MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following section and tables present certain historical consolidated financial information and operating data of the Company. The summary historical consolidated financial information as at and for the years ended 31 December 2021, 2022, and 2023 in the tables below is derived from the Audited Financial Statements. The summary historical consolidated financial information as at and for the six months ended 30 June 2023 and 2024 in the tables below is derived from the Unaudited Interim Financial Statements. The Audited Financial Statements were prepared in accordance with IFRS and the Unaudited Interim Financial Statements were prepared in accordance with IAS 34. The information presented below is not necessarily indicative of the results of future operations.

The summary consolidated financial information presented below includes certain non IFRS financial and other measures that the Company uses to evaluate its economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or any other generally accepted accounting principles, or those calculated using financial measures that were prepared in accordance with IFRS or any other generally accepted accounting principles.

The following section should be read in conjunction with the Unaudited Financial Statements.

Overview

The Company is a conglomerate that develops, manages and operates a diversified, non-oil and gas portfolio across the industrial, infrastructure, healthcare and environmental services sectors. The Company's operations are located in the Middle East, but it sells its products and services globally. The Company was founded in 2008 to implement a holding company structure for a portfolio of non-oil and gas investments of the Company's shareholder. In the immediate years after formation, the Company rationalised that portfolio of assets and sought to implement a new strategy. Starting in 2015, the Company has been focussing on a strategy of investing in businesses with leading domestic positions in the UAE and the GCC, as well as strong international export potential. This has been successful, and, since 2008, the Company has increased its annual revenue, operating profit and Adjusted EBITDA from revenue of AED 1,254.3 million (U.S.$341.5 million), operating loss of AED 35.2 million (U.S.$9.5 million) and Adjusted EBITDA of AED 16.0 million (U.S.$4.3 million) in 2008 to revenue of AED 10,989.3 million (U.S.$2,992.3 million), operating profit of AED 350.7 million (U.S.$95.5 million) and Adjusted EBITDA of AED 530.5 million (U.S.$144.5 million) for the twelve months ended 30 June 2024, respectively, through a mixture of acquisitions, greenfield projects, expansions and the growth and optimisation of existing operations, respectively.

Factors affecting Results of Operations

Factors affecting Results of Operations of the Company's Manufacturing Divisions

The Company's manufacturing divisions, comprising both its consumer goods and infrastructure and building materials divisions, represented 91.0 per cent., 93.2 per cent. and 91.6 per cent. of the Company's revenue for the years ended 31 December 2021, 2022 and 2023 respectively, and 92.5 per cent. for the six months ended 30 June 2024, 62.3 per cent., 92.8 per cent. and 85.3 per cent of the Company's operating profit for the years ended 31 December 2021, 2022 and 2023 respectively, and 85.7 per cent. for the six months ended 30 June 2024, 78.9 per cent., 64.1 per cent. and 72.8 per cent. of the Company's Adjusted EBITDA for the years ended 31 December 2021, 2022 and 2023 respectively, and 77.5 per cent. for the six months ended 30 June 2024. Accordingly, market dynamics for paper, tissue and copper continue to have a significant impact on the Company's revenue and profitability.

Paper

The Company's results of operations have been affected significantly by the global dynamics in the paper industry. Long term demand for paper is driven by global economic trends, demographic trends, technological developments and trends in end user preferences. Although historically and up until 2005, consumption of uncoated woodfree paper by end users increased steadily in Western Europe and North America, customer demand for paper has fluctuated significantly since, suggesting that customer demand is driven by a combination of end user consumption patterns and changes in the inventory levels that customers maintain. Profitability in the paper industry is highly sensitive to changes in prices, and industry profit cycles reflect the constantly shifting balance between supply and demand for individual products, as well as changes in inventory levels. Periods of industry wide investment in new production capacity or contractions in demand due to technological advancement have in previous industry cycles led to decreases in product prices, often as a result of excess capacity. As a result, the financial performance of the industry has historically deteriorated during periods of oversupply only to improve when either demand has increased, or supply has been reduced to a level that supports the implementation of price increases. However, end user paper price (which includes a significant retail mark-up) has been relatively stable due to globalization effects maintaining a low cost of production and lower levels of inflation. This trend was disrupted in 2021 where inflationary pressures driven mainly by higher logistics and supply chain cost and followed by the Russian war on Ukraine resulted in a significant increase in end user price of paper. The wholesale price of paper, a more relevant measure for paper manufacturers, has also been stable up to 2021 and is highly correlated with pulp price which indicates that distributers and retailers cannot significantly impact the price of paper or squeeze manufacturing margins represented by the premium between pulp and paper price.

While demand for paper in developed countries has been on a softening trend, it continues to significantly outweigh per capita consumption in emerging markets, which remains in an upward trend driven by population growth, increasing rates of literacy and household disposable income. The Company's ability to ramp up its production and achieve more than 65 per cent. capacity during IPM's first ten months of operation in 2020, with revenues for the period reaching AED 633.2 million and sales volumes reaching 205,000 metric tonnes and further increase to 80 per cent. capacity in 2021, and 92 per cent. capacity in 2022 was driven by solid demand for paper despite the impact of COVID-19 and the related partial closure of schools and offices which are the main target end users of the product. The impact of supply chain disruption in 2021 on logistics availability and cost, a global transitory challenge to all export-oriented manufacturers, eroded most of the Company's operating margins. This short-term phenomenon created a shortage of paper and other products globally that, in November 2021, led to higher paper market prices and improved operating margins from 2022 onwards. IPM achieved sales volumes of 296,531 metric tonnes for the twelve months ended 30 June 2024.

Raw Materials and Energy Costs

Pulp, fillers, and energy represent the primary input costs of the Company's paper businesses. Wood pulp is the principal raw material required to manufacture paper. The Company’s paper businesses purchase approximately 45 days of its production requirements. The price of pulp is somewhat volatile and sensitive to changes in wood prices, industry capacity, producer inventories, demand for paper and tissue, cyclical changes in the world economy and fluctuations in the U.S. dollar, the reference currency for trading in wood pulp. Fluctuations in pulp prices may impact, in turn, prices of final paper and tissue products, albeit with a lag of one to three months.

The Company procures its pulp primarily from leading pulp producers in Latin America, the United States, Canada and Europe. The Company has annual volume agreements with its pulp suppliers, with the prices it pays for pulp being determined by reference to a global index (RISI (Europe) or CRIC (China)). Due to its large scale compared to regional competitors, the Company is able to procure at these index prices rather than spot market prices. The Company consumes approximately 310,000 metric tonnes of pulp per annum.

The Company reduces its exposure to pulp price risks by, among other things, using recycled wastepaper to the extent possible (which is usually about 90 per cent. of the cost of virgin pulp). The Company believes it can liquidate inventory within seven to ten days to limit its exposure to inventory financing banks (the belief is based upon the Company's record of selling surplus stock in 2021 – 2022).

Fillers alongside pulp are used in the production mix of paper. The main filler is PCC, which is sourced and produced locally, and its cost is stable and competitive as its main raw material is burnt limestone, which is widely available within the UAE.

Energy is also an important input cost for manufacturing paper and related transportation costs. The price of crude oil impacts oil based raw materials and transportation costs. During the periods presented, the price of crude oil has been volatile. Bulk users such as the Company have had access to a stable and long-term energy tariff mechanism, which was adopted by the Government of Abu Dhabi based on certain set criteria of efficiency, growth, and environmental performance.

Tissue

The Company's results of operations have been positively affected significantly by regional dynamics in the tissue industry. Long term demand for tissue is driven by demographic trends, socio economic behaviours, and trends in end user preferences. Historically consumption of tissue by end users has increased steadily, however customer demand is driven by a combination of end user consumption and changes in the inventory levels that customers maintain. Profitability in the tissue industry is highly sensitive to changes in prices, and industry profit cycles reflect the constantly shifting balance between supply and demand for individual products, as well as changes in inventory levels. Periods of industry wide investment in new production capacity have in previous industry cycles led to decreases in product prices, often because of excess capacity. As a result, the financial performance of the industry has historically deteriorated during periods of oversupply only to improve when either demand has increased, or supply has been reduced to a level that supports the implementation of price increases.

While demand for tissue in developed countries has been on a softening trend, it continues to significantly outweigh per capita consumption in emerging markets, an upward trend driven by socio economic improvements and household disposable income. This is particularly applicable to the markets where the Company sells more than 95 per cent. of its tissue products. The Company's ability to maintain operation close to 95 per cent. capacity from 2020 onwards following the ramp up of a newly commissioned machine in 2019 was driven by solid demand for tissue despite COVID-19 lockdowns and their effects on the tourism sector, closure of airports, public and private sites, malls, restaurants and other sites. The Company's operating margins have been exceeding those of industry competitors in the region due to machine efficiencies, sizeable market share, and the economies of scale achieved from the procurement strategies of pulp and logistics.

Factors affecting Results of Operations of the Company's Copper Business

Price of copper, RMI and energy

The Company relies mainly on refined and recycled copper with 99.99 per cent. purity to manufacture its copper products. In the six months ended 30 June 2024, the total cost of raw materials for the Company's copper business was AED 3,959.5 million (U.S.$1,078.1 million), or 98 per cent. of revenues.
Changes in the cost of RMI affect both the Company's revenues and its cost of materials and thus substantially affect its results of operations, however the market or LME metal price for copper is not a substantial factor affecting its underlying business performance as its contracts typically pass through directly to its customers the LME metal price of the copper products the Company manufactures. The Company adjusts its operating performance by removing the effect of RMI from its operating profit in order to better understand its business.

The Company's consolidated operating profit margin excluding the impact of hedged copper and Adjusted EBITDA margin excluding the impact of hedged copper were, respectively, 8.6 per cent. and 13.5 per cent. in the year ended 31 December 2022, 8.0 per cent. and 12.6 per cent. in the year ended 31 December 2023 and 9.2 per cent. and 13.3 per cent. for the six months ended 30 June 2024.

The reference price for both refined and recycled copper is based on the LME price. In line with industry practice, the Company mainly purchases refined copper under annual supply contracts to establish security of supply, and it purchases recycled copper with 99.99 per cent. purity primarily in the spot market using the same pricing mechanism applied on its customers. The price for the copper purchased is, in each case, set based on the LME price at the time of order. Orders are placed based on the Company's sourcing needs for customer contracts. Prices for copper tend to fluctuate in response to changes in supply and demand dynamics in the industry and may also be impacted by the behaviour of financial investors. Since most of the raw materials the Company uses are finite resources, their prices may also fluctuate in response to any perceived scarcity of reserves and the evolution of the pipeline of new exploration projects to replace depleted reserves.

Copper prices have fluctuated over the past decade and depend on the relationship between supply and demand. In 2020, price of copper was trading sharply lower (close to historical lows) of around U.S.$4,300 per metric tonne due to the impact of COVID-19 on demand and shipment. However, as soon as economic activity picked up during the post pandemic reopening, copper prices rallied to an all-time high above U.S.$10,000 per metric tonne in 2021 and remained elevated through 2022. While commodity prices are inversely related to the U.S. dollar and Fed Fund rates, copper prices remained high in 2022 due to a significant shift towards green energy generation, higher demand for electric vehicles, geopolitical tensions and Russia's invasion of Ukraine. Copper prices are also highly dependent on economic activities and infrastructure spending in China. Prices of copper slightly softened from their peak during the 2022 lockdowns in China on the back of higher COVID-19 infections, however the price rallied again close to all-time highs as China relaxed such restrictions at the end of 2022. The ultimate use of copper is mainly in infrastructure expansion of power networks, power stations, data centres powering artificial intelligence (AI), green energy generation such as windmills and solar power, electric vehicles and overall construction. As global AI technology and environmental initiatives gather pace, a ramp up in the use of electric vehicles and data centers would further drive demand for copper and result in the price remaining at elevated levels.

The Company relies on both electricity and natural gas to fuel its copper operations for the last twelve months ended 30 June 2024, its net energy costs for the copper business were AED 8.1 million (U.S.$2.2 million).

Demand for copper products

The copper and copper products industries are impacted by general economic conditions, with demand historically being correlated to GDP growth in the markets in which the Company operates both regionally and globally. As a result, the supply/demand balance in the markets where the Company competes for customers and for prices for its raw materials are strongly influenced by overall economic conditions in Europe, Asia, and North America. Levels of industrial investment activity and industrial production also influence demand for the Company's products, in particular the industrial development driven by Abu Dhabi Economic Vision 2030.

The Company expects that trends in energy transition, digitalization and electrical mobility will continue to drive demand for its copper products given the reliance on copper as a material in many of the related technologies. Copper is used in a wide array of consumer electronic devices such as mobile phones, computer chips and tablets as well as in fibre cables and terminals used for internet connections because it is an excellent conductor of electricity.

Factors affecting Results of Operations of the Company's Other Divisions

Business Services

The business services division generated 26.1 per cent. of the Company's operating profit and 28.2 per cent. of the Company's Adjusted EBITDA in the twelve months ended 30 June 2024. This division is dependent primarily upon public sector contracts and expenditures by the Abu Dhabi and UAE governments. While this division's revenue is generated through long term contracts that are tendered publicly, the nature of services provided in each of the three businesses is specialized and significantly different from one another. Contracts in the operation and maintenance services for infrastructure networks, wastewater treatment plants, sewage network, pumping stations, and sewage treatment plants are for 7 years, whereas in the city cleaning and municipal waste collection they are for 5 years. Both businesses have been successful at retaining their contract lots in past tendering cycles and control a significant market share in Abu Dhabi (exceeding 30 per cent. in each of the sectors). Other than being market leaders with several quality awards from the relevant authorities, the two businesses have developed an advantage in their technical knowhow and proprietary expertise in the areas contractually managed. This has enabled both businesses to remain cost competitive while maintaining stable margins and financial strength over the last two decades. The third revenue stream in the Company's business services division is generated from the long-term procurement, maintenance, and operation of radiology departments in Government owned hospitals and clinics across Dubai and the Northern Emirates. The 12-year contract is the first Public Private Partnership in the UAE, having a revenue share model whereby the business is responsible for the procurement, installation, maintenance, and operation of all radiology equipment at Government hospitals and clinics. By leveraging on its strategic relationship with GE, and the technical expertise within the healthcare and business services division, the Company successfully designed and implemented a unique business model with high barriers to entry providing extended hours of scanning and diagnostic imaging services to clients. This partnership enabled the Government to modernize its entire radiology departments across all hospitals and clinics, optimize its diagnostic imaging services through a profit share model, and significantly reduce cost and its fixed asset base structure. While the services provided across this division are essential to the ongoing operation of strategic government assets, any changes in public expenditures by either the Abu Dhabi or UAE governments could impact the profitability of this division.

Healthcare and Other Services

The healthcare and other division generated 1.6 per cent. of the Company's operating profit and 3.9 per cent. of the Company's Adjusted EBITDA in the twelve months ended 30 June 2024. The main drivers of revenue in the healthcare and other division are from the distribution of radiology equipment and life care sciences products from GE, sales and distribution of lab equipment and consumables from Abbott in UAE and Beckman Coulters in Egypt. In addition, this division provides turnkey operating theatre solutions to hospitals, distribution of hospital beds, and other critical care products.

Other businesses in this segment include a technology start up targeting the logistics and transportation sector in the GCC, a fund management start up specialized in U.S. and European equities, and a premium office furniture distributor including high end brands such as Steelcase, Boss design, and Framery.

After exclusion of intragroup transactions from revenue and direct cost, the Unrestricted Subsidiaries contributed 0.07 per cent. and 0.2 per cent. of the Company's revenue for the year ended 31 December 2023 and for the six months ended 30 June 2024, (1.7) per cent. and (1.4) per cent. of the Company's operating profit for the year ended 31 December 2023 and for the six months ended 30 June 2024 and (1.1) per cent. and (0.6) per cent. of the Company's Adjusted EBITDA for the year ended 31 December 2023 and for the six months ended 30 June 2024 , respectively. After giving effect to the issuance of the Certificates and the guarantee pursuant to the Guarantee, the Unrestricted Subsidiaries had AED 3.0 million of indebtedness, AED 2.1 million of bank balances and cash (which represented 0.4 per cent. of the Company's consolidated bank balances and cash) and AED 50.8 million of total assets as at 30 June 2024 (which represented 0.9 per cent. of the Company's consolidated total assets at such date).

Statement of profit and loss data

The following table sets out summary financial data of the Company for the years/periods indicated:

	Financial Year			**Six months ended 30 June,**	
	2021	**2022**	**2023**	**2023**	**2024**
		(AED in millions)			
Revenue	9,267.6	10,966.3	10,427.9	5,433.2	5,994.6
Direct costs	(8,758.3)	(10,257.0)	(9,794.7)	(5,099.3)	(5,637.5)
Gross profit	**509.3**	**709.3**	**633.2**	**333.9**	**357.1**
Administrative expenses	(354.7)	(351.2)	(303.5)	(169.4)	(167.2)
Provision for expected credit losses	(14.9)	(26.2)	(7.2)	(5.0)	(2.2)
Operating profit	**139.7**	**331.9**	**322.5**	**159.5**	**187.7**
Other income	28.4	11.4	10.0	3.5	4.6
Net foreign exchange (losses) gains	(4.4)	4.9	0.1	0.2	0.9
Finance costs	(146.3)	(198.2)	(285.3)	(125.8)	(139.6)
Write-offs of loan processing fees	-	(15.4)	(18.7)	-	-
Share of profit from associate	-	-	2.8	-	1.1
Gain on disposal of subsidiary	-	-	2.3	2.3	-
Reclassification of cash flow hedge reserve to profit or loss	-	(7.3)	5.7	-	-
Change in fair value of derivative financial instruments	(10.4)	(1.7)	1.6	(5.3)	(8.6)
Net profit for the year / period from continuing operations before tax	**7.0**	**125.6**	**41.0**	**34.4**	**46.2**
Tax expense	-	-	-	-	(11)
Net profit for the year / period from continuing operations after tax	**7.0**	**125.6**	**41.0**	**34.4**	**35.5**

First Half 2024 compared to First Half 2023

Revenue

Revenue increased by AED 561.4 million, or by 10.3 per cent., to AED 5,994.6 million in the six months ended 30 June 2024 from AED 5,433.2 million in the six months ended 30 June 2023, primarily due to a recovery in prices and demand of copper, steel and chemicals followed by increased work orders and O&M contracts from Business Services division.

Revenue by division

Manufacturing – Consumer Goods

Revenue in the consumer goods manufacturing division decreased by AED 96.3 million, or by 9.7 per cent., to AED 899.7 million in the six months ended 30 June 2024 from AED 996.0 million in the six months ended 30 June 2023, primarily due to lower prices of paper and tissue driven by a lower pulp price.

Manufacturing – Infrastructure and Building Materials

Revenue in the infrastructure and building materials manufacturing division increased by AED 626.2 million, or by 15.6 per cent., to AED 4,647.5 million in the six months ended 30 June 2024 from AED 4,021.3 million in the six months ended 30 June 2023, primarily due to higher price and demand for copper, cement and steel from global and regional markets on account of a strong push for energy transition, digitalisation, real estate and infrastructure projects.

Business Services

Revenue in the business services division increased AED 41.2 million, or by 13.9 per cent., to AED 336.7 million in the six months ended 30 June 2024 from AED 295.5 million in the six months ended 30 June 2023, primarily due to an increase in work orders and O&M contracts across all businesses of the division.

Healthcare and Other

Revenue in the healthcare and other division decreased by AED 7.9 million, or by 6.7 per cent., to AED 111.4 million in the six months ended 30 June 2024 from AED 119.4 million in the six months ended 30 June 2023, primarily due to a softening in demand for medical lab equipment, operating theatres, hospital beds and office furniture.

Direct costs

Direct costs increased by AED 538.2 million, or by 10.6 per cent., to AED 5,637.5 million in the six months ended 30 June 2024 from AED 5,099.3 million in the six months ended 30 June 2023, primarily due to increase in raw material prices mainly copper, steel, and LAB followed by logistics costs.

Gross profit

Gross profit increased by AED 23.2 million, or by 7.0 per cent., to AED 357.1 million in the six months ended 30 June 2024 from AED 333.9 million in the six months ended 30 June 2023, primarily due to higher gross profit in Consumer Goods, Infrastructure and Building Materials and Business Services division. Gross profit margin decreased to 6.0 per cent. in the six months ended 30 June 2024 from 6.1 per cent. in the six months ended 30 June 2023, primarily due to higher hedged copper prices.

Administrative expenses

Administrative expenses decreased by AED 2.2 million, or by 1.3 per cent., to AED 167.2 million in the six months ended 30 June 2024 from AED 169.4 million in the six months ended 30 June 2023, primarily due to lower professional fees. As a percentage of revenue, administrative expenses decreased from 3.1 per cent. in the six months ended 30 June 2023 to 2.8 per cent. in the six months ended 30 June 2024, primarily due to lower professional and legal fees.

Provision for expected credit losses

Provision for expected credit losses decreased by AED 2.8 million, or by 56.0 per cent., to AED 2.2 million in the six months ended 30 June 2024 from AED 5.0 million in the six months ended 30 June 2023, driven by improvement in collection cycle.

Operating profit

Operating profit increased by AED 28.2 million, or by 17.7 per cent., to AED 187.7 million in the six months ended 30 June 2024 from AED 159.5 million in the six months ended 30 June 2023, primarily due to higher operating profits from the Consumer Goods, Infrastructure and Building Materials and Business Services division. As a percentage of revenue, operating profit increased to 3.1 per cent. in the six months ended 30 June 2024 from 2.9 per cent. in the six months ended 30 June 2023, primarily due to higher operating profit margin in the Consumer Goods and Business Services divisions.

Other income

Other income increased by AED 1.2 million, or by 34.0 per cent., to AED 4.6 million in the six months ended 30 June 2024 from AED 3.5 million in the six months ended 30 June 2023.

Net foreign exchange gain (losses)

Net foreign exchange gain was AED 0.9 million in the six months ended 30 June 2024 compared to an AED 0.2 million in the six months ended 30 June 2023.

Finance costs

Finance costs increased by AED 13.7 million, or by 10.9 per cent., to AED 139.6 million in the six months ended 30 June 2024 from AED 125.8 million in the six months ended 30 June 2023, primarily due to higher interest rates affecting the overall borrowing cost.

Change in fair value of derivative financial instruments

Change in fair value of derivative financial instruments increased by AED 3.3 million to an AED 8.6 million in the six months ended 30 June 2024 from AED 5.3 million loss in the six months ended 30 June 2023, primarily due to a lower mark to market profit from ineffective interest rate hedging instruments.

Share of profit from associate

Share of profit from associate was AED 1.1 million in the six months ended 30 June 2024 compared to NIL in the six months ended 30 June 2023, originated from the minority investment in the healthcare sector.

Tax Expense

Tax expense was AED 10.7 million in the six months ended 30 June 2024 comparesd to NIL in the six months ended 30 June 2023, primarily due to applicability of newly introduced UAE corporate tax effective from 2024.

Profit for the period from continuing operations

Profit for the period from continuing operations increased by AED 1.2 million, or by 3.4 per cent., to AED 35.5 million in the six months ended 30 June 2024 from AED 34.4 million in the six months ended 30 June 2023, primarily due to improved gross profits.

Adjusted EBITDA

Adjusted EBITDA increased by AED 20.9 million, or by 8.4 per cent., to AED 270.3 million in the six months ended 30 June 2024 from AED 249.5 million in the six months ended 30 June 2023, primarily due to improved Adjusted EBITDA in the chemicals businesses as a result of recovery in demand for chemicals followed by steel, cement and new work orders in Business Services division despite lower margins in the Healthcare and others divisions. As a percentage of revenue, Adjusted EBITDA margin decreased from 4.6 per cent. to 4.5 per cent due to higher copper price.

Adjusted EBITDA by division

Manufacturing – Consumer Goods

Adjusted EBITDA in the consumer goods manufacturing division increased by AED 12.9 million, or by 11.4 per cent., to AED 125.8 million in the six months ended 30 June 2024 from AED 113.0 million in the six months ended 30 June 2023, primarily due to increased sales volumes as a result of recovery in demand from downstream sectors of chemicals following a period of destocking and significant correction in raw material prices in 2023.

Manufacturing – Infrastructure and Building Materials

Adjusted EBITDA in the infrastructure and building materials manufacturing division increased by AED 7.6 million, or by 10.0 per cent., to AED 83.8 million in the six months ended 30 June 2024 from AED 76.2 million in the six months ended 30 June 2023, primarily due to higher sales volume in the copper and steel business, followed by improved margins across all division businesses.

Business Services

Adjusted EBITDA in the business services division increased by AED 5.7 million, or by 8.0 per cent., to AED 76.8 million in the six months ended 30 June 2024 from AED 71.1 million in the six months ended 30 June 2023, primarily due to newly set-up city cleaning and waste management operation in KSA and an increase in work orders in the operation and maintenance of sewage network and landscaping businesses.

Healthcare and Other

Adjusted EBITDA in the healthcare and other division reduced to a loss of AED 2.8 million in the six months ended 30 June 2024 from a gain of AED 3.9 million in the six months ended 30 June 2023, primarily due to softer demand for medical and lab equipment.

2023 compared to 2022

Revenue

Revenue decreased by AED 538.4 million, or by 4.9 per cent., to AED 10,427.9 million in the twelve months ended 31 December 2023 from AED 10,966.3 million in the twelve months ended 31 December 2022, primarily due to a cyclical correction in commodity prices including paper, copper, and chemicals.

Revenue by division

Manufacturing – Consumer Goods

Revenue in the consumer goods manufacturing division decreased by AED 220.8 million, or by 10.4 per cent., to AED 1,906.7 million in the twelve months ended 31 December 2023 from AED 2,127.5 million in the twelve months ended 31 December 2022, primarily due to a post COVID drop in demand and prices of chemicals from June 2022 onwards as a result of destocking and normalization in supply chain, and a cyclical correction in the prices of tissue and paper during the second and third quarter of 2023.

Manufacturing – Infrastructure and Building Materials

Revenue in the infrastructure and building materials manufacturing division decreased by AED 444.3 million, or by 5.5 per cent., to AED 7,643.9 million in the twelve months ended 31 December 2023 from AED 8,088.2 million in the twelve months ended 31 December 2022, primarily due to a lower average price of copper during the period. Cement and steel business experienced healthy demand from the regional market on account of strong push for real estate and infrastructure projects, partly offset the decrease in copper.

Business Services

Revenue in the business services division increased AED 66.3 million, or by 12.8 per cent., to AED 585.4 million in the twelve months ended 31 December 2023 from AED 519.0 million in the twelve months ended 31 December 2022, primarily due to an increase in work orders in the sewage and infrastructure business.

Healthcare and Other

Revenue in the healthcare and other division increased by AED 59.4 million, or by 25.9 per cent., to AED 288.7 million in the twelve months ended 31 December 2023 from AED 229.3 million in the twelve months ended 31 December 2022, primarily due to an increase in sales of medical lab equipment, operating theatres, hospital beds, office furniture and a revenue ramp up of the newly expanded operation in Egypt and KSA.

Direct costs

Direct costs decreased by AED 462.3 million, or by 4.5 per cent., to AED 9,794.7 million in the twelve months ended 31 December 2023 from AED 10,257.0 million in twelve months ended 31 December 2022, primarily due to a correction in raw material prices mainly copper, pulp, and LABSA followed by logistics costs.

Gross profit

Gross profit decreased by AED 76.1 million, or by 10.7 per cent., to AED 633.2 million in the twelve months ended 31 December 2023 from AED 709.3 million in the twelve months ended 31 December 2022, primarily due to lower margins in the chemicals business and the softening of margins in the paper and tissue businesses which were majorly offset by higher margins in the Infrastructure and Building Materials and Business Services division. Gross profit margin decreased to 6.1 per cent. in the twelve months ended 31 December 2023 from 6.5 per cent. in the twelve months ended 31 December 2022, primarily due to lower margins in the chemicals and paper business partly offset by higher margins in the Infrastructure and Building Materials and Business Services divisions.

Administrative expenses

Administrative expenses decreased by AED 47.8 million, or by 13.6 per cent., to AED 303.4 million in the twelve months ended 31 December 2023 from AED 351.2 million in the twelve months ended 31 December 2022, primarily due to lower freight costs. As a percentage of revenue, administrative expenses decreased from 3.2 per cent. in the twelve months ended 31 December 2022 to 2.9 per cent. in the twelve months ended 31 December 2023, primarily due to lower freight costs and depreciation.

Provision for expected credit losses

Provision for expected credit losses decreased by AED 19.0 million, or by 72.4 per cent., to AED 7.2 million in the twelve months ended 31 December 2023 from AED 26.2 million in the twelve months ended 31 December 2022, driven by improvement in collection cycle.

Operating profit

Operating profit decreased by AED 9.4 million, or by 2.8 per cent., to AED 322.5 million in the twelve months ended 31 December 2023 from AED 331.9 million in the twelve months ended 31 December 2022, primarily due to lower operating profits from the Consumer Goods division almost fully offset by higher operating profits in the other divisions. As a percentage of revenue, operating profit increased to 3.1 per cent. in the twelve months ended 31 December 2023 from 3.0 per cent. in the twelve months ended 31 December 2022, primarily due to higher operating profits in the Infrastructure and Building Materials, Business Services and Healthcare and Other divisions almost offset by lower operating profits from the chemicals and paper businesses.

Other income

Other income increased by AED 1.4 million, or by 12.3 per cent., to AED 10.0 million in the twelve months ended 31 December 2023 from AED 11.4 million in the twelve months ended 31 December 2022.

Net foreign exchange gain (losses)

Net foreign exchange gain was AED 0.1 million in the twelve months ended 31 December 2023 compared to an AED 4.9 million in the twelve months ended 31 December 2022.

Finance costs

Finance costs increased by AED 87.1 million, or by 43.9 per cent., to AED 285.3 million in the twelve months ended 31 December 2023 from AED 198.2 million in the twelve months ended 31 December 2022, primarily due to higher interest rates affecting the overall borrowing cost.

Change in fair value of derivative financial instruments

Change in fair value of derivative financial instruments increased by AED 3.3 million to an AED 1.6 million in the twelve months ended 31 December 2023 from an AED 1.7 million loss in the twelve months ended 31 December 2022, primarily due to a higher mark to market profit from ineffective interest rate hedging instruments.

Profit for the period from continuing operations

Profit for the period from continuing operations decreased by AED 84.5 million, or by 67.3 per cent., to AED 41.0 million in the twelve months ended 31 December 2023 from AED 125.6 million in the twelve months ended 31 December 2022, primarily due to an increase in finance costs as a result of higher interest rates.

Adjusted EBITDA

Adjusted EBITDA decreased by AED 12.7 million, or by 2.4 per cent., to AED 509.6 million in the twelve months ended 31 December 2023 from AED 522.3 million in the twelve months ended 31 December 2022, primarily due to softening of Adjusted EBITDA in the chemicals and paper businesses as a result of lower prices of LABSA, pulp and paper, largely offset by higher premiums and sales volume in the copper and business services divisions. As a percentage of revenue, Adjusted EBITDA margin increased from 4.8 per cent. to 4.9 per cent.

Adjusted EBITDA by division

Manufacturing – Consumer Goods

Adjusted EBITDA in the consumer goods manufacturing division decreased by AED 125.1 million, or by 37.6 per cent., to AED 207.7 million in the twelve months ended 31 December 2023 from AED 332.9 million in the twelve months ended 31 December 2022, primarily due to softening of margins as a result of lower prices of tissue, paper and chemical driven by a significant correction in raw material prices on the back of easing of supply chain crunch. Some of the excess demand growth of 2022 caused paper inventories to swell, contributing to de stocking and thereby softening of demand during second and third quarter in 2023. The impact was more significant in chemical business due to much lower post-pandemic demand for cleaning and disinfecting chemicals.

Manufacturing – Infrastructure and Building Materials

Adjusted EBITDA in the infrastructure and building materials manufacturing division increased by AED 90.7 million, or by 125.1 per cent., to AED 163.2 million in the twelve months ended 31 December 2023 from AED 72.5 million in the twelve months ended 31 December 2022, primarily due to higher premiums and sales volume in the copper business, followed by improved margins in steel and cement businesses.

Business Services

Adjusted EBITDA in the business services division increased by AED 20.4 million, or by 16.5 per cent., to AED 144.2 million in the twelve months ended 31 December 2023 from AED 123.8 million in the twelve months ended 31 December 2022, primarily due to lower diesel cost, newly set-up city cleaning and waste management operation in KSA and an increase in work orders in the operation and maintenance of sewage network.

Healthcare and Other

Adjusted EBITDA in the healthcare and other division improved to AED 27.4 million in the twelve months ended 31 December from AED 6.1 million in the twelve months ended 31 December 2022, primarily due to increased margin on account of increase in sales of medical lab equipment, operating theatres, hospital beds, office furniture and a revenue ramp up of the newly expanded operation in Egypt and KSA.

Liquidity and Capital Resources

The Company's funding and treasury activities are conducted consistent with corporate policies designed to enhance investment returns while maintaining appropriate liquidity for its requirements. Its short-term liquidity requirements relate to servicing debt and financing the commodity procurement cycle. Sources of short-term liquidity include cash balances and additional cash generated from operations. Its long-term liquidity requirements include financing maintenance capital expenditure commitments, capital expenditure related to the renewal of long-term government contracts in the waste collection and city cleaning business, approved capital expenditure for the expansion of the tissue business in the KSA and repayment of long-term debt. Sources of funding for long term liquidity requirements include cash flow from operations, bank financing, unsecured export credit agency backed financing, and debt capital markets.

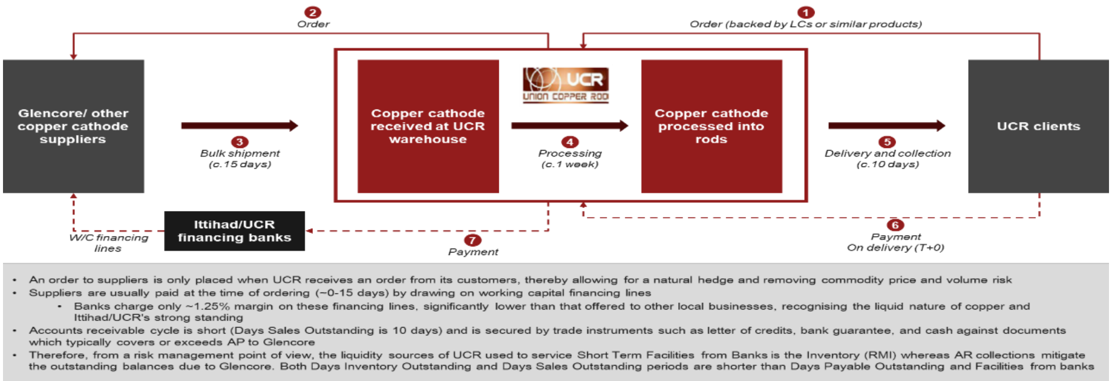
The Company expects that cash generated from operations, funds raised through debt capital market instruments and continued borrowings from banks and other financial institutions will continue to be the Company's primary sources of liquidity. The Company evaluates its funding requirements periodically in light of its net cash flow from operating activities and market conditions. The Company believes that the expected cash to be generated from its operations and its credit facilities will be sufficient to finance its working capital requirements for the next 12 months.

Copper Working Capital Cycle

The Company's UCR copper rod business relies mainly on refined and recycled copper with 99.99 per cent. purity to manufacture its copper products. Changes in the cost of RMI affect both the Company's revenues and its cost of materials and thus partially affect its results of operations and working capital.

The Company manages this working capital demand by working closely with its copper suppliers and passing on the LME copper price to its customers at the time of the sale, such that there is no mismatch between in the effect of the LME copper price in the sale or purchase contracts. The Company further manages this by requiring customers to pay cash in advance (the current DSO is approximately 13 days) and securing accounts receivables with letters of credit or other guarantees. Suppliers are usually paid in advance, such payments usually financed with working capital lines that charge modest fees due to the liquid nature of the underlying asset. Due to the high value of copper as a commodity and the short cycle of procurement and collection, working capital lines are considered as a source of liquidity and changes in working capital lines should be considered when analysing the cash flow from operation to better understand the cycle of the business and assess the Company's free cash flow from operation.

The following chart summarizes the Company's copper working capital cycle:



Cash Flows

The following table sets forth certain information relating to the Company's cash flows on a consolidated basis for the years / periods indicated:

	Financial Year			Six months ended 30 June,	
	2021	2022	2023	2023	2024
			(AED in millions)		
Net cash flows from (used in) operating activities).....................................	444.4	763.8	553.6	(284.0)	244.2
Net cash flow (used in) from investing activities).....................................	43.9	(294.0)	143.8	(8.6)	(64.6)
Net cash flows (used in) from financing activities).....................................	(328.8)	(399.8)	(690.5)	226.0	(204.8)
Net increase/ (decrease) in cash and cash equivalents	159.5	70.1	6.9	(66.6)	(25.1)

Net cash flows from (used in) operating activities

First Half 2024 compared to First Half 2023

Net cash flow from operating activities was AED 244.2 million in the six months ended 30 June 2024, compared to net cash flow used in operating activities of AED 284.0 million in the six months ended 30 June 2023. This was primarily due to liquidity optimisation and shorter inventory cycle driven by volumes ramp-up in the copper and tissue businesses. Changes in working capital lines are highly impacted by copper price volatility or changes in sale volumes. During the period, copper inventory cycle was shorter than the same period in 2023 which resulted into a lower level of inventory. Therefore, any impact on net cash flow from operating activities due to changes in working capital would typically be offset by an opposite change in working capital debt.

2023 compared to 2022

Net cash flow from operating activities was AED 553.6 million in 2023, compared to net cash flow from operating activities of AED 763.8 million in 2022. This was primarily due to an overall normalisation of working capital cycle and optimisation of liquidity.

2022 compared to 2021

Net cash flow from operating activities was AED 763.8 million in 2022, compared to net cash flow from operating activities of AED 444.4 million in 2021. This was primarily due to significant improvement in the Company's Adjusted EBITDA and the lower closing copper inventory at the end of the year due to delays in the arrival of a copper shipment until the first quarter of 2023.

Net cash flows generated from (used in) investing activities

First Half 2024 compared to First Half 2023

Net cash flow used in investing activities was AED 64.6 million in the six months ended 30 June 2024, compared to net cash flow used in investing activities AED 8.6 million in the six months ended 30 June 2023. This was primarily due to construction and completion of copper upcycling facility, expansion capex related to new long term projects awarded to Maqayes in KSA, commencement of construction site for tissue manufacturing facility in KSA and other ongoing maintenance capex.

2023 compared to 2022

Net cash flow used in investing activities was AED 143.8 million in 2023, compared to net cash used in investing activities AED 294.0 million in 2022. This was primarily due to the release of restricted cash proceeds of which were used to repay short term bank facilities.

2022 compared to 2021

Net cash flow used in investing activities was AED 294.0 million in 2022, compared to net cash flow generated from investing activities of AED 43.9 million in 2021. This was primarily due to the release of restricted cash amounting to AED 90.4 million in 2021 which was earmarked for investment in marketable securities, and consolidation of waste collection cleaning and tissue converting businesses.

Net cash flows generated from (used in) financing activities

First Half 2023 compared to First Half 2022

Net cash flow used in financing activities was AED 204.8 million in the six months ended 30 June 2024, compared to AED 226.0 million generated from financing activities in the six months ended 30 June 2023. This was primarily due to the ongoing deleveraging and liquidity optimisation exercise as well as higher finance cost paid during the period.

2023 compared to 2022

Net cash flow used in financing activities was AED 690.5 million in 2023, compared to AED 399.8 million used in financing activities in 2022. This was primarily due to repayment of term loans and other financing facilities as well as an increase in finance cost on the back of higher interest rates.

2022 compared to 2021

Net cash flow used in financing activities was AED 399.8 million in 2022, compared to net cash flow used in financing activities of AED 328.8 million in 2021. This was primarily due to continued deleveraging of the Company's balance sheet on the back of its strong operating performance.

Maintenance Capital Expenditure

The Company estimates that its maintenance capital expenditure in future periods will range from approximately AED 50 million to approximately AED 60 million per annum. This excludes certain project related capital expenditures in the business services division which depend on new project requirements that are typically pre-funded through advance payments from project sponsors.

Contractual Obligations and Commitments

The following table sets forth certain information relating to future payments due under contractual commitments as of 30 June 2024, aggregated by type of contractual obligation:

	Less than 1 year	**1 to 5 years**	**More than 5 years**	**Total**
		(AED in millions)		
Borrowings	1,058.6	1,593.2	-	2,651.8
Total	**1,134.4**	**523.2**	**1291.8**	**2949.4**

Contingent Liabilities and other Off-Balance Sheet Arrangements

As at 30 June 2024, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 747.9 million (U.S.$203.7 million).

As at 31 December 2023, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 621.7 million (U.S.$169.3 million).

As at 31 December 2022, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 573.9 million (U.S.$156.3 million).

Quantitative and Qualitative Disclosure about Market Risk

The Company's risk management policies are established to identify and analyse the risks the Company faces, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Interest rate risk

In the periods presented, the Company has been exposed to interest rate risk. Interest rates for borrowings have been volatile in recent periods and thus are mostly hedged by the Company through IRS instruments. The Company identifies short and long-term hedging solutions for facilities and other project financing with up to 5 years in maturity. The Company aims to hedge 50% of term debt exposures. The Offering of Certificates refinanced the majority of the Company's long-term debt, and, as the Certificates have a fixed rate of return, the Company will be broadly protected against interest rate risks.

Inflation Risk

While 2020 inflation was low, 2021 reflected the impact of a surge of inflation globally and translated into higher input costs related to logistics, energy and raw materials, which together with the disruption in supply chains, compressed the Company's Adjusted EBITDA margin to 4.3 per cent. in 2021 (other than the AED 75 million which has already been adjusted for in the Adjusted EBITDA calculation – see "*Summary Financial Information and Other Data*") in comparison to 5.4 per cent. during 2020. The impact from 2021 inflation however was mostly passed on to consumers during the last quarter of 2021, which resulted in the full recovery of Adjusted EBITDA margin in fiscal 2022 to 4.8 per cent and 4.9 per cent in fiscal 2023. For the twelve months ended 30 June 2024, the Company was able to sustain its Adjusted EBITDA margin reaching to 4.8 per cent.

Foreign Currency Exchange Rate Fluctuations Risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's major forex exposure is concentrated towards currencies that are considered to be stable such as USD, EUR and SAR. Recent expansion into Egypt does not significantly expose it to EGP currency risk due to the exchange risk being partly offset by high profit margins in the business, the ability to invoice at the prevailing market exchange rate of EGP to USD, and the Company's decision to implement a conservative and gradual ramp up in capital spending. During the period, the Company recorded AED 15.4 million as revaluation reserve for foreign exchange translation differences related to its Egypt operation. It is anticipated that the Company would be gradually recovering from the impact of currency devaluation through its ongoing higher operating margins in Egypt. The Company's functional currency (AED) is pegged with USD and SAR. Other currency exposures are mostly hedged.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its present and future cash and collateral obligations without incurring unacceptable losses. The Company's objective is to, at all times maintain optimum levels of liquidity to meet its cash and collateral requirements. The Company closely monitors its liquidity position and maintains adequate sources of financing including debt.