i) The Company has fair valued its derivative financial instruments as at the balance sheet date. Based on the fair values of these derivative financial instruments, the Company has recognized a net loss of AED 45.82 million (2007: AED 94.01 million). Furthermore, certain derivative financial instruments have been called back during the current year and the net loss of AED 49.55 million (2007: AED 6.04 million) recognized in the income statement of the previous years has now been credited to the income statement. However this loss is unrealised in nature and the Company has earned an interest income of AED 18.24 million (2007: AED 27.83 million) on these derivative financial instruments.

National Cement Company Public Shareholding Company

Notes (continued)

9 Financial income and expense (net) (continued)

- (ii) On the basis of review undertaken by the Directors' of the Company for the fair value of available-for-sale investments as at 31 December 2008, an additional amount of AED 9.25 million (2007: AED 14.34 million) is recognized as an impairment loss in the income statement.
- (iii) During the current year, the Company has made certain available-for-sale investments amounting to AED 18.37 million in investment products of a financial institution which has filed for bankruptcy in the United States of America in the current year. The Company's Directors, on the basis of their review of circumstances and recoverability of this investment have resolved to make an impairment provision of AED 18.37 million in the income statement.

10 Property, plant and equipment

	Buildings AED'000	Plant and machinery AED'000	Furniture, fixture and equipment AED'000	Mobile equipments and vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2007	27,552	840,110	11,421	43,261	-	922,344
Additions	2,327	262	250	4,549	9,687	17,075
Disposals	-	(2,995)	-	(1,228)	-	(4,223)
Transfer from capital work in progress	-	9,687	-	-	(9,687)	-
At 31 December 2007	29,879	847,064	11,671	46,582	-	935,196
At 1 January 2008	29,879	847,064	11,671	46,582	-	935,196
Additions	565	405	130	6,217	-	7,317
Disposals	-	-	-	(1,356)	-	(1,356)
At 31 December 2008	30,444	847,469	11,801	51,443	-	941,157
Depreciation						
At 1 January 2007	22,468	646,142	8,863	36,204	-	713,677
Charge for the year	2,041	12,264	930	4,082	-	19,317
On disposals	-	(15)	-	(1,187)	-	(1,202)
At 31 December 2007	24,509	658,391	9,793	39,099	-	731,792
At 1 January 2008	24,509	658,391	9,793	39,099	-	731,792
Charge for the year	2,230	11,384	1,010	4,606	-	19,230
On disposals	-	-	-	(940)	-	(940)
At 31 December 2008	26,739	669,775	10,803	42,765	-	750,082
Net book value						
At 31 December 2008	<u>3,705</u>	<u>177,694</u>	<u>998</u>	<u>8,678</u>	<u>-</u>	<u>191,075</u>
At 31 December 2007	<u>5,370</u>	<u>188,673</u>	<u>1,878</u>	<u>7,483</u>	<u>-</u>	<u>203,404</u>

- (i) Buildings with a net book value of AED 0.5 million (2007: AED 2.3 million) are situated on plots of land obtained under operating lease arrangements which are renewable annually. The Company's Directors are of the opinion that the leases are renewable and the land will be available to the Company on an ongoing basis in the foreseeable future.

National Cement Company Public Shareholding Company

Notes (continued)

11 Investment properties

	Land AED'000	Buildings AED'000	Total AED'000
Cost			
At 1 January 2007	2,924	16,575	19,499
	-----	-----	-----
At 31 December 2007	2,924	16,575	19,499
	-----	-----	-----
At 1 January 2008	2,924	16,575	19,499
	-----	-----	-----
At 31 December 2008	2,924	16,575	19,499
	-----	-----	-----
Depreciation			
At 1 January 2007	-	16,575	16,575
	-----	-----	-----
At 31 December 2007	-	16,575	16,575
	-----	-----	-----
At 1 January 2008	-	16,575	16,575
	-----	-----	-----
At 31 December 2008	-	16,575	16,575
	-----	-----	-----
Net book value			
At 31 December 2008	2,924	-	2,924
	=====	=====	=====
At 31 December 2007	2,924	-	2,924
	=====	=====	=====

Investment properties comprises of land and buildings which are situated within the United Arab Emirates.

No depreciation is charged on buildings as these are fully depreciated.

The fair market value of investment properties is in the range of AED 45 million to AED 50 million as per the internal valuation carried out by the management. The valuation was based on an assessment of the market prices for similar properties and on the basis of future rentals.

12 Available-for-sale investments

	2008 AED'000	2007 AED'000
Non current investments	2,132,175	2,175,278
Current investments	9,847	8,648
	-----	-----
	2,142,022	2,183,926
	=====	=====

National Cement Company Public Shareholding Company

Notes *(continued)*

12 Available-for-sale investments (continued)

The movement at cost in available-for-sale investments are as follows:

	2008 AED'000	2007 AED'000
At the beginning of the year	631,930	596,562
Additions	473,262	167,125
Disposals	(207,951)	(131,757)
Provision for available-for-sale investments (refer note 9(iii))	(18,368)	-
	-----	-----
At the end of the year	878,873	631,930
	=====	=====

Also refer note 9(ii).

- (i) At the balance sheet date, the Company's long-term investments represent available for sale investments in securities which are intended to be held for more than one year from the balance sheet date. The Company's current investments comprise investments in quoted marketable equity securities which are held as available-for-sale investments. During the current year, the Company has recognized a fair value loss of AED 206.20 million (2007: fair value gain of AED 599.84 million) under equity on available-for-sale investments. Furthermore, the Company has also recognised a foreign exchange loss on certain available-for-sale investments amounting to AED 2.28 million directly in the income statement.
- (ii) At 31 December 2008, available-for-sale investments include AED 9.00 million (2007: AED 16.53 million) which are stated at cost. In the opinion of the management, the fair value of these investments is not significantly different from their carrying amounts.
- (iii) Investments in marketable securities having a fair value amounting to AED 169 million (2007: AED 394 million) are held in the personal name of one of the Company's Director for the beneficial interest of the Company.
- (iv) Investments amounting to AED 35 million (2007: AED 50 million) are held under lien against various undrawn bank facilities.
- (v) The break-up of gain on disposal of investments is as follows:

	2008 AED'000	2007 AED'000
Fair value gain recognized directly in equity transferred to income statement on disposal (refer note 9)	80,363	21,186
Gain attributable to difference between selling price and carrying value of available-for-sale investments on sale (refer note 9)	13,511	13,513
	-----	-----
Gain on disposal of available-for-sale investments	93,874	34,699
	=====	=====

National Cement Company Public Shareholding Company

Notes (continued)

12 Available-for-sale investments (continued)

(vi) The geographical distribution of available-for-sale investments is as under:

	2008 AED'000	2007 AED'000
United Arab Emirates	1,879,021	1,867,379
Other GCC countries	89,434	239,487
Other countries	173,567	77,060
	-----	-----
	2,142,022	2,183,926
	=====	=====

(vii) Sensitivity analysis – price risk

The Company's available-for-sale investments are either listed on the Dubai Financial Market or on the Abu Dhabi Securities Market. A ten percent increase in the price of investments would have increased the fair value of the investments by AED 214 million (2007: AED 218 million); an equal change in the opposite direction would have decreased the fair value of the investments by AED 214 million (2007: AED 218 million). The analysis is performed on the same basis for 2007.

13 Investment in an associate

Investment in an associate represents 20% share of Berber Cement Company Ltd ("BCC"), a limited liability company registered in the Republic of Sudan. The principal activity of the associate is to manufacture and sell cement. The Company's share in net assets of BCC has been equity accounted as at the year-end on the basis of the unaudited financial statements of the associate as at 31 December 2008. This has resulted in the Company's share in loss of the associate amounting to AED 0.05 million (2007: profit of AED 1.37 million) which has been recognized in the income statement.

The movement of investment in the associate during the year was as follows:

	2008 AED'000	2007 AED'000
Balance at 1 January	52,807	51,441
Share in net assets of an associate	(49)	1,366
	-----	-----
Balance at 31 December	52,758	52,807
	=====	=====

Summary financial information on an associate (100% basis):

	2008 AED'000	2007 AED'000
Assets	763,994	199,982
Liabilities	497,083	972
Equity	266,911	199,010
Income	9,367	13,111
Profit/(loss)	(281)	6,832
	=====	=====

National Cement Company Public Shareholding Company

Notes (continued)

14 Long term receivables

	2008 AED'000	2007 AED'000
Long term receivable (refer note below)	1,000 =====	1000 =====

Long term receivable comprise advance provided to an employee of the Company for various investments to be made on behalf of the Company.

The Company's exposure to credit risk and impairment losses related to loans and receivables are disclosed in note 31.

15 Inventories

	2008 AED'000	2007 AED'000
Raw material	22,680	38,814
Work in progress	33,418	27,416
Finished goods	4,646	3,810
Spare parts	27,562	21,099
	-----	-----
	88,306	91,139
Less: provision for slow moving inventories	(7,122)	(7,122)
	-----	-----
	81,184 =====	84,017 =====

16 Trade and other receivables

	2008 AED'000	2007 AED'000
Trade receivables	144,979	143,228
Other receivables	472	8,220
Advances and prepayments	4,875	4,073
	-----	-----
	150,326 =====	155,521 =====

The Company's exposure to credit risk and impairment losses related to loans and receivables is disclosed in note 31.

17 Cash in hand and at bank

	2008 AED'000	2007 AED'000
Cash in hand	528	591
Cash at bank		
- in current accounts	75,934	76,617
- in deposit accounts	52,540	140,974
	-----	-----
	129,002 =====	218,182 =====

National Cement Company Public Shareholding Company

Notes (continued)

17 Cash in hand and at bank (continued)

The Company's exposure to credit risk and interest rate risk related to cash at bank are disclosed in note 31.

The geographical distribution of cash at bank in current accounts and deposit accounts is as under:

	2008 AED'000	2007 AED'000
United Arab Emirates	87,638	205,773
Other countries	40,836	11,818
	<u>=====</u>	<u>=====</u>

18 Trade and other payables

	2008 AED'000	2007 AED'000
Trade payables	23,822	48,482
Fair value of derivative financial instruments (refer note 9)	90,283	94,016
Other payables and accruals	28,621	17,627
Directors' fees	1,750	1,750
	<u>-----</u>	<u>-----</u>
	144,476	161,875
	<u>=====</u>	<u>=====</u>

The Company's exposure to liquidity risk related to trade and other payables is disclosed in note 31.

19 Related party transactions

The Company, in the normal course of business, enters into transactions with other business enterprises that fall within the definition of a related party contained in International Accounting Standard No. 24. These transactions mainly comprise purchase and sale of goods which in the opinion of the Company's management are entered at terms agreed with the management of the related parties other than sale of investments. Significant transactions with related parties other than those disclosed elsewhere in these financial statements are as follows:

	2008 AED'000	2007 AED'000
Purchases from related parties	18,017	39,062
Sales to related parties	94,692	82,375
Sale of investment in marketable securities to a Director (refer note below)	-	15,000
	<u>=====</u>	<u>=====</u>

During the previous year, the Company sold certain investments in marketable equity securities to a Director for an amount of AED 15.00 million. The sale consideration is equal to the fair value of these securities as at the date of sale. This transaction resulted in a net gain of AED 14.79 million which has been recognized in the income statement.

National Cement Company Public Shareholding Company

Notes (continued)

19 Related party transactions (continued)

Compensation to key management personnel including Directors is as follows:

	2008 AED'000	2007 AED'000
Salaries and other short-term employee benefits	3,241	3,454
End of service benefits charged to the income statement	91	85
End of service benefits payable at the year-end	5,149	4,450
Directors fee (as an appropriation from retained earnings)	1,750	1,750
	<u>=====</u>	<u>=====</u>

The Company's exposure to credit risk and liquidity risk related to related party balances are disclosed in note 31.

Due to related parties include an amount of AED 40.87 million payable to Berber Cement Company, an associate.

20 Provision for end of service benefits

	2008 AED'000	2007 AED'000
Balance at 1 January	21,992	17,715
Provision for the year	8,544	5,390
Payments during the year	(2,351)	(1,113)
	<u>-----</u>	<u>-----</u>
Balance at 31 December	28,185	21,992
	<u>=====</u>	<u>=====</u>

21 Share capital

	2008 AED'000	2007 AED'000
<i>Issued and fully paid up:</i>		
358,800,000 shares of AED 1 each (2007: 276,000,000 shares of AED 1 each)	358,800	276,000
	<u>=====</u>	<u>=====</u>
Issued for cash (92,000,000 shares of AED 1 each) (2007: 92,000,000 shares of AED 1 each)	92,000	92,000
	<u>=====</u>	<u>=====</u>
Bonus shares issued by capitalizing retained earnings (266,800,000 shares of AED 1 each) (2007: 184,000,000 shares of AED 1 each)	266,800	184,000
	<u>=====</u>	<u>=====</u>

At 31 December 2008, the share capital comprised ordinary equity shares. All issued shares are fully paid. The holders of ordinary equity shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During the previous year, the Directors' proposal to issue 82,800,000 (2007: 92,000,000) bonus shares of par value of AED 1 each by capitalising retained earnings of the Company was approved in the Company's annual general meeting held in 29 April 2008.

National Cement Company Public Shareholding Company

Notes *(continued)*

22 Development and investment reserve

The balance represents the amount set aside from retained earnings in previous years. The Directors have resolved to treat this reserve as distributable.

23 General reserve

As required by the Article 57.2 of the Article of Association of the Company, 10% of the net profit has to be transferred to general reserve. It can be discontinued by the resolution of the ordinary general meeting on the proposal of the Board of Directors or if it reaches 10% of the paid up capital of the Company. Such reserve shall be used for the purpose designated by the ordinary general meeting on the proposal of the Board of Directors.

24 Statutory reserve

In accordance with Article 57.1 of the Memorandum of Association of the Company and the UAE Federal Law No. 8 of 1984 (as amended), a minimum of 10% of the net profit of the Company is to be allocated every year to a non-distributable statutory reserve. Such allocation may be ceased when the statutory reserve equals 50% of the paid up share capital.

25 Proposed dividend

For 2008, a cash dividend of AED 161.5 million has been proposed by the Board of Directors. The proposed dividend will be submitted for formal approval and declaration at the Annual General Meeting. In 2007, a dividend of AED 179.4 million payable by way of cash dividend of AED 96.6 million and by issue of bonus shares amounting to AED 82.8 million was approved in the Company's annual general meeting held on 29 April 2008.

National Cement Company Public Shareholding Company

Notes (continued)

26 Segment reporting

Business segments

The Company's activities comprise two main business segments, namely, (i) manufacture and sell cement and cement related products and (ii) investment in marketable securities and derivative products. The details of segment revenue, segment result, segment assets and segment liabilities are as under:

	2008			2007		
	Investment in marketable securities and derivative products			Investment in marketable securities and derivative products		
	Cement AED'000	Investment in marketable securities and derivative products AED'000	Total AED'000	Cement AED'000	Investment in marketable securities and derivative products AED'000	Total AED'000
Segment revenue	557,572	188,756	746,328	532,757	101,222	633,979
Segment result	118,339	109,671	228,010	218,034	(7,138)	210,896
Other income	-	-	15,818	-	-	24,560
Unallocated expenses	-	-	(49,424)	-	-	(34,970)
Financial income and expense (net)	-	-	(375)	-	-	68
Results from operating activities	-	-	194,029	-	-	200,554
Share in profit of an associate	(49)	-	(49)	1,366	-	1,366
Net profit for the year	-	-	193,980	-	-	201,920
Segment assets	607,202	2,142,022	2,749,224	715,728	2,183,926	2,899,654
Investment in an associate	52,758	-	52,758	52,807	-	52,807
Total assets	659,960	2,142,022	2,801,982	768,535	2,183,926	2,952,461
Segment liabilities	127,432	90,283	217,715	92,495	94,016	186,511
Total liabilities	127,432	90,283	217,715	92,495	94,016	186,511
Capital expenditure	7,317	473,262	480,579	17,075	167,125	184,200
Depreciation	19,230	-	19,230	19,317	-	19,317
Impairment losses on available-for-sale financial assets	-	27,621	27,621	-	14,344	14,344

National Cement Company Public Shareholding Company

Notes (continued)

27 Earnings per share

	2008	2007
Net profit attributable to shareholders (AED'000)	193,980	201,920
Weighted average number of shares	358,800,000	358,800,000
	=====	=====
Earnings per share	0.54	0.56
	===	===

The calculation of earnings per share is based on earnings for the year attributable to shareholders and the number of shares outstanding at 31 December 2008 (358,800,000 shares).

28 Contingent liabilities and capital commitments

	2008 AED'000	2007 AED'000
Letters of guarantee	1,919	1,809
Letters of credit	5,259	16,307
	=====	=====

Capital commitments at the balance sheet date amounts to AED 15 million (2007: Nil).

29 Director's fees

This represents professional fees paid/payable to the Company's directors for serving on any committee, for devoting special time and attention to the business or affairs of the Company and for otherwise performing services outside the scope of their ordinary activities. In accordance with the interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 by the Ministry of Economy & Commerce, directors' fees have been treated as an appropriation of retained earnings.

30 Operating leases

Leases as lessee

The Company has leased plots of land under operating leases on which residential flats for staff accommodation are located. These leases typically run for a period of one year, with an option to renew the lease after that date. The lease rentals are usually renewed to reflect market rentals.

Leases as lessor

The Company has leased residential villas on operating leases to earn rental income. These leases typically run for a period of one year, with an option to renew the lease after that date. The lease rentals are usually renewed to reflect market rentals.

31 Financial instruments

Financial assets of the Company include available-for-sale investments, long-term receivables, trade and other receivables, amounts due from related parties and cash in hand and at bank. Financial liabilities of the Company include trade and other payables, due to related parties, and derivative financial instruments. Accounting policies for financial assets and financial liabilities are set out in note 3.

National Cement Company Public Shareholding Company

Notes (continued)

31 Financial instruments (continued)

The table below sets out the Company's classification of each class of financial assets and financial liabilities and their fair values for the current year and the comparative period:

	Note	Available -for-sale AED'000	Loans and receivables AED'000	Held for trading AED'000	Others at amortized cost AED'000	Carrying amount AED'000	Fair value AED'000
31 December 2008							
Financial assets							
Available-for-sale investments	12	2,142,022	-	-	-	2,142,022	2,142,022
Long-term receivables	14	-	1,000	-	-	1,000	1,000
Trade and other receivables	16	-	145,451	-	-	145,451	145,451
Cash in hand and at bank	17	-	129,002	-	-	129,002	129,002
Due from related parties	19	-	51,691	-	-	51,691	51,691
Total		2,142,022	327,144	-	-	2,469,166	2,469,166
Financial liabilities							
Trade and other payables	18	-	-	-	54,193	54,193	54,193
Derivative financial instruments	18	-	-	90,283	-	90,283	90,283
Due to related parties	19	-	-	-	45,054	45,054	45,054
Total		-	-	90,283	99,247	189,530	189,530
31 December 2007							
Financial assets							
Available-for-sale investments	12	2,183,926	-	-	-	2,183,926	2,183,926
Long-term receivables	14	-	1,000	-	-	1,000	1,000
Trade and other receivables	16	-	151,448	-	-	151,448	151,448
Cash in hand and at bank	17	-	218,182	-	-	218,182	218,182
Due from related parties	19	-	50,680	-	-	50,680	50,680
Total		2,183,926	421,310	-	-	2,605,236	2,605,236
Financial liabilities							
Trade and other payables	18	-	-	-	67,859	67,859	67,859
Derivative financial instruments	18	-	-	94,016	-	94,016	94,016
Due to related parties	19	-	-	-	2,644	2,644	2,644
Total		-	-	94,016	70,503	164,519	164,519

National Cement Company Public Shareholding Company

Notes (continued)

31 Financial instruments (continued)

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2008 AED'000	2007 AED'000
Available-for-sale investments	615,643	465,177
Long-term receivables	1,000	1,000
Trade and other receivables	145,451	151,448
Due from related parties	51,691	50,680
Cash at bank	128,474	217,591
	-----	-----
	942,259	885,896
	=====	=====

The Company limits its exposure to investments by investing in securities where counterparties have credible market reputation. The Company's management does not expect any counterparty to fail.

Impairment losses

The ageing of trade receivables at the reporting date was:

	2008		2007	
	Gross AED'000	Provision AED'000	Gross AED'000	Provision AED'000
Not past due	90,740	-	80,081	-
Past due 1 – 90 days	50,647	-	58,384	-
Past due 91 – 365 days	2,974	-	4,412	-
More than one year	618	-	351	-
	-----	---	-----	---
Total	144,979	-	143,228	-
	=====	===	=====	==

The Company obtains bank guarantees from its customers which act as a collateral. The fair value of the collateral is AED 107.5 million (2007: AED 102.5 million). For customers where there is no collateral, the management is of the view that the outstanding balances are fully recoverable.

The Company does not carry any allowance for impairment in respect of trade receivables. Accordingly, the movement in the allowance for impairment is not disclosed.

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Notes (continued)

31 Financial instruments (continued)

(b) Interest rate risk

The Company is exposed to interest rate risk on cash at bank (including time deposits), available-for-sale investments and derivative financial instruments (interest rate swap contracts).

At the reporting date, the interest rate profile of the Company's interest bearing financial instruments was:

	2008 AED'000	2007 AED'000
Fixed rate instruments		
Financial assets	52,540	140,974
	=====	=====

Fixed rate assets comprise bank deposits.

Sensitivity analysis for fixed rate instruments

A change in interest rates in the fixed rate instruments at the reporting date would not affect the income statement.

	2008 AED'000	2007 AED'000
Variable rate instruments		
Available-for-sale investments	615,643	465,177
Interest rate swap contracts		
- Contracts with a positive value	18,269	20,018
- Contracts with a negative value	(46,241)	(47,851)
	=====	=====

Variable rate instruments comprise investment in marketable securities which carry interests linked to LIBOR.

The Company has also entered into certain interest rate swaps contracts and commodity derivative contracts. These contracts are not designated as hedges and accordingly are treated as free standing derivative contracts.

At 31 December 2008, the Company had outstanding interest rate swap contracts with a notional amount of USD 275 million (AED 1,010 million) (31 December 2007: USD 330 million (AED 1,212 million)) and outstanding commodity derivative contracts with a notional amount of USD 66 million (AED 242 million) (31 December 2007: USD 232 million (AED 852 million)). The fair values of interest rate swap contracts and commodity derivative swap contracts are mentioned above and have been accounted in these financial statements.

National Cement Company Public Shareholding Company

Notes *(continued)*

31 Financial instruments (continued)

(b) Interest rate risk (continued)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. The analysis below assumes that all other variables remain constant.

	Income statement	
	100 bp increase AED'000	100 bp decrease AED'000
31 December 2008		
Variable rate instruments	314	(314)
	====	====
31 December 2007		
Variable rate instruments	468	(468)
	====	====

(c) Equity risk

The Company's exposure to equity price risk is disclosed in note 12.

(d) Currency risk

Exposure to currency risk

Currency risk faced by the Company is minimal as there are minimal foreign currency transactions. In respect of monetary assets and liabilities in United States Dollar ("USD"), there is no exchange risk involved presently as AED is pegged to USD. However, the Company is exposed to foreign currency risk (i.e. Sterling Pounds) on certain available-for-sale investments.

	2008 AED'000	2007 AED'000
Available-for-sale investments	5,321	7,602
	-----	-----
Gross and net balance sheet exposure	5,321	7,602
	=====	=====

The Company does not have forward exchange contracts to hedge its exposure to foreign currency risk.

The exchange rate applied at the reporting date for GBP 1 is AED 5.32 (2007: AED 7.60).

Sensitivity analysis

A strengthening of the AED against the GBP by 10 percent at 31 December 2008 would have reduced the profit by AED 0.53 million (2007: 0.76 million). A weakening of the AED against the GBP by 10 percent at 31 December 2008 would have increased the profit by a similar amount. This analysis assumes that all other variables, in particular interest rates, remain constant.

National Cement Company Public Shareholding Company

Notes (continued)

31 Financial instruments (continued)

(e) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and the impact of netting agreements at the balance sheet date:

	Carrying amount AED'000	Contractual cash flows AED'000	Less than one year AED'000	More than one year AED'000
Financial liabilities				
31 December 2008				
Non-derivative financial instruments				
Trade and other payables	54,193	54,193	54,193	-
Due to related parties	45,054	45,054	45,054	-
Derivative financial instruments				
Interest rate swaps	27,972	27,972	27,972	-
Commodity derivatives	62,311	62,311	62,311	-
Total	189,530	189,530	189,530	-

	Carrying amount AED'000	Contractual cash flows AED'000	Less than one year AED'000	More than one year AED'000
Financial liabilities				
31 December 2007				
Non-derivative financial instruments				
Trade and other payables	67,859	67,859	67,859	-
Due to related parties	2,644	2,644	2,644	-
Derivative financial instruments				
Interest rate swaps	27,833	27,833	27,833	-
Commodity derivatives	66,183	66,183	66,183	-
Total	164,519	164,519	164,519	-

Contractual cash flows for derivative financial instruments are as per valuation reports. Such contractual cash flows may vary as a result of changes in market place.

National Cement Company Public Shareholding Company

Notes *(continued)*

32 Significant accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of property, plant and equipment

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

Estimated useful live and residual value of property, plant and equipment

The Company's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment on an annual basis. The Company has carried out a review of the residual values and useful lives of property, plant and equipment as at 31 December 2008 and the management has not highlighted any requirement for an adjustment to the residual lives and remaining useful lives of the assets for the current or future periods.

Valuation of investment properties

The Company carries its investment properties under the cost model. Note 11 contains information about the valuation methodology adopted by the Company for the valuation of investment properties. Should the significant assumptions change, the fair value of investment properties could significantly impact the income statement and balance sheet of the Company in the future.

Impairment losses on available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates factors such as change in market rate of the equity instruments since the purchase date of such instrument, the market scenario and the financial performance of the issuer.

Impairment losses on trade receivables

The Company reviews its receivables to assess impairment at least on an annual basis. The Company's credit risk is primarily attributable to its trade receivables and amounts due from related parties. In determining whether impairment losses should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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Notes *(continued)*

32 Significant accounting estimates and judgements (continued)

Provision for obsolete inventory

The Company reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realizable value for such product. Accordingly, provision for impairment is made where the net realizable value is less than cost based on best estimates by the management. The provision for obsolescence of inventory is based on the ageing and past movement of the inventory.

33 Subsequent events

As set out in note 12, the Company holds investments in quoted equity securities, bonds and funds listed on the Dubai Financial Market, Abu Dhabi Financial Market and Saudi Stock Exchange (Tadawul) classified as available-for-sale investments. There has been significant volatility in the market values of these securities during the reporting year and the same trend has continued subsequent to the year end. Consequently, the values disclosed at the balance sheet date relating to available-for-sale investments and cumulative changes in fair value of available-for-sale investments reserve may be subject to a material change after the balance sheet date.

34 Comparative figures

Certain comparative figures have been reclassified in the financial statements to conform to the presentation adopted in the current year.