



**KNAUF GYPSUM TANZANIA LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019



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# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Company Information

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<b>Country of incorporation and domicile</b>	United Republic of Tanzania
<b>Nature of business and principal activities</b>	Manufacture and sale of gypsum products and other building materials.
<b>Directors</b>	Georgios Zachapoulos Nevzat Evik Ilse Elizabeth Venter Isabel Corinna Knauf
<b>Registered office</b>	Knauf Gypsum Tanzania Limited Plot 17 Block 186030 14110, Mwindu Lane Street Off Kinondoni Road, Infosys Building P.O Box 31873 Dar es salaam Tanzania
<b>Holding company</b>	Knauf International GmbH and Isogranulat Gesellschaft incorporated in Germany
<b>Ultimate holding company</b>	Gebr. Knauf Verwaltungsgesellschaft KG incorporated in Germany
<b>Bankers</b>	ABSA Bank Tanzania Limited Ohio Street, P.O Box 5137 Dar es Salaam Tanzania  CRDB Bank PLC Oyster bay Branch P.O.Box 10687 Dar es Salaam Tanzania  National Microfinance Bank (NMB) Oyster Plaza Premier Branch P.O. Box 162409 Dar Es Salaam Tanzania
<b>Auditors</b>	PricewaterhouseCoopers Certified public accountant Pemba house, 369 Toure drive P.O. Box 45 Oysterbay, Dar es Salaam
<b>Secretary</b>	KKB Attorneys At Law P.O. Box 3496 Dar Es Salaam Tanzania

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Report of the directors



The directors submit their report and the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the company ("the Company").

### 1. PRINCIPAL ACTIVITIES

The principal activities of the Company is manufacture and sale of gypsum products and other building materials.

### 2. SHAREHOLDERS OF THE COMPANY

Names of shareholders	2019	2018	2019	2018
	Percentage holding %	Percentage holding %	Number of shares	Number of shares
Knauf International GmbH	99.99	99.99	118,699,342	60,952,635
Isogranulat Gesellschaft	0.01	0.01	1	1
	<b>100</b>	<b>100</b>	<b>118,699,343</b>	<b>60,952,636</b>

#### Share capital

On 20 December 2019, the company increased its authorised and issued share capital from 60,952,636 to 118,699,342 ordinary shares of Tshs 1,000 each. The new shares were issued to the holding company, Knauf International GMBH and rank paripassu in all respects with the existing company shares. .

### 3. DIRECTORS

The Directors of the Company at the date of this report, all of whom have served since 1 January 2019, unless otherwise stated, are:-

Name	Position	Nationality	Changes
Georgios Zachapoulos	Director	Hellenic	Resigned 30 March 2020
Nevzat Evik	Director	Turkish	Appointed 01 April 2020
Ilse Elizabeth Venter	Director	South African	Appointed 01 April 2020
Isabel Corinna Knauf	Director	German	Appointed 01 April 2020

### 4. RESULTS

	2019	2018
	Tshs'000	Tshs'000
Loss before tax	(7,798,021)	(12,077,265)
Tax charge	(97,797)	(4,998,286)
<b>Loss for the year</b>	<b>(7,895,818)</b>	<b>(17,075,551)</b>

### 5. DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2018: Nil).

### 6. CORPORATE GOVERNANCE

The Board of directors (the "Board") consists of three directors. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters and reviewing the performance of management's business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board delegates the day to day management of the business to managing director and senior management. Senior management is invited to attend board meetings and facilitates the effective control of all the Company's operational activities, acting as a medium of communication and coordination between all the various business units. The Company is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Report of the directors

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### 7. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

### 8. EMPLOYEES WELFARE

#### Management and employees' relationship

The relationship between employees and management continued to be cordial during the year. The company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

#### Training facilities

Training programs have been, and are continually being developed to ensure employees are adequately trained at all levels and that they receive some form of annual training to upgrade skills and enhance development.

#### Health and Safety

The company has a strong health and safety department which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

#### Employees benefit plan

The company pays contributions to the National Social Security Fund (NSSF), a publicly administered pension plan on a mandatory basis which qualifies to be a defined contribution plan.

#### Disabled persons

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and appropriate training is arranged. It is the policy of the company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### 9. RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are disclosed in Note 23 to the financial statements.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Report of the directors

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### 10. IMPLICATION OF CORONA VIRUS

The existence of novel coronavirus ('Covid-19') was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post statement of financial position event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Company's IFRS 9 estimates of expected credit loss provisions in 2020.


### 11. AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Company for year 2020 will be put to the Annual General Meeting.

#### BY ORDER OF THE BOARD

  
Ilse Elizabeth Venter  
Director

24/6/2020

  
Nevzat Evik  
Director



# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019


## Statement of director's responsibilities

The Companies Act, No. 12 of 2002 requires directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for the year. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

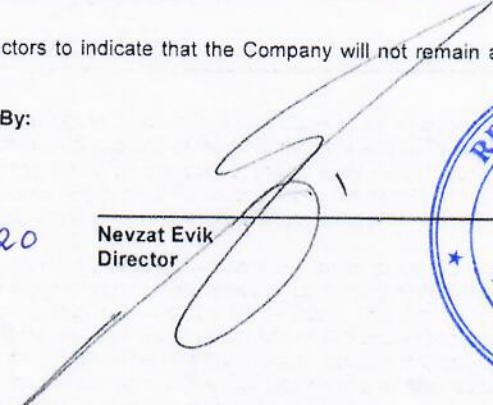
The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No. 12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its loss in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Directors By:

  
Ile Elizabeth Venter  
Director

24/6/2020

  
Nevzat Evik  
Director



# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Declaration of the head of finance

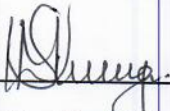
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The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under Directors Responsibility statement on page 6.

I Wema Mbogo being the Head of Accounting of Knauf Gypsum Tanzania Limited hereby acknowledge my responsibility of ensuring that financial statements of the year ended 31 December 2019 have been prepared in compliance with International Financial Reporting Standards. (IFRS).

I thus confirm that the financial statements give a true and fair view position of Knauf Gypsum Tanzania Limited as on that date and that they have been prepared based on properly maintained financial records.



Signed by: Wema Mbogo

Position: Financial Controller

NBAA Membership No: GA 1861

Date: 24/06/2020



# REPORT OF THE INDEPENDENT AUDITORS

## TO THE SHAREHOLDERS OF KNAUF GYPSUM TANZANIA LIMITED

### *Report on the audit of the financial statements*

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Knauf Gypsum Tanzania Limited as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

#### **What we have audited**

The financial statements of Knauf Gypsum Tanzania Limited as set out on pages 11 to 39 comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- accounting policies; and
- the notes to the financial statements.

#### *Basis for opinion*

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 financial statements section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the National Board of Accountants and Auditors (NBAA) that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the NBAA.

#### *Other information*

The directors are responsible for the other information. The other information comprises of company information, report of the directors, statement of directors' responsibilities and declaration of the head of finance but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, 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.

## INDEPENDENT AUDITORS REPORT (CONTINUED)

### TO THE SHAREHOLDERS OF KNAUF GYPSUM TANZANIA LIMITED

#### *Report on the audit of the financial statements (Continued)*

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##### *Responsibilities of the directors for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

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##### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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.

# INDEPENDENT AUDITORS REPORT (CONTINUED)

## TO THE SHAREHOLDERS OF KNAUF GYPSUM TANZANIA LIMITED

### *Report on other legal and regulatory requirements*

This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Companies Act, No. 12 of 2002 and for no other purposes.

As required by the Companies Act, No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. In respect of the foregoing requirements, we have no matter to report.



Zainab Msimbe, ACPA 1708

**For and on behalf of PricewaterhouseCoopers**  
Certified Public Accountants  
Dar es Salaam

Date 30-06-2020



# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2019 Tshs '000	2018 Tshs '000
Revenue	3	17,716,196	13,291,232
Cost of sales	4	(13,627,993)	(11,905,441)
<b>Gross profit</b>		<b>4,088,203</b>	<b>1,385,791</b>
Other (expenses)/income	5	(24,232)	405,972
Administrative expenses	6	(11,962,352)	(13,529,581)
<b>Operating loss</b>		<b>(7,898,381)</b>	<b>(11,737,818)</b>
Finance income/(expenses)	7	100,360	(339,447)
<b>Loss before taxation</b>		<b>(7,798,021)</b>	<b>(12,077,265)</b>
Tax charge	8	(97,797)	(4,998,286)
<b>Loss for the year</b>		<b>(7,895,818)</b>	<b>(17,075,551)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(7,895,818)</b>	<b>(17,075,551)</b>



The accounting policies on pages 15 to 23 and the notes on pages 24 to 39 form an integral part of the financial statements.

# KNAUF GYPSUM TANZANIA LIMITED


Report and Financial Statements for the year ended 31 December 2019

## Statement of Financial Position as at 31 December 2019

	Note(s)	2019 Tshs '000	2018 Tshs '000
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	21	118,699,342	60,952,636
Accumulated losses		(37,152,334)	(29,256,516)
<b>Equity attributable to owners of the Company</b>		<b>81,547,008</b>	<b>31,696,120</b>
<b>LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
Environmental rehabilitation liability			111,855
Borrowings	10	233,956	136,327
Lease liabilities	11	4,594,504	-
	14	750,326	-
		<b>5,578,786</b>	<b>248,182</b>
<b>Current Liabilities</b>			
Trade and other payables	20	13,378,224	12,650,485
Borrowings	11	1,035,973	72,056
Lease liabilities	14	168,285	-
<b>Total current liabilities</b>		<b>14,582,482</b>	<b>12,722,541</b>
<b>Total Liabilities</b>		<b>20,161,268</b>	<b>12,970,723</b>
<b>Total Equity and Liabilities</b>		<b>101,708,276</b>	<b>44,666,843</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Mineral property rights	12	5,423,301	5,736,862
Property, plant and equipment	13	79,147,090	27,651,458
Intangible assets	15	120,106	257,448
Right-of-use assets	14	791,339	-
<b>Total Non-current assets</b>		<b>85,481,836</b>	<b>33,645,768</b>
<b>Current Assets</b>			
Inventories	16	5,870,193	4,133,926
Trade and other receivables	17	8,943,865	5,264,715
Cash and cash equivalents	18	1,398,764	393,204
Escrow Account with TGB	18	183	1,122,347
Current tax receivable	19	13,435	106,883
<b>Total current assets</b>		<b>16,226,440</b>	<b>11,021,075</b>
<b>Total Assets</b>		<b>101,708,276</b>	<b>44,666,843</b>



The financial statements and the notes, were approved by the board of directors and were signed on its behalf by:

  
Ilse Elizabeth Venter

24/6/2020

  
Nevzat Evik

The accounting policies on pages 15 to 23 and the notes on pages 24 to 39 form an integral part of the financial statements.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Statement of Changes in Equity

	Share capital	Accumulated losses	Total equity
	Tshs '000	Tshs '000	Tshs '000
Balance at 01 January 2018	22,110,000	(12,180,965)	9,929,035
Loss for the year	-	(17,075,551)	(17,075,551)
Other comprehensive income	-	-	-
<b>Total comprehensive Loss for the year</b>	-	<b>(17,075,551)</b>	<b>(17,075,551)</b>
Issue of ordinary share capital	38,842,636	-	38,842,636
	<b>38,842,636</b>	-	<b>38,842,636</b>
Balance at 01 January 2019	60,952,636	(29,256,516)	31,696,120
Loss for the year	-	(7,895,818)	(7,895,818)
Other comprehensive income	-	-	-
<b>Total comprehensive Loss for the year</b>	-	<b>(7,895,818)</b>	<b>(7,895,818)</b>
Issue of ordinary share capital	57,746,706	-	57,746,706
	<b>57,746,706</b>	-	<b>57,746,706</b>
Balance at 31 December 2019	<b>118,699,342</b>	<b>(37,152,334)</b>	<b>81,547,008</b>



The accounting policies on pages 15 to 23 and the notes on pages 24 to 39 form an integral part of the financial statements.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Statement of Cash Flows

	Note(s)	2019 Tshs '000	2018 Tshs '000
<b>Cash flows from operating activities</b>			
Cash used in operations	22	(9,108,606)	(12,462,649)
Tax paid	23	(4,349)	(1,166)
<b>Net cash used in operating activities</b>		<b>(9,112,955)</b>	<b>(12,463,815)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(53,020,482)	(18,915,751)
Sale of property, plant and equipment	13	-	274,400
Purchase of mineral property rights	12	(36,155)	-
<b>Net cash from investing activities</b>		<b>(53,056,637)</b>	<b>(18,641,351)</b>
<b>Cash flows from financing activities</b>			
Proceeds on share issue	21	57,746,706	38,842,636
Transfer to share capital	21	-	(7,455,098)
Repayment of borrowings		5,422,094	(208,383)
Movement in environmental rehabilitation liability		122,101	111,855
Payment on lease liabilities		(115,749)	-
<b>Net cash from financing activities</b>		<b>63,175,152</b>	<b>31,291,010</b>
<b>Total cash movement for the year</b>		<b>1,005,560</b>	<b>185,844</b>
Cash at the beginning of the year		393,204	207,360
<b>Total cash at end of the year</b>	18	<b>1,398,764</b>	<b>393,204</b>



# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### General information of the company

Knauf Gypsum Tanzania Limited was incorporated in the United Republic of Tanzania as a limited liability Company and is domiciled in Tanzania. The principal activities of the Company are disclosed in the Directors Report. The address of its registered office is shown on page 2 of this financial statement.

### 1. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements comply with the requirements of the Tanzanian Companies Act, 2002. 'The statement of profit or loss and statement of comprehensive income represent the profit and 'loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

#### 1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and /or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are entirely, which are described as follows.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability

#### Going concern

The financial performance of the company is set out in the Director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in note 27.

During the year the company incurred a net loss of Tshs 7,896 million (2018: Tshs 17,076 million) and it had net current assets of Tshs 1,644 million (2018: net current liabilities of Tsh 8,138 million) as at year end. The Company meets its cash operating needs from operating cash flows and related party credit. The Shareholders have given an undertaking to continue to provide financial support to the company.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.2 New standards and interpretations adopted by the company

#### (i) International Financial Reporting Standards and amendments effective for the first time for 31 December 2019

**IFRIC 23, 'Uncertainty over income tax treatments'** (annual periods beginning on or after 1 January 2019 Published 7 June 2017)

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The adoption of IFRIC has no impact on the current period.

#### IFRS 16 Leases

Knauf Gypsum Tanzania Limited (the "Company") has adopted IFRS 16 with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8% for USD leases.

#### (i) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made in applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

### 1.2 New standards and interpretations adopted by the company (continued)

#### (i) International Financial Reporting Standards and amendments effective for the first time for 31 December 2019 (continued)

##### IFRS 16 Leases (continued)

##### (ii) Measurement of lease liabilities

	2019 TShs
Operating lease commitments disclosed as at 31 December 2018	257,421,212
Discounted using Company's incremental borrowing rate of 10.86%	
Add: finance lease liabilities recognised as at 31 December 2018	208,383,302
(Less): short term lease recognised on a straight line basis as expenses	-
<b>Lease liability recognised as at 1 January 2019</b>	<b>465,804,514</b>
of which	
Current lease liability	124,880,268
Non current lease liability	340,924,246

##### iii) Measurement of right of use assets

The right-of use assets were measured at an amount equal to lease liabilities at 1 January 2019 calculated using a discount rate based on lessee's incremental borrowing rate and adjusted for accruals and prepayments.

#### (ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

##### Amendment to IFRS 3, 'Business combinations' (Annual periods on or after 1 January 2020 (Published October 2018))

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

##### Amendments to IFRS 9, Financial Instruments

IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform.

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

### 1.3 Critical accounting estimates and judgement

In the application of the accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an on going basis. Revisions to estimates are recognised prospectively.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.4 Revenue recognition

The company recognises revenue from direct sales of gypsum board. The company recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

Sales of goods are recognised upon delivery of products and customer acceptance.

### 1.5 Foreign currency translation

#### (i) Presentation currency

These financial statements are presented in Tanzanian Shillings rounded to the nearest thousand (TShs'000).

#### Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Tanzania Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

### 1.6 Property, plant and equipment

#### **i) Mineral property rights**

Mining property rights are stated at cost less accumulated amortisation and impairment losses. The mining property rights comprise the cost of acquisition of mining licences from the previous property owners.

#### **ii) Plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to the working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as incurred.

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

#### **Depreciation**

Depreciation on all other assets is calculated on the reducing balance basis method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

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Item	Rate %
Mineral property rights	Licences lease period
Leasehold land	Lease periods
Computers	37.5
Furniture & Fittings	12.5
Plant & Machinery	25
Buildings	5
Motor vehicles	25

The assets' residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting period.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

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# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.7 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

#### Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 3 years.

### 1.8 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1.9 Financial instruments

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

#### Financial assets

The company classifies its financial assets into the following categories:

##### i) Amortised cost;

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

##### ii) Fair Value Through Other Comprehensive Income (FVTOCI):

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

##### iii) Fair Value Through Profit or Loss (FVTPL):

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### iii) Fair Value Through Profit or Loss (FVTPL) (continued)

Notwithstanding the above, the company may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the group has not identified a change in its business models.

#### De recognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the group has transferred substantially all risks and rewards of ownership, or when the group has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

#### Impairment

The company recognised loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

The loss allowances is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which;

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on financial assets other than a trade receivables has not increased significantly since initial recognition, the loss allowances is measured for that financial instrument at an amount equal to 12 months expected credit losses. All changes in the loss allowances are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12 month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

ECL are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### - Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts or commitments to provide a loan at a below-market interest rate are classified and measured at **fair value through profit or loss**. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

- All other financial liabilities are classified and measured at **amortised cost**.

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

#### - Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) method. Cost is determined on direct purchase value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, attributable to bringing the inventory to its present location and condition but excludes borrowing costs.

### 1.11 Cash and cash equivalent

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks.

### 1.12 Share capital

Ordinary shares are classified as equity.

### 1.13 Income tax

#### *Taxation*

The tax expense for the year comprises current and deferred tax. Tax is recognised in statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in equity, in which case, the tax is also recognised in equity.

#### *Current income tax*

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

#### *Deferred income tax*

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

### 1.14 Pension obligation

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under this scheme are limited to specific contribution regulated from time and currently stated at 10% of the employee's gross pay. The company's contributions are charged to the statement of comprehensive income in the year to which they relate.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.15 Leases

#### Company as lessee

##### Lease liability

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

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

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

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance (income)/expenses (note 7).

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

##### Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

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

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

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

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Accounting Policies

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### 1.16 Borrowings

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset based either on actual cost on specific borrowings or, in the case of general borrowings, based on a weighted average cost. Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are reclassified in profit or loss.

### 1.17 Provisions

#### General

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Rehabilitation provision

Mine rehabilitation costs will be incurred by the company either while operating, or at the end of the operating life of, the company's facilities and mine properties. The company assesses its mine rehabilitation provision at each reporting date. The company recognises a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine.

Additional disturbances which arise due to further development/construction at the mine are recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as extraction progresses. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognising an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income. If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature mines, the estimate for the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as part of finance costs. The company recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

### 1.18 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

	2019	2018
	Tshs '000	Tshs '000
<b>2. Critical accounting estimates and judgements</b>		
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.		
<b>(i) Critical accounting estimates and assumptions</b>		
The Company management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:		
<u>Income tax</u>		
The company is subject to income tax in Tanzania. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The company recognised liabilities for anticipated tax audit issues based on the estimates of whether the additional tax will be due. Where the final tax outcome of the tax matters is different from the amount that is initially recorded, such differences will impact the current and deferred income tax liabilities in the period in which such determination is made.		
<u>Useful life of assets</u>		
Critical estimates are made by the Directors in determining useful lives for property and equipment.		
<b>(ii) Critical judgements in applying the entity's accounting policies</b>		
In the process of applying the company's accounting policies, management has made judgement in determining the classification of financial assets; and whether the assets are impaired or not.		
<b>3. Revenue</b>		
Revenue from sale of gypsum boards and other building materials	17,716,196	13,291,232
<b>4. Cost of sales</b>		
Balance at year end	13,627,993	11,905,441
<b>Cost of sales</b>		
Opening inventories	3,522,908	3,349,312
Add: Purchases	14,006,047	10,809,076
Direct cost (Note 3.1)	1,103,485	1,269,961
Closing inventories	(5,004,447)	(3,522,908)
<b>Total cost of sales</b>	<b>13,627,993</b>	<b>11,905,441</b>
<b>3.1 Direct costs</b>		
Fuel	443,071	621,439
Factory electricity and water consumption	660,414	648,522
	<b>1,103,485</b>	<b>1,269,961</b>
<b>5. Other (loss)/income</b>		
Other (loss)/income	(41,181)	78,045
Proceeds on disposal of fixed asset	16,949	211,292
Income from insurance compensation	-	116,635
	<b>(24,232)</b>	<b>405,972</b>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

	2019 Tshs '000	2018 Tshs '000
<b>6. Administrative expenses</b>		
Postage & telephone	120,264	112,366
Internet services	492,000	70,558
Catering and cleaning	1,460	546
Car rental	114,950	101,561
Cleaning and environmental services	186,576	155,462
Office expenses	202,891	318,612
Royalties to district sales and distribution	471,528	224,130
Motor vehicle running expenses	21,817	45,461
Travelling & accommodation	36,731	27,095
Printing and stationery	601,352	592,725
Advertising and sales promotion expenses	112,257	75,847
Environmental rehabilitation	100,935	179,097
Audit fees	122,101	110,355
Fines and penalties	64,046	30,813
Bank interest and charges	88,548	2,364
Legal and professional fees	140,789	132,169
Consultancy fees	-	258,845
Safety equipment	678,428	330,736
Demolition of buildings	113,005	154,610
TRA Custom Assessment	-	918,603
Bad debts	-	166,208
Security services	-	163,663
Donations	174,090	180,574
Reversal of lease payment	2,118	-
Tax provision	(217,744)	-
<b>Establishment:</b>	811,214	-
Rent and rates	359,504	533,796
Electricity and water	40,034	41,117
Repairs and maintenance	293,411	698,203
Insurance	137,340	114,664
Depreciation on property, plant and equipment (Note 12)	1,524,850	2,315,727
Depreciation charge on right-of-use assets (Note 13)	193,562	-
Depreciation of mineral rights (Note 11)	533,029	819,552
Amortisation of intangible assets (Note 14)	137,342	141,590
Staff costs (Note 5.1)	4,303,924	4,512,530
	<b>11,962,352</b>	<b>13,529,579</b>
<b>5.1 Staff cost</b>		
Salaries and wages	2,710,896	3,206,545
Other staff costs	903,901	842,668
Social security contribution	451,572	243,625
Skills and development levy	193,864	181,431
Workers compensation fund expenses	43,691	38,261
	<b>4,303,924</b>	<b>4,512,530</b>
<b>7. Finance (income)/expenses</b>		
Interest on lease liabilities	49,459	-
Net foreign exchange gain	(276,885)	(70,497)
Interest expense on related party loan	127,066	375,807
Interest expense on finance lease	-	34,137
<b>Total finance costs</b>	<b>(100,360)</b>	<b>339,447</b>



# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



	2019	2018
	Tshs '000	Tshs '000

### 8. Income tax expenses

#### Major components of the tax expense

Current tax - current period	97,797	66,456
<b>Deferred income tax</b>		
De-recognition of deferred tax	-	4,931,830
	<b>97,797</b>	<b>4,998,286</b>

#### Reconciliation of the tax expense

The tax on the Company's profit or loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Loss before tax	(7,798,021)	(12,077,265)
Tax calculated at a tax rate of 30% (2018: 30%)	(2,339,406)	(3,623,180)
<b>Tax effect of :</b>		
De-recognition deferred tax	-	8,456,290
Alternative minimum tax (0.5% of turnover)	97,797	66,456
Prior year adjustments	-	48,148
(Income)/expenses not deductible for tax purposes	(1,281,951)	50,572
Under provision current year deferred tax	3,576,198	-
Other	45,159	-
<b>Tax charge</b>	<b>97,797</b>	<b>4,998,286</b>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

	2019 Tshs '000	2018 Tshs '000
<b>9. Deferred tax</b>		
Deferred income tax is calculated in full, on all temporary timing differences under the liability method using a tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows:		
<b>Reconciliation of deferred tax liability</b>		
At start of the year	-	(4,931,830)
Credit to profit or loss	(3,576,198)	(3,524,460)
Prior year adjustments	(3,248,051)	-
De-recognition deferred tax	6,824,249	8,456,290
<b>At the end of the year</b>	<b>-</b>	<b>-</b>

**Deferred tax asset and deferred tax credit to profit or loss are attributable to the following:**

The Company has de-recognised the deferred tax asset in 2019 as the Company's directors were uncertain as to the company ability to generate sufficient profits in the foreseeable future against which the tax losses carried forward of TShs 6,824,249 will be fully utilised.

	01 January 2019 TShs'000	Prior year TShs'000	(Credit)/charge profit or loss account TShs'000	31 December 2019 TShs'000
<b>Year ended 31 December 2019</b>				
Capital allowance on property, plant and equipment	(415,482)	5,241,796	(1,650,338)	3,175,976
Other timing differences	(114,467)	8,742	(21,177)	(126,902)
Tax losses	(7,926,341)	(42,299)	(1,904,683)	(9,873,323)
<b>Net deferred income tax (asset)/liability</b>	<b>(8,456,290)</b>	<b>5,208,239</b>	<b>(3,576,198)</b>	<b>(6,824,249)</b>
	01 January 2018 TShs'000	(Credit)/charge profit or loss account TShs'000	31 December 2018 TShs'000	
<b>Year ended 31 December 2018</b>				
Capital allowance on property, plant and equipment	227,402	(642,884)	(415,482)	
Other timing differences	(236,145)	121,678	(114,467)	
Tax losses	(4,923,087)	(3,003,254)	(7,926,341)	
<b>Net deferred income tax (asset)/liability</b>	<b>(4,931,830)</b>	<b>(3,524,460)</b>	<b>(8,456,290)</b>	

### 10. Environmental rehabilitation liability

Opening at 1 January	111,855	111,855
Addition	122,101	-
<b>Closing at 31 December</b>	<b>233,956</b>	<b>111,855</b>

The company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred in the future, which is when the producing mine properties are expected to cease operations. These provisions have been created based on the company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gypsum prices, which are inherently uncertain.

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

	2019 Tshs '000	2018 Tshs '000
<b>11. Borrowings</b>		
The borrowings are made up as follows:		
Finance leases	-	208,383
Loans from holding company - Knauf International GmbH	5,630,477	-
<b>Total borrowings</b>	<b>5,630,477</b>	<b>208,383</b>
<b>Non-current liabilities</b>		
Finance lease	-	136,327
Loan from holding company - Knauf International GmbH	4,594,504	-
	<b>4,594,504</b>	<b>136,327</b>
<b>Current liabilities</b>		
Finance lease	-	72,056
Loan from holding company - Knauf International GmbH	1,035,973	-
	<b>1,035,973</b>	<b>72,056</b>

On adoption of IFRS 16, finance lease as at 31 December 2019 are shown under note 13 of the financial statements.

The Company has intercompany loan with Knauf international GmbH to be used as capital expenditure and/or financing current assets purposes. The loan agreement was entered in 15 November 2019 with 5% interest rate, interest payment are to be paid on the last day of each quarter with first repayment due on 31 December 2019. Loan amount shall be paid to the borrower in one or several installments as per borrower written request and matures on 30 November 2024.

### 12. Mineral property rights

	2019			2018		
	Cost	Amortisation	Carrying value	Cost	Amortisation	Carrying value
Others	961,523	(240,893)	720,630	925,368	(120,789)	804,579
Anglo African Gypsum Ltd	2,225,810	(609,712)	1,616,098	2,225,810	(340,362)	1,885,448
Tanzania Gypsum Board Ltd	4,058,130	(971,557)	3,086,573	3,583,130	(536,295)	3,046,835
<b>Total</b>	<b>7,245,463</b>	<b>(1,822,162)</b>	<b>5,423,301</b>	<b>6,734,308</b>	<b>(997,446)</b>	<b>5,736,862</b>

#### Reconciliation of mineral property rights - 2019

	Opening balance	Additions	Other adjustments	Amortisation	Total
Others	804,579	36,155	-	(120,104)	720,630
Anglo African Gypsum Ltd	1,885,448	-	-	(269,350)	1,616,098
Tanzania Gypsum Board Ltd	3,046,835	-	183,313	(143,575)	3,086,573
	<b>5,736,862</b>	<b>36,155</b>	<b>183,313</b>	<b>(533,029)</b>	<b>5,423,301</b>

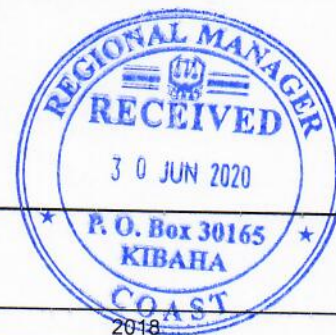
#### Reconciliation of mineral property rights - 2018

	Opening balance	Amortisation	Total
Others	919,519	(114,940)	804,579
Anglo African Gypsum Ltd	2,154,798	(269,350)	1,885,448
Tanzania Gypsum Board Ltd	3,482,097	(435,262)	3,046,835
	<b>6,556,414</b>	<b>(819,552)</b>	<b>5,736,862</b>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



### 13. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Motor vehicles	1,338,256	(1,050,553)	287,703	1,314,256	(962,651)	351,605
Furniture and fittings	1,059,396	(224,993)	834,403	829,124	(120,591)	708,533
Leasehold Land	4,467,351	(467,560)	3,999,791	4,452,430	(425,009)	4,027,421
Computer and IT Equipment	272,879	(172,400)	100,479	218,860	(136,295)	82,565
Plant and machinery	9,462,335	(5,299,629)	4,162,706	10,228,086	(5,516,279)	4,711,807
Buildings	740,223	(53,747)	686,476	325,812	(28,940)	296,872
Work in progress	69,075,532	-	69,075,532	17,472,655	-	17,472,655
<b>Total</b>	<b>86,415,972</b>	<b>(7,268,882)</b>	<b>79,147,090</b>	<b>34,841,223</b>	<b>(7,189,765)</b>	<b>27,651,458</b>

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Total
Motor vehicles	351,605	24,000	(87,902)	287,703
Furniture and fittings	708,533	230,271	(104,401)	834,403
Leasehold land	4,027,421	14,922	(42,552)	3,999,791
Computer and IT equipment	82,565	54,019	(36,105)	100,479
Plant and machinery	4,711,807	679,982	(1,229,083)	4,162,706
Buildings	296,872	414,411	(24,807)	686,476
Work in progress	17,472,655	51,602,877	-	69,075,532
	<b>27,651,458</b>	<b>53,020,482</b>	<b>(1,524,850)</b>	<b>79,147,090</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Motor vehicles	155,142	313,290	(21,250)	(95,577)	351,605
Furniture and fittings	730,695	65,701	-	(87,863)	708,533
Leasehold land	3,993,790	78,386	-	(44,756)	4,027,420
Computer and IT equipment	118,563	8,463	-	(44,461)	82,565
Plant and machinery	5,870,420	823,984	-	(1,982,597)	4,711,807
Buildings	1,122,674	153,272	(918,601)	(60,473)	296,872
Work in progress	-	17,472,655	-	-	17,472,655
	<b>11,991,284</b>	<b>18,915,751</b>	<b>(939,851)</b>	<b>(2,315,727)</b>	<b>27,651,457</b>

Included in property, plant and equipment are motor vehicles under a finance lease as detailed below:

Motor vehicles	2019 TShs'000	2018 TShs'000
Cost	202,279	202,279
Accumulated depreciation	(73,747)	(23,178)
<b>Net book value</b>	<b>128,532</b>	<b>179,101</b>

The company leases vehicles under non-cancellable finance lease arrangement. The lease terms is for 3 years and the ownership of these

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



### 14. Leases (company as lessee)

Amount recognised in the balance sheet	2019 TShs'000	2018 TShs'000
<b>Right-of-use assets</b>		
Building	984,901	-
Depreciation charge	(193,562)	-
	<b>791,339</b>	<b>-</b>
<b>Lease liabilities</b>		
Non current liabilities	750,326	-
Current liabilities	168,285	-
	<b>918,611</b>	<b>-</b>
<b>Amount recognised in the statement of profit or loss</b>		
Depreciation of right-of-use assets	193,562	-
Interest expense on lease liabilities	49,459	-
	<b>243,021</b>	<b>-</b>

### 15. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	424,771	(304,665)	120,106	424,771	(167,323)	257,448

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	257,448	(137,342)	120,106

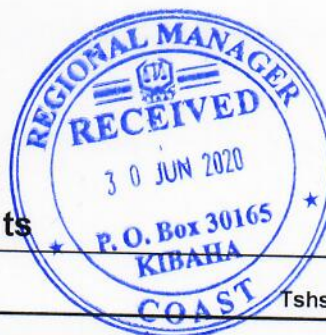
#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	424,772	(167,324)	257,448

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



	2019 Tshs '000	2018 Tshs '000
<b>16. Inventories</b>		
Raw material	3,724,113	2,967,903
Finished good	1,280,334	555,005
Goods in transit	865,746	611,018
	<b>5,870,193</b>	<b>4,133,926</b>
<b>17. Trade and other receivables</b>		
<b>Financial instruments:</b>		
Trade receivables	2,679,114	2,012,378
Provision for expected credit losses	(176,724)	(311,059)
Trade receivables at amortised cost	2,502,390	1,701,319
Receivables from related parties (Note 23 (v))	346,046	225,086
Amounts due from directors	73,995	101,079
Other receivables	5,880,720	3,072,192
<b>Non-financial instruments:</b>		
Prepayments and statutory deposits	140,714	165,039
<b>Total trade and other receivables</b>	<b>8,943,865</b>	<b>5,264,715</b>
The carrying amounts of trade and other receivables approximate to their fair values.		
The company's credit risk arises primarily from trade receivables. The company's credit risk exposure is limited because the debt is widely held.		
The carrying amounts of the company's trade and other receivables are denominated in the following currencies:		
Tanzania Shillings	7,152,502	3,948,536
US Dollar	1,791,363	1,316,179
	<b>8,943,865</b>	<b>5,264,715</b>
<b>18. Cash and cash equivalents</b>		
Cash on hand	-	5,803
Bank balances	1,398,764	387,401
	<b>1,398,764</b>	<b>393,204</b>
Amount held in an Escrow Account with Tanzania Gypsum Board Ltd	183	1,122,347
The company's cash and bank balances are held with a major Tanzania financial institution and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited.		
The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:		
Tanzania Shillings	113,988	15,223
US Dollar	53,924	6,594
Euro	1,230,852	371,387
	<b>1,398,764</b>	<b>393,204</b>
Escrow Account bank balance - US Dollar	183	1,122,347

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



	2019 Tshs '000	2018 Tshs '000
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### 18. Cash and cash equivalents (continued)

The bank balance held in the escrow account is awaiting finalization of the mining licence rights transfer from Tanzania Gypsum Ltd to Knauf Gypsum Tanzania Ltd for final settlement. The money held in the Escrow Account will be withdrawn, used or transferred only at the consent of the two parties.

### 19. Current tax receivables

At 1 January	106,883	172,173
Current year tax disclosed in the statement of profit and loss	(97,797)	(66,456)
Tax paid	4,349	1,166
	<u>13,435</u>	<u>106,883</u>

### 20. Trade and other payables

#### Financial instruments:

Trade payables	2,147,000	2,407,532
Amount due to related parties (Note 23 (v))	8,764,242	8,197,855
Mineral property right and obligations	-	1,122,347
Other payables and accrued charges	2,466,982	922,751
	<u>13,378,224</u>	<u>12,650,485</u>

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are denominated in the following currencies:

Tanzanian Shilling	3,372,653	1,067,385
US Dollar	2,252,310	9,303,232
Euro	7,753,261	2,279,868
	<u>13,378,224</u>	<u>12,650,485</u>

The maturity analysis of trade and other payables is as follows:

Year ended 31 December 2019	0 to 1 months	2 to 3 months	4 to 12 months	Total
	TShs'000	TShs'000	TShs'000	
Trade payables	903,436	281,980	961,584	2,147,000
Payables to related party	5,228,304	1,651,033	1,884,905	8,764,242
Mineral property right obligation	-	-	-	-
Other payables	986,793	1,233,491	246,698	2,466,982
	<u>7,118,533</u>	<u>3,166,504</u>	<u>3,093,187</u>	<u>13,378,224</u>
Year ended 31 December 2018	0 to 1 months	2 to 3 months	4 to 12 months	Total
	Tshs'000	Tshs'000	Tshs'000	
Trade payables	544,005	481,506	1,382,022	2,407,533
Payables to related party	1,463,028	1,977,900	4,756,927	8,197,855
Mineral property right obligation	-	-	1,122,347	1,122,347
Other payables	369,100	461,375	92,275	922,750
	<u>2,376,133</u>	<u>2,920,781</u>	<u>7,353,571</u>	<u>12,650,485</u>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements \*



	2019	2018
	Tshs '000	Tshs '000

### 21. Share capital

On 20 December 2019, the company increased its authorised and issued share capital from 60,952,636 to 118,699,342 ordinary shares of Tshs 1,000 each. The new shares were issued to the holding company, Knauf International GMBH and rank paripassu in all respects with the existing company shares.

**Authorised, issued and fully paid up shares**  
118,699,342 shares of TShs 1000 each

118,699,342	60,952,636
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### 22. Cash used in operations

Loss before taxation	(7,798,021)	(12,077,265)
<b>Adjustments for:</b>		
Depreciation and amortisation		
Finance (income)/expenses	2,388,783	3,276,869
(Gain)/loss on disposal of property, plant and equipment	(100,360)	339,447
<b>Changes in working capital:</b>		
Inventories	(33,497)	707,311
Trade and other receivables	(1,736,266)	(295,973)
Escrow Account with TGB	(3,679,150)	(3,292,209)
Trade and other payables	1,122,164	1,584,427
	727,741	(2,705,256)
	<b>(9,108,606)</b>	<b>(12,462,649)</b>

### 23. Tax paid

At 1 January	106,883	172,173
Current tax for the year recognised in profit or loss	(97,797)	(66,456)
Balance at end of the year	(13,435)	(106,883)
	<b>(4,349)</b>	<b>(1,166)</b>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

	2019	2018
	Tshs '000	Tshs '000
<b>24. Related party transactions and balances</b>		
The company is controlled by Knauf International GmbH incorporated in Germany, which owns 99.99% of the company's shares, the remaining 0.01% of the shares are held by Isogranulat Gesellschaft. The ultimate parent company is Gebr. Knauf Verwaltungsgesellschaft KG (incorporated in Germany).		
The following transactions were carried out with related parties		
(i) Director's salary	<u>368,635</u>	<u>384,192</u>
(ii) Sale of goods and services		
Sale of good to knauf Kenya	248,216	266,891
	<u>248,216</u>	<u>266,891</u>
(iii) Purchases of goods		
Knauf International GmbH	-	503,582
Knauf Gips KG	215,027	592,462
Knauf Engineering GmbH	32,962,421	6,909,454
Knauf Exeed Insulation LLC	47,584	37,010
Knauf Gyosopiia ABEE	46,913	205,718
Knauf RAK FZE	-	92,953
Knauf AMF GmbH & Co.KG	68,741	79,371
Knauf Ltd and Partner	819,811	376,047
Knauf Information services GmbH	-	197,609
Knauf Insaat ve Yapi Elemanlar	55,524	435,446
ICS Knauf Gips SRL	278,438	-
Knauf PFT GmbH & Co. KG	18,571	-
Knauf Aquapanel A.B.E.E	-	63,579
	<u>34,513,032</u>	<u>9,493,231</u>
(iv) Consultancy fees expenses		
Knauf Gyosopiia ABEE	-	181,527
ICS Knauf Gips SRL	20,816	-
Knauf di Knauf SRL SAS	7,043	-
Knauf Engineering GmbH	2,170,566	-
Knauf Gips KG	133,122	-
Knauf Gyosopiia ABEE	9,822	-
Knauf Information Services GmbH	386,140	-
Knauf Insaat ve Yapi Elemanlar	298,822	-
Knauf International GmbH	90,883	-
Knauf Ltd. and Partner	3,666	-
Knauf V.V.G. Versicherungsserv	30,848	-
Knauf Insaat ve Yapi Elemanlar	-	149,209
	<u>3,151,728</u>	<u>330,736</u>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements



	2019	2018
	Tshs '000	Tshs '000

### 24. Related party transactions and balances (continued)

#### (v) Outstanding balances arising from sale and purchase of goods/services/other asset

##### payables to related parties

Knauf International GmbH	180,812	2,153,384
Knauf Gips KG	324,690	295,017
Knauf Engineering GmbH	6,032,606	4,331,793
Knauf Gyosopia ABEE	178,586	422,971
Knauf Information services GmbH	268,131	168,772
Knauf Insaat ve Yapi Elemanlar	397,844	318,541
Knauf Ltd and Partner	966,994	263,918
Knauf Egypt Ltd	-	112,129
Knauf Exeed Insulation L.L.C	47,584	37,010
Knauf AMF GMBH & Co.KG	270,032	-
Knauf Aquapanel A.B.E.E	68,741	-
Knauf di Knauf SRL SAS	5,987	-
Knauf PFT GmbH & Co. KG	18,571	-
Knauf V.V.G Versicherungsserv	4,136	-
Knauf RAK FZE	(473)	94,320
	<u>8,764,242</u>	<u>8,197,855</u>

The payables to related parties are interest free, have no specific dates of repayment and are unsecured

##### Receivables from related parties

Knauf Kenya Ltd	270,482	146,612
Knauf Aquapanel A.B.E.E	49,263	50,427
Knauf AMF GmbH	<u>26,301</u>	<u>28,047</u>
	<u>346,046</u>	<u>225,086</u>

The receivables from related parties are interest free, have no specific dates of repayment and are unsecured.

Amount due from directors (Note 16)	<u>73,995</u>	<u>101,079</u>
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The advance from directors are subjected to interest free, have no specific dates of repayment and are unsecured.

##### Borrowings from related parties

Knauf International GmbH	<u>5,630,477</u>	-
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#### (c) Key management compensation

Key management includes directors (executive and non-executive) and members of senior management

Directors salary	<u>368,635</u>	<u>384,192</u>
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# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

### 25. Risk management objectives and policies

#### 24.1 Financial risk management

##### Overview

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

##### (i) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. None of the financial assets that are fully performing has been renegotiated in the last year. Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

##### (ii) Liquidity risk

Cash flow forecasting is performed by the finance department of the company by monitoring the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Prudent liquidity risk management implies maintaining sufficient cash and bank balance, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines. Notes 10 and 19 disclose the maturity analysis of borrowings and trade and other payables respectively.

#### Year ended 31 December 2019

		Less than 1 year TShs'000	Between 1 - 5 years TShs'000	Total TShs'000	Carrying amount TShs'000
<b>Non-current liabilities</b>					
Borrowings	11	-	4,594,504	4,594,504	4,594,504
Lease liabilities	14	-	750,326	750,326	750,326
<b>Current liabilities</b>					
Trade and other payables	20	13,378,225	-	13,378,225	13,378,225
Borrowings	11	1,035,973	-	1,035,973	1,035,973
Lease liabilities	14	168,285	-	168,285	168,285
		<b>14,582,483</b>	<b>5,344,830</b>	<b>19,927,313</b>	<b>19,927,313</b>

# KNAUF GYPSUM TANZANIA LIMITED

Report and Financial Statements for the year ended 31 December 2019

## Notes to the Report and Financial Statements

### 25. Risk management objectives and policies (continued)

Year ended 31 December 2018

		Less than 1 year TShs'000	Between 1 - 5 years TShs'000	Total TShs'000	Carrying amount TShs'000
<b>Non-current liabilities</b>					
Borrowings	11	-	136,327	136,327	136,327
<b>Current liabilities</b>					
Trade and other payables	20	12,650,484	-	12,650,484	12,650,484
Borrowings	11	72,056	-	72,056	72,056
		<b>12,722,540</b>	<b>136,327</b>	<b>12,858,867</b>	<b>12,858,867</b>

#### (iii) Market risk

##### Foreign exchange risk

The company is exposed to foreign exchange risk arising primarily with respect to the US Dollar and Euros. The risk arises from future transactions, assets and liabilities in the statement of financial position date.

The table below summarises the effect of post-tax profit had the Tanzanian Shilling weakened by 10% against the US Dollar and Euros, with all other variables held constant. If the Tanzanian Shilling strengthened against the US Dollar, the effect would have been the opposite.

The carrying amount of the company's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, at the end of the reporting period as follows:

US Dollar exposure	2019	2018
Pre tax effect on profit	(697,265)	(7,066,496)
Tax	(69,727)	(706,650)
Decrease	(20,918)	(211,995)
	(48,808)	(494,655)
	<b>(836,718)</b>	<b>(8,479,796)</b>
<b>Euro exposure</b>		
Pre tax effect on profit	(6,563,871)	(1,908,481)
Tax	(656,387)	(190,848)
Decrease	(196,916)	(57,254)
	(459,471)	(133,594)
	<b>(7,876,645)</b>	<b>(2,290,177)</b>

A 10% sensitivity rate is being used when reporting foreign risk internally to key management personnel and represents managements assessment of the reasonably possible change in foreign exchange rates.

##### Interest rate risk

The company has no interest bearing assets and as a result its cash flows are substantially independent of changes in market interest rates.

# KNAUF GYPSUM TANZANIA LIMITED

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## Notes to the Report and Financial Statements



### 25. Risk management objectives and policies (continued)

The company's exposure to interest rate risk arises from borrowings. Financial liabilities obtained at different rates expose the company to interest rate risk. Financial liabilities obtained at fixed rates expose the company to fair value interest rate risk, except where the instruments are carried at amortised costs. The company maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

The table below summarises the effect on post-tax profit had interest rates been one percentage point higher, with all other variables held constant. If the interest rates were lower by one percentage point, the effect would have been the opposite.

	2019 TShs'000	2018 TShs'000
Borrowings	5,630,477	208,383

### 24.2 Capital risk management

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products commensurate with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders or adjust the amount of capital expenditure. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, retained earnings).

The debt-to-capital ratios as at 31 December 2019 and 31 December 2018 were as follows:

		2019 TShs'000	2018 TShs'000
Borrowings	11	5,630,477	208,383
Lease liabilities		918,611	-
<b>Total borrowings</b>		<b>6,549,088</b>	<b>208,383</b>
Less: Cash and cash equivalent	18	(1,398,764)	(393,204)
<b>Net borrowings</b>		<b>5,150,324</b>	<b>(184,821)</b>
Equity		81,547,008	31,696,120
Gearing ratio		6.32 %	0.01 %

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### 25. Risk management objectives and policies (continued)

#### Fair value measurement

The company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The table below shows an analysis of all assets and liabilities for which fair value is measured or disclosed in the financial statements by level of their fair value hierarchy. The fair values are grouped into three levels as mentioned in Note 1 of these financials, based on the degree to which the fair value is observable.

The table below gives information about how the fair values of these financial assets and financial liabilities are determined:

Level 3	2019 TShs'000	2018 TShs'000
Environmental rehabilitation liability	233,956	111,855

There have been no transfers between levels 1,2 and 3 in 2019.

### 26. Contingent liabilities

The Directors confirm that there are no commitments or contingent liabilities against the company as at 31 December 2019.

### 27. Events after the reporting period

The directors confirm that there were no events subsequent to the year-end up to the date of this report that require either disclosure or adjustment in the financial statements.

### 28. Going concern

During the year the company incurred a net loss of Tshs 7,896 million ( 2018:Tshs 17,076 million ) and it had net current assets of Tshs 1,644 million (2018: net current liabilities of Tshs 1,701 million) as at year end. The Company meets its cash operating needs from operating cash flows and related party credit. The Shareholders have given an undertaking to continue to provide financial support to the company as and when required for the foreseeable future. Based on this the directors have considered it appropriate to prepare these financial statements on the going concern basis.

### 29. Accounting implication of the effect of corona virus

#### Events after the balance sheet

The existence of novel coronavirus ('Covid-19') was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post statement of financial position event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Company's IFRS 9 estimates of expected credit loss provisions in 2020.