

**R.A.K Ceramics PJSC
and its subsidiaries**

Consolidated financial statements
31 December 2016

R.A.K Ceramics PJSC and its subsidiaries

Consolidated financial statements

31 December 2016

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Report of the Board of Directors

On financial performance during the year 2016

14 February 2017

Dear Members,

It is our pleasure to present the business & operations report for the year 2016, along with the Audited Consolidated Financial Statements as on 31 December 2016.

A year marked by exceptional challenges

The year ended 2016 witnessed exceptional challenges. The scale and speed of government spending in Saudi Arabia, the UK vote to leave the European Union, the drive by the Modi Government in India to remove larger bills from circulation are all significant in the arc of history and have impacted the company unfavorably to various degrees. Yet despite these events and challenging global market and trading conditions generally, the company has been able to deliver on its planned initiatives and its long term vision to become a global ceramic lifestyle solutions provider.

During the year, the group has acquired the stakes held by other partners in its joint ventures in UK, Germany and Italy, making these units wholly owned subsidiaries of the group. The group has also acquired the remaining 5% stake in Prestige Tiles Pty Ltd, Australia. Significant expansions have been completed to grow tiles capacity in Bangladesh by 42% and sanitarywares capacity in the UAE by 20%. During the third quarter of 2016, the group took a major step of strengthening the RAK Ceramics brand by unveiling of new logo as well as new marketing materials, new packaging and a new product website (www.rakceramics.com).

Financial & Operating Results

Consolidated revenue for the year amounted to AED 2,793 million, which is lower by 9.3% compared to revenue of AED 3,079 million last year; weakness was attributable to a slowdown in construction activity in KSA and weaker business sentiment as well as lower sales in India where the company is in process of executing a turnaround. Core ceramics revenue amounted to AED 2,254 million compared to AED 2,441 million for 2015.

Despite challenging global market and trade conditions, overall profitability improved with the consolidated gross profit margin increasing to 30.5% from 28.2% YoY; core margins rose 120bps to 30.5% while non-core margins rose 770bps YoY. Higher profitability however could not offset the decline in sales. On a like for like basis, i.e., excluding provisions and write offs, net profit for the year was AED 215.8 million a 37.1% decline versus 2015 levels.

During 2016, the company recorded an extraordinary, non-cash, provision & write offs of AED 185.0 million at the local and international level. These provisions are non-cash and in no way impact the company's ability to finance its day to day business or pay dividends. About 48% or AED 88.7 million of the extra ordinary provisions reflects the impact of lower market prices for ceramic tiles sold in the GCC, as a result of the build-up of excess inventory at the local producer level. The remaining 52% relate to the provisions for trade & other receivables and related expenses in the international markets and other miscellaneous expenses.

Financial highlights for the year 2016

Particulars	Unit	YTD 2016 December 31	YTD 2015 December 31	Change
Total Revenue	AED Mio	2,793.1	3,078.9	(9.3%)
Gross Profit	AED Mio	783.4	868.0	(9.7%)
GP Margin (adding back AED 68.2mn extra-ordinary provisions on inventories in 2016)	%	30.5%	28.2%	230 bps
EBITDA	AED Mio	485.7	594.1	(18.2%)
EBITDA Margin	%	17.4%	19.3%	(190 bps)
Net Income before one-off provisions & strategic gains	AED Mio	215.8	343.1	(37.1%)
Net Margin before one-off provisions & strategic gains	%	7.73%	11.2%	(347 bps)
Reported Net Income	AED Mio	30.8	310.3	(90.1%)
Reported Profit after NCI (Minority)	AED Mio	(5.0)	281.4	(101.8%)
Reported Earnings per share	AED	(0.01)	0.33	(101.8%)
Earnings per share before provisions	AED	0.21	0.39	(46.2%)
		2016 December 31	2015 December 31	Change
Total Assets	AED Mio	5,756.3	5,981.8	(3.8%)
Share Capital*	AED Mio	858.4	817.5	5.0%
Shareholders' Equity	AED Mio	2,680.1	2,937.5	(8.8%)
Net Debt	AED Mio	1,659.7	1,609.6	3.1%
Net Debt / EBITDA	Times	3.42	2.71	
Cost of Debt	%	2.7%	2.6%	

* Increase in share capital is due to stock dividend of 5% distributed during the year.

Corporate Social Responsibility, Exhibitions, Awards & Other Activities during the year 2016

Awards

RAK Ceramics won a number of industry awards throughout 2016.

-) Winner of the “Editor’s Choice Award” at the InsideOut Awards 2016 recognising inspirational home interiors by manufacturers and suppliers.
-) “Champion of Change” at the MENA HR Excellence Awards received by the CEO
-) Stevie Award for “Best Internal Recognition/Motivational Event” - ‘Beat as One’ offsite event
-) Bronze Award in the “Event of the Year” category at the Best in Biz Awards 2016
-) Nomination in Top 100 CEO as part of Mediaquest’s Top CEO Awards in the GCC. based on company financials and leadership qualities.

Sponsorship

RAK Ceramics partnered various events during the year 2016.

-) PSA Dubai World Series Finals of the squash’s season-ending finale
-) Middle East Architect Awards for Large Middle East Architecture Firm of the Year and Leisure and Hospitality Project of the Year.
-) designMENA Summit which brought together more than 150 senior architects and commercial interior designers from the region’s most influential firms to create the innovative works which define the UAE.

Exhibitions

-) **Cersaie**, one of the largest and most important international ceramics exhibitions, held in Bologna, Italy. We announced launch of our new corporate brand identity which is designed to unify all of our global subsidiaries articulating our new brand proposition, ‘Room for Imagination’.

Events

-) **Beat as One** – Managers’ Offsite held in January 2016, a one-day motivational strategic event, bringing together everyone’s efforts synchronizing into the common goal.
-) **Ras Al Khaimah Finance and Investment Forum (RAKFIF)**, a high-level two-day international business investment and finance forum which brought together experts from government and leading industries across various sectors together with international and regional investors and financiers to explore business opportunities in the Rising Emirate.

CSR Activity 2016

-) Tile Donation at RAK Animal Welfare Centre
-) Can Collection Day, collecting 154kg of waste cans surrounding the campus
-) 7th Annual RAK Terry Fox Run for Cancer Research
-) Sanitaryware products Donation to SEWA to renovate houses for underprivileged people
-) Earth Hour to raise awareness of climate change and reduce energy consumption
-) Tree planting in vicinity of plants to commemorate Earth Day 2016.
-) Visits of Delegations from French Embassy and French Business Council as well as the Ambassador of Thailand to our headquarters and our corporate showroom
-) Educational Tours from management schools and institutions.

Future Outlook

From an operational perspective, a lot was achieved since the Value Creation Plan was introduced in June 2014. More specifically, the Group was successful in achieving these major objectives:

- **Strengthening the firm:** we upscaled our organizational structure, hired key management in core operations and strengthened corporate governance.
- **Investing in core businesses to sustain growth and exiting non-core:** we acquired minority shareholding of strategic businesses such as in India and Iran, we started divesting non-core and non-strategic assets such as the Sudan business; we acquired our European and Australian distribution joint ventures and invested in strengthening the brand identity.

Looking towards 2017 and beyond, we are refining our VCP somewhat to focus on the next set of initiatives that will create value for shareholders. Immediate priorities include reviving our Indian business, revamping Iran, leveraging recent investments in Europe distribution, leveraging recent capacity expansions, expanding the GCC manufacturing footprint and better integrating the taps and faucets business. We are confident these initiatives will ensure long term profitability and deliver our promise of unlocking value to shareholders.

Financial Reporting

Consolidated Financial Statements of the Company prepared in accordance with International Financial Reporting Standards (IFRSs), fairly present its financial position, the result of its operations, cash flows and changes in equity.

Appropriate accounting policies have been consistently applied and accounting estimates are based on reasonable and prudent judgments. There are no matters which call into question the company's ability to continue as a going concern.

Vote of Thanks

The Board would like to take this opportunity to thank Government bodies, the shareholders, investors, bankers & employees for their continuous commitment, co-operation, confidence & continuous support in achieving the company's objectives.



Chairman



Director

14 FEB 2017



Chief Executive Officer





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Dubai Silicon Oasis, Dubai, UAE
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Independent auditors' report

The Shareholders
R.A.K Ceramics PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of R.A.K Ceramics PJSC ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income (comprising a separate consolidated income statement and a consolidated statement of profit or loss and other comprehensive income), changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Carrying value of goodwill

Refer to note 6 to the consolidated financial statements

The Group has recognized goodwill arising from the acquisition of businesses. The Group's annual impairment testing on goodwill is performed by the Group management using free cash flow projections based on five year future forecasts estimated by the Group management. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which forms the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit concentrated on.

- We verified the assessment of Cash Generating Units ("CGUs") and considered the operating and management structure with reference to our understanding of the business.
- We considered the Group's procedures used to develop the forecasts and the principles and integrity of the Group's discounted cash flow model and reperformed the calculations of the model results to test their accuracy.
- We also assessed the historical accuracy of the Group's forecasting and corroborated the forecasts with reference to evidence that has been made available during the course of the audit.
- We conducted our own assessments to verify other key inputs, such as the projected growth rate and perpetuity rate.
- We compared the Group's assumptions to externally-derived data (for example, bond yields and inflation statistics) where appropriate.
- We assessed the adequacy of the Group's disclosure in these respects.

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Valuation of inventories

Refer to note 18 to the consolidated financial statements

As described in the accounting policies in note 3 to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value. As a result, the management applies judgment in determining the appropriate provisions for obsolete stock based upon a detailed analysis of old inventory, net realisable value below cost based upon future plans for sale of inventory.

We obtained assurance over the appropriateness of the management's assumptions applied in calculating the value of the inventories and related provisions by:

- verifying the effectiveness of key inventory controls operating over inventories; including sample based physical verification.
- verifying for a sample of individual products that costs have been correctly recorded.
- comparing the net realisable value to the cost price of inventories to check for completeness of the associated provision.
- reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year.
- recomputing provisions recorded to verify that they are in line with the Group policy.

Key audit matter

How our audit addressed the key audit matter

Credit risk and impairment of trade receivables and due from related parties

Refer to note 34 to the consolidated financial statements

Impairment is a subjective area due to the level of judgement applied by the management in determining the impairment allowance. Due to the significance of trade receivables and due from related parties (representing 20% of total assets) and the related estimation uncertainty, this is considered a key audit matter.

Judgement is applied by management to determine appropriate parameters and assumptions used to calculate impairment.

- Our audit procedures included testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history.
- We tested, on a sample basis, receivable balances that were provided for during the year to determine the accuracy of judgments made by the Group.
- We analysed significant receivables aged over one year which were not provided for by the Group to determine whether there were any indicators of impairment;
- We inspected arrangements and / or correspondences with external and related parties to assess the recoverability of significant long outstanding receivables.
- We assessed the adequacy of the Group's disclosure in these respects.

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Impairment of property, plant and equipment

Refer to note 14 to the consolidated financial statements

The Group has material operational manufacturing units which may be vulnerable to impairment in the event of production and trading performance of these units is below expectations. Management identified separate cash generating units ("CGU") based on their model and has calculated the recoverable amount of CGU where there were indicators of impairment, as the higher of value in use and fair value less costs of disposal. The value in use is based on discounted future cash flow forecasts over which the management makes judgments on certain key inputs including, for example, discount rates and long term growth rates. In certain instances, the fair value less costs of disposal is estimated by a third party valuer based on their knowledge of each CGU and the markets.

We focused on this area because of the inherent judgment involved in determining key assumptions such as future sales growth, profit margins, discount rates, inflation rates and the magnitude of the assets under consideration.

- We obtained, understood and evaluated management's impairment models. Our audit procedures included a detailed evaluation of the Group's forecasting procedures and an assessment of the principles of management's discounted cash flow models. We tested the mathematical accuracy of the calculations derived from each forecast model and assessed key inputs in the calculations.
- Further, we noted that models used by management are sensitive to changes in key assumptions such as revenue growth and discount rate which, if not achieved, could reasonably be expected to give rise to further impairment charges in the future.
- In cases where the Group has obtained a valuation by an independent third party valuer, our audit procedures included assessment of the competence and independence of the external valuers to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. Considering the fair value of the CGU's has been determined by the valuer using the sales comparable method and market replacement method, we discussed and challenged the valuation process, methodologies used, determination of sales value of the CGU based on the market conditions prevalent in the country and the significant assumptions and critical judgement areas.
- We assessed the adequacy of the Group's disclosure in these respects.

Other information

Management is responsible for the other information. The other information comprises the Group's Annual Report but does not include the consolidated financial statements and our auditors' report thereon. We obtained the report of the Group's Board of Directors prior to the date of our auditors' report and we expect to obtain the remaining sections of the Group's Annual Report after the date of our auditors' report.

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

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

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

When we read the remaining sections of the Group's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

*Auditor's responsibilities for the audit of the consolidated financial statements
(continued)*

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

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in notes 5 and 17 to consolidated financial statements, the Group has purchased shares during the year ended 31 December 2016;
- vi) note 29 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016.

On behalf of KPMG Lower Gulf Limited



Fawzi AbuRass
Registration No. 968
Dubai, United Arab Emirates

Date: 14 FEB 2017

R.A.K Ceramics PJSC and its subsidiaries

Consolidated income statement

for the year ended 31 December 2016

	Note	2016 AED'000	2015 AED'000
Continuing operations			
Revenue	7	2,793,078	3,078,857
Cost of sales (excluding write off and provision for inventories)	8	(1,920,976)	(2,183,725)
Write off and provision for inventories	13	(88,732)	(27,114)
		-----	-----
Gross profit		783,370	868,018
Administrative and general expenses	9	(247,837)	(205,500)
Impairment of trade receivables and goodwill	13	(74,604)	(26,027)
Selling and distribution expenses	10	(380,975)	(332,932)
Other income	11	51,673	71,030
		-----	-----
Operating profit		131,627	374,589
Finance costs	12	(84,487)	(83,670)
Finance income	12	3,561	6,352
Share in profit of equity accounted investees (includes share in provisions for inventories and receivables- 2016: AED 21.69 million; 2015:nil)	17&13	(4,038)	16,525
Loss on disposals of subsidiaries - net	5(b)	-	(28,773)
Gain on disposal of equity accounted investees	17(ii)	-	48,965
		-----	-----
Profit before tax		46,663	333,988
Tax expense	30	(15,821)	(22,371)
		-----	-----
Profit from continuing operations		30,842	311,617
Discontinued operation			
Loss from discontinued operation	22	-	(1,299)
		-----	-----
Profit for the year		30,842	310,318
		=====	=====
<i>(Loss)/profit attributable to:</i>			
Owners of the Company		(4,920)	281,354
Non-controlling interests		35,762	28,964
		-----	-----
Profit for the year		30,842	310,318
		=====	=====
Earnings per share			
- basic and diluted (AED)	24	(0.01)	0.33
		=====	=====
Earnings per share – continuing operations			
- basic and diluted (AED)	24	(0.01)	0.33
		=====	=====

The notes on pages 19 to 90 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages from 5 to 11.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	<i>Note</i>	2016 AED'000	2015 AED'000
Profit for the year		30,842	310,318
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		(18,346)	(35,895)
Hyperinflation effect	35	-	16,248
Reclassification of hyperinflation reserve on sale of a subsidiary	22&23(iv)	-	(32,032)
Cash flow hedges – effective portion of changes in fair value	28	5,944	-
Total comprehensive income for the year		18,440	258,639
<i>Total comprehensive income attributable to:</i>			
Owners of the Company		(16,243)	234,957
Non-controlling interests		34,683	23,682
Total comprehensive income for the year		18,440	258,639

The notes on pages 19 to 90 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages from 5 to 11.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of financial position

as at 31 December 2016

	Note	2016 AED'000	2015 AED'000
Assets			
Non-current assets			
Property, plant and equipment	14	1,159,693	1,065,530
Capital work in progress	14	66,841	182,271
Goodwill	6	61,780	50,356
Intangible assets	15	28,332	18,032
Investment properties	16	1,169,060	1,158,899
Investments in equity accounted investees	17	112,378	127,563
Long term receivables	19(i) & 29(a)	98,409	127,642
Deferred tax assets	30	2,753	298
		<u>2,699,246</u>	<u>2,730,591</u>
Current assets			
Inventories	18	1,179,320	1,141,156
Trade and other receivables	19	1,132,739	1,207,338
Contract work-in-progress	20	13,271	15,442
Due from related parties	29	301,274	523,778
Derivative financial assets	28	5,944	-
Cash in hand and at bank	21	424,460	363,470
		<u>3,057,008</u>	<u>3,251,184</u>
Total assets		<u>5,756,254</u>	<u>5,981,775</u>
Equity and liabilities			
Equity			
Share capital	23	858,398	817,522
Reserves	23	1,645,905	1,950,636
Equity attributable to owners of the Company		<u>2,504,303</u>	<u>2,768,158</u>
Non-controlling interests	32	175,777	169,294
Total equity		<u>2,680,080</u>	<u>2,937,452</u>
Non-current liabilities			
Islamic bank financings	25(a)	415,630	-
Interest bearing bank financings	25(b)	892,299	1,309,706
Provision for employees' end of service benefits	27	83,780	78,285
Deferred tax liabilities	30	6,128	8,323
		<u>1,397,837</u>	<u>1,396,314</u>
Current liabilities			
Islamic bank financings	25(a)	470,545	340,205
Interest bearing bank financings	25(b)	305,695	323,186
Trade and other payables	26	715,041	835,944
Billings in excess of valuation	20	866	2,791
Due to related parties	29	49,451	23,277
Provision for taxation	30	136,739	122,606
		<u>1,678,337</u>	<u>1,648,009</u>
Total liabilities		<u>3,076,174</u>	<u>3,044,323</u>
Total equity and liabilities		<u>5,756,254</u>	<u>5,981,775</u>

The notes on pages 19 to 90 are an integral part of these consolidated financial statements.

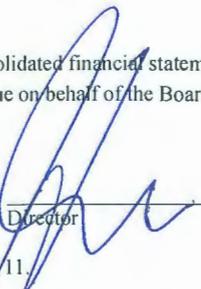
The consolidated financial statements were authorised for issue on behalf of the Board of Directors on

Chairman



14 FEB 2017

Director



Chief Executive Officer



The independent auditors' report is set out on pages from 5 to 11.



R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2016

	2016 AED'000	2015 AED'000
Cash flows from operating activities		
Profit for the year before tax	46,663	332,689*
<i>Adjustments for:</i>		
- Share in loss/(profit) of equity accounted investees	(17,652)	(16,525)
- Provisions for inventories and receivables of equity accounted investees	21,690	-
- Loss on net monetary position	-	2,306
- Interest expense	36,585	45,541
- Profit expense on Islamic financings	22,252	6,176
- Interest income	(3,370)	(6,352)
- Profit income on Wakala deposits	(191)	-
- Gain on disposal of property, plant and equipment	748	(8,168)
- Depreciation on property, plant and equipment	181,939	190,887
- Depreciation on investment properties	8,940	9,608
- Amortization of intangible assets	4,930	3,305
- Capital work in progress written off	10,495	659
- Gain on disposal of investment properties	-	(2,038)
- Provision for employees' end-of-service benefits	21,116	13,881
- Write offs and provision for impairment of inventories	88,732	27,114
- Provision for impairment of trade receivables	46,452	22,087
- Provision for impairment of amounts due from related parties	15,229	3,940
- Goodwill written off	12,923	-
- Gain on disposal of equity accounted investees	-	(48,965)
- Loss on sale of a subsidiaries	-	28,773
	-----	-----
	497,481	604,918
 Change in:		
- inventories (including contract work in progress)	(56,930)	(7,523)
- trade and other receivables (including long term)	114,616	(63,158)
- due from related parties (including long term)	72,573	(116,631)
- deferred tax assets	(2,455)	(30)
- due to related parties	26,174	(33,153)
- trade and other payables (including billings-in-excess of valuation)	(149,317)	23,471
- deferred tax liabilities	(2,195)	(432)
Employees' end of services benefits paid	(17,095)	(14,296)
Income tax paid	(1,688)	(9,518)
Currency translation adjustments	(231)	207
	-----	-----
Net cash generated from operating activities	480,933	383,855
	-----	-----

* This includes loss from discontinued operations.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2016

	2016 AED'000	2015 AED'000
Investing activities		
Acquisition of property, plant and equipment and capital work in progress	(212,624)	(267,445)
Acquisition of intangible assets	(2,707)	(651)
Proceeds from disposal of property, plant and equipment	5,219	10,601
Proceeds from disposal of investment properties	-	17,800
Interest received	3,370	6,352
Profit received on Wakala deposits	191	-
Investment made in equity accounted investee	(1,644)	(1,739)
Dividend received from equity accounted investees	10,895	23,577
Proceeds from disposal of assets held for sale	-	41,286
Consideration paid for acquisition of subsidiaries	(8,176)	(45,913)
Proceeds from disposal of subsidiaries	-	(51,753)
Cash acquired as part of conversion from equity accounted investee into a subsidiary	8,893	6,553
Proceeds from sale of equity accounted investees	-	49,030
Acquisition of investment properties	(469)	-
Proceeds from sale of shares in subsidiary	-	16,846
	-----	-----
Net cash used in investing activities	(197,052)	(195,456)
	-----	-----
Financing activities		
Long term bank financing availed	220,243	1,480,074
Long term bank financing repaid	(630,922)	(1,095,898)
Long term Islamic bank financing availed	570,923	-
Long term Islamic bank financing repaid	(61,990)	-
Net movement in short term bank borrowings	12,729	(167,007)
Change in bank deposits	(228)	(17,160)
Interest paid	(36,585)	(45,541)
Profit paid on Islamic financing	(22,252)	(6,176)
Remuneration paid to the Board of Directors	(3,700)	(4,228)
Dividend paid	(245,257)	(286,133)
Dividend paid to non-controlling interests	(26,170)	(44,809)
	-----	-----
Net cash used in financing activities	(223,209)	(186,878)
	-----	-----
Net increase in cash and cash equivalents	60,672	1,521
Cash and cash equivalents at the beginning of the year	332,976	331,455
	-----	-----
Cash and cash equivalents at the end of the year	393,648	332,976
	=====	=====
<i>These comprise the following:</i>		
Cash in hand and at bank (net of bank deposits on lien)	402,382	341,620
Bank overdrafts	(8,734)	(8,644)
	-----	-----
	393,648	332,976
	=====	=====

The notes on pages 19 to 90 are an integral part of these consolidated financial statements.

The independent auditors' report on is set out on pages from 5 to 11.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2016

	-----Attributable to owners of the Company-----									Non-controlling interests (NCI)	Total equity	
	-----Reserves-----											
	Share capital	Share premium	Legal reserve	Translation reserve	Hyper inflation reserve	General reserve	Capital reserve	Retained earnings	Total reserves	Total parent equity		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2015	817,522	221,667	396,260	(79,324)	(79,681)	82,805	55,044	1,394,015	1,990,786	2,808,308	226,505	3,034,813
Total comprehensive income for the year:												
Profit for the year	-	-	-	-	-	-	-	281,354	281,354	281,354	28,964	310,318
<i>Other comprehensive income</i>												
Foreign currency translation differences (refer note 23(iv))	-	-	-	(13,328)	(17,285)	-	-	-	(30,613)	(30,613)	(5,282)	(35,895)
Hyperinflation adjustments (refer note 23(iv))	-	-	-	-	16,248	-	-	-	16,248	16,248	-	16,248
Reclassification of hyperinflation reserve on sale of a subsidiary (refer note 23(iv))	-	-	-	-	(32,032)	-	-	-	(32,032)	(32,032)	-	(32,032)
Total comprehensive income for the year				(13,328)	(33,069)	-	-	281,354	234,957	234,957	23,682	258,639
<i>Other equity movements</i>												
Transfer to legal reserve	-	-	66,091	-	-	-	-	(66,091)	-	-	-	-
Dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(44,809)	(44,809)
Directors' fees	-	-	-	-	-	-	-	(3,639)	(3,639)	(3,639)	(589)	(4,228)
Transactions with owners of the Company directly recorded in equity												
Dividend declared and paid	-	-	-	-	-	-	-	(286,133)	(286,133)	(286,133)	-	(286,133)
Changes in ownership interests in subsidiaries												
Decrease in NCI due to acquisition of subsidiaries (refer notes 5(a)(iv-vii), 5(b)(i),5(b)(iv) and 5(b)(vi))	-	-	-	(2,096)	30,074	-	(1,178)	(12,135)	14,665	14,665	(35,495)	(20,830)
Balance at 31 December 2015	817,522	221,667	462,351	(94,748)	(82,676)	82,805	53,866	1,307,371	1,950,636	2,768,158	169,294	2,937,452

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2016

	-----Attributable to owners of the Company-----											Non- controlling interests (NCI) AED'000	Total equity AED'000
	-----Reserves-----												
	Share capital AED'000	Share premium AED'000	Legal reserve AED'000	Translation reserve AED'000	Hyper- inflation reserve AED'000	Hedging reserve AED'000	General reserve AED'000	Capital reserve AED'000	Retained earnings AED'000	Total reserves AED'000	Total parent equity AED'000		
Balance at 1 January 2016	817,522	221,667	462,351	(94,748)	(82,676)	-	82,805	53,866	1,307,371	1,950,636	2,768,158	169,294	2,937,452
Total comprehensive income for the year:													
(Loss)/profit for the year	-	-	-	-	-	-	-	-	(4,920)	(4,920)	(4,920)	35,762	30,842
<i>Other comprehensive income</i>													
Foreign currency translation differences (refer note 23(iv))	-	-	-	(7,826)	(9,441)	-	-	-	-	(17,267)	(17,267)	(1,079)	(18,346)
Changes in cash flow hedges (refer note 28)	-	-	-	-	-	5,944	-	-	-	5,944	5,944	-	5,944
Total comprehensive income for the year	-	-	-	(7,826)	(9,441)	5,944	-	-	(4,920)	(16,243)	(16,243)	34,683	18,440
<i>Other equity movements</i>													
Transfer to legal reserve	-	-	24,132	-	-	-	-	-	(24,132)	-	-	-	-
Dividends distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(26,170)	(26,170)
Directors' fees (refer note 23(ix))	-	-	-	-	-	-	-	-	(3,700)	(3,700)	(3,700)	-	(3,700)
<i>Transactions with owners of the Company directly recorded in equity</i>													
Dividend declared and paid (refer note 23(viii))	-	-	-	-	-	-	-	-	(245,257)	(245,257)	(245,257)	-	(245,257)
Bonus shares issued (refer note 23(viii))	40,876	-	-	-	-	-	-	-	(40,876)	(40,876)	-	-	-
<i>Changes in ownership interests in subsidiaries</i>													
Decrease in NCI (refer note 5(a)(ii)&(iii))	-	-	-	(431)	-	-	-	-	1,776	1,345	1,345	(2,030)	(685)
Balance at 31 December 2016	858,398	221,667	486,483	(103,005)	(92,117)	5,944	82,805	53,866	990,262	1,645,905	2,504,303	175,777	2,680,080

The notes on pages 19 to 90 are an integral part of these consolidated financial statements.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2016

1 Reporting entity

R.A.K Ceramics PJSC ("the Company" or "the Holding Company") was incorporated under Emiri Decree No. 6/89 dated 26 March 1989 as a limited liability company in the Emirate of Ras Al Khaimah, UAE. Subsequently, under Emiri Decree No. 9/91 dated 6 July 1991, the legal status of the Company was changed to Public Shareholding Company. The registered address of the Company is P.O. Box 4714, Al Jazeerah Al Hamra City, Ras Al Khaimah, United Arab Emirates. The Company is listed on Abu Dhabi Securities Exchange, UAE.

These consolidated financial statements as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group's subsidiaries and equity accounted investees, their principal activities and the Group's interest have been disclosed in note 37 to these consolidated financial statements.

The principal activities of the Company are manufacturing and sale of a variety of ceramic products including tiles, bathroom sets and sanitary wares. The Company and certain entities in the Group are also engaged in investing in other entities, in UAE or globally, that undertake similar or ancillary activities. Accordingly, the Company also acts as a Holding Company of the Group entities. The Group is also engaged in contracting and other industrial manufacturing activities.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the relevant Articles of the Company and the UAE Federal Law No. (2) of 2015.

UAE Federal Law No (2) of 2015 being the Commercial Companies Law ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015 repealing the old UAE Federal Law No. 8 of 1984 (as amended). Companies are mandated to comply with the UAE Companies Law of 2015 by 30 June 2017.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost convention except for the derivative financial instruments that are carried at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

2 Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments and estimation uncertainties

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 38.

(e) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The management have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The management regularly reviews significant unobservable inputs and valuation adjustment. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 16 – investment properties;
Note 34 – financial instruments;
Note 5 – acquisition of subsidiaries; and
Note 14 – property, plant and equipment.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise the consolidated statement of financial position and the consolidated results of operations of the Company and its subsidiaries (collectively referred to as “the Group”) on a line by line basis together with the Group’s share in the net assets of its equity accounted investees. The principal subsidiaries, associates and jointly controlled entities have been disclosed in note 37 to the consolidated financial statements.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized as profit for the period immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests (“NCI”)

NCI are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Basis of consolidation (continued)

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Stepped acquisition

When an acquisition is completed by a series of successive transactions, the Group re-measures its previously held equity interest in the acquiree at its acquisition date, fair value and recognizes the resulting gain or loss, if any, in the profit or loss.

Any amount recognized in other comprehensive income related to the previously held equity interest is recognized on the same basis as would be required if the Group had disposed of the previously held equity interest directly.

Interests in equity accounted investees

The Group's interest in equity accounted investees comprises interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Hyperinflation

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described prior to their translation to AED. Once restated, all items of the financial statements are converted to AED using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognized in other comprehensive income and presented in the hyperinflation reserve in equity.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Hyperinflation (continued)

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors. The difference between initial adjusted amounts is taken to profit or loss.

When a functional currency of a subsidiary ceases to be hyperinflationary, the Group discontinues hyperinflation accounting in accordance with IAS 29 for annual periods ending on or after the date that the economy is identified as being non-hyperinflationary. The amounts expressed in the measuring unit current at the end of the last period in which IAS 29 was applied are used as the basis for the carrying amounts in subsequent financial statements.

To determine the existence or cessation of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income:

- available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to AED at exchange rates at the reporting date. The income and expenses of foreign operations are translated to AED at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in Other Comprehensive Income (OCI) and accumulated in the translation reserve in the consolidated financial statements, except to the extent that the translation difference is allocated to NCI. In case of foreign currency translation differences pertaining to hyperinflationary economies, these differences are presented in hyperinflation reserve in equity.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Foreign currency (continued)

Foreign operations (continued)

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expired, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred assets. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets – measurement

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Directly attributable transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial assets – measurement (continued)

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash balances and call deposits with original maturities of three month or less from the acquisition date. Fixed deposits under lien against certain bank facilities are not included as part of cash and cash equivalents.

Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affects profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in profit or loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Property, plant and equipment

Recognition and measurement

Items of property plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see accounting policy on impairment), if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in the profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property considering that the accounting policy for investment property is the 'Cost Model' in accordance with IAS 40.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation (continued)

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	Life (years)
• Buildings	20-35
• Plant and equipment	5-15
• Furniture and fixtures	3
• Vehicles	3-5
• Roads and asphaltting	10
• Quarry and land development	10
• Office equipment	3

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Capital work in progress

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

Intangible assets

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the profit or loss as incurred.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives of 5 to 15 years from the date that they are available for use, and is generally recognized in profit or loss. Goodwill is not amortized.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or rendering services or for administrative purposes.

Investment property is accounted for using the “Cost Model” under the International Accounting Standard 40 “*Investment Property*” and is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on buildings is charged over its estimated useful life of 30 to 35 years.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

The cost of investment property acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, comprises the fair value of the asset received or asset given up. If the fair value of the asset received and asset given up can be measured reliably, the fair value of the asset given up is used to measure cost, unless the fair value of the asset received is more clearly evident.

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

When the use of a property changes such that it is reclassified as property, plant and equipment or inventory, the transfer is effected at the carrying value of such property at the date of reclassification.

Leases

Leased assets

Leases of assets that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group’s consolidated statement of financial position

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease, if any.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Construction contracts in progress / Billings in excess of valuation

Construction contracts in progress represent the gross amount expected to be collected from customers for contract work performed to date. They are measured at costs incurred plus profits recognized to date (refer revenue policy for construction contracts) less progress billings and recognized losses.

In the statement of financial position, construction contracts in progress for which costs incurred plus recognized profits exceed progress billings and recognized losses are presented contracts work in progress. Contracts for which progress billings and recognized losses exceed costs incurred plus recognized profits are presented as billings in excess of valuation. Advances received from customers are presented as billings in excess of valuation.

Impairment

Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Objective evidence that financial assets are impaired includes

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortized cost

The Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at both an individual asset and a collective level. All individually significant assets are assessed for impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment. Collective impairment is carried out by grouping together assets with similar risk characteristics.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Impairment (continued)

Non-derivative financial assets (continued)

Financial assets measured at amortized cost (continued)

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the profit or loss and reflected in an allowance account against loans and receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Equity accounted investees

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Any impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as the related services are provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Employee benefits (continued)

Terminal benefits

The provision for staff terminal benefits is based on the liability that would arise if the employment of all staff was terminated at the reporting date and is calculated in accordance with the provisions of UAE Federal Labour Law and the relevant local laws applicable to overseas subsidiaries. Management considers these as long-term obligations and accordingly they are classified as long-term liabilities.

Provisions

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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Warranties

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Assets and liabilities held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for distribution and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity accounted investee is no longer equity accounted.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of prior comparative year.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Revenue

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Rendering of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. If the outcome of the construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity. The percentage of completion is estimated on the basis of proportion that the actual cost bears to the total estimated contract cost. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the profit or loss.

Rental income

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Dividend income

Dividend income is recognized in profit or loss on the date that the Group's right to receive the payment is established.

Finance income and finance costs

Finance income comprises interest income on fixed deposits, wakala deposits and amounts due from related parties. Interest income is recognized in profit or loss as it accrues, using the effective interest rate method.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Finance income and finance costs (continued)

Finance cost comprises interest expense on bank borrowings, profit expense on Islamic financing and bank charges. All finance costs are recognized in profit or loss using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Zakat

In respect of operations in certain subsidiaries and equity accounted investees, zakat is provided in accordance with relevant fiscal regulations. Zakat is recognized in profit or loss except to the extent it relates to items recognized directly in equity, in which case it is recognized in equity.

The provision for zakat is charged to profit or loss. Additional amount, if any, that may become due on finalization of an asset is accounted for in the year in which assessment is finalized.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

Government grants

Government grants are recognized at nominal value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognized in the profit or loss on a systematic basis in the same periods in which the expenses are recognized.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment results that are reported to the Company's CEO (chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

Fair value

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

3 Significant accounting policies (continued)

Fair value (continued)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

4 Standards, amendments and interpretations

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and are available for early adoption. However, the Group does not plan to adopt these standards early.

- IFRS 9 *Financial instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 “*Financial Instruments: Recognition and Measurement*”. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- IFRS 16 *Leases*

IFRS 16, published in January 2016 replaces the previous guidance in IAS 17 *Leases*. Under this revised guidance, leases will be brought onto companies’ balance sheets, increasing the visibility of their assets and liabilities. It removes the classification of leases as either operating leases or finance leases treating all leases as finance leases from the perspective of the lessee, thereby eliminating the requirement for lease classification testing. The revised guidance has an increased focus on who controls the asset and may change which contracts are leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided IFRS 15 *Revenue from Contract with Customers* is also applied by the Group.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of abovementioned IFRSs.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

5 Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisitions

Acquisition of non-controlling interests in 2016

- (i) During the current year, the Group has acquired the remaining 50% equity interest in its previously equity accounted investees namely, RAK Ceramics UK Limited, RAK Ceramics GmbH and RAK Distribution Europe S.A.R.L and converted them into wholly owned subsidiaries. Also refer note 17.

The fair value of the identifiable assets and liabilities of RAK Ceramics UK Limited, RAK Ceramics GmbH and RAK Distribution Europe S.A.R.L acquired by the Group are as follows:

	RAK Ceramics UK Limited AED'000	RAK Ceramics GmbH AED'000	RAK Distribution Europe S.A.R.L AED'000	Total AED'000
Property, plant and equipment	2,894	5,974	792	9,660
Intangible assets	-	928	137	1,065
Inventories	7,931	47,636	12,228	67,795
Trade and other receivables	10,374	21,235	29,061	60,670
Cash and bank balance	706	4,467	3,720	8,893
	-----	-----	-----	-----
Total assets	21,905	80,240	45,938	148,083
Less: total liabilities	(18,337)	(93,062)	(51,756)	(163,155)
	-----	-----	-----	-----
Net assets / (liabilities)	3,568	(12,822)	(5,818)	(15,072)
Less: fair value of pre-existing interests (refer note 17)	(1,784)	-	-	(1,784)
	-----	--	--	-----
Net assets acquired / (liabilities) assumed	1,784	(12,822)	(5,818)	(16,856)
Less: consideration	(7,390)	(101)	-	(7,491)
	-----	-----	-----	-----
(Goodwill) (refer note 6)	(5,606)	(12,923)	(5,818)	(24,347)
	=====	=====	=====	=====

In the period from acquisition of controlling interests in equity accounted investees up to 31 December 2016, the investees contributed total revenue of AED 199.20 million and a net loss of AED 31.89 million to the Group's profit or loss for the year.

- (ii) During the current year, the Group has acquired the remaining 5% shareholding in Prestige Tiles Pty Ltd. at a consideration of AED 0.69 million resulting a decrease in NCI of AED 2.38 million.
- (iii) During current the year, RAK Porcelain LLC has acquired the remaining 8.19% equity interest of RAK Porcelain USA Inc. through RAK Porcelain Europe SA at a nominal consideration resulting in an increase in NCI of AED 0.35 million.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(a) Acquisitions (continued)

Acquisition of non-controlling interests in 2015

- (iv) During the year ended 31 December 2015, the Group acquired the remaining non-controlling interests in RAK Ceramics PJSC Limited (“RAK Iran”) and RAK Ceramics India Private Limited (“RAK India”) for AED 14.69 million and AED 20.60 million respectively and converted them into wholly owned subsidiaries. The Group recognized:

	RAK Iran AED'000	RAK India AED'000
- decrease in non-controlling interests	(29,612)	(4,723)
- decrease in retained earnings	(15,156)	(13,779)
- increase / (decrease) in hyperinflation* / translation reserve	30,074	(2,099)
	-----	-----
Total consideration	(14,694)	(20,601)
	=====	=====

* The hyperinflation reserve pertains to RAK Iran.

- (v) Effective 9 November 2015, due to additional investments and change in the composition of Board of Directors of RAK Porcelain Europe S.A. (a jointly controlled entity until 8 November 2015), the Group had control over the financial and operating policies of the investee. Considering that the Group had the power to control activities and operations of investee, the acquisition accounting had been done based on fair values at the date when the Group acquired control. Also refer note 17.

The fair value of the identifiable assets and liabilities of RAK Porcelain Europe S.A. acquired by the Group was as follows:

	AED'000
Total assets	30,657
Less: total liabilities	(21,960)

Net assets acquired	8,697
	=====
Book value of pre-existing interest in RAK Porcelain Europe S.A. (refer note 17)	7,915
	=====
Increase in non-controlling interests	782
	==

- (vi) Effective 21 October 2015, the Group acquired the entire remaining shareholding of 65% and 43% in RAK Securities & Services Private Limited and RAK Power Private Limited at a consideration of AED 0.89 million and AED 10.62 million respectively. Accordingly, equity accounted investees and non-controlling interests was reduced by AED 0.39 million and AED 5.99 million respectively. Also refer note 17(ii).
- (vii) During the previous year, the Group further acquired 0.04% shareholding of Electro RAK LLC at a consideration of AED 9.19 million resulted a decrease in NCI by AED 6.05 million.

(b) Disposals

Disposals of subsidiaries / non-controlling interests in 2016

There was no disposal of any subsidiary during the year ended 31 December 2016.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(b) Disposals (continued)

Disposals of subsidiaries / non-controlling interests in 2015

- (i) During the previous year, the Group sold 2,500,000 number of shares out of a total 243,910,021 issued and paid up shares of RAK Ceramics (Bangladesh) Limited. The shares were sold through the automated trading system of Dhaka Stock Exchange Limited. Accordingly the Group's shareholding decreased from 72.41% to 71.57%, resulting in an increase in non-controlling interests by AED 2.6 million.
- (ii) During the previous year, the Group sold its entire shareholding in a subsidiary in Sudan namely "Ceramics Ras Al Khaimah Sudanese Investment Company" at a consideration of AED 197.82 million and recognized a net loss of AED 41.97 million. As per sale purchase agreement, the consideration is payable in 45 equal instalments of AED 3.67 million commencing from January 2016. As at 31 December 2015, an amount of AED 164.73 million is included in other receivables pertaining to this balance. Also refer notes 19(i) and 22.
- (iii) During the previous year, the Group disposed its entire holdings in two subsidiaries namely "Al Hamra Aluminium and Glass Industries LLC" and "RAK Gypsum and Decoration LLC" and recognized a cumulative loss of AED 1.96 million.
- (iv) During the previous year, the Group disposed its entire 55% and 75.71% shareholdings in "RAK Pharmaceutical Private Limited" and "RAK Piling LLC" and recognized a net gain of AED 0.56 million and AED 0.29 million respectively. Furthermore, the disposals resulted in net a increase in non-controlling interests of AED 7.96 million.
- (v) During the previous year, the Group disposed its entire 100% shareholding in a subsidiary "RAK Logistics LLC" and recognized a gain of AED 12.03 million (refer note 29C(i)). The book value of assets and liabilities was as follows:

	AED'000
Total assets	24,967
Less: total liabilities	(21,002)

Net assets (A)	3,965
Less: consideration (B)	16,000

Gain on disposal (B-A)	12,035
	=====

- (vi) Effective 1 April 2015, the Group dispose its 39% holding in a subsidiary namely "RAK Watertech LLC" and recognized the remaining investment of 51% at fair value as an equity accounted investee. The fair values of the identifiable assets and liabilities at the disposal date were as follows:

	AED'000
Total assets	48,042
Less: total liabilities	(42,984)

Net assets	5,058
Less: carrying value of non-controlling interests	(506)
Less: fair value of residual interest retained (refer note 17(i))	(2,580)
Less: sale consideration	(4,247)

(Gain) on disposal	(2,275)
	=====

- (vii) The total loss recorded in 2015 on disposals of subsidiaries and non-controlling interests (as detailed in notes (i) to (iv) above) amounted to AED 28.8 million.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(c) Overall impact of acquisitions and disposals on cash flows

Cash acquired / (foregone) as part of acquisition and disposal of subsidiaries:

	2016	2015
	AED'000	AED'000
RAK Ceramics UK Limited	706	-
RAK Ceramics GmbH	4,467	-
RAK Distribution Europe S.A.R.L	3,720	-
RAK Logistics LLC	-	(401)
RAK Watertech LLC	-	(13,375)
Ceramic Ras Al Khaimah Sudanese Investment Company	-	(37,977)
RAK Porcelain Europe S.A.	-	6,470
RAK Securities & Services Private Limited	-	83
	-----	-----
	8,893	(45,200)
	=====	=====

6 Goodwill

	2016	2015
	AED'000	AED'000
Balance as at 1 January	50,356	50,356
Add: acquisition through business combination (refer note 5(a)(i))	24,347	-
	-----	-----
	74,703	50,356
Less: impairment loss (refer below and note 13)	(12,923)	-
	-----	-----
Balance as at 31 December	61,780	50,356
	=====	=====

Goodwill represents an amount of AED 50.36 million, AED 5.61 million, AED 12.92 million and AED 5.82 million recognized on the acquisition of Ceramin FZ LLC, RAK Ceramics UK Limited, RAK Ceramics GmbH and RAK Distribution Europe S.A.R.L respectively. Goodwill arising from a business combination is tested annually for impairment.

During the current year, management has carried out impairment tests based on the "value in use" calculation of goodwill recognized on the acquisition of subsidiaries. These calculations are based on cash flow projections based on estimated operating results of the respective cash generating units. The key assumptions used to determine the values are as follows:

Discount rate	6.5%
Average annual growth rate	1%-7%
Terminal value growth rate	0.5% - 1%
Years of forecast	5 years

Based on the assessment, the Group has recorded an impairment loss amounting to AED 12.92 million on goodwill recorded on the acquisition of RAK Germany GmbH.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

7 Revenue

	2016 AED'000	2015 AED'000
Sale of goods	2,515,279	2,672,066
Rendering of services	38,305	86,390
Construction contract revenue	239,494	320,401
	-----	-----
	2,793,078	3,078,857
	=====	=====

8 Cost of sales (excluding write off and provision for inventories)

	2016 AED'000	2015 AED'000
Raw materials consumed	903,214	995,893
Change in inventory of finished goods	(130,134)	(29,769)
Direct labour	279,106	274,810
Power and fuel	187,500	201,485
LPG and natural gas	215,393	244,401
Depreciation on property, plant and equipment (refer note 14)	160,853	163,890
Packing material expenses	110,063	112,967
Repairs and maintenance	133,339	139,113
Sub-contractors' fee	2,624	13,744
Others	59,018	67,191
	-----	-----
	1,920,976	2,183,725
	=====	=====

9 Administrative and general expenses

	2016 AED'000	2015 AED'000
Staff costs	108,947	99,829
Depreciation on property, plant and equipment (refer note 14)	19,758	20,088
Depreciation on investment property (refer note 16)	8,940	9,608
Telephone, postal and office supplies	6,952	8,856
Repairs and maintenance	9,046	8,672
Legal and professional fee	11,223	10,766
Utility expenses	7,248	5,293
Security charges	2,721	2,288
Insurance expenses	9,035	12,273
Amortization of intangible assets (refer note 15)	4,930	3,305
Loss on disposal of property, plant and equipment	748	-
Investment property related expenses	8,662	1,197
License fee	1,059	1,252
Travelling	655	877
IT expenses	5,513	2,634
Workers profit participation fund	2,858	1,287
Others	39,542	17,275
	-----	-----
	247,837	205,500
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

10 Selling and distribution expenses

	2016 AED'000	2015 AED'000
Staff costs	109,282	71,426
Freight and transportation	110,560	109,499
Performance rebates	73,349	71,810
Rental expenses	22,317	12,294
Advertisement and promotions	39,371	50,094
Travel and entertainment	3,211	1,893
Depreciation on property, plant and equipment (refer note 14)	1,328	1,154
Others	21,557	14,762
	-----	-----
	380,975	332,932
	=====	=====

11 Other income

	2016 AED'000	2015 AED'000
Rental income from investment property (refer note 16(i))	32,153	29,653
Sale of scrap and miscellaneous items	5,081	12,269
Insurance claims	63	171
Gain on disposal of property, plant and equipment	-	8,155
Tax subsidies (refer note (i) below)	1,320	1,899
Discounts earned (refer note (ii) below)	4,689	3,475
Other miscellaneous income	8,367	15,408
	-----	-----
	51,673	71,030
	=====	=====

(i) This represents sales tax and custom duty subsidies received by the Group entity in India.

(ii) Pertains to discounts received from suppliers as part of the settlement negotiations.

12 Finance income and costs

	2016 AED'000	2015 AED'000
Finance costs		
Interest on bank financing	36,585	45,541
Profit expense on Islamic financing	22,252	6,176
Bank charges	4,415	6,762
Net foreign exchange loss	21,235	25,191
	-----	-----
Total (A)	84,487	83,670
	=====	=====
Finance income		
Interest on fixed deposits	2,529	3,376
Interest on amounts due from related parties (refer note 29(B))	90	826
Profit income on Wakala deposits	191	-
Others	751	2,150
	-----	-----
Total (B)	3,561	6,352
	=====	=====
Net finance expense recognized in profit or loss (A-B)	80,926	77,318
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

13 Impairment, provisions and write offs

	2016 AED'000	2015 AED'000
Write off and provision for inventories (included in cost of sales)		
Provision for slow moving and obsolete inventory (refer note 18)	70,671	19,452
Inventories written off	<u>18,061</u>	<u>7,662</u>
	A 88,732	27,114
	=====	=====
Impairment of trade receivables and goodwill		
Provision for impairment loss on trade receivables / amounts due from related parties (refer note 34)	61,681	26,027
Impairment loss on goodwill (refer note 6)	<u>12,923</u>	-
	B 74,604	26,027
	=====	=====
Equity accounted investees		
Share in provisions for inventories and trade receivables	C 21,690	-
	=====	==
	A+B+C 185,026	53,141
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued) for the year ended 31 December 2016

14 Property, plant and equipment

	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphalting AED'000	Quarry and land development AED'000	Capital work in progress AED'000	Total AED'000
Cost									
Balance at 1 January 2015	685,846	2,724,866	112,871	41,748	41,554	18,784	129	73,268	3,699,066
Acquisition through business combination (refer note 5(a)(v))	358	775	113	69	568	-	-	-	1,883
Additions	898	33,103	9,459	2,438	4,456	1,174	-	215,917	267,445
Transfer from capital work in progress	12,176	84,413	-	133	11,530	1,505	-	(109,757)	-
Transfer to intangibles/investment property (refer notes 15 and 16)	(72,232)	-	-	-	-	-	-	(1,312)	(73,544)
Disposals/write offs	(10,748)	(27,425)	(7,665)	(418)	(1,446)	-	-	(659)	(48,361)
Effect of movements in exchange rates	(17,445)	(51,297)	(859)	(644)	(556)	(442)	-	4,814	(66,429)
Balance at 31 December 2015	<u>598,853</u>	<u>2,764,435</u>	<u>113,919</u>	<u>43,326</u>	<u>56,106</u>	<u>21,021</u>	<u>129</u>	<u>182,271</u>	<u>3,780,060</u>
Balance at 1 January 2016	598,853	2,764,435	113,919	43,326	56,106	21,021	129	182,271	3,780,060
Acquisition through business combination (refer note 5(a)(i))	5,612	1,258	2,745	5,357	4,150	-	-	-	19,122
Additions	17,418	40,716	1,936	2,291	1,138	22	-	152,159	215,680
Transfer from capital work in progress	38,510	179,902	-	828	7,112	599	-	(226,951)	-
Transfer to intangibles/investment property (refer notes 15 and 16)	-	-	-	-	-	-	-	(30,245)	(30,245)
Disposals/write offs	(4,520)	(6,553)	(1,627)	(612)	(570)	-	-	(10,495)	(24,377)
Effect of movements in exchange rates	(12,990)	(45,159)	4,762	(2,003)	60	(210)	-	102	(55,438)
Balance at 31 December 2016	<u>642,883</u>	<u>2,934,599</u>	<u>121,735</u>	<u>49,187</u>	<u>67,996</u>	<u>21,432</u>	<u>129</u>	<u>66,841</u>	<u>3,904,802</u>

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued) for the year ended 31 December 2016

14 Property, plant and equipment (continued)

	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphalting AED'000	Quarry and land development AED'000	Capital work in progress AED'000	Total AED'000
Accumulated depreciation and impairment losses									
Balance at 1 January 2015	322,502	1,977,975	70,725	30,232	35,928	13,618	129	-	2,451,109
Acquisition through business combination (refer note 5(a)(v))	-	441	47	38	477	-	-	-	1,003
Charge for the year	17,835	136,464	17,407	3,603	7,279	2,544	-	-	185,132
Transfer to investment property (refer note 16)	(18,720)	-	-	-	-	-	-	-	(18,720)
On disposals/write offs	(9,094)	(26,615)	(4,408)	(399)	(1,401)	-	-	-	(41,917)
Effect of movements in exchange rates	(7,115)	(35,126)	(698)	(885)	(242)	(282)	-	-	(44,348)
Balance at 31 December 2015	<u>305,408</u>	<u>2,053,139</u>	<u>83,073</u>	<u>32,589</u>	<u>42,041</u>	<u>15,880</u>	<u>129</u>	<u>-</u>	<u>2,532,259</u>
Balance at 1 January 2016	305,408	2,053,139	83,073	32,589	42,041	15,880	129	-	2,532,259
Acquisition through business combination (refer note 5(a)(i))	2,320	676	1,048	2,247	3,171	-	-	-	9,462
Charge for the year	15,621	135,759	17,452	5,036	7,237	834	-	-	181,939
On disposals/write offs	(688)	(5,811)	(762)	(206)	(448)	-	-	-	(7,915)
Effect of movements in exchange rates	(7,016)	(33,706)	4,164	(412)	(273)	(234)	-	-	(37,477)
Balance at 31 December 2016	<u>315,645</u>	<u>2,150,057</u>	<u>104,975</u>	<u>39,254</u>	<u>51,728</u>	<u>16,480</u>	<u>129</u>	<u>-</u>	<u>2,678,268</u>
Net book value									
At 31 December 2016	<u>327,238</u>	<u>784,542</u>	<u>16,760</u>	<u>9,933</u>	<u>16,268</u>	<u>4,952</u>	<u>-</u>	<u>66,841</u>	<u>1,226,534</u>
At 31 December 2015	<u>293,445</u>	<u>711,296</u>	<u>30,846</u>	<u>10,737</u>	<u>14,065</u>	<u>5,141</u>	<u>-</u>	<u>182,271</u>	<u>1,247,801</u>

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

14 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2016 AED'000	2015 AED'000
Cost of sales (refer note 8)	160,853	163,890
Administrative and general expenses (refer note 9)	19,758	20,088
Selling and distribution expenses (refer note 10)	1,328	1,154
	-----	-----
	181,939	185,132
	=====	=====

(i) Land and buildings

Certain of the Group's factory buildings and investment property are constructed on plots of land measuring 46,634,931 sq.ft. which were received from the Government of Ras Al Khaimah under an Emiri Decree, free of cost as a Government grant. These plots of land are recorded at nominal value. Also refer note 16.

(ii) Capital work-in-progress

Capital work in progress mainly comprises building structure under construction and heavy equipment, machinery and software under installation.

(iii) Change in estimates

The useful lives of certain items of property, plant and equipment in a subsidiary were revised in 2015. This did not have a material impact on the consolidated financial statements of the Group.

(iv) Impairment of property, plant and equipment

Property, plant and equipment includes AED 48.15 million and AED 91.65 million (*previous year AED 69.19 million and AED 118.64 million*) which represents certain manufacturing units of the Group. In previous years, the Group had temporarily suspended its production at these plants. During the current year, management has carried out an impairment test for the property, plant and equipment based on the fair value as determined by an independent valuer. Where appropriate, management has internally carried out the impairment testing of certain items of plant and equipment.

The fair value of the cash generating units exceeded its carrying amount. Accordingly, no impairment loss has been recorded against this property, plant and equipment in the current year. Refer note 16.1 for valuation techniques and significant unobservable inputs.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

15 Intangible assets

	2016 AED'000	2015 AED'000
Balance at 1 January	18,032	19,391
Additions during the year	2,707	651
Acquisition through business combination (refer note 5(a)(i))	1,065	6
Transfer from capital work in progress (refer note 14)	11,477	1,312
Amortisation during the year (refer note 9)	(4,930)	(3,305)
Effect of movements in exchange rates	(19)	(23)
	-----	-----
Balance at 31 December	<u>28,332</u>	<u>18,032</u>

Intangible assets mainly include ERP software (SAP) which was implemented in the Company and certain subsidiaries. These are amortised over the period for which the software is used and licence is acquired.

16 Investment properties

	2016 AED'000	2015 AED'000
Cost		
Balance at 1 January	1,228,352	1,170,658
Additions during the year	469	11,594
Transfers from property, plant & equipment and CWIP (refer note 14)	18,768	72,232
Disposals	-	(25,500)
Effect of movements in exchange rates	(136)	(632)
	-----	-----
Balance at 31 December	<u>1,247,453</u>	<u>1,228,352</u>
 <i>Accumulated depreciation and impairment losses</i>		
Balance at 1 January	69,453	50,863
Charge for the year (refer note 9)	8,940	9,608
Transfers from property, plant and equipment (refer note 14)	-	18,720
Disposals	-	(9,738)
	-----	-----
Balance 31 December	<u>78,393</u>	<u>69,453</u>
	-----	-----
Net book value – at 31 December	<u>1,169,060</u>	<u>1,158,899</u>
	-----	-----
Fair value - at 31 December	<u>1,364,124</u>	<u>1,385,363</u>
	-----	-----

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

16 Investment properties (continued)

- (i) During the year ended 31 December 2016, the Group has earned rental income amounting to AED 32.15 million (2015: AED 29.65 million) from its investment properties (refer note 11).
- (ii) The fair value of the Group's investment properties at 31 December 2016 has been arrived at on the basis of a valuation carried out on that date by an external, independent property valuer. The valuer has appropriate qualifications and recent experience in the valuation of properties in the location and category of the property being valued. The valuation was performed based on replacement market value. The independent valuation of the fair value of the Group's properties is done periodically. The fair value of investment properties as per the report of the independent valuer is AED 1,364 million (2015: AED 1,385 million). As the fair values of investment properties exceed the carrying value, the Group has not recognized any impairment loss during the current year (2015: nil). Also refer notes 14(i) and 14(iv).

16.1 Fair values

Valuation techniques and significant unobservable inputs

The following table show the valuation technique used in measuring the fair value of investment property and property, plant and equipment, as well as the significant unobservable inputs used.

Valuation techniques	Significant unobservable inputs	Inter- relationship between significant and fair value measurement
<i>Investment properties and land and building included in fixed assets</i> The investment property and land and building under fixed assets was valued using the market approach, adjusted by the influence of the major driving market factors, like demand, transactions, availability, inflation and purchasing power of money	-Inflation rate : > 4% (at end of December 2016) -Interest rate : Eibor + 1% -Cost of capital : Eibor + 6.5% -Statistical average growth rate: 2.3% -Estimated GDP and FDI published by International Monetary Fund	The estimated fair value would change if the following were changed : - Interest rate - Inflation rate - Targeted profit tendency - Demand improvement - Depreciation charge - Market prices
<i>Plant and machinery</i> Plant and machinery has been valued based on market replacement technique.	- Quoted market prices for similar items adjusted for physical deterioration as well as functional economic obsolescence - Depreciated replacement cost	

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

17 Investments in equity accounted investees

Movement in investments in equity accounted investees is set out below:

	2016 AED'000	2015 AED'000
At 1 January	127,563	151,276
Investments made during the year (refer note (i) below)	1,644	4,319
Share in results *	(4,038)	16,525
Disposals (refer note (ii) below)	-	(10,550)
Adjustment due to controlling interest in a joint venture (refer note 5(a)(i),(v) and (vi))	(1,784)	(8,302)
Dividends received during the year	(10,895)	(23,577)
Effect of movements in exchange rates	(112)	(2,128)
	-----	-----
At 31 December	112,378 =====	127,563 =====

* This includes share in provisions for inventories and trade receivables of AED 21.69 million (2015: nil). Refer note 13.

(i) During the year, the Group has made further investments in the following entities:

	2016 AED'000	2015 AED'000
Restofair RAK LLC	1,644	-
RAK Watertech LLC (refer * below)	-	2,580
RAK Porcelain Europe S.A.	-	1,739
	-----	-----
	1,644 =====	4,319 =====

* Effective 1 April 2015, the Group sold its 39% shareholding in its a subsidiary RAK Watertech LLC and recognized the remaining investment of 51% as an equity accounted investee as the control over RAK Watertech LLC's operations is jointly controlled with the other shareholder. The fair value of the remaining investment at the disposal date amounted to AED 2.58 million. Also refer note 5(b)(vi).

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

17 Investments in equity accounted investees (continued)

(ii) Disposal of equity accounted investees

Disposal of equity accounted investees in 2016

There was no disposal of any equity accounted investee during the year ended 31 December 2016.

Disposal of equity accounted investees in 2015

Effective 21 October 2015, the Group had acquired remaining 65% shareholding in an equity accounted investee namely RAK Securities and Services Private Limited and converted it to a wholly owned subsidiary. Accordingly, the investment in equity accounted investees was adjusted by AED 0.39 million. Refer note 5(a)(vi).

In the year 2015, the Group also disposed its entire 51%, 47% and 20% equity interests in jointly controlled entities “Laticrete RAK LLC”, “RAK Paints Private Limited” and “RAK Moshfly (Bangladesh) Private Limited” respectively.

	Laticrete RAK LLC AED'000	RAK Paints Private Limited AED'000	RAK Moshfly Bangladesh Private Limited AED'000	Total AED'000
Net carrying value	10,550	-	-	10,550
Less: sale consideration	(48,122)	(10,485)*	(908)	(59,515)
	-----	-----	-----	-----
(Gain) on disposal of investments	(37,572)	(10,485)	(908)	(48,965)
	=====	=====	=====	=====

* As per the sale and purchase agreement, the sale consideration of AED 10.49 million was to be paid in 6 equal semi-annual instalments of AED 1.75 million commencing from March 2016 till September 2018. Also refer note 29(i).

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

17 Investments in equity accounted investees (continued)

(iii) The following summarises the information relating to each of the Group's investment in equity accounted investees.

Equity accounted investees

December	Within UAE		Outside UAE		Total	
	2016	2015	2016	2015	2016	2015
-----AED '000-----						
Non-current assets	225,315	271,399	28,407	40,114	253,722	311,513
Current assets	131,483	157,673	260,039	366,681	391,522	524,354
Non-current liabilities	11,524	19,161	16,411	16,269	27,935	35,430
Current liabilities	148,055	223,734	221,719	307,506	369,774	531,240
Net assets	197,219	186,177	50,316	83,020	247,535	269,197
Group's share of net assets	98,666	92,292	25,766	42,077	124,432	134,369
Elimination of unrealised profit on downstream sales	105	241	(12,159)	(7,047)	(12,054)	(6,806)
Carrying amount of interest in equity accounted investees	98,771	92,533	13,607	35,030	112,378	127,563
	=====	=====	=====	=====	=====	=====
Revenue	157,071	217,752	149,490	374,094	306,561	591,846
Profit and total comprehensive income	31,008	39,678	(35,968)	7,686	(4,960)	47,364
Group's share	18,464	19,254	(22,607)	4,077	(4,143)	23,331
Elimination of unrealized profit on downstream sales	105	241	-	(7,047)	105	(6,806)
Group's share of profit	18,569	19,495	(22,607)	(2,970)	(4,038)	16,525
	=====	=====	=====	=====	=====	=====
Dividend received by the Group	10,485	23,158	410	419	10,895	23,577
	=====	=====	=====	=====	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

18 Inventories

	2016 AED'000	2015 AED'000
Finished goods (net of NRV adjustment)	827,522	697,388
Less: provision for slow moving and obsolete inventories	(122,357)	(66,192)
	-----	-----
	705,165	631,196
Raw materials	236,705	276,574
Goods-in-transit	59,851	57,771
Work-in-progress	25,532	21,520
Stores and spares	209,920	209,921
	-----	-----
	1,237,173	1,196,982
Less: provision for slow moving raw materials and stores and spares *	(57,853)	(55,826)
	-----	-----
	<u>1,179,320</u>	<u>1,141,156</u>
	=====	=====

* Critical spares are depreciated based on the useful life of the plant until they are issued to the factory for capitalisation. The depreciation charge is recognized in these consolidated financial statements under provision for inventories.

At 31 December 2016, the Group has recognized a cumulative loss due to write-down of finished goods inventories of AED 56.46 million against the cost of AED 350.78 million (2015: AED 52.9 million against the cost of AED 352.7 million) to bring them to their net realisable value which was lower than their costs. The difference in write down is included in cost of sales in the consolidated statement of profit or loss (refer note 13).

Inventories amounting to AED 245.49 million (2015: AED 228.79 million) are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25(b)(ii)).

The movement in provision for slow moving inventories is as follows:

	2016 AED'000	2015 AED'000
As at 1 January	122,018	107,947
Add: Charge for the year (refer note 13)	70,671	19,452
Add: Addition due to acquisition	339	-
Less: Written off	(12,818)	(5,381)
	-----	-----
At 31 December	<u>180,210</u>	<u>122,018</u>
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

19 Trade and other receivable

	2016 AED'000	2015 AED'000
Trade receivables	1,022,340	1,067,622
Less: allowance for impairment losses (refer note 34)	(184,017)	(155,992)
	-----	-----
	838,323	911,630
Advances and prepayments	154,437	145,294
Deposits	16,800	9,978
Other receivables (refer note 19(i))	123,179	140,436
	-----	-----
	1,132,739	1,207,338
	=====	=====

Trade receivables amounting to AED 77.80 million (2015: AED 26.23 million) are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25(b)(ii)).

(i) Long term receivables

	2016 AED'000	2015 AED'000
Long term amount receivable	139,045	164,734
Less: current portion	(44,082)	(44,082)
	-----	-----
Long term portion	94,963	120,652
	=====	=====

Also refer note 5(b)(ii).

The above long term other receivable represents amounts receivable on disposal of a subsidiary and carries interest at normal commercial rates and is partially secured by post-dated cheques. The Group's management is of the view that this amount is fully recoverable.

20 Contract work-in-progress / billings in excess of valuation

	2016 AED'000	2015 AED'000
Costs incurred to date	380,462	178,717
Add: estimated attributable profits less expected losses	27,453	21,027
	-----	-----
	407,915	199,744
Less: progress billings	(395,510)	(187,093)
	-----	-----
Contract work-in-progress	12,405	12,651
	=====	=====
<i>Disclosed in the consolidated statement of financial position as below:</i>		
Contract work in progress	13,271	15,442
Billing in excess of valuation	(866)	(2,791)
	-----	-----
	12,405	12,651
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

21 Cash in hand and at bank

	2016 AED'000	2015 AED'000
Cash in hand	1,808	1,391
Cash at bank		
- in fixed deposits	163,223	80,825
- in wakala deposits	25,000	-
- in current accounts	227,724	260,983
- in margin deposits	1,055	3,758
- in call accounts	5,650	16,513
	<u>424,460</u>	<u>363,470</u>

Cash in hand and cash at bank includes AED 0.62 million (2015: AED 0.35 million) and AED 63.08 million (2015: AED 68.27million) respectively, held outside UAE.

Fixed deposits carry interest at normal commercial rates. Fixed deposits include AED 22.08 million (2015: AED 21.86 million) which are held by bank under lien against bank facilities availed by the Group (refer note 25(b)(ii)). Wakala deposits carry profit at rates agreed with the Islamic banks.

Current accounts and margin deposits are non-interest bearing accounts.

22 Discontinued operations

In 2014, the Group committed to a plan to sell its subsidiaries namely "RAK Pharmaceuticals Private Limited" and "Ceramics Ras Al Khaima Sudanese Investment Company Limited" and accordingly, these entities were presented as disposal group held for sale. During the previous year, the Group sold its investment in RAK Pharmaceuticals Private Limited and Ceramics Ras Al Khaima Sudanese Investment Co. Limited.

	2015 AED '000
Ceramics Ras Al Khaima Sudanese Investment Co. Limited	
Revenue	29,722
Expense	(28,715)
Loss on net monetary position (refer note 35)	(2,306)

(Loss) for the year	(1,299)
	=====
(Loss) from discontinued operations	
	2015 AED'000
Attributable to the owners of the Company	(1,299)
	=====
Cash flows from discontinued operations	
	2015 AED'000
Net cash generated from operating activities	37,259
	=====
Net cash generated from investing activities	73,407
	=====
Net cash used in financing activities	(9,364)
	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

22 Discontinued operations (continued)

Effect of disposals of subsidiaries on the consolidated financial statement of the Group

	Ceramics Ras Al Khaima Sudanese Investment Co. Limited AED'000	RAK Pharmaceuticals Private Limited AED'000
Total assets	282,730	38,661
Less: total liabilities	(48,591)	(59,125)
	-----	-----
Net assets / (liabilities)	234,139	(20,464)
Less: non-controlling interests	-	(9,196)
	-----	-----
Net assets / (liabilities) attributable to parent (A)	234,139	(11,268)
Consideration (B)	197,818	17,044
	-----	-----
(Loss)/gain on disposal (B-A)	(36,321)	28,312
Less: loan receivable from the subsidiaries written off	(37,683)	(27,751)
Add: hyperinflation reserve reclassified to profit or loss on disposal of a subsidiary (refer note 23(iv))	32,032	-
	-----	-----
(Loss)/gain on disposals – net	(41,972)	561
	=====	==

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

23 Capital and reserves

	2016 AED'000	2015 AED'000
(i) Share capital		
<i>Authorised and issued</i>		
170,000,000 shares of AED 1 each paid up in cash	170,000	170,000
688,398,310 shares of AED 1 each issued as bonus shares (2015: 647,522,200 shares of AED 1 each issued as bonus shares)	688,398	647,522
	-----	-----
	858,398	817,522
	=====	=====

The holders of ordinary shares are entitled to receive dividends declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(ii) Share premium reserve

	AED'000
On the issue of shares of:	
- R.A.K Ceramics PJSC (refer note (a) below)	165,000
- RAK Ceramics (Bangladesh) Limited, Bangladesh (refer note (b) below)	60,391
Less: share issue expenses	(3,583)

Total	221,808
	=====

- (a) In October 1998, the shareholders of the Company had resolved to issue 15 million ordinary shares at an exercise price of AED 12 per share resulting in share premium of AED 165 million.
- (b) In February 2010, the shareholders of RAK Ceramics (Bangladesh) Limited resolved to issue 44.51 million ordinary shares at an exercise price of AED 1.36 per share resulting in share premium of AED 60.39 million. The share issue costs resulting from the increase in share capital of RAK Ceramics (Bangladesh) Limited of AED 3.58 million was recognized as a reduction in equity.
- (c) In 2012, the Group sold 500,000 number of shares of RAK Ceramics (Bangladesh) Limited out of shares issued at share premium. Accordingly share premium was reversed by AED 0.14 million

(iii) Translation reserve

The translation reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items that form part of Group's net investment in foreign operations.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

23 Capital and reserves (continued)

(iv) Hyperinflation reserve

The hyperinflation reserve comprises of all foreign currency differences arising from the translation of the financial statements entities (Sudan and Iran) that were operating in a hyperinflationary economy and the effect of translating their financial statements at current index due to the application of IAS 29: *Financial Reporting in Hyperinflation Economies*.

	RAK Iran AED'000	RAK Sudan AED'000	Total AED'000
As at 1 January 2015	(95,465)	15,784	(79,681)
<i>For the year 2015</i>			
Foreign currency translation differences	(17,285)	-	(17,285)
Hyperinflation effect relating to the owners of the Company (refer note 35)	-	16,248	16,248
Addition due to acquisition (refer note 5(a)(iv))	30,074	-	30,074
Less: reclassified to profit or loss (refer note 22)	-	(32,032)	(32,032)
	-----	-----	-----
As at 31 December 2015	(82,676)	-	(82,676)
	=====	==	=====
<i>For the year 2016</i>			
Foreign currency translation differences	(9,441)	-	(9,441)
	-----	---	-----
As at 31 December 2016	(92,117)	-	(92,117)
	=====	=	=====

In 2015, the economy of the Islamic Republic of Iran ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning 1 January 2015, the Group ceased to apply IAS 29 on a prospective basis for the subsidiary in Iran. As a result of this change, the carrying amounts of non-monetary assets were expressed at 31 December 2014 formed the basis for the respective assets in the subsidiary in Iran as at 1 January 2015. However, the foreign currency differences that arose on the RAK Ceramics PJSC limited operations (Subsidiary in Iran) continues to be classified under hyperinflation reserve in the equity.

(v) Legal reserve

In accordance with the Articles of Association of entities in the Group and Article 239 of UAE Federal Law No. (2) of 2015, 10% of the net profit for the year of the individual entities to which the law is applicable, has been transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of these entities. This reserve is non-distributable except in certain circumstances as mentioned in the abovementioned Law. The consolidated statutory reserve reflects transfers made post acquisition for these subsidiary companies.

(vi) General reserve

General reserve of AED 82.8 million (2015: AED 82.8 million) represents net profit of prior years retained in reserve. This reserve is distributable.

(vii) Capital reserve

Capital reserve of AED 53.87 million (2015: AED 53.87 million) represents the Group's share of retained earnings capitalised by various subsidiaries. The capital reserve is non-distributable.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

23 Capital and reserves (continued)

(viii) Dividend

For 2016, the Directors have proposed a cash dividend of 15 fils per share, which will be submitted for approval of the shareholders at the Annual General Meeting in 14 March 2017. On 16 March 2016, the shareholders of the Company in their Annual General Meeting, approved 30% cash dividend and 5% of stock dividend for the year 2015 which was proposed by the Board of Directors.

(ix) Directors' fee

At the Annual General Meeting (AGM) held on 16 March 2016, the shareholders approved the proposed Directors' fees amounting to AED 3.7 million for the year ended 31 December 2015.

(x) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

24 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding as at 31 December 2016, calculated as follows:

	2016	2015	2016	2015	2016	2015
	Continuing		Discontinuing		Total	
	operations		operations			
(Loss) / net profit attributable to owners of the Company (AED'000)	(4,920) =====	282,653 =====	- ==	(1,299) =====	(4,920) =====	281,354 =====
Weighted average number of shares outstanding ('000s)	858,398 =====	858,398 =====	- ==	858,398 =====	858,398 =====	858,398 =====
(Loss) / earnings per share (AED)	(0.01) =====	0.33 =====	- ==	(0.00) =====	(0.01) =====	0.33 =====

There was no dilution effect on the basic earnings per share as the Company does not have any such outstanding commitment as at the reporting date.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

25 Bank financing arrangements

(a) Islamic bank financings

	2016 AED'000	2015 AED'000
i) Short term		
Mudaraba facilities (A)	137,955	224,287
Commodity Murabaha facilities (B)	85,000	115,918
Ijarah facilities (C)	154,288	-
Current portion of long term financing (refer note (ii) below)	93,302	-
	-----	-----
	470,545	340,205
	=====	=====
	2016	2015
	AED'000	AED'000
ii) Long term - Commodity Murabaha facilities		
Commodity Murabaha facilities	508,932	-
Less: current portion	(93,302)	-
	-----	---
	415,630	-
	=====	==

The terms and conditions of outstanding long-term Commodity Murabaha facilities were as follows:

Currency	Profit range	2016 AED'000	2015 AED'000
AED	2.5% - 2.6%	75,000	-
USD	2.5% - 3.0%	433,932	-
		-----	--
		508,932	-
		=====	==

Islamic financings represents facilities such as Mudaraba, Murabaha and Ijarah facilities obtained from Banks. These financings are denominated either in the functional currency of the Company or in USD, a currency against which the functional currency of the Company is currently pegged. The long term Commodity Murabaha facilities mature until 2022.

These financings are secured by:

- negative pledge over certain assets of the Group;
- pari-passu rights with other unsecured and unsubordinated creditors; and
- promissory note for AED 315 million.

- (A) Mudaraba is a mode of Islamic financing where a contract is entered into - between two parties whereby one party (Bank) provides funds to another party (the Group) who then invest in an activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit.
- (B) In Murabaha Islamic financing, a contract is entered into between two parties whereby one party (Bank) purchases an asset and sells it to another party (the Group), on a deferred payment basis at a pre-agreed profit.
- (C) Ijarah is another mode of Islamic financing where a contract is entered into between two parties whereby one party (Bank) purchases/acquires an asset, either from a third party or from the Group, and leases it to the Group against certain rental payments and for a specific lease period.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

25 Bank financing arrangements (continued)

(b) Interest bearing bank financings

	2016 AED'000	2015 AED'000
i) Short term		
Bank overdrafts	8,734	8,644
Short-term loans	99,253	123,562
Current portion of long-term loans (refer note (ii) below)	197,708	190,980
	-----	-----
	305,695	323,186
	=====	=====
	2016 AED'000	2015 AED'000
ii) Long term bank loans		
Bank loans	1,090,007	1,500,686
Less: current portion of long-term loans	(197,708)	(190,980)
	-----	-----
Long term portion	892,299	1,309,706
	=====	=====

The terms and conditions of outstanding long-term loans were as follows:

Currency	Interest range	2016 AED'000	2015 AED'000
AUD	5.0% - 6.0%	12,780	13,637
EUR	2.4% - 2.5%	125	17
GBP	3.5%-3.8%	385	-
INR	9.2%-9.3%	4,509	8,174
USD	2.3% - 4.0%	1,072,208	1,478,858
		-----	-----
		1,090,007	1,500,686
		=====	=====

The Group has also obtained long term and short term interest bearing bank facilities from various banks for financing acquisition of assets, project financing or to meet its working capital requirements. The majority of these bank borrowings are denominated either in the functional currencies of the respective borrowing entities or in USD, a currency against which the functional currency of the Company is currently pegged. Rates of interest on the above bank loans are based on normal commercial rates. The long term bank loans mature until 2024.

These bank borrowings are secured by:

- negative pledge over certain assets of the Group;
- pari-passu rights with other unsecured and unsubordinated creditors;
- promissory note for AED 677 million;
- assignment of insurance over furniture, fixtures and equipment's of certain Group entities in favour of the bank;
- corporate guarantee given by the Company;
- hypothecation of inventories and receivables of certain Group entities (refer notes 18 and 19); and
- fixed deposits held under lien (refer note 21).

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

26 Trade and other payables

	2016 AED'000	2015 AED'000
Trade payables	342,954	427,512
Accrued and other expenses	241,192	267,686
Advances from customers	38,395	57,784
Commissions and rebates payables	64,960	53,250
Other payables	27,540	29,712
	-----	-----
	715,041	835,944
	=====	=====

27 Provision for employees' end of service benefits

	2016 AED'000	2015 AED'000
At 1 January	78,285	78,864
On acquisition of subsidiaries	1,372	105
Charge for the year	21,116	13,881
Payments made during the year	(17,095)	(14,296)
Effect of movements in exchange rate	102	(269)
	-----	-----
At 31 December	83,780	78,285
	=====	=====

28 Derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. During the current year, the Group has classified interest rate swaps derivatives as cash flow hedges in accordance with the recognition criteria of IAS 39, "Financial instruments: Recognition and measurement", as it is mitigating the risk of cash flow variations due to movements in interest rates.

Hedging instruments are measured at their fair value at the reporting date and the effective portion of the changes in their fair value is recognized in the consolidated statement of other comprehensive income, as part of the cash flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated income statement.

The table below shows the positive fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

28 Derivative financial instruments (continued)

	Positive fair value AED'000	Notional amount AED'000	Maturity within 1 year AED'000	Maturity within 2- 5 years AED'000	Maturity more than 5 years AED'000
31 December 2016					
Interest rate swaps used for hedging	5,944	411,681	55,601	339,676	16,404
	-----	-----	-----	-----	-----
	5,944	411,681	55,601	339,676	16,404
	=====	=====	=====	=====	=====
31 December 2015					
Interest rate swaps used for hedging	-	-	-	-	-
	---	---	---	---	---
	-	-	-	-	-
	==	==	==	==	==

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Information about the Group's exposure to credit and market risks, and the fair value measurement is included in note 34.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

28 Derivative financial instruments (continued)

During the current year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Valuation techniques

Derivative financial assets

Fair value is calculated based on quoted prices or rates available in an active market for the instrument, where there is no active market available to draw quoted prices, a valuation technique is used which includes:

- recent market prices or rates, where available, adjusted for relevant subsequent events;
- reference to the current fair value of another instrument that is substantially the same;
- discounted cash flow analysis;
- option pricing models; and
- standard industry valuation technique that demonstrates to provide reliable estimate of prices obtained in actual market transactions.

The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

29 Related parties

The Group, in the ordinary course of business, enters into transactions with other business enterprises that fall within the definition of related parties as contained in International Accounting Standard 24 "Related Party Disclosures". The management approves prices and terms of payment for these transactions and these are carried out at mutually agreed rates. The significant transactions entered into by the Group with related parties during the year, other than those disclosed elsewhere in these consolidated financial statements (in particular notes 5 and 17), are as follows:

Transactions with related parties

	2016 AED'000	2015 AED'000
A) Equity accounted investees		
Sale of goods and services and construction contracts	175,049	368,454
Purchase of goods and services	1,564	7,451
Interest income (refer note 12)	-	629
Rental income	4,708	4,403
	=====	=====
B) Other related parties		
Sales of goods and services and construction contracts	131,376	126,268
Purchase of goods and services	237,244	208,821
Interest income (refer note 12)	90	197
Rental income	8,632	7,938
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

29 Related parties (continued)

C) Investments and divestments with related parties

(i) Consideration on sale of subsidiaries / equity accounted investees

	2016 AED'000	2015 AED'000
RAK Logistics LLC (refer note 5(b)(v) and below*)	-	16,000
RAK Watertech LLC (refer note 5(b)(vi))	-	4,247
RAK Moshfly Bangladesh Private Limited (refer note 17(ii))	-	908
RAK Paints Private Limited (refer note 17(ii))	-	10,485
	==	=====

* During the previous year, the Group sold its investment in RAK Logistics LLC to a significant shareholder in the Company. In order to manage conflict of interests for the finalisation of this transaction, relevant board members and related parties who were having a conflict, were not involved in the decision making process in relation to that transaction.

(ii) Consideration on purchase of subsidiaries / equity accounted investees

	2016 AED'000	2015 AED'000
RAK Ceramics UK Limited (refer note 5(a)(i))	7,390	-
RAK Ceramics GmbH (refer note 5(a)(i))	101	-
RAK Porcelain Europe S.A. (refer note 5(a)(v))	-	1,868
RAK Ceramics (Iran) PJSC (refer note 5(a)(iv))	-	14,694
RAK Ceramics India Private Limited (refer note 5(a)(iv))	-	20,601
RAK Securities & Services Private Limited (refer note 5(a)(vi))	-	883
RAK Power Private Limited (refer note 5(a)(vi))	-	10,618
	===	=====

Key management personnel compensation

The remuneration of Directors and other members of key management of the Company during the year were as follows:

	2016 AED'000	2015 AED'000
Short-term benefits	15,893	15,636
Staff terminal benefits	246	424
Board of Directors' remuneration	3,700	4,228
	=====	=====

Due from related parties

Due from related parties includes receivable from certain entities which are related parties of the Group by virtue of common ultimate ownership and directorship of certain individuals in the Company and these entities. The Board of Directors of the Company, based on their review of these outstanding balances, are of the view that the existing provision is sufficient to cover any expected impairment losses there against. During the current and previous year, the Group has recognized impairment loss on amounts due from related parties primarily domiciled in the UAE and other gulf countries. Also refer note 34.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

29 Related parties (continued)

	2016 AED'000	2015 AED'000
Equity accounted investees (refer note 5(a))	311,636	582,783
Other related parties	67,743	90,155
	-----	-----
	379,379	672,938
Less: allowance for impairment losses (refer notes 5 and 34)	(74,659)	(142,170)
Less: long term receivables (refer note (a) below)	(3,446)	(6,990)
	-----	-----
	301,274	523,778
	=====	=====
Due to related parties		
Others	49,451	23,277
	=====	=====
(a) Long term receivables		
Long term amount receivable	6,892	10,485
Less: current portion	(3,446)	(3,495)
	-----	-----
Long term portion	3,446	6,990
	=====	=====
Also refer note 17(ii)		

30 Income tax

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operate in taxable jurisdictions, as follows:

	2016 AED'000	2015 AED'000
Current tax		
Current year	19,462	21,865
	=====	=====
Deferred tax		
Originating and reversal of temporary tax differences	(3,641)	4,806
Adjustment for prior years	-	(4,300)
	-----	-----
Total deferred tax	(3,641)	506
	=====	=====
Tax expense for the year	15,821	22,371
	=====	=====
Provision for tax	136,739	122,606
	=====	=====
Deferred tax liability	6,128	8,323
	=====	=====
Deferred tax asset	2,753	298
	=====	=====

The Company operates in a tax free jurisdiction. The Group's consolidated effective tax rate is 33.9% for 2016 (2015: 6.7%) which is primarily due to the effect of tax rates in foreign jurisdictions.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
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31 Contingent liabilities and commitments

	2016 AED'000	2015 AED'000
Letters of guarantee	28,560	31,627
Letters of credit	47,037	74,287
Capital commitments	3,078	4,323
VAT and other tax contingencies	45,279	33,888
	=====	=====

In some jurisdictions, the tax returns for certain years have not been reviewed by the tax authorities and there are unresolved disputed corporate tax assessments and VAT claims by the authorities. However, the Group's management is satisfied that adequate provisions have been recognized for potential tax contingencies.

Certain other contingent liabilities may arise during normal course of the Group's contracting business, which based on the information presently available, cannot be quantified at this stage. However, in the opinion of the management these contingent liabilities are not likely to be material.

The Company has issued corporate guarantees for advances obtained by related parties from commercial banks. Guarantees outstanding as at 31 December 2016 amounts to AED 343.8 million (2015: AED 253 million).

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

32 Non-controlling interests

The following summarises the information relating to the Group's non-controlling interests.

December	Subsidiaries within UAE		Subsidiaries outside UAE		Intra group eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
-----AED'000-----								
Non-current assets	61,223	56,331	244,281	239,495	(25,904)	(25,678)	279,600	270,148
Current assets	312,001	295,706	360,380	351,051	-	-	672,381	646,757
Non-current liabilities	15,006	13,570	34,829	37,911	-	-	49,835	51,481
Current liabilities	123,188	122,236	246,860	226,430	-	-	370,048	348,666
Net assets	235,030	216,231	322,972	326,205	(25,904)	(25,678)	532,098	516,758
	=====	=====	=====	=====	=====	=====	=====	=====
Carrying amount of NCI	121,725	112,769	79,956	82,203	(25,904)	(25,678)	175,777	169,294
	=====	=====	=====	=====	=====	=====	=====	=====
Revenue	277,724	294,252	265,047	604,568	-	-	542,771	898,820
Profit	49,008	46,812	42,001	9,749	-	-	91,009	56,561
Other comprehensive income	(210)	(64)	(2,250)	(32,114)	-	-	(2,460)	(32,178)
Total comprehensive income	48,798	46,748	39,751	(22,365)	-	-	88,549	24,383
	=====	=====	=====	=====	=====	=====	=====	=====
Profit allocated to NCI	24,087	24,433	11,900	6,925	(225)	(2,394)	35,762	28,964
Other comprehensive income allocated to NCI	(441)	(31)	(638)	(5,251)	-	-	(1,079)	(5,282)
	-----	-----	-----	-----	-----	-----	-----	-----
Total	23,646	24,402	11,262	1,674	(225)	(2,394)	34,683	23,682
	=====	=====	=====	=====	=====	=====	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

33 Operating leases

As lessor

Certain Group entities lease out their investment property under operating leases. The leases typically run for a period of more than five years, with an option to renew the lease after that date. Lease rentals are usually reviewed periodically to reflect market rentals.

	2016	2015
	AED'000	AED'000
Less than one year	30,884	28,303
Between two and five years	67,226	67,226
More than five years	95,000	116,667
	-----	-----
	193,110	212,196
	=====	=====

34 Financial instruments

Risk management framework

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Risk management framework (continued)

As part of the application of the risk management policies, senior management is also responsible for development and implementation of controls to address operational risks arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors arising from legal and regulatory requirements, political and economic stability in the jurisdictions that the Group operates and generally accepted standards of corporate behavior.

At 31 December 2016, the Group has a subsidiary in Iran, RAK Ceramics PJSC Limited ("RAK Iran") which is engaged in the manufacturing and sale of ceramic tiles and has net assets amounting to AED 64.54 million (2015: AED 137.38 million) as at that date.

Previously, due to the political situation in Iran and the imposition of stricter financial and trade sanctions and oil embargo, the movement of funds through banking channels from Iran had been exceedingly difficult. Discussions were undertaken for easing of sanctions and releasing the imposition of stricter financial and trade sanctions. The stricter financial and trade sanctions were released and relaxed to an extent. Management continues to assess and monitor the implications of such changes on the business.

The Company's management has reviewed the Group's exposure in Iran at the reporting date in view of the current global and political conditions. Based on its review, management is of the view that the Group will be able to recover its investment in Iran and accordingly are of the view that no allowance for impairment is required to be recognized in these consolidated financial statements as at reporting date.

The Group's non-derivative financial liabilities comprise bank borrowings, trade and other payables and balances due to related parties. The Group has various financial assets such as trade and other receivables, cash and cash equivalents and due from related parties.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, due from related parties and balances with bank.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk

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

	2016 AED'000	2015 AED'000
Long term receivables	98,409	127,642
Trade and other receivables (excluding advances and prepayments)	978,302	1,062,044
Due from related parties	301,274	523,778
Cash at bank	422,652	362,079
	----- 1,800,637 =====	----- 2,075,543 =====

Trade and other receivables and amounts due from related parties

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, as these factors may have an influence on credit risk. The Group's ten largest customers account for 33.72% (2015: 31.58%) of the outstanding trade receivables as at 31 December 2016. Geographically the credit risk is significantly concentrated in the Middle East and European region.

The management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the senior Group management; these limits are reviewed periodically.

In monitoring credit risk, customers and related parties are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, related parties receivables and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk (continued)

Trade and other receivables and amounts due from related parties (continued)

The maximum exposure to credit risk (trade and other receivables and related parties) at the reporting date by geographic region and operating segments was as follows.

	2016 AED'000	2015 AED'000
Middle East (ME)	855,304	1,045,752
Euro-zone countries	127,628	212,672
Asian countries (Other than ME)	173,130	187,123
Other regions	221,923	267,917
	-----	-----
	1,377,985	1,713,464
	=====	=====
Trading and manufacturing	1,184,379	1,489,933
Contracting	75,216	112,862
Other industrial	63,966	39,540
Others	54,424	71,129
	-----	-----
	1,377,985	1,713,464
	=====	=====

Impairment losses

At 31 December 2016, trade receivables with a nominal value of AED 184.02 million (2015: AED 155.99 million) were impaired. Movement in the allowance for impairment loss of trade receivables were as follows:

	2016 AED'000	2015 AED'000
At 1 January	155,992	145,543
Charged during the year (refer notes 13 and 29)	46,452	22,087
On acquisition/(disposal) of subsidiaries	4,871	(2,337)
Amounts written off	(23,298)	(9,301)
	-----	-----
At 31 December	184,017	155,992
	=====	=====

The movement in the allowances for impairment loss on amount due from related parties is as follows:

	2016 AED'000	2015 AED'000
At 1 January	142,170	138,230
Charge for the year (refer note 13)	15,229	3,940
Written off	(82,740)	-
	-----	-----
At 31 December	74,659	142,170
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Credit risk (continued)

Impairment losses (continued)

At 31 December, the ageing of unimpaired trade receivables is as follows:

	Total AED'000	Neither past due nor impaired AED'000	-----Past due but not impaired-----		
			<180 days AED'000	180-360 days AED'000	>360 days AED'000
2016	838,323 =====	385,997 =====	267,991 =====	53,537 =====	130,798 =====
2015	911,630 =====	463,375 =====	250,860 =====	91,907 =====	105,488 =====

Unimpaired receivables are expected, on the basis of past experience, segment behaviour and extensive analysis of customer credit risk to be fully recoverable. It is the practice of the Group to obtain post dated cheques, letter of credit and collections documents backed by bill of exchange over certain receivables, however, majority receivables remain unsecured.

Balances with banks

The Group limits its exposure to credit risk by placing balances with international and local banks. Given the profile of its bankers, management does not expect any counter party to fail to meet its obligations. The bank balances are held with the banks and financial institutions of repute.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity price will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Market risk (continued)

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. The entities within the Group which have AED as their functional currency are not exposed to currency risk on transactions denominated in USD as AED is currently informally pegged to USD at a fixed rate. The currencies giving rise to this risk are primarily EURO and GBP.

The Group enters into forward exchange contracts to hedge its currency risk, generally with a maturity of less than one year from the reporting date. The Group also enters currency swap arrangements with a maturity of more than 1 year. However, the Group does not hold any forward exchange contracts and currency swap arrangement at reporting date to hedge its currency risk.

Interest on borrowings is denominated in the currency of respective borrowing, generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk is as follows:

	GBP	EURO
	-----'000-----	
31 December 2016		
Trade and other receivable (including due from related parties)	7,427	44,705
Cash and bank balances	1,484	8,347
Trade and other payables	(3,896)	(23,696)
Bank borrowings	-	(375)
	-----	-----
Net consolidated statement of financial position exposure	5,015	28,981
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

34 Financial instruments (continued)

Market risk (continued)

Exposure to currency risk (continued)

31 December 2015	GBP -----'000-----	EURO -----'000-----
Trade and other receivable (including due from related parties)	6,522	51,912
Cash and bank balances	2,641	6,736
Trade and other payables	(4,670)	(35,145)
Bank borrowings	-	(6,178)
	-----	-----
Net consolidated statement of financial position exposure	4,493	17,325
	=====	=====

The following are exchange rates applied during the year:

	Reporting date		Average rate	
	Spot rate			2015
	2016	2015	2016	
Great Britain Pound (GBP)	4.490	5.439	4.966	5.616
Euro (EUR)	3.823	4.016	4.064	4.078

Sensitivity analysis

A strengthening (weakening) of the AED, as indicated below, against the EUR and GBP by 5% at 31 December would have increased (decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchange variances that the Group considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2015.

	Strengthening		Weakening	
	Profit or loss	Equity	Profit or loss	Equity
	-----AED'000-----			
31 December 2016				
GBP	(1,245)	-	1,245	-
EURO	(5,889)	-	5,889	-
 31 December 2015				
GBP	(1,262)	-	1,262	-
EURO	(3,534)	-	3,534	-

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Market risk (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt financings with floating interest/profit rates.

The Group's policy is to manage its financing cost using a mix of fixed and floating interest/profit rate. To manage this, the Group enters into interest rate swaps, from time to time whereby the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2016, 14.30% (2015: 1.28%) of the Group's term financings are at a fixed rate of interest.

At the reporting date, the interest/profit rate profile of the Group's financial instruments was:

	2016 AED'000	2015 AED'000
Fixed rate instruments		
<i>Financial assets</i>		
Fixed deposits	188,223	80,825
Due from related parties	-	4,920
	=====	=====
<i>Financial liabilities</i>		
Bank borrowings	297,955	25,349
	=====	=====
Variable rate instruments		
<i>Financial assets</i>		
Due from related parties	-	-
	=	=
<i>Financial liabilities</i>		
Due to related parties	-	-
Bank borrowings	1,786,214	1,947,748
	=====	=====

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest/variable profit at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2015.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

34 Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or loss	
	100bp increase AED'000	100 bp decrease AED'000
31 December 2016		
<i>Financial liabilities</i>		
Variable instruments	(17,862)	17,862
	=====	=====
31 December 2015		
<i>Financial liabilities</i>		
Variable instruments	(19,477)	19,477
	=====	=====

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group limits its liquidity risk by ensuring bank facilities are available. The Group's credit terms require the amounts to be received within 90-180 days from the date of invoice. Trade payable are normally settled within 60-90 days of the date of purchase.

Typically the Group ensures that it has sufficient cash in hand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Liquidity risk (continued)

The following are the remaining contractual maturities of the Group's financial liabilities at the reporting dates, including estimated interest/profit payments:

	Carrying amount AED'000	----- Contractual cash flows -----			
		Total AED'000	0-1 year AED'000	1-2 years AED'000	More than 2 years AED'000
At 31 December 2016					
<i>Non-derivative financial liabilities</i>					
Bank borrowings	2,084,169	(2,218,434)	(822,695)	(332,577)	(1,063,162)
Trade and other payables	676,646	(676,646)	(676,646)	-	-
Due to related parties	49,451	(49,451)	(49,451)	-	-
	-----	-----	-----	-----	-----
	2,810,266	(2,944,531)	(1,548,792)	(332,577)	(1,063,162)
	=====	=====	=====	=====	=====
At 31 December 2015					
<i>Non-derivative financial liabilities</i>					
Bank borrowings	1,973,097	(2,091,032)	(711,702)	(277,980)	(1,101,350)
Trade and other payables	778,160	(778,160)	(778,160)	-	-
Due to related parties	23,277	(23,277)	(23,277)	-	-
	-----	-----	-----	-----	-----
	2,774,534	(2,892,469)	(1,513,139)	(277,980)	(1,101,350)
	=====	=====	=====	=====	=====

Equity risk

The Group is not significantly exposed to equity price risk.

Capital management

The Group's policy is to maintain a strong capital base to sustain future development of the business and maintain investor and creditor confidence. The Board seeks to maintain a balance between the higher returns and the advantages and security offered by a sound capital position.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

34 Financial instruments (continued)

Capital management (continued)

The Group manages its capital structure and make adjustments to it in light of changes in business conditions. Capital comprises share capital, share premium reserve, capital reserve, legal reserve, translation reserve, general reserve and retained earnings and amounts to AED 2,680 million as at 31 December 2016 (2015: AED 2,937 million). Debt comprised Islamic and interest bearing loans.

The debt equity ratio at the reporting date was as follows:

	2016 AED'000	2015 AED'000
Equity	2,680,080	2,937,452
	=====	=====
Debt	2,075,435	1,964,451
	=====	=====
Debt equity ratio	0.77	0.67
	====	====

There was no change in the Group's approach to capital management during the current year.

Fair values

Accounting classifications and fair values

The Group holds financial liabilities, measured at fair value which are classified in Level 2 at the reporting date.

Further, the Group does not disclose the fair values of financial instruments such as trade and other receivables, due from / due to related parties, trade and other payables and bank borrowings because their fair value approximates to their book values due to the current nature of these instruments as the effect of discounting is immaterial. In case of the non-current financial instruments, the fair value is estimated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

35 Hyperinflationary accounting

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and that corresponding figures for previous periods be stated in the same terms to the latest statement of financial position date. This had been applied in RAK Ceramics PJSC Limited, a subsidiary in Iran (from 2013), and in Ceramic Ras Al Khaimah Sudanese Investment Company, a subsidiary in Sudan (from 2014) and hence the impact had been calculated by means of conversion factors derived from the Consumer Price Index (CPI).

In 2015, the economy of the Islamic Republic of Iran ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning 1 January 2015, the Group ceased to apply IAS 29 on a prospective basis. As a result of this change, the carrying amounts of non-monetary assets are expressed at 31 December 2014 formed the basis for the respective assets at 1 January 2015. However, the foreign currency translation differences that arose on the RAK Ceramics PJSC Limited operations (subsidiary in Iran) continue to be classified under hyperinflation reserve in the equity.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

35 Hyperinflationary accounting (continued)

The application of the IAS 29 restatement procedures has the effect of amending certain accounting policies at the subsidiary's level which are used in the preparation of the financial statements under the historical cost conversion. The impact of hyperinflationary accounting of Sudan on the consolidated financial statement until its assets were classified as held for sale in 2015 (refer note 22) was as follows:

Ceramic Ras Al Khaimah Sudanese Investment Company (Sudan)	AED'000
Increase in property plant and equipment	3,555
Increase in inventories	5,865

Increase in net book value	9,420
	=====
<i>Allocated to:</i>	
Increase in opening equity due to cumulative hyperinflation since 31 December 2014 (refer note 23(iv))	16,248
Foreign currency translation reserve	44
Impact on profit or loss during the current period	(6,872)

	9,420
	=====

The net impact of hyperinflationary accounting in Sudan on net monetary position for the year ended 31 December 2015 amounts to a loss of AED 2.31 million. The entity in Sudan was disposed in 2015, and accordingly no impact of hyperinflation is noted in the year 2016. Refer note 22.

36 Segment reporting

Basis for segmentation

The Group has broadly three reportable segments as discussed below, which are the Group's strategic business units. The strategic business units operate in different sectors and are managed separately because they require different strategies. The following summary describes the operation in each of the Group's reportable segments:

<i>Ceramics products</i>	includes manufacture and sale of ceramic wall and floor tiles, Gres Porcellanato and bath-ware products.
<i>Contracting products</i>	includes construction projects, civil works and contracting for the supply, installation, execution and maintenance of electrical and mechanical works.
<i>Other industrial</i>	includes table ware, paints, plastics, glue, chemicals, and faucets.
<i>Others</i>	other operations include trading, travel, hotel and real estate.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

36 Segment reporting (continued)

Information about the reportable segments

Information regarding the operations of each separate segment is included below. Performance is measured based on segment profit as management believes that profit is the most relevant factor in evaluating the results of certain segments relative to other entities that operate within these industries.

	Ceramics Products AED'000	Contracting AED'000	Other Industrial AED'000	Others AED'000	Eliminations AED'000	Total AED'000
<i>Year ended 31 December 2016</i>						
External revenue	2,254,437	239,494	260,842	38,305	-	2,793,078
Inter segment revenue	283,363	8,906	203,023	17,328	(512,620)	-
Reportable segment profit before tax	36,452	43,173	73,242	17,438	(123,642)	46,663
Interest income	3,142	1,074	444	113	(1,212)	3,561
Finance costs	59,937	47	12	37	(1,196)	58,837
Depreciation and amortisation	124,855	54,275	8,069	8,610	-	195,809
Share of profit of equity accounted investees	(22,607)	(1,633)	12,581	7,795	(174)	(4,038)
Reportable segment assets	6,225,732	405,025	519,017	373,858	(1,767,378)	5,756,254
Reportable segment liabilities	3,217,834	173,546	127,722	129,593	(572,521)	3,076,174
	=====	=====	=====	=====	=====	=====
	Ceramics Products AED'000	Contracting AED'000	Other Industrial AED'000	Others AED'000	Eliminations AED'000	Total AED'000
<i>Year ended 31 December 2015</i>						
External revenue	2,440,861	320,401	231,205	86,390	-	3,078,857
Inter segment revenue	211,100	23,620	163,297	121,294	(519,311)	-
Reportable segment profit before tax	484,437	88,422	58,231	63,391	(361,792)	332,689
Interest income	8,234	715	606	-	(3,203)	6,352
Finance cost	52,728	1,414	11	111	(2,547)	51,717
Depreciation and amortisation	126,381	58,014	7,605	6,045	-	198,045
Share of profit of equity accounted investees	(3,167)	32	11,775	9,655	(1,770)	16,525
Reportable segment assets	6,285,616	485,081	494,031	357,961	(1,640,914)	5,981,775
Reportable segment liabilities	3,050,492	246,083	113,622	119,949	(485,823)	3,044,323
	=====	=====	=====	=====	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

36 Segment reporting (continued)

Geographical information

The ceramic products, contracting and other industrial segments are managed on worldwide basis, but operate manufacturing facilities primarily in UAE, India, Iran, China and Bangladesh.

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. Investment in equity accounted investees is presented based on the geographical location of the entity holding the investment.

	2016 AED'000	2015 AED'000
Revenue		
Middle East (ME)	1,437,017	1,995,946
Euro zone countries	495,641	396,574
Asian countries (other than ME)	645,011	460,624
Others	215,409	225,713
	-----	-----
	2,793,078	3,078,857
	=====	=====
Non-current assets		
Middle East (ME)	2,159,095	2,040,954
Asian countries (other than ME)	371,565	514,608
Others	168,586	175,029
	-----	-----
	2,699,246	2,730,591
	=====	=====
Reconciliation of reportable segment		
	2016 AED'000	2015 AED'000
Revenues		
Total revenue for reportable segments	3,305,698	3,598,168
Elimination of inter segment revenue	(512,620)	(519,311)
	-----	-----
	2,793,078	3,078,857
	=====	=====
Profit before tax		
Total profit or loss for reportable segments before tax	176,734	694,481
Elimination of inter-segment profits	(130,071)	(361,792)
	-----	-----
	46,663	332,689
	=====	=====
Assets		
Total assets for reportable segment	5,643,876	5,854,212
Equity accounted investees	112,378	127,563
	-----	-----
	5,756,254	5,981,775
	=====	=====
Other material items		
Interest income	3,561	6,352
Finance costs	58,837	51,717
Depreciation and amortization	195,809	198,045
	=====	=====

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees

Name of the entity	Country of incorporation	Ownership interest 2016	Ownership interest 2015	Principal activities
A Subsidiaries of R.A.K Ceramics PJSC				
RAK Ceramics (Bangladesh) Limited (refer note 5(b)(i))	Bangladesh	71.57%	71.57%	Manufacturers of ceramic tiles and sanitary ware
RAK (Gao Yao) Ceramics Co. Limited	China	100%	100%	Manufacturers of ceramic tiles
RAK Ceramics PJSC Limited (refer note 5(a)(iv))	Iran	100%	100%	Manufacturers of ceramic tiles
RAK Ceramics India Private Limited (refer note 5(a)(iv))	India	100%	100%	Manufacturers of ceramic tiles and sanitary ware
Elegance Ceramics LLC	UAE	100%	100%	Manufacturers of ceramic tiles
Prestige Tiles Pty Limited (refer note 5(a)(ii))	Australia	100%	95%	Trading in ceramic tiles
RAK Bathware Pty Limited	Australia	100%	100%	Trading in sanitary ware
Acacia Hotels LLC	UAE	100%	100%	Lease of investment property
Electro RAK LLC (refer note 5(a)(vii))	UAE	51.08%	51.08%	Mechanical, electrical and plumbing (MEP) contracting
RAK Ceramics Holding LLC	UAE	100%	100%	Investment company
Al Jazeerah Utility Services LLC	UAE	100%	100%	Provision of utility services
RAK Ceramics (Al Ain) and RAK Ceramics (Abu Dhabi)	UAE	100%	100%	Trading in ceramic tiles and sanitary ware
Ceramin FZ LLC	UAE	100%	100%	Manufacturing, processing import & export of industrial minerals
Al Hamra Construction Company LLC	UAE	100%	100%	Construction company

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees (continued)

Name of the entity	Country of incorporation	Ownership interest		Principal activities
		2016	2015	
A Subsidiaries of R.A.K Ceramics PJSC (continued)				
RAK Porcelain LLC	UAE	50%	50%	Manufacturing of porcelain tableware
RAK Ceramics Company LLC	Saudi Arabia	100%	100%	Trading in ceramic tiles and sanitary ware
RAK Ceramics UK Limited (refer note 5(a)(i))	UK	100%	-	Trading in ceramic tiles and sanitary ware
RAK Ceramics GmbH (refer note 5(a)(i))	Germany	100%	-	Trading in ceramic tiles and sanitary ware
B Subsidiaries of RAK Ceramics Bangladesh Limited				
RAK Power Private Limited (refer note 5(a)(vi))	Bangladesh	100%	100%	Power generation for captive consumption
RAK Securities and Services Private Limited (refer note 5(a)(vi))	Bangladesh	100%	100%	Providing security services
C Subsidiaries of Electro RAK LLC (refer note 39)				
Encom Trading LLC	UAE	90%	90%	Trading in electrical goods
RAK Industries LLC (refer note (i) below)	UAE	70%	70%	Manufacturing and trading of switchgears
Emirates Heavy Engineering LLC (refer note (ii) below)	UAE	50%	50%	Heavy industrial engineering and related fabrication works
Electro RAK (India) Private Limited	India	51%	51%	Electrical, plumbing, ducting, air - conditioning works
D Subsidiary of Emirates Heavy Engineering LLC				
RAK Fabrication LLC (refer note (iii) below)	UAE	100%	100%	Fabrication contract works

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2016	2015	
E	Subsidiaries of RAK Ceramics Holding LLC				
	RAK Paints LLC	UAE`	100%	100%	Manufacturers of paints and allied products
	AAA Contractors LLC	UAE	100%	100%	Construction company
	RAK Universal Plastics Industries LLC (refer note (iv) below)	UAE	66%	66%	Manufacturers of pipes
	Al Hamra For Travels	UAE	100%	100%	Airline ticket booking agent
	RAK Ceramics Typing Est.	UAE	100%	100%	Typing, photocopying and translation services
	RAK Ceramics Regional Sales (Asia Pacific) PTE Limited	Singapore	100%	100%	Trading in ceramic tiles and sanitary ware
F	Subsidiaries of RAK Ceramics UK Limited				
	RAK Distribution Europe SARL (refer note 5(a)(i))	Italy	100%	-	Trading in ceramic tiles and sanitary ware
G	Subsidiary of RAK Paints LLC				
	Altek Emirates LLC (refer note (vi) below)	UAE	99%	99%	Manufacturers of paints and adhesive products
H	Subsidiaries of Ceramin FZ LLC				
	Ceramin India Private Limited	India	100%	100%	Extraction, distribution and export of clay and other minerals
	Ceramin SDN BHD	Malaysia	100%	100%	Extraction, distribution and export of clay other minerals
	Feldspar Minerals Company Limited (refer note (vii) below)	Thailand	40%	40%	Extraction, distribution and export of clay and other minerals

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2016	2015	
I	Subsidiary of Elegance Ceramics LLC				
	Venezia Ceramics	UAE	100%	100%	General trading
J	Subsidiary of Ceramin India Private Limited				
	Shri Shiridi Sai Mines	India	97%	97%	Mining activities
K	Subsidiary of RAK Porcelain LLC				
	RAK Porcelain Europe S.A. (refer note 5(a)(v))	Luxemburg	91%	91%	Import and Export of porcelain tableware
L	Subsidiary of RAK Porcelain Europe S.A.				
	RAK Porcelain USA Inc. refer note 5(a)(iii))	USA	100%	91%	Trading of tableware
M	Jointly controlled entities of R.A.K Ceramics PJSC				
	RAK Saudi LLC	Saudi Arabia	50%	50%	Trading in ceramic tiles and sanitary ware items
	RAK Chimica LLC (refer note (viii) below)	UAE	55.55%	55.55%	Manufacturing of chemicals used in ceramic industries
	Kludi RAK LLC (refer note (viii) below)	UAE	51%	51%	Manufacturing of water tap faucets etc.
	RAK Warehouse Leasing LLC	UAE	50%	50%	Leasing industrial warehouse spaces
	ARK International Trading Company LLC	Saudi Arabia	50%	50%	Trading in ceramics tiles
	RAK Ceramics Holding LLC Georgia (refer note (viii) below)	Georgia	51%	51%	Trading in ceramic tiles and sanitary ware items
	Agora Commerce and Investments FZ-LLC	Congo	50%	50%	Investment company
	RAK Ceramics Distribution Europe (refer note 5(a)(i))	Italy	-	50%	Trading in ceramic tiles and sanitary ware items
	RAK Ceramics UK Limited (refer note 5(a)(i))	UK	-	50%	Trading in ceramic tiles and sanitary ware items

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2016	2015	
	RAK Ceramics GmbH (refer note 5(a)(i))	Germany	-	50%	Trading in ceramic tiles and sanitary ware items
N	Associate of RAK Ceramics PJSC				
	Encom Trading LLC	UAE	10%	10%	Trading in electrical goods
O	Associate of Ceramin FZ LLC				
	Palang Suriya Company Limited	Thailand	40%	40%	Extraction, distribution and export of clay and other minerals
P	Jointly controlled entity of Prestige Tiles Pty Limited				
	Massa Imports Pty Limited	Australia	50%	50%	Trading in ceramic tiles
Q	Jointly controlled entity of RAK Ceramics Holding LLC				
	RAK Watertech LLC (refer notes 5(b)(vi) and 17(i))	UAE	51%	51%	Waste-water treatment works
	Keraben Gulf LLC (refer note (viii) below)	UAE	51%	51%	General trading
	Emirates Heavy Engineering LLC (refer note (ii) below)	UAE	50%	50%	Heavy industrial engineering and related fabrication works
R	Jointly controlled entities of RAK Porcelain LLC (refer note 15(i))				
	Restofair RAK LLC (refer note (ix) below)	UAE	47%	41%	Trading in Catering and turnkey contracting projects
S	Subsidiary of Palang Suriya Compay Limited				
	Feldspar Minerals Co. Limited	Thailand	60%	60%	Extraction, distribution and export of clay and other minerals
T	Associate of Encom Trading LLC				
	RAK Industries LLC	UAE	30%	30%	Manufacturing and trading of Switchgears

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

37 Subsidiaries and equity accounted investees (continued)

- (i) The Group holds 70% equity interest in RAK Industries LLC through Electro RAK LLC. In addition to this, Encom Trading LLC in which Electro RAK LLC holds 90% equity interest and the Company holds 10% equity interest, also has 30% equity interest in RAK Industries LLC resulting in a 97% holding by Electro RAK LLC. Accordingly, the Group effectively holds 52.69% equity interest of RAK Industries LLC.
- (ii) In addition to the 50% equity interest in Emirates Heavy Engineering LLC held through Electro RAK LLC, the Group also holds the remaining 50% equity interest through RAK Ceramics Holdings LLC, a fully owned subsidiary of the Group. Accordingly, the Group effectively holds 75.54% equity interest in Emirates Heavy Engineering LLC.
- (iii) RAK Fabrication LLC is a wholly owned subsidiary of Emirates Heavy Engineering LLC. The Group holds 75.5% effective equity interest in Emirates Heavy Engineering LLC, 50% through RAK Ceramics Holding LLC and 25.54% through Electro RAK LLC.
- (iv) The Group holds 66% equity interest in RAK Universal Plastics LLC through RAK Ceramics Holding LLC. In addition to this, RAK Watertech LLC in which RAK Ceramics Holding LLC holds 51% equity interest, also has 24% equity interest in RAK Universal Plastic LLC. Accordingly, the Group effectively holds 78.24% equity interest in RAK Universal Plastics LLC.
- (v) During the current year, the Group has acquired the remaining 50% equity interests in its joint equity accounted investees i.e RAK Ceramics UK Limited, RAK Ceramics GmbH and RAK Ceramics Distribution Europe SARL, Italy converted them into a wholly owned subsidiaries. Furthermore, the Group has also acquired the remaining 5% equity interests of its subsidiary Prestile Tile Pty Limited and converted it into a wholly owned subsidiary.
- (vi) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the Group also holds remaining 1% equity interest which is held by RAK Ceramics Holding LLC, a fully owned subsidiary of the Group. Accordingly the entity has been treated as fully owned subsidiary of the Group.
- (vii) Ceramin FZ LLC holds 40% equity interest in Feldspar Minerals Company Limited. In addition to this, Palang Suriya Company Limited in which Ceramin FZC holds 40% equity interest, also has 60% equity interest in this entity. Accordingly, the Group effectively holds 64% equity interest in Feldspar Minerals Company Limited.
- (viii) RAK Watertech LLC, RAK Chimica LLC, Kludi RAK LLC, RAK Ceramics Holding LLC Georgia and Keraben Gulf LLC have been considered as Joint Ventures of the Group since the Group exercise only joint control over the financial and operating policies of these entities with other partners.
- (ix) During the current year, RAK Porcelain LLC has acquired a further 6% shares in Restofair RAK LLC. The Group also holds 23.5% equity interest of Restofair RAK LLC through RAK Porcelain LLC.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

38 Significant accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are as follows.

Revenue from construction contracts

Revenue from construction contracts is recognized in profit or loss when the outcome of the contract can be estimated reliably. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from period to period.

Project stage of completion and cost to complete estimates

At each date of the consolidated statement of financial position, the Group is required to estimate stage of completion and costs to complete on fixed price and modified fixed price contracts. These estimates require the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claim by contractors and the costs of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the year in which these estimates are revised.

Estimated useful life and residual value of property, plant and equipment and investment property

The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and on the historical experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The Group's management has carried out a review of the residual values and useful lives of property, plant and equipment and investment property and made certain revisions in the previous year. Refer notes 14 and note 16.

Fair valuation of investment property

The Group follows the cost model under IAS 40 whereby investment property are stated at cost less accumulated depreciation and impairment losses, if any. Fair value of investment property are disclosed in note 16 of the consolidated financial statements. The fair values for building have been determined taking into consideration the market replacement cost. Fair values for land have been determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. Should the key assumptions change, the fair value of investment property may significantly change and result in an impairment of the investment property.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

38 Significant accounting estimates and judgements (continued)

Provision for obsolete inventories and net realisable value write down on inventories

The Group reviews its inventory to assess loss on account of obsolescence and any write down for net realisable value adjustment on a regular basis. In determining whether provision for obsolescence should be recorded in profit and loss, the Group makes judgments as to whether there is any observable data indicating that there is any future saleability of the product and the net realisable value for such product. Provision for net realisable value write down is made where the net realisable value is less than cost based on best estimates by the management. The provision for obsolescence of inventory is based on its ageing and the past trend of consumption.

Impairment of goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (refer accounting policy on impairment). Testing for impairment requires management to estimate the recoverable amount of the cash generating unit to which the goodwill is allocated.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangibles assets are tested for impairment when there is an indication of impairment. Testing for impairment of these property, plant and equipment and intangible assets requires management to estimate the recoverable amount of the cash generating unit.

Impairment losses on trade and other receivables (including related parties)

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

Identifiable assets and liabilities taken over on acquisition of subsidiaries

The Group separately recognizes assets and liabilities on the acquisition of a subsidiary when it is probable that the associated economic benefits will flow to the acquirer or when, in the case of liability, it is probable that an outflow of economic resources will be required to settle the obligation and the fair value of the asset or liability can be measured reliably. Intangible assets and contingent liabilities are separately recognized when they meet the criteria for recognition set out in IFRS 3.

Current and deferred tax

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period in which a determination is made.

R.A.K Ceramics PJSC and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2016

38 Significant accounting estimates and judgements (continued)

Consolidation – de facto control

As per new control model of IFRS 10, the Group has assessed for all its investees whether it has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns. In determining control, judgements have been exercised on the relationship of the Group with the investees based on which conclusions have been drawn.

39 Subsequent events

Subsequent to the year end, the Group has entered into a sale and purchase agreement with one of the shareholders of Electro RAK LLC to dispose of its entire shareholding in Electro RAK LLC, Emirates Heavy Engineering LLC and Encom Trading. Refer note 37C.

40 Comparative figures

Certain comparative figures have been reclassified/regrouped, wherever necessary to conform to the presentation adopted in these consolidated financial statements. These do not materially impact the reported amount of net profits or net assets.