RAK CERAMICS

Condensed Consolidated
Interim Financial Information

30 September 2018

RAK Ceramics PJSC and its Subsidiaries

Condensed consolidated interim financial information
30 September 2018

Table of contents

Report of the Board of Directors

On financial performance during the nine month period ending 30 September 2018

01 November 2018

Dear Members,

It is our pleasure to present the business & operations report for the nine month period ending 30 September 2018, along with the Condensed Consolidated Interim Financial Information for the same period. The results of the core business for the period continued to remain stable while the company reported steady year on year performance.

In the first quarter of the current year, we had (i) completed acquisition of further stake of 30% in the distribution entity in KSA enhancing our control on Saudi operations, (ii) completed sale of rough grading equipment in one of the contracting subsidiary of the group in continuation of downsizing the non-core business, and (iii) successfully implemented VAT in the UAE & KSA with filing monthly returns on time. During the third quarter, we have acquired remaining 20% stake in distribution entity in KSA making it a wholly owned subsidiary.

Production trials began in the recently expanded facility in Morbi, Gujarat in October 2018. The greenfield project in India is progressing as scheduled and is due to begin commercial production early 2019.

Financial & Operating Results

While the core revenue for the nine month period amounted to AED 1,945.0 million, higher by +1.0%, compared to same period of last year, the reported revenue amounted to AED 2,050.6 million, lower by –2.7%, compared to the same period of last year. The decrease is on account of lower revenue from non-core business by –58.2%, reflecting the complete discontinuation of the rough-grading business, in line with the company's value creation plan.

During the third quarter, the company reported stable year on year performance with total revenues at AED 669.5 million and core revenues at par at AED 639.6 million.

Core gross profit margins increased by 50 bps year on year to reach 33.2%, despite an increase in raw material costs and energy prices. The company continued to invest in upgrading of machines and the installation of co-gen and heat recovery systems to reduce consumption of gas and power.

Core EBITDA for the third quarter decreased by 24.3% to AED 108.5 million, year on year, with margins of 15.3%.

The reported net profit declined by 14% quarter on quarter to AED 47.4 million due to an increase in energy and raw material costs; costs driven by expenses associated with the consolidation of Saudi Arabian entities and foreign exchange losses due to adverse currency impact and increase in LIBOR.

Financial highlights for the nine-month period ending 30 September 2018

Particulars	Unit	YTD September 2018	YTD September 2017	Change
Total Revenue	AED Mio	2,050.6	2,107.4	-2.7%
Gross Profit	AED Mio	681.1	677.5	0.5%
GP Margin	%	33.2%	32.1%	110 bps
EBITDA	AED Mio	337.1	410.6	-17.9%
EBITDA Margin	%	16.4%	19.5%	-
Reported Net Income	AED Mio	167.9	262.3	-36.0%
Reported Net Income margin	%	8.2%	12.4%	-
Net income before one-off, provisions & strategic gains	AED Mio	160.2	223.3	-28.3%
Net income margin before one-off, provisions & strategic gains	%	7.8%	10.6%	-280 bps
Reported Profit after NCI (Minority)	AED Mio	139.3	230.3	-39.5%
Reported Earnings per share	AED	0.15	0.26	-
		30 September 2018	**31 December 2017**	**Change**
Total Assets	AED Mio	5,514.1	5,800.9	-4.9%
Share Capital	AED Mio	901.3	858.4	5%
Shareholders’ Equity	AED Mio	2,465.0	2,664.3	-7.5%
Net Debt	AED Mio	1,485.5	1,407.9	5.5%
Net Debt / EBITDA	Times	3.23	2.64	-
Cost of Debt	%	3.89%	3.15%	74bps

Corporate Social Responsibility, Exhibitions, Awards & Other Activities

Awards

The Company and the Group CEO received

- Outstanding CEO - Global Business Excellence Awards
- Executive of the Year - BIG Awards for Business
- 2018 CEO of the Year, UAE - CEO Monthly Magazine

Exhibitions

- **Cersaie, Italy**: We showcased most innovative and stylish tiles and sanitaryware collections including the ‘M-Project’ and the ‘RAK Cloud’ series

Future Outlook

Looking ahead of 2018, there are a number of external factors that might affect our business with increased competition, gas and oil price volatility and geo-political headwinds. However, we see that GDP is growing in all of our core markets and the UAE and KSA have higher government infrastructure budgets this year giving positive trends for growth.

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.

01 NOV 2018

Chairman **Director** **Chief Executive Officer**

R.A.K Ceramics PJSC
and its subsidiaries

Condensed consolidated
interim financial information
30 September 2018

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated interim financial information
30 September 2018

Contents — ***Page***

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders of R.A.K Ceramics PJSC

Introduction

We have reviewed the accompanying September 30, 2018 condensed consolidated interim financial information of R.A.K Ceramics PJSC ("the Company") and its subsidiaries ("the Group"), which comprises:

- the condensed consolidated statement of financial position as at September 30, 2018;
- the condensed consolidated statement of profit or loss for the three month and nine month periods ended September 30, 2018;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three month and nine month periods ended September 30, 2018;
- the condensed consolidated statement of changes in equity for the nine month period ended September 30, 2018;
- the condensed consolidated statement of cash flows for the nine month period ended September 30, 2018; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Ras Al Khaimah, United Arab Emirates

Date:

01 NOV 2018

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of profit or loss (unaudited)

for the three month and nine month periods ended 30 September 2018

		Nine month period ended 30 September		**Three month period ended 30 September**	
	Note	**2018 AED'000**	2017* AED'000	**2018 AED'000**	2017* AED'000
Revenue	*6*	**2,050,554**	2,107,440	**669,529**	705,240
Cost of sales	*7*	**(1,369,457)**	(1,429,975)	**(446,301)**	(483,405)
Gross profit		**681,097**	677,465	**223,228**	221,835
Administrative and general expenses	*8*	**(172,737)**	(157,076)	**(58,602)**	(50,503)
Impairment loss of trade receivables and due from related parties	*8(i)*	**(11,250)**	(33,735)	**(4,549)**	(2,289)
Selling and distribution expenses	*9*	**(338,487)**	(305,831)	**(110,861)**	(92,053)
Other income		**73,076**	56,838	**15,431**	14,719
Operating profit		**231,699**	237,661	**64,647**	91,709
Finance costs	*10(i)*	**(70,509)**	(52,197)	**(19,953)**	(18,010)
Finance income	*10(ii)*	**8,558**	19,363	**1,210**	13,155
Share in profit of equity accounted investees	*13*	**7,649**	11,998	**2,690**	3,666
Gain on disposal of an equity accounted investee	*13(i)*	**-**	57,899	**-**	-
Gain on disposal of subsidiaries	*26*	**-**	3,818	**-**	-
Profit before tax		**177,397**	278,542	**48,594**	90,520
Tax expense		**(9,499)**	(16,194)	**(1,208)**	(5,831)
Profit for the period		**167,898**	262,348	**47,386**	84,689
Profit attributable to:					
Owners of the Company		**139,264**	230,349	**38,418**	74,295
Non-controlling interests		**28,634**	31,999	**8,968**	10,394
Profit for the period		**167,898**	262,348	**47,386**	84,689
Earnings per share					
- basic and diluted (AED)	*23*	**0.15**	0.26	**0.04**	0.08

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective 1 January 2018. Under the transition method chosen, comparative information for 2017 has not been restated. Refer note 3.

The notes on pages 10 to 33 are an integral part of this condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on pages 1 and 2.

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of profit or loss and other comprehensive income (unaudited)

for the three month and nine month periods ended 30 September 2018

	Nine month period ended 30 September		Three month period ended 30 September	
	2018	2017*	**2018**	2017*
	AED'000	AED'000	**AED'000**	AED'000
Profit for the period	**167,898**	262,348	**47,386**	84,689
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	**(35,359)**	(3,198)	**(9,215)**	(7,471)
Reclassification of foreign currency translation reserve on disposal of subsidiaries	**-**	128	**-**	-
Cash flow hedges – effective portion of changes in fair value	**1,657**	239	**(575)**	330
Total comprehensive income for the period	**134,196**	259,517	**37,596**	77,548
Total comprehensive income attributable to:				
Owners of the Company	**108,394**	230,302	**29,434**	68,638
Non-controlling interests	**25,802**	29,215	**8,162**	8,910
Total comprehensive income for the period	**134,196**	259,517	**37,596**	77,548

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective 1 January 2018. Under the transition method chosen, comparative information for 2017 has not been restated. Refer note 3.

The notes on pages 10 to 33 are an integral part of this condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on pages 1 and 2.

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of financial position

as at 30 September 2018

	Note	30 September 2018 AED'000 (Unaudited)	31 December 2017* AED'000 (Audited)
Assets			
Property, plant and equipment	*12*	**1,130,529**	1,136,424
Goodwill	*11*	**120,266**	89,001
Intangible assets		**27,765**	27,929
Investment properties		**1,182,359**	1,190,350
Investments in equity accounted investees	*13*	**41,037**	41,764
Long term receivables	*15(i) & 19(i)*	**71,375**	105,767
Deferred tax assets		**4,412**	1,007
Non-current assets		**2,577,743**	2,592,242
Inventories	*14*	**1,325,538**	1,214,702
Trade and other receivables	*15*	**1,228,979**	1,291,178
Contract work-in-progress		**1,083**	7,048
Due from related parties	*19*	**105,633**	168,873
Derivative financial assets	*21*	**9,458**	7,452
Cash in hand and at bank	*16*	**265,681**	516,478
Assets held for sale		**-**	2,975
Current assets		**2,936,372**	3,208,706
Total assets		**5,514,115**	5,800,948
Equity and liabilities			
Equity			
Share capital	*17*	**901,318**	858,398
Reserves		**1,563,664**	1,805,859
Equity attributable to owners of the Company		**2,464,982**	2,664,257
Non-controlling interests		**199,124**	186,638
Total equity		**2,664,106**	2,850,895
Liabilities			
Islamic bank financings	*20(a)(ii)*	**290,875**	375,023
Interest bearing bank financings	*20(b)(ii)*	**768,741**	869,116
Provision for employees' end of service benefits		**89,489**	85,743
Deferred tax liabilities		**8,579**	8,187
Non-current liabilities		**1,157,684**	1,338,069
Islamic bank financings	*20(a)(i)*	**318,216**	331,625
Interest bearing bank financings	*20(b)(i)*	**373,293**	348,608
Trade and other payables	*18*	**793,246**	732,219
Due to related parties	*19*	**51,067**	44,275
Derivative financial liabilities	*21*	**-**	3,818
Provision for taxation		**156,503**	151,439
Current liabilities		**1,692,325**	1,611,984
Total liabilities		**2,850,009**	2,950,053
Total equity and liabilities		**5,514,115**	5,800,948

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective 1 January 2018. Under the transition method chosen, comparative information for 2017 has not been restated. Refer note 3.

The notes on pages 10 to 33 are an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information was authorised for issue by and on behalf of the Board of Directors on 01 NOV 2018

Chairman   Director   Chief Executive Officer

The independent auditors' report on review of condensed consolidated interim financial information is set out on pages 1 and 2.

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of cash flows (unaudited)

for the nine month period ended 30 September 2018

	Nine month period ended 30 September	
	2018	2017*
	AED'000	AED'000
Operating activities		
Profit for the period before tax	**177,397**	278,542
Adjustments for:		
Share in profit of equity accounted investees	**(7,649)**	(11,998)
Interest expense	**36,938**	29,601
Profit expense on Islamic financing	**18,003**	17,989
Interest income	**(3,222)**	(1,960)
Profit on wakala deposits	**(336)**	(371)
Gain on disposal of property, plant and equipment	**(22,443)**	(11,521)
Gain on disposal of subsidiaries	**-**	(3,818)
Gain on disposal of an equity accounted investee	**-**	(57,899)
Gain on disposal of investment properties	**(154)**	(1,737)
Depreciation on property, plant and equipment	**104,623**	113,124
Depreciation on investment properties	**7,778**	7,682
Amortisation of intangible assets	**4,664**	3,610
Capital work in progress written off	**1,146**	1,543
Provision for employees' end-of-service benefits	**13,058**	14,940
	----------	----------
	329,803	377,727
Change in:		
- inventories (including contract work in progress)	**(75,172)**	19,275
- trade and other receivables (including long term portion)	**2,769**	(125,233)
- due from related parties (including long term portion)	**31,204**	34,130
- assets classified as held for sale	**2,975**	-
- trade and other payables (including billings in excess of valuation)	**56,535**	44,854
- due to related parties	**6,792**	12,317
- derivative financial liabilities	**(4,167)**	2,255
- deferred tax assets	**(3,405)**	1,624
- deferred tax liabilities	**392**	1,388
Income tax paid	**(4,435)**	(5,292)
Employees' end-of-service benefits paid	**(10,944)**	(9,192)
Currency translation adjustment	**1,991**	(4,830)
	----------	----------
Net cash generated from operating activities	**334,338**	349,023
	----------	----------
Investing activities		
Additions to property, plant and equipment	**(147,550)**	(55,511)
Additions to investment properties	**(198)**	-
Proceeds from disposal of property, plant and equipment	**32,123**	7,951
Proceeds from disposal of investment properties	**1,501**	-
Additions to intangible assets	**(4,555)**	(1,266)
Proceeds from disposal of shares in subsidiaries	**-**	15,000
Proceeds from disposal of a subsidiary	**-**	24,699
Change in bank deposits	**-**	1,146
Dividend received from equity accounted investees	**7,453**	316
Profit received on wakala deposits	**336**	371
Interest received	**3,222**	1,960
Consideration paid for acquisition of a subsidiary	**(5,882)**	-
Acquisition of additional shares in a subsidiary	**(9,800)**	-
Cash foregone as part of disposal of shares in subsidiaries	**-**	(6,598)
Cash acquired as part of acquisition of subsidiaries	**1,145**	11,148
	----------	--------
Net cash used in investing activities	**(122,205)**	(784)
	----------	-----

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of cash flows (unaudited) (continued)

for the nine month period ended 30 September 2018

	Nine month period ended 30 September	
	2018	2017*
	AED'000	AED'000
Financing activities		
Long term bank financing availed	**85,502**	134,840
Long term bank financing repaid	**(192,216)**	(117,530)
Long term Islamic bank financing repaid	**(83,869)**	(69,064)
Long term Islamic bank financing availed	**-**	44,083
Net movement in short term financing	**(3,773)**	(50,129)
Net movement in short term Islamic bank financing	**(13,688)**	-
Interest paid	**(36,938)**	(29,601)
Profit paid on Islamic bank financing	**(18,003)**	(17,989)
Dividend paid	**(214,600)**	(128,760)
Dividend paid to non-controlling interests	**(26,858)**	(26,079)
Remuneration paid to the Board of Directors	**(3,700)**	-
Funds invested by non-controlling interests	**11,097**	-
	-----------	-----------
Net cash used in financing activities	**(497,046)**	(260,229)
	-----------	-----------
Net (decrease) / increase in cash and cash equivalents	**(284,913)**	88,010
Cash and cash equivalents at the beginning of the period	**512,135**	393,648
	----------	----------
Cash and cash equivalents at the end of the period	**227,222**	481,658
	======	======
Represented by:		
Cash in hand and at bank (net of bank deposits on lien)	**265,992**	497,725
Bank overdraft	**(38,770)**	(16,067)
	----------	----------
	227,222	481,658
	======	======

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective 1 January 2018. Under the transition method chosen, comparative information for 2017 has not been restated. Refer note 3.

The notes on pages 10 to 33 are an integral part of this condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on pages 1 and 2.

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of changes in equity

for the nine month period ended 30 September 2018

	Attributable to owners of the Company												
		Reserves											
	Share capital	Share premium	Legal reserve	Translation reserve	Hyper inflation reserve	Hedging reserve	General reserves	Capital reserves	Retained earnings	Total reserves	Total	Non-controlling interests (NCI)	Total 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	AED '000
Balance at 1 January 2017 (audited)	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
Total comprehensive income for the period (unaudited)													
Profit for the period	-	-	-	-	-	-	-	-	230,349	230,349	230,349	31,999	262,348
Other comprehensive income													
Foreign currency translation difference	-	-	-	2,965	(3,379)	-	-	-	-	(414)	(414)	(2,784)	(3,198)
Reclassification of foreign currency translation reserve to profit or loss	-	-	-	128	-	-	-	-	-	128	128	-	128
Changes in cash flow hedges	-	-	-	-	-	239	-	-	-	239	239	-	239
Total comprehensive income for the period	-	-	-	3,093	(3,379)	239	-	-	230,349	230,302	230,302	29,215	259,517
Other equity movements (unaudited)													
Transfer to legal reserve	-	-	34,616	-	-	-	-	-	(34,616)	-	-	-	-
Transactions with owners of the Company directly recorded in equity (unaudited)													
Dividend declared (refer note 22(i))	-	-	-	-	-	-	-	-	(128,760)	(128,760)	(128,760)	-	(128,760)
Dividend distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(28,199)	(28,199)
Change in NCI due to acquisition and disposal (refer note 26)	-	-	-	2,006	-	-	-	(6,638)	19,782	15,150	15,150	(2,440)	12,710
Capitalisation of retained earnings	-	-	-	-	-	-	-	5,570	(5,570)	-	-	-	-
At 30 September 2017 (unaudited)	858,398	221,667	521,099	(97,906)	(95,496)	6,183	82,805	52,798	1,071,447	1,762,597	2,620,995	174,353	2,795,348

R.A.K Ceramics PJSC and its subsidiaries

Condensed consolidated statement of changes in equity (continued)

for the nine month period ended 30 September 2018

|------Attributable to owners of the Company------|

|------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 reserves AED '000	Capital reserves AED '000	Retained earnings AED '000	Total reserves AED '000	Total AED '000	Non-controlling interests (NCI) AED '000	Total equity AED '000
Balance at 31 December 2017 (audited)	858,398	221,667	529,066	(94,594)	(98,955)	7,452	82,805	52,798	1,105,620	1,805,859	2,664,257	186,638	2,850,895
Adjustments on application of IFRS 9*	-	-	-	-	-	-	-	-	(72,683)	(72,683)	(72,683)	-	(72,683)
Balance at 1 January 2018 (restated)*	858,398	221,667	529,066	(94,594)	(98,955)	7,452	82,805	52,798	1,032,937	1,733,176	2,591,574	186,638	2,778,212
Total comprehensive income for the period (unaudited)													
Profit for the period	-	-	-	-	-	-	-	-	139,264	139,264	139,264	28,634	167,898
Other comprehensive income													
Foreign currency translation differences	-	-	-	(23,332)	(9,195)	-	-	-	-	(32,527)	(32,527)	(2,832)	(35,359)
Changes in cash flow hedges	-	-	-	-	-	1,657	-	-	-	1,657	1,657	-	1,657
Total comprehensive income for the period	-	-	-	(23,332)	(9,195)	1,657	-	-	139,264	108,394	108,394	25,802	134,196
Other equity movements (unaudited)													
Transfer to legal reserve	-	-	19,546	-	-	-	-	-	(19,546)	-	-	-	-
Directors' remuneration (refer note 22(ii))	-	-	-	-	-	-	-	-	(3,700)	(3,700)	(3,700)	-	(3,700)
Transactions with owners of the Company directly recorded in equity (unaudited)													
Dividend declared (refer note 22(i))	-	-	-	-	-	-	-	-	(214,600)	(214,600)	(214,600)	-	(214,600)
Dividend distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(26,858)	(26,858)
NCI due to acquisition and disposal (refer note 26)	-	-	-	-	-	-	-	-	(16,686)	(16,686)	(16,686)	2,445	(14,241)
Bonus shares issued (refer note 22(i))	42,920	-	-	-	-	-	-	-	(42,920)	(42,920)	-	-	-
Capitalisation of retained earnings	-	-	-	-	-	-	-	10,621	(10,621)	-	-	-	-
Funds invested by NCI	-	-	-	-	-	-	-	-	-	-	-	11,097	11,097
At 30 September 2018 (unaudited)	**901,318**	**221,667**	**548,612**	**(117,926)**	**(108,150)**	**9,109**	**82,805**	**63,419**	**864,128**	**1,563,664**	**2,464,982**	**199,124**	**2,664,106**

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective 1 January 2018. Under the transition method chosen, comparative information for 2017 has not been restated. Refer note 3.

The notes on pages 10 to 33 are an integral part of this condensed consolidated interim financial information.

1 Reporting entity

R.A.K Ceramics PJSC ("the 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 the Emiri Decree No. 9/91 dated 6 July 1991, the legal status of the Company was changed to a 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 the Abu Dhabi Securities Exchange, UAE.

The condensed consolidated interim financial information as at and for the nine month period ended 30 September 2018 (“the current period”) comprises the Company and its subsidiaries (collectively referred to as “the Group”) and the Group’s interest in equity accounted investees.

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

Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information does not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

Accounting estimates and judgments

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

The significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that were applied in the preparation of the consolidated financial statements of the Group as at and for the year ended 31 December 2017, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 3.

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team, which has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

2 Basis of preparation (continued)

Measurement of fair values (continued)

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the 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 categorised 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 in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3 Significant accounting policies

Except as described below, the accounting policies applied in the condensed consolidated interim financial information are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's condensed consolidated interim financial information.

The effect of applying these standards is mainly an increase in impairment losses recognised on financial assets (see note 3(b) below).

(a) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

3 Significant accounting policies (continued)

(a) IFRS 15 *Revenue from Contracts with Customers (continued)*

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with effect from 1 January 2018. As permitted the information presented for 2017 has not been restated and it is shown, as previously reported, under IAS 18, IAS 11 and related interpretations.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's recognition of revenue from the sale of goods and services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

The Group recognises revenue from sale of goods based on a five step model as set out in IFRS 15:

Step 1 Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer goods to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

3 Significant accounting policies (continued)

(a) IFRS 15 ***Revenue from Contracts with Customers (continued)***

Sale of goods

Customers obtain control of products when the goods are dispatched from the Group's warehouse as well as in accordance with the incoterms of the contract. Invoices are generated and revenue is recognised at that point in time. Invoices are usually in accordance with the credit terms of the respective customers.

Rendering of services

Revenue is recognised over time as services are provided. Invoices for services are issued when the Group provides services and are payable in accordance with the credit terms or agreements.

Under IFRS 15, the value of service contracts is allocated to all services based on their stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the Group sells the services in separate transactions.

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. When a claim or variation is recognised, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date. Claims and variations are included in the contract accounting when they are approved.

The impact of IFRS on the Group's accounting policies is not significant.

(b) IFRS 9 ***Financial instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The following table summarises the impact of transition to IFRS 9 on the opening balance of retained earnings.

	Impact of adopting IFRS 9 at 1 January 2018 AED'000
Retained earnings	
Recognition of expected credit losses under IFRS 9	**(72,683)**

Impact at 1 January 2018	**(72,683)**
	=====

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and those available for sale.

3 Significant accounting policies (continued)

(b) IFRS 9 Financial instruments *(continued)*

i. Classification and measurement of financial assets and financial liabilities (continued)

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; fair value through other comprehensive income ("FVOCI") – equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset within the scope of the standard, are never separated. Instead, the hybrid financial instrument as a whole is assessed for its classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are; solely; payments of principal and interest on the outstanding principal amount.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

3 Significant accounting policies (continued)

(b) IFRS 9 Financial instruments *(continued)*

i. Classification and measurement of financial assets and financial liabilities (continued)

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets / (liabilities)	**Note**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39 AED'000**	**New carrying amount under IFRS 9 AED'000**
Trade and other receivables	a	Loans and receivables	Amortised cost	**1,358,584**	**1,266,741**
Due from related parties	a	Loans and receivables	Amortised cost	**207,234**	**227,077**
Interest rate swaps used for hedging		Fair value - hedging instrument	Fair value - hedging instrument	**7,452**	**7,452**
Forward exchange contracts		Designated as at FVTPL	Mandatorily at FVTPL	**(127)**	**(127)**
Other currency and interest rate swaps		Designated as at FVTPL	Mandatorily at FVTPL	**(3,691)**	**(3,691)**
Cash in hand and at bank	b	Loans and receivables	Amortised cost	**516,478**	**515,795**
				2,085,930	**2,013,247**

a. Trade and other receivables and due from related parties that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A net increase of AED 72 million in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

3 Significant accounting policies (continued)

(b) IFRS 9 Financial instruments *(continued)*

i. Classification and measurement of financial assets and financial liabilities (continued)

Financial assets at amortised cost (continued)

b. Cash in hand and at bank that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An impairment loss of AED 0.68 million was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. This will require considerable judgement about how the changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade and other receivables, due from related parties and cash in hand and at bank.

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the financial assets that are not measured at FVTPL or FVOCI. Financial assets migrate through three stages based on the change in credit risk since initial recognition.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition.

1. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
2. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered as credit impaired, an amount equal to the default probability-weighted lifetime ECL will be recorded.
3. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments are classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable, reliable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to the respective credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

3 Significant accounting policies (continued)

(b) IFRS 9 Financial instruments *(continued)*

ii. Impairment of financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For financial assets at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Impact of the new impairment model

Apart from changes in classification and measurement of financial assets and financial liabilities, the effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets. The details of adjustments to the opening retained earnings and other account balances are as follows:

	31 December 2017 AED'000 (As previously reported)	Impact of re-measurement under IFRS 9 AED'000	1 January 2018 AED'000 (Restated)
Impairment loss on:			
Trade and other receivables	(187,078)	(91,843)	(278,921)
Due from related parties	(97,078)	19,843	(77,235)
Cash and bank balances	-	(683)	(683)
	(284,156)	**(72,683)**	**(356,839)**

4 New standards, interpretations and amendments

The following standard is effective for periods beginning after 1 January 2019 and is also available for early adoption. However, the Group does not plan to adopt this standard early.

- *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 on to companies' balance sheets, increasing the visibility of their assets and liabilities. It further 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 bring in certain additional contracts as leases.

The Group is assessing the potential impact of the application of IFRS 16.

5 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

6 Revenue

	Nine month period ended 30 September		**Three month period ended 30 September**	
	2018	2017*	**2018**	2017*
	AED'000	AED'000	**AED'000**	AED'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sale of goods	**2,025,580**	2,017,039	**662,273**	676,591
Rendering of services	**10,166**	15,907	**3,390**	4,923
Construction contract revenue	**14,808**	74,494	**3,866**	23,726
	2,050,554	2,107,440	**669,529**	705,240

* The Group has initially applied IFRS 15 – *Revenue from Contracts with Customers* at 1 January 2018. Under the transition method chosen, comparative information is not restated. Refer note 3.

7 Cost of sales

	Nine month period ended 30 September		**Three month period ended 30 September**	
	2018	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Raw materials consumed	**707,178**	643,785	**204,175**	201,997
Change in inventory of finished goods	**(102,138)**	5,608	**(9,785)**	10,199
Provision / (reversal) for slow moving and obsolete inventory – net	**5,829**	114	**(44)**	408
Direct labour	**178,672**	200,272	**59,039**	69,529
Power and fuel	**117,315**	134,480	**37,401**	47,210
LPG and natural gas	**176,567**	144,009	**59,841**	48,333
Depreciation on property, plant and equipment (refer note 12)	**83,996**	97,798	**27,959**	32,681
Repairs and maintenance expense	**85,020**	91,482	**28,551**	33,931
Packing material expenses	**78,436**	78,637	**26,311**	27,363
Sub-contractors' fee	**981**	254	**979**	131
Other	**37,601**	33,536	**11,874**	11,623
	1,369,457	1,429,975	**446,301**	483,405

8 Administrative and general expenses

	Nine month period ended 30 September		Three month period ended 30 September	
	2018	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Staff and other associated costs	**81,449**	74,765	**26,893**	24,339
Depreciation on property, plant and equipment (refer note 12)	**16,946**	14,214	**5,365**	4,839
Depreciation on investment properties	**7,778**	7,682	**2,622**	2,609
Telephone, postal and office supplies	**4,768**	4,155	**1,627**	1,456
Repairs and maintenance expense	**5,316**	5,364	**2,051**	1,833
Legal and professional fee	**8,186**	8,230	**2,936**	2,688
Rental expenses	**2,165**	1,883	**715**	785
Utility expenses	**4,215**	3,861	**1,106**	1,448
Security expenses	**1,186**	1,661	**350**	559
Amortisation of intangible assets	**4,664**	3,610	**1,473**	1,252
Information technology licenses and consultancy expenses	**8,375**	6,701	**3,125**	2,048
Expenses on investment properties	**7,040**	6,537	**3,048**	2,429
Other	**20,649**	18,413	**7,291**	4,218
	172,737	157,076	**58,602**	50,503

8(i) Impairment, provision and write offs

	Nine month 2018	Nine month 2017	Three month 2018	Three month 2017
Provision for impairment loss of trade receivables - net	**11,250**	10,585	**4,549**	2,289
Provision for impairment loss of due from related parties - net	**-**	23,150	**-**	-
	11,250	33,735	**4,549**	2,289

9 Selling and distribution expenses

	Nine month period ended 30 September		Three month period ended 30 September	
	2018	2017	**2018**	2017
	AED'000	AED'000	**AED'000**	AED'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Staff and other associated costs	**102,965**	97,214	**33,288**	33,985
Freight and transportation	**94,893**	87,081	**35,340**	25,815
Performance rebates	**63,144**	49,993	**20,036**	13,649
Advertisement and promotions expenses	**35,510**	35,648	**9,340**	7,237
Rental expenses	**21,131**	16,153	**5,255**	6,257
Travel and entertainment expenses	**3,675**	4,833	**1,083**	1,320
Depreciation on property, plant and equipment (refer note 12)	**3,681**	1,112	**1,556**	365
Other	**13,488**	13,797	**4,963**	3,425
	338,487	305,831	**110,861**	92,053

10 Finance costs and income

		Nine month period ended 30 September		Three month period ended 30 September	
		2018	2017	**2018**	2017
		AED'000	AED'000	**AED'000**	AED'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(i)	**Finance costs**				
	Interest on bank financings	**36,884**	29,591	**12,614**	10,218
	Profit expense on Islamic financings	**18,003**	17,989	**6,003**	5,874
	Net change in the fair value of derivatives	**-**	2,288	**179**	1,271
	Interest on amount due to related parties	**54**	10	**1**	10
	Bank charges	**2,234**	2,319	**576**	637
	Net foreign exchange loss	**13,334**	-	**580**	-
	Total (A)	**70,509**	52,197	**19,953**	18,010
(ii)	**Finance income**				
	Interest on fixed deposits	**3,201**	1,960	**497**	561
	Profit on wakala deposits	**336**	371	**31**	119
	Net change in the fair value of derivatives	**4,167**	33	**-**	18
	Net foreign exchange gain	**-**	16,685	**-**	12,391
	Interest on amount due to related parties	**21**	-	**21**	
	Other	**833**	314	**661**	66
	Total (B)	**8,558**	19,363	**1,210**	13,155
	Net finance costs recognised in profit or loss (A-B)	**61,951**	32,834	**18,743**	4,855

11 Goodwill

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
Balance as at 1 January	**89,001**	61,780
Add: acquisition through business combination (refer note 26)	**31,486**	27,002
	----------	--------
	120,487	88,782
(Less) / add: effect of movements in exchange rate	**(221)**	219
	----------	--------
Balance as at 30 September / 31 December	**120,266**	89,001
	======	=====

Goodwill represents an amount of AED 50.36 million, AED 5.6 million, AED 5.81 million, AED 27 million and AED 31.49 million recognised on the acquisition of Ceramin FZ LLC, RAK Ceramics UK Limited, RAK Distribution Europe S.A.R.L, ARK International Trading Company Limited and RAK Saudi LLC respectively.

12 Property, plant and equipment

Additions, disposal and depreciation (unaudited)

During the nine month period ended 30 September 2018, the Group has acquired property, plant and equipment and made additions to capital work in progress amounting to AED 147.55 million *(nine month period ended 30 September 2017: AED 65.38 million)*. This amount excludes assets acquired through a business combination with a net book value of AED 3.91 million *(nine month period ended 30 September 2017: AED 14.16 million)* (refer note 26).

Property, plant and equipment with net book value of AED 14.18 million were disposed during the current period *(nine month period ended 30 September 2017: AED 6.24 million)* resulting in a gain on disposal of AED 22.44 million *(nine month period ended 30 September 2017: gain of AED 11.52 million)* which is included in other income in the condensed consolidated statement of profit or loss.

Depreciation of property, plant and equipment for the current period amounted to AED 104.62 million *(nine month period ended 30 September 2017: AED 113.12 million)*.

13 Investments in equity accounted investees

During the nine month period ended 30 September 2018, the Group has acquired a further 30% equity interest of its previously equity accounted investee, RAK Saudi LLC, at a total consideration of AED 5.88 million. The provisional fair value of the identifiable net liabilities of RAK Saudi LLC on the acquisition date was AED 32.01 million. Also refer note 26.

The Group's share of profit in equity accounted investees for the nine month period ended 30 September 2018 amounted to AED 7.65 million *(nine month period ended 30 September 2017: AED 11.99 million)*.

The Group has received AED 7.45 million as dividends during the current period from its equity accounted investees *(nine month period ended 30 September 2017: AED 0.32 million)*.

13 Investments in equity accounted investees (continued)

(i) Disposal and conversion of equity accounted investees:

Conversion from an equity accounted investee to a subsidiary:

During the nine month period ended 30 September 2017, due to a change in composition of the Board of Directors of Restofair RAK LLC (a joint venture entity until 31 December 2016), the Group obtained control over the financial and operating policies of the investee. Accordingly, the acquisition had been accounted for from the date when the Group acquired control. Also refer note 26.

Disposal of an equity accounted investee:

Further, during the nine month period ended 30 September 2017, the Group disposed its entire 50% equity interest in a joint venture, entity RAK Warehouse Leasing LLC for a consideration of AED 125 million and realised a gain of AED 57.9 million.

14 Inventories

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
Finished goods (net of net realisable value adjustments)	**995,997**	893,859
Less: provision for slow moving and obsolete inventories	**(146,895)**	(139,170)
	----------	----------
	849,102	754,689
Raw materials	**282,593**	233,312
Goods-in-transit	**35,694**	76,019
Work-in-progress	**21,422**	25,485
Stores and spares	**200,536**	186,928
	------------	------------
	1,389,347	1,276,433
Less: provision for slow moving and obsolete raw materials and store and spares	**(63,809)**	(61,731)
	------------	------------
	1,325,538	1,214,702
	=======	=======

At 30 September 2018, the Group has a cumulative loss due to write-down of finished goods inventories of AED 93.92 million against the cost of AED 282.34 million *(31 December 2017: 75.56 million against the cost of AED 271.37 million)* to bring them to their net realisable value which was lower than their cost. The net difference in write down of AED 18.36 million *(nine month period ended 30 September 2017: AED 20.31 million)* is included in cost of sales in the condensed consolidated statement of profit or loss.

15 Trade and other receivables

	30 September 2018 AED '000 (Unaudited)	31 December 2017* AED '000 (Audited)
Trade receivables	**1,140,420**	1,129,249
Less: allowance for impairment loss	**(247,826)**	(187,078)
	----------	----------
	892,594	942,171
Advances and prepayments	**181,535**	173,227
Deposits	**23,210**	19,795
Other receivables (refer note (i) below)	**150,542**	155,985
Less: allowance for impairment loss against other receivables	**(18,902)**	-
	------------	------------
	1,228,979	1,291,178
	=======	=======

(i) Long term other receivables

	30 September 2018	31 December 2017*
Total amount receivable	**134,764**	150,790
Less: allowance for impairment loss	**(26,375)**	-
	----------	----------
	108,389	150,790
Less: current portion	**(54,375)**	(83,384)
	--------	--------
Long term portion	**54,014**	67,406
	=====	=====

The above long term other receivable includes amounts receivable on disposal of a subsidiary for which the payment terms have been amended during the current period, carries interest at normal commercial rates and is partially secured by post-dated cheques.

* The Group has initially applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* at 1 January 2018. Under the transition method chosen, comparative information is not restated. Refer note 3.

16 Cash in hand and at bank

		30 September 2018 AED '000 (Unaudited)	31 December 2017* AED '000 (Audited)
Cash in hand	(A)	**6,089**	2,398
Cash at bank			
- in fixed deposits		**49,314**	259,020
- in wakala deposits		**3,800**	60,545
- in current accounts		**195,953**	170,528
- in margin deposits		**3,324**	597
- in call accounts		**7,884**	23,390
Less: impairment for cash at bank		**(683)**	-
		----------	----------
Cash at bank	(B)	**259,592**	514,080
		----------	----------
Cash in hand and at bank	A+B	**265,681**	516,478
		======	======

* The Group has applied IFRS 9 – *Financial Instruments* at 1 January 2018. Under the transition method chosen, comparative information has not been restated. Refer note 3.

16 Cash in hand and at bank (continued)

Cash in hand and cash at bank includes AED 0.76 million *(31 December 2017: AED 1.23 million)* and AED 87.56 million *(31 December 2017: AED 117.73 million)* respectively, held outside UAE.

Fixed deposits are placed with banks for an original maturity period of less than three months and carry interest at normal commercial rates and include AED 0.37 million *(31 December 2017: AED 0.37 million)* which are held by banks under lien against bank facilities availed by the Group. Wakala deposits carry profit at rates agreed with the islamic banks and were placed with banks for an original maturity period of less than three months.

Margin deposits and current accounts are non-interest bearing accounts.

17 Share capital

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
Authorised, issued and paid up		
170,000,000 shares of AED 1 each paid up in cash	**170,000**	170,000
731,318,783 shares of AED 1 each issued as bonus shares	**731,318**	688,398
(2017: 688,398,310 shares of AED 1 each issued as bonus shares)	----------	----------
	901,318	858,398
	======	======

18 Trade and other payables

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
Trade payables	**389,049**	354,282
Accrued and other expenses	**231,349**	224,192
Advances from customers	**73,767**	67,671
Commissions and rebates payables	**64,126**	58,505
Others payables	**34,955**	27,569
	----------	----------
	793,246	732,219
	======	======

19 Related party balances and transactions

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"*. 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 period, other than those disclosed elsewhere in these condensed consolidated interim financial information, are as follows:

19 Related party balances and transactions (continued)

	Nine month period ended 30 September	
	2018	2017
	AED ’000	AED ’000
	(Unaudited)	(Unaudited)
Sale of goods and services and construction contracts	**78,779**	172,382
Purchase of goods and rendering of services	**240,716**	184,748
Interest expenses	**-**	10
	======	=====
Compensation to key management personnel:		
Short term benefits	**7,862**	7,680
Staff terminal benefits	**170**	179
Board of Directors’ remuneration	**3,700**	-
	====	====

Due from related parties

	30 September	31 December
	2018	2017*
	AED ’000	AED ’000
	(Unaudited)	(Audited)
Equity accounted investees	**97,250**	179,760
Other related parties	**100,156**	124,552
	----------	----------
	197,406	304,312
Less: allowance for impairment loss	**(74,412)**	(97,078)
Less: long term receivables (refer note (i) below)	**(17,361)**	(38,361)
	----------	----------
	105,633	168,873
	======	======

Due to related parties

	30 September	31 December
	2018	2017
	AED ’000	AED ’000
	(Unaudited)	(Audited)
Equity accounted investees	**3,791**	3,875
Other related parties	**47,276**	40,400
	--------	--------
	51,067	44,275
	=====	=====

(i) Long term receivables

Total amount receivable	**59,361**	80,361
Less: current portion	**(42,000)**	(42,000)
	---------	--------
	17,361	38,361
	=====	=====

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* at 1 January 2018. Under the transition method chosen, comparative information has not been restated. Refer note 3.

20 Bank financing arrangements

(a) Islamic bank financings

		30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
(i)	**Short term**		
	Mudaraba facilities (A)	**70,000**	45,000
	Commodity murabaha facilities (B)	**136,064**	174,752
	Current portion of long term financing (refer below)	**112,152**	111,873
		318,216	331,625
(ii)	**Long term - Commodity murabaha facilities**		
	Balance as at 1 January	**486,896**	508,932
	Add: availed during the period / year	**-**	73,470
	Less: repaid during the period / year	**(83,869)**	(95,506)
		403,027	486,896
	Less: current portion (refer above)	**(112,152)**	(111,873)
		290,875	375,023

The securities provided against these facilities are similar to those mentioned in the consolidated financial statements of the Group for the year ended 31 December 2017.

(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 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.

(b) Interest bearing bank financings

		30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
(i)	**Short term**		
	Bank overdrafts	**38,770**	3,973
	Short term loans	**115,786**	119,559
	Current portion of long-term bank loans (refer below)	**218,737**	225,076
		373,293	348,608

20 Bank financing arrangements (continued)

(b) Interest bearing bank financings (continued)

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
(ii) Long term bank loans		
Balance as at 1 January	**1,094,192**	1,090,007
Add: availed during the period / year	**85,502**	190,814
Less: repaid during the period / year	**(192,216)**	(186,629)
	----------	------------
	987,478	1,094,192
Less: current portion (refer above)	**(218,737)**	(225,076)
	----------	----------
	768,741	869,116
	======	======

The details of the long term bank loans, including terms of repayment, interest rate and security provided are set out in the consolidated financial statements of the Group for the year ended 31 December 2017. The long term bank loans availed during the current period are on similar terms to those availed as of 31 December 2017.

21 Derivative financial instruments

The table below shows the positive and negative 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.

	Positive / (negative) 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
30 September 2018 (Unaudited)					
Interest rate swaps used for hedging*	**9,109**	**300,479**	**74,134**	**226,345**	**-**
Forward exchange contracts	**329**	**30,698**	**30,698**	**-**	**-**
Other interest rate swaps	**20**	**209,485**	**164,512**	**44,973**	**-**
	-------	----------	----------	----------	---
	9,458	**540,662**	**269,344**	**271,318**	**-**
	====	======	======	======	==
31 December 2017 (Audited)**					
Interest rate swaps used for hedging*	7,452	356,080	74,134	265,542	16,404
Forward exchange contracts	(127)	8,686	8,686	-	-
Other interest rate swaps	(3,691)	221,266	14,694	206,572	-
	-------	----------	--------	----------	--------
	3,634	586,032	97,514	472,114	16,404
	====	======	=====	======	=====

***** Designated as a cash flow hedging instrument.

** The Group has applied IFRS 9 – *Financial Instruments* at 1 January 2018. Under the transition method chosen, comparative information has not been restated. Refer note 3.

21 Derivative financial instruments (continued)

Fair value hierarchy

All financial instruments for which fair value is recognised 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 recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As at 30 September 2018, the Group held the following classes of financial instruments measured at fair value:

	Level 1	**Level 2**	**Level 3**
	AED' 000	**AED' 000**	**AED' 000**
30 September 2018 (Unaudited)			
Financial assets- net			
Interest rate swaps used for hedging	**-**	**9,109**	**-**
Forward exchange contracts	**-**	**329**	**-**
Other interest rate swaps	**-**	**20**	**-**
	---	**-------**	**---**
	-	**9,458**	**-**
	==	====	==

	Level 1	Level 2	Level 3
	AED' 000	AED' 000	AED' 000
31 December 2017 (Audited)			
Financial assets- net			
Interest rate swaps used for hedging	-	7,452	-
Forward exchange contracts	-	(127)	-
Other interest rate swaps	-	(3,691)	-
	---	-------	---
	-	3,634	-
	==	====	==

During the nine month period ended 30 September 2018, 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

The fair values of interest rate swaps / forward contracts are based on quotation / rates provided by the counterparty banks and financial institutions.

Other financial assets and liabilities

The Group has not disclosed the fair values of other financial instruments such as trade and other receivables, due from / due to related parties, trade and other payables and bank financing arrangements because their fair value approximates to their book values due to the current nature of these instruments as the effect of discounting is immaterial. Where they are non-current in nature, 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.

22 Dividend and Directors' fee

(i) At the Annual General Meeting (AGM) held on 27 February 2018, the shareholders approved a cash dividend of 25% (AED 0.25 per share) and a stock dividend of 5% (AED 0.05 per share), which was proposed by the Board of Directors *(2017: 15% cash dividend)*.

(ii) At the Annual General Meeting (AGM) held on 27 February 2018, the shareholders approved the Directors' remuneration amounting to AED 3.7 million for the year ended 31 December 2017 (*2017: the Directors of the Company waived their remuneration for the year ended 31 December 2016).*

23 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 30 September 2018, calculated as follows:

	Nine month period ended 30 September		**Three month period ended 30 September**	
	2018 (Unaudited)	2017 (Unaudited)	**2018 (Unaudited)**	2017 (Unaudited)
Earnings per share				
Net profit attributable to owners of the Company (AED'000)	**139,264**	230,349	**38,418**	74,295
	======	======	=====	=====
Weighted average number of shares Outstanding ('000s)	**901,318**	901,318	**901,318**	901,318
	======	======	======	======
Earnings per share (AED) – basic and diluted	**0.15**	0.26	**0.04**	0.08
	===	===	===	===

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

24 Contingent liabilities and commitments

The Company has issued corporate guarantees for loans and advances from commercial banks obtained by related parties including subsidiaries and joint ventures.

25 Operating lease

As lessor:

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

	30 September 2018 AED '000 (Unaudited)	31 December 2017 AED '000 (Audited)
Less than one year	**27,361**	25,789
Between two and five years	**36,372**	36,372
More than five years	**75,016**	81,335
	----------	----------
	138,749	143,496
	======	======

26 Acquisition and disposal of subsidiaries

Acquisition of a subsidiary in 2018

Effective 1 February 2018, the Group has acquired a further 30% equity interest in its previously equity accounted investee, RAK Saudi LLC thereby increasing shareholding of the Group to 80% stake. After acquisition of 30% equity interest, the Group now exercises control over the financial and operating policies of the investee.

The provisional fair values of the identifiable assets and liabilities of RAK Saudi LLC were as follows:

	AED'000
Property, plant and equipment	**3,912**
Inventories	**29,699**
Trade and other receivables	**12,561**
Cash in hand and at bank	**1,145**

Total assets	**47,317**
Less: total liabilities	**(79,322)**

Net liabilities	**(32,005)**
Add: non-controlling interests	**6,401**
Less: fair value of pre-existing interests	**-**

Net liabilities assumed	**(25,604)**
Less: consideration	**(5,882)**

Goodwill (refer note 11)	**31,486**
	=====

The above fair values and goodwill have been determined on a provisional basis. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

In the period from acquisition of controlling interests in RAK Saudi LLC up to 30 September 2018, the investee contributed total revenue of AED 22.82 million and a net loss of AED 5.18 million to the Group's result (before elimination). Had the acquisition been effective 1 January 2018, the subsidiary would have contributed to a total revenue of AED 25.11 million and net loss of AED 6.51 million.

Further, effective 1 July 2018, the Group acquired the remaining non-controlling interests in RAK Saudi LLC for AED 9.8 million and it became a wholly owned subsidiary. This is reflected as follows:

	AED '000
- increase in non-controlling interests	**7,097**
- decrease in retained earnings	**(16,897)**

Net consideration paid	**(9,800)**
	====

26 Acquisition and disposal of subsidiaries (continued)

Acquisition of a subsidiary in 2017

(i) Effective 1 January 2017, due to change in the composition of the Board of Directors of Restofair RAK LLC (a jointly controlled entity until 31 December 2016), the Group exercised control over the financial and operating policies of the investee. Considering that the Group then had the ability to control the activities and operations of the investee, acquisition accounting was based on book values at the date when the Group acquired control.

The fair value which represents the book values of the identifiable assets and liabilities of Restofair RAK LLC acquired by the Group were as follows:

	AED'000
Total assets	33,237
Less: total liabilities	(11,369)

Net assets acquired	21,868
	=====
Fair value of pre-existing interest in Restofair RAK LLC	10,278
	=====
Increase in non-controlling interests	11,590
	=====

(ii) On 31 July 2017, one of the Group's subsidiaries, RAK Ceramics India (Pvt) Limited invested an amount of AED 4.9 million acquiring control in GRIS Ceramic Limited Liability Partnership. As a result of this investment, the Group acquired a 51% share holding in the operations and accordingly NCI increased by AED 4.7 million. The details of the fair value of the net assets at the date of contribution are as follows:

	AED'000
Total assets	24,054
Less: total liabilities	(14,432)

Net assets acquired	9,622
	====
Net assets attributable to non-controlling interests	4,715
Net assets attributable to the Group	4,907
	====

Disposal of subsidiaries in 2018

(i) During the nine month period ended 30 September 2018, the Group sold 49% of its equity interest in the wholly owned subsidiary RAK Paints LLC for a consideration of AED 1.96 million. Accordingly, the Group's shareholding decreased from 100% to 51%, resulting in an increase in non-controlling interests of AED 1.75 million.

Disposal of subsidiaries in 2017

(i) During the nine month period ended 30 September 2017, the Group disposed of its entire shareholding of 51.08%, 50% and 10% shareholding in Electro RAK LLC, Emirates Heavy Engineering LLC and Encom Trading LLC respectively and recognised a cumulative gain of AED 3.82 million. The disposal resulted in a decrease in non-controlling interests of AED 28.30 million.

(ii) During the nine month period ended 30 September 2017, the Group sold 12.5 million shares out of a total 354 million issued and paid up shares of RAK Ceramics (Bangladesh) Limited through the automated trading system of Dhaka Stock Exchange Limited. Accordingly, the Group's shareholding has decreased from 71.67 % to 68.13%, resulting in an increase in non-controlling interests of AED 9.5 million.

27 Segment reporting

The Group has broadly three reportable segments as described 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 operations in each of the Group's reportable segments:

Ceramic products	includes manufacture and sale of ceramic wall and floor tiles, Gres Porcellanato and bathware products.
Contracting	includes construction projects and civil works.
Other industrial	includes manufacturing and distribution of power, table ware, paints, plastic, mines and faucets.
Others	other operations include, trading and trading in catering and turnkey contracting projects.

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. There are regular transactions between the segments and any such transaction is priced on mutually agreed terms.

	Ceramic products AED'000	**Contracting AED'000**	**Other industrial AED'000**	**Others AED'000**	**Elimination AED'000**	**Total AED'000**
Nine month period ended 30 September 2018 (Unaudited)						
External revenue	**1,755,679**	**14,808**	**269,901**	**10,166**	**-**	**2,050,554**
Inter segment revenue	**275,881**	**-**	**162,866**	**744**	**(439,491)**	**-**
Total revenue	**2,031,560**	**14,808**	**432,767**	**10,910**	**(439,491)**	**2,050,544**
Segment profit for the period	**125,861**	**23,289**	**61,194**	**(2,294)**	**(40,152)**	**167,898**
As at 30 September 2018 (Unaudited)						
Total assets	**6,602,965**	**232,314**	**571,071**	**275,588**	**(2,167,823)**	**5,514,115**
Total liabilities	**3,498,449**	**55,720**	**141,294**	**97,449**	**(942,903)**	**2,850,009**

27 Segment reporting (continued)

	Ceramic products AED'000	Contracting AED'000	Other industrial AED'000	Others AED'000	Elimination AED'000	Total AED'000
Nine month period ended 30 September 2017 (Unaudited)						
External revenue	1,755,571	74,494	261,468	15,907	-	2,107,440
Inter segment revenue	199,815	1,152	197,527	1,540	(400,034)	-
Total revenue	1,955,386	75,646	458,995	17,447	(400,034)	2,107,440
Segment profit for the period	273,678	22,343	67,868	(1,849)	(99,692)	262,348
*As at 31 December 2017 (Audited)**						
Total assets	6,551,206	225,422	540,517	282,408	(1,798,605)	5,800,948
Total liabilities	3,265,270	72,088	121,701	99,786	(608,792)	2,950,053

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* at 1 January 2018. Under the transition method chosen, comparative information has not been restated. Refer note 3.

Reconciliation of reportable segment profit or loss

	30 September 2018 AED'000 (Unaudited)	30 September 2017 AED'000 (Unaudited)
Total profit or loss for reportable segments after tax	**200,401**	350,042
Elimination of inter-segment profits	**(40,152)**	(99,692)
Share in profit of equity accounted investees	**7,649**	11,998
	167,898	262,348

28 Exposure in Abraaj Holdings and its Group Entities and Funds

As at 30 September 2018, the Group has no exposure to Abraaj Holdings, or any of its subsidiaries, or any of its funds *(31 December 2017: Nil)*.

29 Presentation and classification

Certain figures have been reclassified / regrouped, wherever necessary, to conform to the presentation adopted in this condensed consolidated financial information.