

نموذج رقم (۲-۱)

Form No. (1-2)

للإمام  
١٥ نو صه عمان  
١٥ اكد عي  
السيد محمد اله  
٢٩٥/٢/م/د

الرقم : د/م/٢/٢٩٥

**To: Jordan Securities Commission**  
**Amman Stock Exchange**

Date:-1/4/2019

**Subject: Audited Financial Statements for the fiscal year ended 31/12/2018**

السادة هيئة الاوراق المالية

السادة بورصة عمان

التاريخ: ٢٠١٩/٤/١

الموضوع: البيانات المالية السنوية المدققة للسنة

کما ہی فی ۲۰۱۸/۱۲/۳۱

**Attached the Audited Financial Statements of  
( union tobacco & cigarette industries co) As of  
31/12/2018 in English**

مرفق طيه نسخة من البيانات المالية المدققة لشركة  
مصانع الإتحاد لإنتاج التبغ والسجائر م.ع.م) باللغة  
الإنجليزية كما هي بتاريخ ٢٠١٨/١٢/٢١ م

Kindly accept our high appreciation and respect

union tobacco & cigarette industries co.

**Chairman of the Board of Directors**

**Samer Al shawawreh**

وتفضلوا بقبول فائق الاحترام،،،

شركة مصانع الإتحاد لإنتاج التبغ والسجائر

رئيس مجلس الإدارة


## سامر الشواره

هيئة الأوراق المالية  
والإدارة العامة، الدار البيضاء

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الجهة المختصة



UNION TOBACCO  
مجلس إدارة  
مجلس إدارة

**UNION TOBACCO AND CIGARETTE INDUSTRIES**  
**PUBLIC SHAREHOLDING COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2018**

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Union Tobacco and Cigarette Industries  
Public Shareholding Company  
Amman – Jordan**

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Union Tobacco and Cigarette Industries - Public Shareholding Company (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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



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## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter provided in that context. We have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<b>1. Recoverability of trade receivables</b>	
Disclosures that relate to the valuation of trade receivables are included in note (7) to the consolidated financial statements.	
<b>Key audit matter:</b> The Group's trade receivables amounted to JD 17,568,632 as at 31 December 2018 which representing 26.3% of the Group's total assets.  The Group has applied the simplified approach of International Financial Reporting Standard 9 (IFRS 9) and has calculated the expected credit losses on accounts receivable. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors and economic environment  Due to the significance of accounts receivable and the related estimation uncertainty based on IFRS (9), this is considered a key audit matter.	<b>How the key audit matter was addressed in the audit:</b> Our audit procedure included the following: <ul style="list-style-type: none"><li>- understanding the Group's policy in calculating the provision in comparison with the requirement of International Financial Reporting Standard 9 (IFRS 9).</li><li>- We verified the inputs and outputs used in the expected credit losses framework.</li><li>- We assessed the reasonableness of estimates and judgements used by management in calculating the provision for expected credit losses.</li></ul>



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#### 1. Provision for slow moving inventories

Disclosures that relate to the valuation of provision for slow moving inventories are included in note (6) to the consolidated financial statements.

##### Key audit matter:

At 31 December 2018, total inventories balance amounted to JD 10,741,056 representing 16.1% of total assets of the Group. Judgment is required to assess the appropriate level of provisioning for slow moving and obsolete items, which may be ultimately sold below cost or not in saleable conditions. The Group is mainly operating in the tobacco industry and trades in foreign markets and inventories are stored in different local and foreign locations increasing the level of judgment involved in estimating the provision.

##### How the key audit matter was addressed in the audit:

For both finished goods and raw materials, we tested the methodology for calculating the provision, reviewed the appropriateness and consistency of judgments and assumptions used in estimating the provision, the accuracy and completeness of ageing profile of inventory, including the adequacy of provision for slow moving and obsolete items. Additionally, we have observed the inventories stock count process in order to identify the obsolete and damaged inventories.

#### Other Matter

Our audit opinion on the consolidated financial statements for the year ended 31 December 2017 was qualified in relation to recognition of a gain of JD 653,248 from sale of machinery and equipment during 2017 after receiving an amount of JD 1,775,000, which represents 50% of the total sale price. The machinery and equipment were still in the Group's possession. During 2018, the Group transferred these machinery and equipment and recognized a gain on sale of JD 666,937.

#### Other information included in the Group's 2018 annual report.

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.



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## **Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements**

Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

#### **Report on Other Legal and Regulatory Requirements**

The Group maintains proper books of accounts which are in agreement with the consolidated financial statements.

The partner in charge of the audit resulting in this auditor's report was Mohammad Ibrahim Al-Karaki, license number 882.

Amman – Jordan  
31 March 2019

*Ernst & Young*



**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**

	Notes	2018 JD	2017 JD
<b>ASSETS</b>			
<b>Non-Current Assets-</b>			
Property, plant and equipment	3	16,435,430	17,955,874
Investment properties		17,203	17,203
Advances on investments	24	7,799,219	-
Advances on machinery purchases		12,389	101,244
Financial assets at fair value through other comprehensive income	5	7,953,001	9,585,050
		<u>32,217,242</u>	<u>27,659,371</u>
<b>Current assets-</b>			
Inventories	6	10,741,056	13,397,170
Trade receivables	7	17,568,632	23,108,830
Other current assets	8	2,865,261	2,754,991
Due from a related party	19	3,021,033	3,625,745
Cash and bank balances	9	352,072	218,128
		<u>34,548,054</u>	<u>43,104,864</u>
		<u>66,765,296</u>	<u>70,764,235</u>
<b>Total Assets</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity-</b>			
Paid in capital	10	15,083,657	15,083,657
Share premium	10	5,000,000	5,000,000
Statutory reserve	10	3,774,151	3,774,151
Voluntary reserve	10	7,250,000	7,250,000
Fair value reserve	5	(1,916,691)	(726,532)
Accumulated losses		<u>(10,100,312)</u>	<u>(5,186,946)</u>
<b>Net equity</b>		<u>19,090,805</u>	<u>25,194,330</u>
<b>Liabilities-</b>			
<b>Non-current liabilities-</b>			
Long term loans	11	<u>12,143,478</u>	<u>13,812,140</u>
<b>Current liabilities-</b>			
Current portion of long term loans	11	5,254,294	5,352,000
Bank overdrafts	12	243,869	265,845
Trade and other payables	13	23,648,539	22,737,324
Due to a related party	19	5,709,733	2,728,018
Income tax provision	18	674,578	674,578
		<u>35,531,013</u>	<u>31,757,765</u>
		<u>47,674,491</u>	<u>45,569,905</u>
<b>Total liabilities</b>		<u>66,765,296</u>	<u>70,764,235</u>
<b>Total Equity and Liabilities</b>			

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> JD	<u>2017</u> JD
Sales		12,255,370	11,957,001
Cost of sales	14	<u>(12,011,095)</u>	<u>(11,067,197)</u>
<b>Gross profit</b>		244,275	889,804
Gain on selling of property, plant and equipment		666,937	720,538
Other expenses, net		(263,595)	(73,786)
Administrative expenses	15	(1,894,646)	(2,312,671)
Selling and marketing expenses	16	(1,437,325)	(953,971)
Provision for advance payments on machinery purchases		(101,244)	-
Finance costs		<u>(1,764,545)</u>	<u>(1,668,064)</u>
<b>Loss for the year before income tax</b>		(4,550,143)	(3,398,150)
Income tax expense for the year	18	-	(279,269)
<b>Loss for the year</b>		<u>(4,550,143)</u>	<u>(3,677,419)</u>
		<u>JD/ Fils</u>	<u>JD/ Fils</u>
<b>Basic and diluted loss per share for the year attributable to shareholders</b>	17	<u>(0/302)</u>	<u>(0/244)</u>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2018**

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	<u>2018</u>	<u>2017</u>
	JD	JD
Loss for the year	(4,550,143)	(3,677,419)
<b>Add: other comprehensive income items not to be reclassified to profit or loss in subsequent periods:</b>		
Net losses of financial assets at fair value through other comprehensive income	<u>(1,553,382)</u>	<u>(458,537)</u>
<b>Total comprehensive income for the year</b>	<u><u>(6,103,565)</u></u>	<u><u>(4,135,956)</u></u>

**The attached notes from 1 to 28 form part of these consolidated financial statements**

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2018**

	Paid in capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Accumulated losses	Total
	JD	JD	JD	JD	JD	JD	JD
<b>For the year ended 31 December 2018 -</b>							
Balance as at 1 January 2018	15,083,657	5,000,000	3,774,151	7,250,000	(726,532)	(5,186,946)	25,194,330
Loss for the year	-	-	-	-	-	(4,550,143)	(4,550,143)
Other comprehensive income items					(1,553,382)	-	(1,553,382)
Loss on sale of financial assets at fair value through other comprehensive income	-	-	-	-	363,223	(363,223)	-
<b>Balance at 31 December 2018</b>	<b>15,083,657</b>	<b>5,000,000</b>	<b>3,774,151</b>	<b>7,250,000</b>	<b>(1,916,691)</b>	<b>(10,100,312)</b>	<b>19,090,805</b>
<b>For the year ended 31 December 2017 -</b>							
Balance as at 1 January 2017	15,083,657	5,000,000	3,774,151	7,250,000	(314,806)	(1,462,716)	29,330,286
Loss for the year	-	-	-	-	-	(3,677,419)	(3,677,419)
Other comprehensive income items	-	-	-	-	(458,537)	-	(458,537)
Loss on sale of financial assets at fair value through other comprehensive income	-	-	-	-	46,811	(46,811)	-
<b>Balance at 31 December 2017</b>	<b>15,083,657</b>	<b>5,000,000</b>	<b>3,774,151</b>	<b>7,250,000</b>	<b>(726,532)</b>	<b>(5,186,946)</b>	<b>25,194,330</b>

The attached notes from 1 to 28 form part of these consolidated financial statements

**UNION TOBACCO AND CIGARETTE INDUSTRIES - PUBLIC SHAREHOLDING COMPANY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED IN 31 DECEMBER 2018**

	Notes	2018	2017
		JD	JD
<b>OPERATING ACTIVITIES</b>			
Loss for the year before tax		(4,550,143)	(3,398,150)
<b>Adjustments for:</b>			
Depreciation	3	1,438,081	915,020
Provision for advance payments on machinery purchases		101,244	-
Gain on sale of property, plant and equipment		(666,937)	(720,538)
Finance costs		1,764,545	1,668,064
<b>Working capital changes:</b>			
Inventories		2,580,033	3,233,823
Trade receivables and other current assets		5,413,101	2,617,185
Related parties balances		3,586,427	2,554,975
Trade and other payables		911,215	(6,255,450)
<b>Net cash flows from operating activities</b>		<b>10,577,566</b>	<b>614,929</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		750,001	3,761,456
Purchases of property, plant and equipment		(701)	(1,765,019)
Advances on Investments	24	(7,799,219)	-
Purchases of financial assets at fair value through other comprehensive income		(511,064)	(987,868)
Proceeds from sale of financial assets at fair value through other comprehensive income		670,250	468,865
<b>Net cash flows (used in) from investing activities</b>		<b>(6,890,733)</b>	<b>1,477,434</b>
<b>FINANCING ACTIVITIES</b>			
Repayments of loans		(4,748,976)	(2,236,374)
Proceeds from loans		2,982,608	3,063,348
Finance costs paid		(1,764,545)	(1,668,064)
<b>Net cash flows used in financing activities</b>		<b>(3,530,913)</b>	<b>(841,090)</b>
<b>Net increase in cash and cash equivalents</b>		<b>155,920</b>	<b>1,251,273</b>
Cash and cash equivalents at 1 January		(47,717)	(1,298,990)
<b>Cash and cash equivalents at 31 December</b>	9	<b>108,203</b>	<b>(47,717)</b>

The attached notes from 1 to 28 form part of these consolidated financial statements

**(1) GENERAL**

Union Tobacco and Cigarette Industries (the "Company") was established as a public shareholding company on 19 July 1993 under registration number (232) with paid in capital of JD 15,083,657 divided into 15,083,657 shares at a par value of JD 1 per share.

The Company's objective is the production and packaging of tobacco, cigarette, toombak products and printing works related to these products.

The consolidated financial statements were approved by the Company's Board of Directors in their meeting held 31 March 2019. The consolidated financial statements require the approval of the General Assembly.

**2) BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**(2-1) BASIS OF PREPARATION -**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on historical cost basis, except for financial assets at fair value through other comprehensive income which have been measured at fair value.

The consolidated financial statements are presented in Jordanian Dinars (JD), which represents the functional currency of the Group.

**(2-2) BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS -**

The consolidated financial statements comprise of the Company's financial statements and its subsidiaries (together the "Group") as of 31 December 2018.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, which includes:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interests.
- Derecognizes the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes the gain or loss resulted from loss of control.
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The Company's subsidiaries along with percentage of ownership are disclosed in note (19).

**(2-3) CHANGES IN ACCOUNTING POLICIES**

The accounting policies used in the preparation of the consolidated financial statements for the year ended 31 December 2018 are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2017 except that the Group has applied the following amendments starting 1 January 2018:

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The impact of adopting IFRS 15 impacted the Group's accounting policy for revenue recognition as detailed below:

**(a) Sale of goods**

The Group contracts with customers for the sale of goods generally include performance obligations. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer generally on delivery of the goods.

This standard did not have a material impact on the Group's consolidated financial statements.

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group had previously implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011.

The standard eliminates the use of the IAS 39 incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

The standard eliminates the use of the IAS 39 incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.



### **Impairment**

The adoption of IFRS 9 has fundamentally changed the Group accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all debt instruments measured at amortization cost.

For all debt instruments, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

This standard did not have a material impact on the Group's consolidated financial statements.

### **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations**

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This Interpretation does not have any impact on the Group's consolidated financial statements.

### **Amendments to IAS 40 Transfers of Investment Property**

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

These amendments do not have any impact on the Group's consolidated financial statements.

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

These amendments do not have any impact on the Group's consolidated financial statements.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instrument standard, IFRS 9, before implementing IFRS 17 *insurance contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

These amendments do not have any impact on the Group's consolidated financial statements.

**Amendments to IAS 28 Investments in Associates and Joint Ventures - measuring investees at fair value through profit or loss.**

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Group's consolidated financial statements.

**(2-4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**

**Property, plant and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Cost represents the cost of replacement of property, plant and equipment and borrowing costs for long-term projects under construction, if recognition conditions are met. Maintenance and repair expenses are recognized in the consolidated statement of profit or loss. Depreciation (except for land) is calculated on a straight-line basis over the estimated useful lives of the assets using the following annual depreciation rates:

	<u>%</u>
Buildings	4
Machinery and equipment*	5
Laboratory and quality control equipment	15
Computers	20-25
Furniture and fixtures	20-25
Tools supplies	20
Vehicles	15
Others	10-25

\* Some of the machinery and equipment are depreciated using the units of production method.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts. Impairment losses are recognized in the consolidated statement of profit or loss.

The useful lives and methods of depreciation are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment

Gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.

### **Investment properties**

Properties held to earn rental or for capital appreciation purposes or held for undetermined use are considered investment properties.

Investment properties are measured at cost less accumulated depreciation and any impairment in value. Depreciation (except for land) is calculated when ready for use on a straight-line basis over the estimated useful lives using annual rates that range from 2 to 20%.

### **Investments in associate**

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The Group's investments in its associates are accounted for using the equity method.

The investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

### **Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group's of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

### **Financial assets at fair value through other comprehensive income**

These financial assets are initially recognized at fair value plus attributable transaction costs and subsequently measured at fair value. The change in fair value of those assets is presented in the consolidated statement of comprehensive income within equity, including the change in fair value resulting from the foreign exchange differences of non-monetary assets. In case those assets – or part of them - were sold, the resultant gain or loss is recorded in the consolidated statement of comprehensive income within equity and the fair value reserve for the sold assets is directly transferred to the retained earnings and not through the consolidated statement of profit or loss.

These financial assets are no longer subject to impairment testing and dividends are recognized in the consolidated statement of profit or loss.

### **Recognition of financial assets**

Sale and purchase of financial assets is recognized at transaction date.

### **Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Inventories**

Inventories are valued at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Raw inventories, work in progress and spare parts are stated using the weighted average cost.

### **Trade receivables**

Accounts receivable are stated at original invoice amount less any provision for any uncollectible amounts or expected credit loss. The Group applies a simplified approach in calculating ECLs. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, and other short-term highly liquid investments with original maturities of three months or less which do not include the risk of the change in fair value, net of outstanding bank overdrafts.

### **Loans**

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the consolidated statement of profit or loss when the liability is derecognized as well through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on a acquisition and fees or costs that forms an integral part of the effective interest rate.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **Trade payables and other current liabilities**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### **Income tax**

Income tax for the years ended 31 December 2018 and 2017 was calculated in accordance with the Income Tax Law no. (34) of 2014.

Deferred income taxation is provided using the liability method on all temporary differences at the consolidated financial statement date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on laws that have been enacted at the financial position date. The carrying values of deferred income tax assets are reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

### **Revenue Recognition**

Revenue is recognized at a point in time, when control of the goods is transferred to the customer and an invoice is issued.

Dividends are recognized when the shareholder's right to receive payment is established.

Other revenues are recognized on the accrual basis.

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated statement of financial position date, based on the rates declared by the Central Bank of Jordan.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on transaction of non-monetary items measured at fair value is recognized in the consolidated statement of comprehensive income.

Transaction differences for items of non-monetary financial assets and liabilities denominated in foreign currencies (like shares) are recognized as part of the change in fair value.

### **Segment reporting**

For the purpose of reporting to management and the decision makers in the Group, a business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### **Offsetting**

Offsetting between financial assets and financial liabilities and presenting the net amount on the consolidated statement of financial position is performed only when there are legally-enforceable rights to offset, the settlement is on a net basis, or the realization of the assets and satisfaction of the liabilities is simultaneous.



**(2-5) USE OF ESTIMATES**

The preparation of the consolidated financial statements and the application of accounting policies require management to make estimates and judgments that affect the amounts of assets and liabilities and disclose potential liabilities. These estimates and judgments also affect the income, expenses and provisions and, in particular, require the Group's management to make judgments and judgments to estimate the amounts and timing of future cash flows arising from the circumstances and circumstances of those estimates in the future. These estimates are necessarily based on multiple hypotheses and factors that have varying degrees of estimation and uncertainty and actual results may differ from estimates as a result of future changes in the conditions and circumstances of those provisions.

The estimates and assumptions used in the consolidated financial statements are as follows:

- Provision for expected credit losses is made on the basis and assumptions approved by the Group's management to estimate the provision to be taken in line with IFRS 9.
- The fiscal year shall be charged for the income tax expense in accordance with the accounting regulations, laws and standards. The deferred tax assets and liabilities and tax provision are measured and recognized.
- The Group periodically recalculates the useful life of the property and equipment for the purpose of calculating annual depreciation based on the general condition of the asset and estimated future useful lives. Impairment losses are recognized as an expense in the consolidated statement of profit or loss.
- A provision is taken for legal cases raised against the Group based on legal studies prepared by the Group's legal advisors, under which future potential risks are identified these studies are reviewed on a periodic basis.

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(3) PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Laboratory and quality control equipment	Computers	Furniture and fixtures	Tools	Vehicles	Others	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
2018-										
Cost-										
Balance at 1 January 2018	514,219	13,153,994	29,569,337	361,209	316,472	543,822	473,589	1,055,726	100,985	46,089,353
Additions	-	-	-	-	435	20	110	-	136	701
Disposals	-	-	(2,683,277)	-	-	-	-	-	-	(2,683,277)
Balance at 31 December 2018	514,219	13,153,994	26,886,060	361,209	316,907	543,842	473,699	1,055,726	101,121	43,406,777
Accumulated depreciation-										
Balance at 1 January 2018	-	6,176,624	19,652,064	328,998	232,211	492,198	449,883	801,501	-	28,133,479
Charge for the year	-	523,883	756,910	13,391	2,568	20,793	22,263	78,214	20,059	1,438,081
Disposals	-	-	(2,600,213)	-	-	-	-	-	-	(2,600,213)
Balance at 31 December 2018	-	6,700,507	17,808,761	342,389	234,779	512,991	472,146	879,715	20,059	26,971,347
Net book value:										
As at 31 December 2018	514,219	6,453,487	9,077,299	18,820	82,128	30,851	1,553	176,011	81,062	16,435,430

The depreciation charge for the year is allocated as follows:

	2018	2017
	JD	JD
Cost of sales (Note 14)	1,200,933	651,328
Administrative expenses (Note 15)	227,197	255,997
Selling and marketing expenses (Note 16)	9,951	7,695
	1,438,081	915,020

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	Land		Buildings		Machinery and equipment *		Laboratory and quality control equipment		Computers		Furniture and fixtures		Tools		Vehicles		Others		Total	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
2017-																				
Cost-																				
Balance at 1 January 2017	514,219		13,153,994		34,285,373		361,209		313,072		543,822		473,309		1,464,859		-		51,109,857	
Additions	-		-		1,614,354		-		3,400		-		280		46,000		100,985		1,765,019	
Disposals	-		-		(6,330,390)		-		-		-		-		(455,133)		-		(6,785,523)	
Balance at 31 December 2017	514,219		13,153,994		29,569,337		361,209		316,472		543,822		473,589		1,055,726		100,985		46,089,353	
Accumulated depreciation-																				
Balance at 1 January 2017	-		5,652,742		22,892,578		315,607		228,403		469,411		418,834		985,489		-		30,963,064	
Charge for the year	-		523,882		194,017		13,391		3,808		22,787		31,049		126,086		-		915,020	
Disposals	-		-		(3,434,531)		-		-		-		-		(310,074)		-		(3,744,605)	
Balance at 31 December 2017	-		6,176,624		19,652,064		328,998		232,211		492,198		449,883		801,501		-		28,133,479	
Net book value:																				
As at 31 December 2017	514,329		6,977,370		9,917,273		32,211		84,261		51,624		23,706		254,225		100,985		17,955,874	

\* This category includes machinery and equipment with a cost of JD 24,832,787 which were depreciated using the units of production method.

**(4) INVESTMENT IN AN ASSOCIATE**

The Group owns 50% of Al-Rafidain for Tobacco and Cigarettes Distribution Company, a limited liability company that was established on 6 November 2012. The Board of Directors resolved to liquidate the company in its meeting held on 14 July 2016, accordingly the investment's carrying amount was written off.

**(5) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

This amount represents the Group's investments in the capital of the following companies:

	2018 JD	2017 JD
<b>Quoted Shares / Inside Jordan</b>		
Union Investments Corporation/ P.L.C	2,067,696	2,231,509
Union Land Development Corporation/ P.L.C	5,885,305	7,353,541
	<u>7,953,001</u>	<u>9,585,050</u>

The movement on the fair value reserve was as follows:

	2018 JD	2017 JD
Balance at 1 January	(726,532)	(314,806)
Change in fair value of financial assets at fair value through other comprehensive income	(1,553,382)	(458,537)
Loss on selling of financial assets at fair value through other comprehensive income	363,223	46,811
Balance at 31 December	<u>(1,916,691)</u>	<u>(726,532)</u>

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**(6) INVENTORIES**

	2018	2017
	JD	JD
Raw materials	3,552,060	5,775,061
Work in progress	952,537	1,135,043
Finished goods	6,157,482	6,176,121
Spare parts	2,053,930	2,356,475
Goods in transit	95,907	101,411
	12,811,916	15,544,111
Provision for slow moving inventories	(2,070,860)	(2,146,941)
	10,741,056	13,397,170

The movement on the provision for slow moving inventories was as follows:

	2018	2017
	JD	JD
Balance at 1 January	2,146,941	2,146,941
Written off during the year	(76,081)	-
Balance at 31 December	2,070,860	2,146,941

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**(7) TRADE RECEIVABLES**

	2018 JD	2017 JD
Trade receivables	19,690,355	25,233,424
Provision for expected credit losses	(2,121,723)	(2,124,594)
	<u>17,568,632</u>	<u>23,108,830</u>

Movement on the provision for expected credit losses as at 31 December was as follows:

	2018 JD	2017 JD
Balance at 1 January	2,124,594	2,124,594
Written off during the year	(2,871)	-
Balance at 31 December	<u>2,121,723</u>	<u>2,124,594</u>

As at 31 December, the aging of unimpaired trade receivables is as follow:

	Past due but not impaired		
	1-180 days JD	More than 181 days JD	Total JD
2018	6,948,782	10,619,850	17,568,632
2017	9,140,053	13,968,777	23,108,830

The management of the Group believes that unimpaired receivables are expected to be fully recoverable. The Group does not obtain guarantees against these receivables and thus they are unsecured.

**(8) OTHER CURRENT ASSETS**

	2018 JD	2017 JD
Refundable deposits	197,461	190,871
Governmental deposits	1,326,339	1,253,828
Advances to suppliers	615,592	791,473
Employees receivables	42,720	58,101
Prepaid expenses	651,834	416,342
Others	31,315	44,376
	<u>2,865,261</u>	<u>2,754,991</u>

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**(9) CASH AND BANK BALANCES**

	2018 JD	2017 JD
Cash and bank balances	352,072	218,128
	<u>352,072</u>	<u>218,128</u>

For the purpose of the preparing consolidated statement of cash flows, cash and cash equivalents comprise of the following:

	2018 JD	2017 JD
Cash and bank balances	352,072	218,128
Bank overdrafts (Note 12)	<u>(243,869)</u>	<u>(265,845)</u>
	<u>108,203</u>	<u>(47,717)</u>

**(10) SHAREHOLDERS' EQUITY**

**Authorized and paid in capital -**

The Company's authorized and paid in capital is JD 15,083,657 divided into 15,083,657 shares at a par value of JD 1 per share as at 31 December 2018 and 2017.

**Share premium -**

The amounts accumulated in this account represents the amounts received and resulted from the difference between the shares issuance price and the shares face value as a result of increasing the Company's capital during previous years.

**Statutory reserve -**

As required by the Jordanian Companies Law, 10% of the profit before tax is to be transferred to statutory reserve. This reserve is not available for distribution to the shareholders. Transfers cannot be stopped before the statutory reserve reaches 25% of the Company's authorized capital. The Company's Board of Directors decided to discontinue such annual transfer after the reserve reached 25% of its paid in capital.

**Voluntary reserve -**

The amount accumulated in this reserve represents the transfers from profit before tax at maximum of 20%. This reserve is available for distribution to shareholders.

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**(11) LOANS**

		Loan installments					
		2018			2017		
Currency		Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
		JD	JD	JD	JD	JD	JD
Bank Al Etihad – Revolving loan	JD	830,730	-	830,730	941,024	-	941,024
Bank Al Etihad – Revolving loan	USD	2,134,912	-	2,134,912	2,122,324	-	2,122,324
Bank Al Etihad – Reducing loan	USD	2,288,652	12,143,478	14,432,130	2,288,652	13,812,140	16,100,792
		<u>5,254,294</u>	<u>12,143,478</u>	<u>17,397,772</u>	<u>5,352,000</u>	<u>13,812,140</u>	<u>19,164,140</u>

**Bank Al Etihad - Revolving loan- JD**

During 2017, the Company obtained a revolving loan with a ceiling of JD 1,000,000, and an annual interest rate of 5.5% with no commission, to be fully repaid during the year 2018. The guarantees on this loan are the same as those related to the reducing loan from Bank Al Etihad, which is mentioned below in this disclosure.

**Bank Al Etihad - Revolving loan- USD**

During 2017, the Company obtained a revolving loan with a ceiling of USD 3,000,000, and an annual interest rate of 5.5% with no commission, to be fully repaid during the year 2018. The guarantees on this loan are same as those related to the reducing loan from Bank Al Etihad, which is mentioned below in this disclosure.

**Bank Al Etihad – Reducing loan- USD**

The Company has obtained a reducing loan in US Dollars amounted to USD 14,000,000 at an annual interest rate of 5.5% without commission repayable over 48 equal monthly installments of USD 326,000 each except for the last installment which will be due on 1 December 2018 which represents the remaining balance of the loan, and the first installment was due on 2 February 2014 and the last installment will be due on 1 January 2018.

The loan is guaranteed by the purchased shares of the Union Land Development Company (sister company) and Union Investment Corporation (parent company) and the resulting dividends. The loan is also secured by a first degree real estate mortgage with an amount of JD 15,000,000 and endorsement of insurance policy in favor of the bank in the amount of JD 21,000,000.



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On 12 August 2015, the reducing loan was increased to become USD 17,000,000 at an annual interest rate of 5.5% less a margin of 0.25% without commission. The loan is repayable over equal monthly installments of USD 394,000 each, the first installment was due on 30 September 2015 and the last installment which represents the remaining balance of the loan will be due on 30 August 2019 under the same conditions and collaterals mentioned above.

On 28 April 2016, the reducing loan was increased to become USD 26,900,000 at an annual interest rate of 5.5% without commission repayable over 100 equal monthly installments of USD 269,000 each, the first installment was due on 30 May 2016 and the last installment which represents the remaining balance of the loan will be due on 30 September 2024 under the same conditions and collaterals mentioned above.

The amounts of annual principle maturities of bank loans are as follows:

	JD
2020	2,288,652
2021	2,288,652
2022 – 2024	7,566,174
	<u>12,143,478</u>

**(12) BANK OVERDRAFT**

This item represents the utilized balance of the overdrafts provided for the Group, the details of this item are as follow:

	Currency	Average interest rate	Credit limit	2018	2017
			JD	JD	JD
Bank Al Etihad	JD	8.75%	250,000	<u>243,869</u>	<u>265,845</u>

The Group exceeded the granted ceiling as of 31 December 2017 as a result of the interest accrued on the facility.

**Bank Al Etihad**

Guarantees on these facilities are the same guarantees relating to the Bank Al-Etihad reducing loan mentioned in Note (11).

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**(13) TRADE AND OTHER PAYABLES**

	2018	2017
	JD	JD
Accounts payable	18,203,949	17,515,494
Financial brokers payables*	1,902,502	2,008,329
Shareholders deposits	571,117	564,653
Accrued expenses	779,731	669,550
Sales tax deposits	1,028,773	622,365
Miscellaneous provisions	1,051,323	1,249,851
Employee payables	110,664	106,602
Others	480	480
	<u>23,648,539</u>	<u>22,737,324</u>

\* The financial broker's payables bear interest ranging from 10.5% to 12.25% annually.

**(14) COST OF SALES**

	2018	2017
	JD	JD
Cost of materials used in production	8,813,129	8,223,533
Salaries and wages	1,148,101	1,352,412
Depreciation (Note 3)	1,200,933	651,328
Maintenance	101,934	76,363
Electricity, water and fuel	185,645	214,901
Employees' meals and hospitality	27,995	41,396
Vehicles expenses	59,996	48,308
Damaged materials	3,360	451
Fees and licenses	35,106	43,293
Cleaning	13,317	13,786
Insurance	345,665	339,283
Manufactured samples	4,206	-
Stationery and printings	4,146	4,015
Others	67,562	58,128
	<u>12,011,095</u>	<u>11,067,197</u>

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**(15) ADMINISTRATIVE EXPENSES**

	2018	2017
	JD	JD
Salaries and wages	792,914	1,182,123
Depreciation (Note 3)	227,197	255,997
Professional fees and consultancy	61,570	48,132
Fees and licenses	435,341	213,236
Postage and telephone	35,125	40,044
Advertisements	1,075	1,875
Rent	77,976	124,216
Water and electricity	104,019	67,314
Transportation	36,343	39,761
Stationary and printing	7,353	17,710
Vehicles expenses	34,925	54,025
Insurance	39,471	91,282
Maintenance	1,376	4,836
Cleaning	2,206	1,288
Hospitality	13,322	19,838
Donations and gifts	1,973	1,444
Bank charges	-	4,458
Others	22,460	145,092
	<u>1,894,646</u>	<u>2,312,671</u>

**(16) SELLING AND MARKETING EXPENSES**

	2018	2017
	JD	JD
Salaries and wages	77,248	92,493
Export expenses	1,242,700	777,718
Trademark expenses	5,790	1,467
Depreciation (Note 3)	9,951	7,695
Others	101,636	74,598
	<u>1,437,325</u>	<u>953,971</u>

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**(17) BASIC AND DILUTED LOSS PER SHARE**

	2018	2017
	JD	JD
Loss for the year attributable to shareholders of the Company (JD)	(4,550,143)	(3,677,419)
Weighted average number of shares (Share)	15,083,657	15,083,657
<b>Basic loss per share attributable to shareholders (JD / Fils)</b>	<b>(0/302)</b>	<b>(0/244)</b>

The diluted loss per share equals the basic loss per share.

**(18) INCOME TAX**

**Income tax -**

Income tax presented in the consolidated statement of profit or loss is as follows:

	2018	2017
	JD	JD
Prior years income tax expense	-	279,269

The movement on provision for income tax was as follows:

	2018	2017
	JD	JD
Balance at 1 January	674,578	395,309
Prior years income tax expense	-	279,269
<b>Balance at 31 December</b>	<b>674,578</b>	<b>674,578</b>

No income tax provision for the years ended 31 December 2018 and 2017 has been calculated in accordance with the Income Tax Law No. (34) of 2014.

The Company reached a final settlement with the Income Tax Department up to the year 2012. The Income Tax Department reviewed the accounting records of the Company and its subsidiaries until the end of the year 2015 without issuing a final clearance yet until the date of these consolidated financial statements.

The Income and Sales Tax Department did not review the Group's accounting records for the years 2016 and 2017 up to the date of these consolidated financial statements.

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**(19) RELATED PARTIES**

The consolidated financial statements include the following financial statements of the Company and the following subsidiaries:

	<u>Country of Incorporation</u>	<u>Paid In Capital</u> JD	<u>Major Activity</u>	<u>Percentage Of Ownership</u> %
Al Aseel for Marketing of Ma'asel and Cigarettes	Jordan	100,000	Marketing	100
Union for Advanced Industries	Jordan	100,000	Marketing	100
Union Tobacco and Cigarette Industries - Iraq	Iraq	-	Marketing	100

Related parties include associates, major shareholders, Board of Directors members, executive management, as well as companies controlled or significantly influenced directly or indirectly, by those entities.

The balances of related parties in the consolidated statement of financial position represent the following:

	<u>2018</u> JD	<u>2017</u> JD
<b>Due from a related party</b>		
Union Investments Corporation – P.L.C (Parent company)	<u>3,021,033</u>	<u>3,625,745</u>
	<u>2018</u> JD	<u>2017</u> JD
<b>Due to a related party</b>		
Union Land Development Corporation- P.L.C (Sister company)	<u>5,709,733</u>	<u>2,728,018</u>

The following is a summary of the benefits (salaries, bonuses and other benefits) of the key management of the Group:

	<u>2018</u> JD	<u>2017</u> JD
Salaries, bonuses and other benefits	<u>115,050</u>	<u>190,534</u>

**(20) OPERATING SEGMENTS**

The presentation of key segments is determined on the basis that the risks and rewards relating to the Group are materially affected by the difference in the products or services of those segments. These segments are organized and managed separately by the nature of the services and products, each of which is a separate unit and is measured according to reports used by the Group's Chief Executive Officer and Chief Decision Maker.

The Group is organized for administrative purposes through the following sectors:

- Cigarette and Tobacco.
- Carton Production.
- Marketing of Cigarette and Tobacco.

The Group's management monitors the results of business segments separately for performance evaluation purposes. Segment performance is evaluated based on operating profit or loss for each segment.

A geographical segment is associated with the provision of products or services in a specific economic environment that is subject to risks and rewards that differ from those in other economic environments.

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Revenues, profits, assets and liabilities by business sector are as follows:

	Cigarette and tobacco	Marketing of cigarette and tobacco	Total
	JD	JD	JD
<b>For the year ended 31 December 2018-</b>			
<u>Revenues:</u>			
Revenues	3,220,087	9,035,283	12,255,370
<u>Results:</u>			
(Loss) profit for the year	(5,566,155)	1,016,012	(4,550,143)
<u>Other segment information:</u>			
Deprecation	(1,404,781)	(33,300)	(1,438,081)
Finance costs	(1,764,545)	-	(1,764,545)
<b>For the year ended 31 December 2017-</b>			
<u>Revenues:</u>			
Revenues	5,866,818	6,090,183	11,957,001
<u>Results:</u>			
(Loss) profit for the year	(5,104,853)	1,427,434	(3,677,419)
<u>Other segment information:</u>			
Deprecation	(866,585)	(48,435)	(915,020)
Finance costs	(1,668,064)	-	(1,668,064)
<b>As at 31 December 2018-</b>			
<u>Segment assets and liabilities</u>			
Segment assets	52,639,915	14,125,381	66,765,296
Segment liabilities	39,534,490	8,140,001	47,674,491
<b>As at 31 December 2017-</b>			
<u>Segment assets and liabilities</u>			
Segment assets	51,752,321	19,011,914	70,764,235
Segment liabilities	29,260,065	16,309,840	45,569,905

**(21) NON-CURRENT ASSETS HELD FOR SALE**

On 29 November 2016, the Group signed an agreement to sell the carton-production segment for an amount of JD 7,525,000. The selling price is divided into the following:

- 1) Cash of JD 5,267,000
- 2) Inventories with an amount of JD 2,258,000

During January 2017, an amount of JD 5,267,000 was received after deducting the sales tax of JD 361,280. Inventories will be supplied in accordance with the agreement signed on 26 January 2017 over the following periods:

- 1) An amount of JD 1,800,000 for the period from the date of signing the agreement until 1 February 2018.
- 2) An amount of JD 458,000 after 1 February 2018.

The Group has recognized a gain from the sale of non-current assets held for sale amounted to JD 3,826,146.

**(22) CONTINGENT, CONTRACTUAL AND CAPITAL COMMITMENTS**

At the date of the consolidated financial statements, the Group has letters of guarantee amounted to JD 2,005,002 (2017: JD 1,903,152).

**(23) LAWSUITS RAISED BY AND AGAINST THE GROUP**

As at 31 December 2018, the Group was defendant in number of lawsuits in its normal course of business in the amount of JD 17,604,626 (2017: JD 13,927,005). The Group's management and its legal counsel believe that the Group will not have any obligations in respect of these lawsuits.

As at 31 December 2018, the Group was a claimant in a number of lawsuits in the amount of JD 209,262 (2017: JD 209,262). This amount resulted from the Group's accounts receivables in the normal course of business.



**(24) ADVANCES ON INVESTMENTS**

The Group has established a branch in Iraq on 15 April 2018, under registration number 5252 according to the regulations of the Iraqi Foreign Companies Act number (2) of 2017 in which this branch established a factory in Iraq, under the name of Al-Fiddiya Tobacco and Cigarettes Industries LLC with a share capital of IQD 5,000,000,000 which is equivalent to JD 3,008,500, the Group's owns 50% of the share capital of Al-Fiddiya Tobacco and Cigarettes Industries LLC which is equivalent to JD 1,504,250, noting that the Group exerts majority control over Al-Fiddiya Tobacco and Cigarettes Industries LLC. The Group has financed the factory for establishing purposes during the year ended 31 December 2018 with an amount of JD 1,779,699. According to that the total amount paid by the Group for the purpose of establishing that factory is JD 3,299,219

During the third quarter of the year 2018, the Group has also contributed an amount of JD 4,500,000 to establish a new branch located in Baghdad under the name of Union Tobacco and Cigarettes Industries (Baghdad) in which the Group owns 100% of the share capital of that branch.

**(25) RISK MANAGEMENT**

**Interest rate risk -**

The Group is exposed to interest rate risk on its floating interest bearing assets and liabilities such as bank overdrafts and loans.

The following table demonstrates the sensitivity of the consolidated statement of profit or loss reasonable possible changes in interest rates as of 31 December, with all other variables held constant.

2018- Currency	Increase in interest rate	Effect on loss for the year before tax
	(Basis points)	JD
JD	50	4,154
USD	50	83,835
2017- Currency	Increase in interest rate	Effect on loss for the year before tax
	(Basis points)	JD
JD	50	4,705
USD	50	92,445

The effect of decrease in interest rate is expected to be equal and opposite to the effect shown above.

#### Equity price risk -

The following table demonstrates the sensitivity of the consolidated statement of profit or loss, fair value reserve, consolidated statement of other comprehensive income and shareholders' equity due to the possible reasonable changes in share prices, with all other variables held constant:

#### 2018-

<u>Index</u>	<u>Change in index</u> (%)	Effect on consolidated statement of comprehensive income, fair value reserve and shareholders' equity JD
Amman Stock Exchange	15	1,192,950

#### 2017-

<u>Index</u>	<u>Change in index</u> (%)	Effect on consolidated statement of comprehensive income, fair value reserve and shareholders' equity JD
Amman Stock Exchange	15	1,437,758

The effect of the decrease in index is expected to be equal and opposite to the effect shown above.

#### Credit risk -

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to customers by setting credit limits for customers and by monitoring outstanding receivables. In addition, the Group seeks to limit its credit risk with respects to banks by only dealing with reputable banks.

### Liquidity risk -

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates:

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<u>31 December 2018 -</u>	JD	JD	JD	JD	JD
Loans	3,777,289	2,163,224	10,411,833	3,959,180	20,311,526
Trade and other payables	23,323,117	-	-	-	23,323,117
Bank overdraft	256,582	-	-	-	256,582
<b>Total</b>	<u>27,356,988</u>	<u>2,163,224</u>	<u>10,411,833</u>	<u>3,959,180</u>	<u>43,891,225</u>

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<u>31 December 2017 -</u>	JD	JD	JD	JD	JD
Loans	4,013,788	2,298,665	11,063,725	4,207,067	21,583,245
Trade and other payables	22,737,324	-	-	-	22,737,324
Bank overdraft	280,466	-	-	-	280,466
<b>Total</b>	<u>27,031,578</u>	<u>2,298,665</u>	<u>11,063,725</u>	<u>4,207,067</u>	<u>44,601,035</u>

### Currency risk -

Most of the Group's transactions are in Jordanian Dinars and US Dollars. The Jordanian Dinar exchange rate is fixed against the US Dollar (US \$1.41 for JD 1), and accordingly the Group is not exposed to significant currency risk.

**(26) FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments include financial assets and financial liabilities.

Financial assets comprise cash and bank balances, trade receivables, financial assets at fair value through other comprehensive income, due from a related party and some other current assets.

Financial liabilities comprise of trade payables, loans, due to a related party, bank overdrafts and some other current liabilities.

The following table illustrates the fair value measurement of financial assets and liabilities of the Group.

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

	Level 1	Total
	JD	
<b>2018 -</b>		
Financial assets at fair value through other comprehensive income	7,953,001	7,953,001
<b>2017 -</b>		
Financial assets at fair value through other comprehensive income	9,585,050	9,585,050

**(27) CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a credit rating and capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions.

No changes were made in the objectives, policies or procedures during the current year and the prior year.

Capital structure comprises of paid in capital, share premium statutory reserve, voluntary reserve, fair value reserve and accumulated losses, and is measured at JD 19,090,805 as at 31 December 2018 (2017: JD 25,194,330)

**(28) STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 16 Leases**

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

*Transition to IFRS 16*

The Group has the option to adopt IFRS 16 retrospectively and restate each prior reporting period presented or using the modified retrospective approach by applying the impact as an adjustment on the opening retained earnings. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Group will adopt IFRS 16 using the modified retrospective approach. During 2018, the Group has performed a detailed impact assessment of IFRS 16. The Group does not expect that there will be a material impact on the consolidated financial statements as a result of adopting IFRS16.

**IFRS 17 Insurance Contracts**

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

#### **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

#### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted.

#### **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

**Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted