R.A.K Ceramics PJSC
and its subsidiaries

Consolidated financial statements
31 December 2017

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Report of the Board of Directors
On financial performance during the year 2017
06 February 2018

Dear Members,

It is our pleasure to present the business & operations report for the year 2017, along with the Consolidated Financial Statements for the Group as on 31 December 2017.

The Group reported a total revenue of AED 2.9 billion for the year, an increase of 2.2% YoY. Core revenues rose 7.6% YoY to AED 2.6 billion with strong growth from the UAE, Bangladesh, India and the tableware business. Core margins rose 200bps to 32.5% due to improvements in production efficiencies across all plants. Cost reduction initiatives and favourable foreign currency rates also made positive impact on profitability. The combination of the above has led to an increase in reported net profit for the year to reach AED 315.5 million which also includes gain of AED 61.7 million on disposal of non-core units. Non-core revenues fell 34.0% YoY, following the sale of Electro RAK LLC and downsizing of contracting business.

The Value Creation Plan continues to unlock shareholder value by introducing greater efficiencies throughout the business. Progressing on the implementation of the Value Creation Plan, the Group acquired –

- remaining 50% stake in one of the joint ventures in KSA, ARK International,
- 51% stake in GRIS Ceramics Limited Liability Partnership, India, a unit manufacturing ceramic tiles,
- 51% stake in Gryphon Ceramics Privite Limited, a greenfield to manufacture large format tiles in India, and
- established control over one of its joint ventures, Restofair LLC, trading in kitchen equipment and tableware products.

Financial highlights for the year 2017

Particulars	Unit	Year 2017	Year 2016	Change
Total Revenue	AED Mio	2,854.9	2,793.1	2.2%
Gross Profit	AED Mio	901.7	783.4	15.1%
GP Margin (2016: before provisions of AED 68.2m)	%	31.6%	30.5%	110 bps
EBITDA	AED Mio	533.4	485.7	9.8%
EBITDA Margin	%	18.7%	17.4%	130 bps
Reported Net Income	AED Mio	315.5	30.8	924.4%
Reported Net Income Margin	%	11.1%	1.1%	990 bps
Net income before one-off, provisions & strategic gains	AED Mio	288.2	215.9	33.5%

Particulars	Unit	Year 2017	Year 2016	Change
Net income margin before one-off, provisions & strategic gains	%	10.1%	7.7%	240 bps
Reported Profit after NCI (Minority)	AED Mio	270.5	(4.9)	-
Reported Earnings per share	AED	0.32	(0.1)	-
Earnings per share before provisions & one-off gains	AED	0.34	0.25	36.0%
		2017 December 31	**2016 December 31**	**Change**
Total Assets	AED Mio	5,800.9	5,756.3	0.8%
Share Capital	AED Mio	858.4	858.4	-
Shareholders' Equity	AED Mio	2,850.9	2,680.1	6.4%
Net Debt	AED Mio	1,407.9	1,659.7	-15.2%
Net Debt / EBITDA	Times	2.64	3.42	-
Cost of Debt	%	3.15%	2.74%	-

Corporate Social Responsibility, Exhibitions, Awards & Social Activities during the year 2017

Sponsorships:

- Donated and participated in the Terry Fox Run, a consistent drive for funding research on cancer
- Sponsored annual Half Marathon Event in the emirate of RAK
- Sponsored a conference on Global Warming
- Participated in the Earth day Tree Plantations & Can Collection campaign
- International Yoga Day at American University of RAK
- Leisure and Hospitality Project of the Year
- Large Architect Firm of the Year

Corporate Social Responsibility activities:

- AUD Design Competition for students of American University in Dubai for contemporary styled interiors
- The largest Iftar celebration in partnership with Samena Capital, was hosted for approximately 5,000 of our factory workers
- Tiles Donation to GEMS Academy – RAK Ceramics donated tiles for a summer camp event, in which school children created art and craft projects
- Tin Can Collection Campaign
- Can Collection Campaign – Emirates Environmental Group
- Clean Up U.A.E
- Family Fair Sponsorship – DSCN (Dubai Center for Special Needs
- Birla Institute of Technology – RAK campus, as an educational tour
- Students of BITS Mesra as an educational tour

Awards:

- CIO 100 award for innovative use of IT to improve business services
- Certificate of Appreciation by Ras Al Khaimah Environment Protection and Development Authority (EPDA-RAK).
- Two 'The Tiles Association Awards (TTA)' in the UK - 'Wall Tile of the Year' award for Country Brick range, and 'Floor Tile of the Year' award for Circle Wood range.
- Best Home-Grown Brand at the recent Finance ME Business Vision Awards across the GCC.
- Stevie International Business Awards - RAK Ceramics won a Gold Stevie Award in the 'Re-branding/Brand renovation of the year' category
- Best CSR Initiative (Global Giving Awards) - Iftar Celebration
- Best Employer Brand (Asian Quality Leadership Awards)
- Top 100 Most Sustainable CEO's (World Sustainability Congress)
- Brand Revitalisation (Asian Leadership and Marketing Awards)
- Most Innovative Company (Asian Quality Leadership Awards)

Exhibitions:

- ISH - The world's leading trade fair for The Bathroom Experience, Building, Energy, Air-conditioning Technology and Renewable Energies
- Cersaie 2017 RAK Ceramics participated in the Cersaie exhibition at Bologna, Italy in last week of September 2017. The Company continued to provide its customers with 'Room for Imagination' and presented them a complete lifestyle solutions collection of tiles, sanitary ware and complementary bathroom furniture and accessories at the exhibition.

Investor Conferences:

- 2017 South Asia Investor Conference
- 13th EFG Hermes One on One Conference

Visits

The UAE facility of the Company was visited by following government officials and business groups during the third quarter.

- Ambassadors of India, Singapore, Costa Rica, Belgium & Somalia
- Spanish & French Business Councils
- Luxembourg Royal Mission including the Prince, Princess & business delegates
- German Business Delegation
- GCC Investors, Traders from Myanmar and Investors from Turkey.

Future Outlook

Looking ahead to 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: 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.

06 FEB 2018

Chairman	Director	Chief Executive Officer

KPMG Lower Gulf Limited
Al Jazeera Al Hamra
Ras Al Khaimah, UAE
Tel: +971 4 356 9500, Fax +971 4 326 3788

Independent Auditors' Report

To the Shareholders of 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 2017, 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 2017, 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
Impairment 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 certain assumptions to externally-derived data where appropriate. • We assessed the adequacy of the Group's disclosure in these respects.

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 matters (continued)

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 33 to the consolidated financial statements	
Impairment is a subjective area due to the level of judgement applied by management in determining the impairment allowance. Due to the significance of trade receivables and due from related parties (representing 24.7% 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. 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 Directors' Report, which we obtained prior to the date of this auditors' report and the Group's Annual Report, which is expected to be made available to us after that date.

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 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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty 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 auditors' 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.

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 auditors' 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 note 5 to consolidated financial statements, the Group has purchased shares during the year ended 31 December 2017;

vi) note 28 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 2017 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 2017.

KPMG Lower Gulf Limited

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

Date: 0 6 FEB 2018

R.A.K Ceramics PJSC and its subsidiaries

Consolidated income statement
for the year ended 31 December 2017

	Note	**2017 AED'000**	2016 AED'000
Revenue	*7*	**2,854,901**	2,793,078
Cost of sales (excluding write off and provision for inventories)	*8*	**(1,931,326)**	(1,920,976)
Write off and provision for inventories	*13*	**(21,828)**	(88,732)
		----------	------------
Gross profit		**901,747**	783,370
Administrative and general expenses	*9*	**(217,663)**	(247,837)
Selling and distribution expenses	*10*	**(410,519)**	(380,975)
Other income	*11*	**76,512**	51,673
Impairment losses	*13*	**(45,528)**	(74,604)
		----------	----------
Operating profit		**304,549**	131,627
Finance income	*12*	**33,198**	3,561
Finance costs	*12*	**(71,323)**	(84,487)
Share of profits / (losses) of equity accounted investees	*17&13*	**9,535**	(4,038)
Gain on sale of subsidiaries - net	*5(b)(i)*	**3,818**	-
Gain on sale of an equity accounted investee	*17(ii)*	**57,899**	-
		----------	--------
Profit before tax		**337,676**	46,663
Tax expense	*29*	**(22,158)**	(15,821)
		----------	---------
Profit for the year		**315,518**	30,842
		======	=====
Profit / (loss) attributable to:			
Owners of the Company		**270,483**	(4,920)
Non-controlling interests		**45,035**	35,762
		----------	---------
Profit for the year		**315,518**	30,842
		======	=====
Earnings per share			
- basic and diluted (AED)	*23*	**0.32**	(0.01)
		===	====

The notes on pages 19 to 88 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 2017

	Note	**2017 AED'000**	2016 AED'000
Profit for the year		**315,518**	30,842
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(3,792)**	(18,346)
Reclassification of foreign currency translation reserve on disposal of subsidiaries	*5(b)(i)*	**128**	-
Cash flow hedges – effective portion of changes in fair value	*27*	**1,508**	5,944
		----------	--------
Total comprehensive income for the year		**313,362**	18,440
		======	=====
Total comprehensive income attributable to:			
Owners of the Company		**271,558**	(16,243)
Non-controlling interests		**41,804**	34,683
		----------	--------
Total comprehensive income for the year		**313,362**	18,440
		======	=====

The notes on pages 19 to 88 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 2017

	Note	2017 AED'000	2016 AED'000
Assets			
Non-current assets			
Property, plant and equipment	*14*	**1,136,424**	1,226,534
Goodwill	*6*	**89,001**	61,780
Intangible assets	*15*	**27,929**	28,332
Investment properties	*16*	**1,190,350**	1,169,060
Investments in equity accounted investees	*17*	**41,764**	112,378
Long term receivables	*19(i) & 28(a)*	**105,767**	98,409
Deferred tax assets	*29*	**1,007**	2,753
		2,592,242	2,699,246
Current assets			
Inventories	*18*	**1,214,702**	1,179,320
Trade and other receivables	*19*	**1,291,178**	1,132,739
Contract work-in-progress	*20*	**7,048**	13,271
Due from related parties	*28*	**168,873**	301,274
Derivative financial assets	*27*	**7,452**	5,944
Cash in hand and at bank	*21*	**516,478**	424,460
Assets held for sale		**2,975**	-
		3,208,706	3,057,008
Total assets		**5,800,948**	5,756,254
Equity and liabilities			
Equity			
Share capital	*22*	**858,398**	858,398
Reserves	*22*	**1,805,859**	1,645,905
Equity attributable to owners of the Company		**2,664,257**	2,504,303
Non-controlling interests	*31*	**186,638**	175,777
Total equity		**2,850,895**	2,680,080
Non-current liabilities			
Islamic bank financings	*24(a)*	**375,023**	415,630
Interest bearing bank financings	*24(b)*	**869,116**	892,299
Provision for employees' end of service benefits	*26*	**85,743**	83,780
Deferred tax liabilities	*29*	**8,187**	6,128
		1,338,069	1,397,837
Current liabilities			
Islamic bank financings	*24(a)*	**331,625**	470,545
Interest bearing bank financings	*24(b)*	**348,608**	305,695
Trade and other payables	*25*	**732,219**	715,041
Billings in excess of valuation	*20*	-	866
Due to related parties	*28*	**44,275**	49,451
Derivative financial liabilities	*27*	**3,818**	-
Provision for taxation	*29*	**151,439**	136,739
		1,611,984	1,678,337
Total liabilities		**2,950,053**	3,076,174
Total equity and liabilities		**5,800,948**	5,756,254

The notes on pages 19 to 88 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

06 FEB 2018

Chairman | 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 2017

	2017 AED'000	2016 AED'000
Cash flows from operating activities		
Profit for the year before tax	**337,676**	46,663
Adjustments for:		
- share in profit of equity accounted investees	**(9,535)**	(17,652)
- interest expense	**40,161**	36,585
- profit expense on Islamic financings	**24,137**	22,252
- interest income	**(4,241)**	(3,370)
- profit income on Wakala deposits	**(600)**	(191)
- gain on disposal of property, plant and equipment	**(12,061)**	748
- gain on disposal of investment properties	**(2,244)**	-
- depreciation on property, plant and equipment	**150,854**	181,939
- depreciation on investment properties	**10,296**	8,940
- amortization of intangible assets	**5,064**	4,930
- capital work in progress written off	**1,935**	10,495
- provision for employees' end-of-service benefits	**17,369**	21,116
- impairment loss on property, plant and equipment	**6,597**	-
- impairment loss on investment properties	**631**	-
- write offs and provision for impairment of inventories	**21,828**	88,732
- provision for impairment of trade receivables	**15,150**	46,452
- provision for impairment of amount due from related parties	**23,150**	15,229
- provisions for inventories and receivables of equity accounted investees	-	21,690
- goodwill written off	-	12,923
- gain on sale of an equity accounted investee	**(57,899)**	-
- gain on sale of subsidiaries	**(3,818)**	-
	564,450	497,481
Changes in:		
- inventories (including contract work in progress)	**(2,771)**	(56,930)
- trade and other receivables (including long term)	**(104,297)**	114,616
- due from related parties (including long term)	**22,106**	72,573
- deferred tax assets	**1,908**	(2,455)
- derivative financial liabilities	**3,818**	-
- deferred tax liabilities	**2,059**	(2,195)
- trade and other payables (including billings-in-excess of valuation)	**24,188**	(149,317)
- due to related parties	**(3,989)**	26,174
Employees' end of services benefits paid	**(13,900)**	(17,095)
Income tax paid	**(9,129)**	(1,688)
Currency translation adjustments	**(1,609)**	(231)
Net cash from operating activities	**482,834**	480,933

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2017

	2017 AED'000	2016 AED'000
Cash flow from investing activities		
Acquisition of property, plant and equipment and capital work in progress	**(85,022)**	(212,624)
Acquisition of intangible assets	**(2,013)**	(2,707)
Acquisition of investment properties	**(161)**	(469)
Proceeds from disposal of property, plant and equipment	**9,951**	5,219
Proceeds from disposal of investment properties	**13,105**	-
Interest received	**4,241**	3,370
Profit received on Wakala deposits	**600**	191
Investment made in an equity accounted investee	**-**	(1,644)
Dividend received from equity accounted investees	**6,032**	10,895
Consideration paid for acquisition of subsidiaries	**(28,248)**	(8,176)
Proceeds from sale of subsidiaries	**15,000**	-
Proceeds from sale of shares in a subsidiary	**24,699**	-
Proceeds from sale of an equity accounted investee	**42,000**	-
Cash acquired as part of acquisitions	**22,183**	8,893
Cash forgone as part of sale of subsidiaries	**(6,598)**	-
Net cash generated from / (used in) investing activities	**15,769**	(197,052)
Cash flow from financing activities		
Long term bank financing availed	**185,875**	220,243
Long term bank financing repaid	**(186,628)**	(630,922)
Long term Islamic bank financing availed	**73,471**	570,923
Long term Islamic bank financing repaid	**(95,507)**	(61,990)
Net movement in short term bank borrowings	**(137,185)**	12,729
Change in bank deposits	**1,115**	(228)
Interest paid	**(40,161)**	(36,585)
Profit paid on Islamic financing	**(24,137)**	(22,252)
Remuneration paid to the Board of Directors	**-**	(3,700)
Dividend paid	**(128,760)**	(245,257)
Dividend paid to non-controlling interests	**(28,199)**	(26,170)
Net cash used in financing activities	**(380,116)**	(223,209)
Net increase in cash and cash equivalents	**118,487**	60,672
Cash and cash equivalents at the beginning of the year	**393,648**	332,976
Cash and cash equivalents at the end of the year	**512,135**	393,648
These comprise the following:		
Cash in hand and at bank (net of bank deposits on lien)	**516,108**	402,382
Bank overdrafts	**(3,973)**	(8,734)
	512,135	393,648

The notes on pages 19 to 88 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 2017

	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 reserve AED'000**	**Capital reserve AED'000**	**Retained earnings AED'000**	**Total reserves AED'000**	**Total parent equity AED'000**	**Non-controlling interests (NCI) AED'000**	**Total 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													
Profit/(loss) for the year	-	-	-	-	-	-	-	-	(4,920)	(4,920)	(4,920)	35,762	30,842
Other comprehensive income													
Foreign currency translation differences (refer note 22(iv))	-	-	-	(7,826)	(9,441)	-	-	-	-	(17,267)	(17,267)	(1,079)	(18,346)
Changes in cash flow hedges (refer note 27)	-	-	-	-	-	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
Other equity movements													
Transfer to legal reserve	-	-	24,132	-	-	-	-	-	(24,132)	-	-	-	-
Dividends distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(26,170)	(26,170)
Directors' fee (refer note 22(ix))	-	-	-	-	-	-	-	-	(3,700)	(3,700)	(3,700)	-	(3,700)
Transactions with owners of the Company directly recorded in equity													
Dividend declared and paid	-	-	-	-	-	-	-	-	(245,257)	(245,257)	(245,257)	-	(245,257)
Bonus shares issued	40,876	-	-	-	-	-	-	-	(40,876)	(40,876)	-	-	-
Changes in ownership interests in subsidiaries													
Decrease in NCI (refer note 5(a)(v)&(vi))	-	-	-	(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

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2017

	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 reserve AED'000	Capital reserve AED'000	Retained earnings AED'000	Total reserves AED'000	Total parent equity AED'000	Non-controlling interests (NCI) AED'000	Total equity AED'000
Balance at 1 January 2017	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 year													
Profit for the year	-	-	-	-	-	-	-	-	270,483	270,483	270,483	45,035	315,518
Other comprehensive income													
Foreign currency translation differences (FCTR) (refer note 22(iv))	-	-	-	6,277	(6,838)	-	-	-	-	(561)	(561)	(3,231)	(3,792)
Reclassification of FCTR on disposal of subsidiaries (refer note 5(b)(i))	-	-	-	128	-	-	-	-	-	128	128	-	128
Changes in cash flow hedges (refer note 27)	-	-	-	-	-	1,508	-	-	-	1,508	1,508	-	1,508
Total comprehensive income for the year	-	-	-	6,405	(6,838)	1,508	-	-	270,483	271,558	271,558	41,804	313,362
Other equity movements													
Transfer to legal reserve	-	-	42,583	-	-	-	-	-	(42,583)	-	-	-	-
Dividends distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(28,199)	(28,199)
Capitalization of retained earnings	-	-	-	-	-	-	-	5,570	(5,570)	-	-	-	-
Transactions with owners of the Company directly recorded in equity													
Dividend declared and paid (refer note 22(viii))	-	-	-	-	-	-	-	-	(128,760)	(128,760)	(128,760)	-	(128,760)
Changes in ownership interests in subsidiaries													
Change in NCI due to acquisition and disposals (refer note 5(a)(i)(ii)&(b))	-	-	-	2,006	-	-	-	(6,638)	21,788	17,156	17,156	(2,744)	14,412
Balance at 31 December 2017	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

The notes on pages 19 to 88 are an integral part of these consolidated financial statements.

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 2017 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 joint ventures. The Group’s subsidiaries and equity accounted investees, their principal activities and the Group’s interest have been disclosed in note 36 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.

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams (“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.

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 37.

2 Basis of preparation (continued)

(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 adjustments. 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 observable market 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 (eg. as prices) or indirectly (eg. 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 which 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 5 – acquisition of subsidiaries;
Note 14 – property, plant and equipment;
Note 16 – investment properties; and
Note 33 – financial instruments.

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 joint ventures are disclosed in note 36 to the consolidated financial statements.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

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.

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.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

Stepped acquisition

When an acquisition is completed by a series of successive transactions, the Group re-measures its previously held equity interest in the aquiree 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 joint ventures 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 unrealized 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.

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 the profit or loss.

3 Significant accounting policies (continued)

Hyperinflation (continued)

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 and accumulated in the translation reserve in the consolidated financial statements, except to the extent that the translation difference is allocated to NCI. Foreign currency translation differences pertaining to hyperinflationary economies are recorded in the hyperinflation reserve in equity.

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 expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of 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 asset. Any interest in such derecognized 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 have expired.

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 legally enforceable 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.

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.

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.

3 Significant accounting policies (continued)

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
- capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized 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 method 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.

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 asphalting	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. Refer note 14(iii).

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 and goodwill

Recognition and measurement

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

Other intangible asset, which 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.

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 which 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.

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 as 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 which the Group would otherwise not consider;
- 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 assessment is carried out by grouping together assets with similar risk characteristics.

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.

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 expensed 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 which 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 which 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 other comprehensive income. 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 which 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.

3 Significant accounting policies (continued)

Employee benefits (continued)

Terminal benefits

The provision for staff terminal benefits is based on the liability which 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 held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are stated net and 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.

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.

3 Significant accounting policies (continued)

Revenue (continued)

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. Any expected loss on a contract is recognized immediately in the profit or loss.

Investment property 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. Rental income from investment property is recognized as other income.

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 amount due from related parties. Interest income is recognized in profit or loss as it accrues, using the effective interest rate method.

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 which 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 which necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization 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.

3 Significant accounting policies (continued)

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.

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.

3 Significant accounting policies (continued)

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 which 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 which 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 which are reported to the Company's CEO (chief operating decision maker) include items directly attributable to a segment as well as those which 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.

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.

3 Significant accounting policies (continued)

Fair value (continued)

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 2018 with earlier application permitted. The Group does not plan to adopt these standards early. The new standards which may be relevant to the Group are set out below.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. This standard replaces IAS 39 Financial Instruments: *Recognition and Measurement*. The final version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

i. Classification – financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

ii. Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs which result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs which result from all possible default events over the expected life of a financial instrument.

4 Standards, amendments and interpretations (continued)

IFRS 9 Financial Instruments (continued)

ii. Impairment (continued)

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has a choice to also apply this policy for trade receivables and contract assets with a significant financing component.

The estimated ECL will be calculated based on actual credit loss experience. The Group will perform the calculation of ECL rates separately for different types of customers including related parties.

Actual credit losses will be adjusted to reflect differences between economic conditions during the period over which the historical data will be collected, prevalent conditions and the Group's view of economic conditions over the expected lives of the receivables and related party balances.

iii. Hedging

IFRS 9 incorporates new hedge accounting rules which intend to align hedge accounting with a Group's risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. In accordance with IFRS 9, the Group has an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in equity as at 1 January 2018.

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.

i. Sales of goods

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Revenue will be recognised for the contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

Based on the Group's assessment, the timing of revenue recognition from sale of goods are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these sales.

4 Standards, amendments and interpretations (continued)

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

ii. Rendering of services

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions.

Based on the Group's assessment, the fair value and the stand-alone selling prices of the services are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

iii. Construction contracts

Contract revenue currently 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.

Under IFRS 15, claims and variations will be included in the contract accounting when they are approved.

The Group does not expect the application of IFRS 9 and IFRS 15 to have a significant impact on its consolidated financial statements. The actual impacts of adopting these standards at 1 January 2018 may change because:
- these standards will require the Group to revise its accounting policies and internal controls and these changes are not yet complete;
- the Group is also refining and finalizing its model for expected credit loss calculations; and
- the new accounting policies, assumptions, judgement and estimation techniques employed are subject to change until the Group finalizes its first consolidated financial statements that includes the date of initial application.

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 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 a lease classification test. 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.

Other new or amended standards

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements:

- Transfers of Investment Property (Amendments to IAS 40) (effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (amendments to IFRS 1 and IAS 28) (effective for annual periods beginning on or after 1 January 2018).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

4 Standards, amendments and interpretations (continued)

The following amendments that are mandatorily effective from the current year:

- Annual Improvements to IFRSs 2014-2016 Cycle (various standard) (Amendments to IFRS 12)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendment to IAS 7)

Application of these standards and amendments would not have a significant impact on the Group's consolidated financial statements as at 31 December 2017.

5 Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisitions

Acquisition of subsidiaries in 2017

(i) Effective 1 January 2017, due to change in the composition of the Board of Directors of Restofair RAK LLC (a joint venture until 31 December 2016), the Group exercises control over the financial and operating policies of the investee. As the Group has the power to control activities and operations of the investee, acquisition accounting has been based on book values at the date when the Group acquired control. Restofair RAK LLC is engaged mainly in the trading of catering equipment and undertaking turnkey contracting projects.

The fair values, which represent the book values, of the identifiable assets and liabilities of Restofair RAK LLC acquired by the Group, are as follows:

	AED'000
Property, plant and equipment	**663**
Inventories	**7,056**
Trade and other receivables	**12,817**
Cash in hand and at bank	**12,701**
Total assets	**33,237**
Less: total liabilities	**(11,369)**
Net assets acquired	**21,868**
Fair value of pre-existing interest in Restofair RAK LLC (refer note 17(ii))	**10,278**
Increase in non-controlling interests	**11,590**

In the period from acquisition of controlling interests in Restofair RAK LLC up to 31 December 2017, the newly acquired subsidiary contributed revenue of AED 72.05 million and a net profit of AED 13.9 million to the Group's result.

(ii) During the current year, one of the Group's subsidiaries, "RAK Ceramics India (Pvt) Limited" has invested an amount of AED 4.9 million and AED 1.8 million acquiring control in "GRIS Ceramic Limited Liability Partnership" and "Gryphon Ceramics Private Limted" respectively. As a result of these investments, the Group now owns 51% shareholding in the operations of the investee companies and accordingly non-controlling interests has cumulatively increased by AED 6.42 million. The fair values, which represent the book values, of identifiable assets and liabilities acquired by the Group as at the acquisition dates are as follows:

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

(a) Acquisitions (continued)

Acquisition of subsidiaries in 2017 (continued)

	GRIS Ceramic Limited Liability Partnership AED'000	Gryphon Ceramics Private Limited AED'000	Total AED'000
Assets			
Property, plant and equipment	**13,652**	**3,675**	**17,327**
Other non-current assets	**631**	**12**	**643**
Inventories	**1,444**	**-**	**1,444**
Trade and other receivables	**1,823**	**201**	**2,024**
Other current assets	**1,476**	**-**	**1,476**
Cash in hand and at bank	**5,028**	**1,880**	**6,908**
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	24,054	**5,768**	**29,822**
Liabilities			
Long term borrowings	**(4,577)**	**-**	**(4,577)**
Trade payables	**(7,496)**	**(2,292)**	**(9,788)**
Other current liabilities*	**(2,359)**	**(1)**	**(2,360)**
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Net assets	**9,622**	**3,475**	**13,097**
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Net assets attributable to non-controlling interests	**4,715**	**1,703**	**6,418**
Net assets attributable to the Group	**4,907**	**1,772**	**6,679**
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*This includes AED 1.68 million of overdraft.

In the period from acquisition of controlling interests up to 31 December 2017, the investees contributed total revenue of AED 1.54 million and a net loss of AED 0.31 million to the Group's result.

(iii) During the current year, the Group has acquired the remaining 50% equity interest in its previously equity accounted investee ARK International Trading Company Limited and converted it into a wholly owned subsidiary. The fair values, which represent the book values, of identifiable assets and liabilities acquired by the Group are as follows:

	AED'000
Property, plant and equipment	**4,140**
Inventories	**67,747**
Trade and other receivables	**39,680**
Cash and bank balance	**4,249**

Total assets	**115,816**
Less: total liabilities	**(121,249)**

Net liabilities	**(5,433)**
Less: fair value of pre-existing interests	**-**

Net liabilities assumed	**(5,433)**
Consideration	**(21,569)**

Goodwill (refer note 6)	**27,002**
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5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(a) Acquisitions (continued)

Acquisition of subsidiaries in 2017 (continued)

In the period from acquisition of controlling interests in ARK International Trading Company Limited up to 31 December 2017, the investee contributed total revenue of AED 24.40 million and a net loss of AED 3.54 million to the Group's result.

Acquisition of non-controlling interests in 2016

(iv) During the previous year, the Group 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 values 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 were 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
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)
Consideration	(7,390)	(101)	-	(7,491)
Goodwill (refer note 6)	5,606	12,923	5,818	24,347

(v) During the year ended 31 December 2016, the Group acquired the remaining 5% shareholding in Prestige Tiles Pty Ltd. at a consideration of AED 0.69 million which resulted in a decrease in NCI of AED 2.38 million.

(vi) During the previous year, RAK Porcelain LLC acquired remaining 8.2% equity interest of RAK Porcelain USA Inc. through RAK Porcelain Europe SA thereby increasing the effective share holding from 83.5% to 91.7% at a nominal consideration which resulted in an increase in NCI of AED 0.35 million.

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

(b) Disposals

Disposals of subsidiaries / non-controlling interests in 2017

(i) During the current year, 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 on disposal of AED 3.82 million. The disposal resulted in a decrease of AED 28.30 million in non-controlling interests.

The effect of disposals of subsidiaries on the consolidated financial statements of the Group is as below:

	AED'000
Assets	
Property, plant and equipment	**3,471**
Inventories	**17,031**
Trade and other receivables	**66,012**
Other current assets	**28,171**
Cash in hand and at bank*	**30,175**
	144,860
Liabilities	
Bank overdraft	**(2,984)**
Trade and other payables	**(72,527)**
Net assets	**69,349**
Less: net assets attributable to non-controlling interests	**(28,295)**
Net assets attributable to parent (A)	**41,054**
Consideration (B)	**45,000**
Gain on disposal (B-A)	**3,946**
Less: foreign currency translation loss reclassified to the profit or loss	**(128)**
Gain on disposal – net	**3,818**

*This includes AED 20.59 million of fixed deposits on lien.

(ii) During the current year, the Group sold 12.5 million number of shares out of a total 354 million issued and paid up shares of RAK Ceramics (Bangladesh) Limited at a consideration of AED 24.7 million. Shares were sold 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 of AED 7.5 million in non-controlling interests.

Disposals of subsidiaries / non-controlling interests in 2016

There was no disposal of any subsidiary during 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 (foregone) / acquired as part of acquisition and disposal of subsidiaries:

	2017	2016
	AED'000	AED'000
ARK International Trading Company Limited	**4,249**	-
Gryphon Ceramics Private limited	**1,880**	-
Electro RAK LLC	**(27,191)**	-
Restofair RAK LLC	**12,701**	-
GRIS Ceramic Limited Liability Partnership	**3,353**	-
RAK Ceramics UK Limited	**-**	706
RAK Ceramics GmBH	**-**	4,467
RAK Distribution Europe S.A.R.L	**-**	3,720
	--------	-------
	(5,008)	8,893
	====	====

6 Goodwill

	2017	2016
	AED'000	AED'000
At 1 January	**61,780**	50,356
Add: acquisition through business combination (refer note 5(a)(iii) & (iv))	**27,002**	24,347
	--------	--------
	88,782	74,703
Less: impairment loss (refer below and note 13)	**-**	(12,923)
Add: effect of movements in exchange rates	**219**	-
	--------	---------
At 31 December	**89,001**	61,780
	=====	=====

As at 31 December 2017, Goodwill comprises AED 50.36 million, AED 5.61 million, AED 6.04 million and AED 27 million recognized on the acquisition of Ceramin FZ LLC, RAK Ceramics UK Limited, RAK Distribution Europe S.A.R.L and ARK International Trading Company Limited 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%-11%**
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 not recorded any impairment loss during the year as the recoverable amounts are higher than the carrying values as at the reporting date *(2016: impairment loss of AED 12.92 million against goodwill recognized on the acquisition of RAK Ceramics GmbH).*

7 Revenue

	2017 AED'000	2016 AED'000
Sale of goods	**2,735,711**	2,515,279
Rendering of services	**21,143**	38,305
Construction contract revenue	**98,047**	239,494
	2,854,901	2,793,078

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

	2017 AED'000	2016 AED'000
Raw materials consumed	**950,528**	903,214
Change in inventory of finished goods	**(66,337)**	(130,134)
Direct labour	**265,152**	279,106
Power and fuel	**178,268**	187,500
LPG and natural gas	**194,985**	215,393
Depreciation on property, plant and equipment (refer note 14)	**130,397**	160,853
Packing material	**105,190**	110,063
Repairs and maintenance	**126,667**	133,339
Sub-contractors' fee	**425**	2,624
Others	**46,051**	59,018
	1,931,326	1,920,976

9 Administrative and general expenses

	2017 AED'000	2016 AED'000
Staff salaries and its related costs	**101,785**	108,947
Depreciation on property, plant and equipment (refer note 14)	**18,102**	19,758
Legal and professional fee	**11,606**	11,223
Depreciation on investment properties (refer note 16)	**10,296**	8,940
Telephone, postal and office supplies	**6,096**	6,952
Repairs and maintenance	**7,436**	9,046
Utility expenses	**5,187**	7,248
Security charges	**2,240**	2,721
Amortization of intangible assets (refer note 15)	**5,064**	4,930
Loss on disposal of property, plant and equipment	**-**	748
Investment property related expenses	**8,822**	8,662
License fees	**322**	1,059
Travelling expenses	**1,645**	655
IT related expenses	**9,631**	5,513
Workers profit participation fund	**3,056**	2,858
Others	**26,375**	48,577
	217,663	247,837

10 Selling and distribution expenses

	2017	2016
	AED’000	AED’000
Staff salaries and its related costs	**130,335**	109,282
Freight and transportation	**110,703**	110,560
Performance rebates	**76,050**	73,349
Advertisement and promotions	**43,549**	39,371
Rent expenses	**21,872**	22,317
Travel and entertainment	**5,788**	3,211
Depreciation on property, plant and equipment (refer note 14)	**2,355**	1,328
Others	**19,867**	21,557
	410,519	380,975

11 Other income

	2017	2016
	AED’000	AED’000
Rental income from investment properties (refer note 16(i))	**35,250**	32,153
Sale of scrap and miscellaneous items	**4,253**	5,081
Insurance claims	**2,626**	63
Gain on disposal of property, plant and equipment	**12,061**	-
Gain on disposal of investment properties	**2,244**	-
Discounts earned (refer note (i) below)	**9,225**	4,689
Other miscellaneous income	**10,853**	9,687
	76,512	51,673

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

12 Finance income and costs

	2017	2016
	AED’000	AED’000
Finance income		
Interest on fixed deposits	**3,548**	2,529
Interest on amount due from related parties (refer note 28(B))	**-**	90
Profit income on Wakala deposits	**600**	191
Net foreign exchange gain	**28,357**	-
Others	**693**	751
Total (A)	**33,198**	3,561
Finance costs		
Interest on bank financing	**40,161**	36,585
Profit expense on Islamic financing	**24,137**	22,252
Interest on amount due to related parties (refer note 28(A))	**29**	-
Net change in fair value of derivatives	**3,818**	-
Bank charges	**3,178**	4,415
Net foreign exchange loss	**-**	21,235
Total (B)	**71,323**	84,487
Net finance expense recognized in profit or loss (B-A)	**38,125**	80,926

13 Impairment, provisions and write offs

		2017 **AED'000**	2016 AED'000
Write off and provision for inventories (included in cost of sales)			
Provision for slow moving and obsolete inventory (refer note 18)		**21,828**	70,671
Inventories written off		**-**	18,061
	A	**21,828**	88,732
Impairment losses			
Provision for impairment loss on trade receivables (refer note 33)		**15,150**	46,452
Provision for impairment loss on amount due from related parties (refer note 33)		**23,150**	15,229
Impairment loss on property plant and equipment (refer note 14(iv))		**6,597**	-
Impairment loss on Investment Properties (refer note 16)		**631**	-
Impairment loss on goodwill (refer note 6)		**-**	12,923
	B	**45,528**	74,604
Equity accounted investees			
Share of provisions for inventories and trade receivables (refer note 17)	**C**	**-**	21,690
	A+B+C	**67,356**	185,026

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 2016	598,853	2,764,435	113,919	43,326	56,106	21,021	129	182,271	3,780,060
Acquisition through business combination	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	642,883	2,934,599	121,735	49,187	67,996	21,432	129	66,841	3,904,802
Balance at 1 January 2017	**642,883**	**2,934,599**	**121,735**	**49,187**	**67,996**	**21,432**	**129**	**66,841**	**3,904,802**
Acquisition through business combinations (refer note 5)	8,467	12,237	4,232	2,382	820	-	-	3,450	31,588
Additions during the year	3,716	8,536	890	4,299	2,776	186	-	73,908	94,311
Transfer from capital work in progress	5,862	56,574	-	1,389	250	-	-	(64,075)	-
Transfer to intangibles / investment properties (refer notes 15 and 16)	(22,882)	-	-	-	-	-	-	(12,215)	(35,097)
Disposals/write offs	(19,998)	(56,822)	(19,253)	(8,860)	(4,595)	(476)	-	(1,935)	(111,939)
Reclassification to assets held for sale	(4,234)	-	-	(783)	-	-	-	-	(5,017)
Effect of movements in exchange rates	113	(16,073)	(460)	1,201	1,013	(183)	-	(1,298)	(15,687)
Balance at 31 December 2017	**613,927**	**2,939,051**	**107,144**	**48,815**	**68,260**	**20,959**	**129**	**64,676**	**3,862,961**

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 2016	305,408	2,053,139	83,073	32,589	42,041	15,880	129	-	2,532,259
Acquisition through business combination	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	315,645	2,150,057	104,975	39,254	51,728	16,480	129	-	2,678,268
Balance at 1 January 2017	**315,645**	**2,150,057**	**104,975**	**39,254**	**51,728**	**16,480**	**129**	**-**	**2,678,268**
Acquisition through business combination (refer note 5)	2,573	2,020	2,718	1,593	554	-	-	-	9,458
Charge for the year	15,927	115,840	8,127	4,216	6,013	731	-	-	150,854
On transfer to investment properties (refer note 16)	(30)	-	-	-	-	-	-	-	(30)
On disposals/write offs	(16,713)	(55,136)	(18,813)	(8,342)	(4,547)	(444)	-	-	(103,995)
Reclassification to assets held for sale	(1,298)	-	-	(744)	-	-	-	-	(2,042)
Impairment loss for the year (refer notes 13 and (iv) below)	1,155	5,414	-	2	2	24	-	-	6,597
Effect of movements in exchange rates	(1,375)	(12,066)	(451)	906	631	(218)	-	-	(12,573)
Balance at 31 December 2017	315,884	2,206,129	96,556	36,885	54,381	16,573	129	-	2,726,537
Net book value									
At 31 December 2017	**298,043**	**732,922**	**10,588**	**11,930**	**13,879**	**4,386**	**-**	**64,676**	**1,136,424**
At 31 December 2016	327,238	784,542	16,760	9,933	16,268	4,952	-	66,841	1,226,534

14 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2017	2016
	AED'000	AED'000
Cost of sales (refer note 8)	**130,397**	160,853
Administrative and general expenses (refer note 9)	**18,102**	19,758
Selling and distribution expenses (refer note 10)	**2,355**	1,328
	----------	----------
	150,854	181,939
	======	======

(i) Land and buildings

Certain of the Group's factory buildings and investment properties 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.

(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 2017. 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 43.66 million and AED 84.06 million *(2016: AED 48.15 million and AED 91.65 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. Refer note 16.1 for valuation techniques and significant unobservable inputs.

Further, where appropriate, management has carried out the impairment testing of certain items of plant and equipment. Based on the assessment, the carrying amount of the certain cash generating units exceeded its recoverable value and accordingly, an impairment loss of AED 6.59 million has been recorded against plant and equipment in the current year *(2016: nil)*.

15 Intangible assets

	2017	2016
	AED'000	AED'000
Balance at 1 January	**28,332**	18,032
Additions during the year	**2,013**	2,707
Acquisition through business combination	**-**	1,065
Transfer from property, plant and equipment (refer note 14)	**2,425**	11,477
Amortization for the year (refer note 9)	**(5,064)**	(4,930)
Effect of movements in exchange rates	**223**	(19)
	--------	--------
Balance at 31 December	**27,929**	28,332
	=====	=====

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

16 Investment properties

	2017	2016
	AED'000	AED'000
Cost		
Balance at 1 January	**1,247,453**	1,228,352
Additions during the year	**10,761**	469
Transfers from property, plant and equipment (refer note 14)	**32,672**	18,768
Disposals	**(12,037)**	-
Effect of movements in exchange rates	**(334)**	(136)
	------------	------------
Balance at 31 December	**1,278,515**	1,247,453
	=======	=======
Accumulated depreciation and impairment losses		
Balance at 1 January	**78,393**	69,453
Charge for the year (refer note 9)	**10,296**	8,940
Impairment loss for the year (refer note 13 and (ii) below)	**631**	-
Transfers from property, plant and equipment (refer note 14)	**30**	-
On disposals	**(1,176)**	-
Effect of movements in exchange rates	**(9)**	-
	--------	--------
Balance 31 December	**88,165**	78,393
	=====	=====
Net book value – at 31 December	**1,190,350**	1,169,060
	=======	=======
Fair value - at 31 December	**1,372,393**	1,364,124
	=======	=======

16 Investment properties (continued)

(i) During the year ended 31 December 2017, the Group has earned rental income amounting to AED 35.25 million *(2016: AED 32.15 million)* from its investment properties (refer note 11).

(ii) The fair value of the Group's investment properties at 31 December 2017 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 1,372 million *(2016: AED 1,364 million)*. As the recoverable amount of certain investment properties is less than their carrying values, the Group has recorded an impairment loss of AED 0.63 million during the current year *(2016: nil).*

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**
Investment properties and land and building included in fixed assets		
The investment property and land and building under fixed assets was valuated 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 2017) -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
Plant and machinery		
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	

17 Investments in equity accounted investees

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

	2017	2016
	AED'000	AED'000
At 1 January	**112,378**	127,563
Investments made during the year (refer note (i) below)	**-**	1,644
Share of profits / (losses) *	**9,535**	(4,038)
Disposals (refer note (ii) below)	**(64,461)**	-
Adjustment due to controlling interest in a joint venture (refer notes 5(a)(i) and (iv))	**(10,278)**	(1,784)
Dividends received during the year	**(6,032)**	(10,895)
Effect of movements in exchange rates	**622**	(112)
At 31 December	**41,764**	112,378

* This includes share in provisions for inventories and trade receivables of Nil *(2016: AED 21.69 million)*. Refer note 13.

(i) Acquisition equity accounted investees

Acquisition of / further investment in equity accounted investees in 2017

There were no acquisitions nor further addition to any of the equity accounted investees during the year ended 31 December 2017.

Acquisition of / further investment in equity accounted investees in 2016

During the previous year, the Group made a further investment of AED 1.6 million in its equity accounted investee “Restofair RAK LLC” thereby increasing a shareholding from 41% to 47%.

(ii) Disposal of equity accounted investees

Disposal / conversion of equity accounted investees in 2017

Conversion from an equity accounted investee to a subsidiary:

Effective 1 January 2017, due to a change in the composition of Board of Directors of Restofair RAK LLC (a jointly controlled entity until 31 December 2016), the Group can now exercise control over the financial and operating policies of the investee. Accordingly, the conversion from an equity accounted entity to a subsidiary has been accounted for from the date when the Group acquired the control. Also refer note 5(a)(i).

17 Investments in equity accounted investees (continued)

Disposal / conversion of equity accounted investees in 2017 (continued)

Disposal of an equity accounted investee:

The Group has disposed of its entire 50% equity interest in jointly controlled entity RAK Warehouse Leasing LLC on 13 June 2017.

	RAK Warehouse Leasing LLC
	AED'000
Present value of sale consideration (refer (*) below)	**122,360**
Less: net carrying value	**(64,461)**

Net gain on disposal	**57,899**
	=====

* As per the sale and purchase agreement, the sale consideration of AED 125 million is to be paid in 5 equal semi-annual instalments of AED 21 million and one semi-annual instalment of AED 20 million commencing from June 2017 to December 2019. The present value of the sale consideration is stated net of discounting impact of AED 2.64 million.

Disposal / conversion of equity accounted investees in 2016

During the year ended 31 December 2016, the Group acquired remaining 50% shareholding in its equity accounted investees RAK Ceramics UK Limited, RAK Distribution Europe S.A.R.L and RAK Ceramics GmbH at a total consideration of AED 7.49 million. Refer note 5(a)(iv).

17 Investments in equity accounted investees (continued)

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

	Equity accounted investees					
	Within UAE		**Outside UAE**		**Total**	
December	**2017**	2016	**2017**	2016	**2017**	2016
	AED '000					
Non-current assets	**67,278**	225,315	**30,308**	28,407	**97,586**	253,722
Current assets	**90,721**	131,483	**118,332**	260,039	**209,053**	391,522
Non-current liabilities	**2,497**	11,524	**15,418**	16,411	**17,915**	27,935
Current liabilities	**93,741**	148,055	**100,143**	221,719	**193,884**	369,774
Net assets	**61,761**	197,219	**33,079**	50,316	**94,840**	247,535
Group's share of net assets	**31,659**	98,666	**17,148**	25,766	**48,807**	124,432
Elimination of unrealized profit on downstream sales	**-**	105	**(7,043)**	(12,159)	**(7,043)**	(12,054)
Carrying amount of interest in equity accounted investees	**31,659**	98,771	**10,105**	13,607	**41,764**	112,378
Revenue	**120,161**	157,071	**31,059**	149,490	**151,220**	306,561
Profit and total comprehensive income	**17,202**	31,008	**1,261**	(35,968)	**18,463**	(4,960)
Group's share	**13,237**	18,464	**(3,702)**	(22,607)	**9,535**	(4,143)
Elimination of unrealized profit on downstream sales	**-**	105	**-**	-	**-**	105
Group's share of profit	**13,237**	18,569	**(3,702)**	(22,607)	**9,535**	(4,038)
Dividend received by the Group	**5,610**	10,485	**422**	410	**6,032**	10,895

18 Inventories

	2017 AED'000	2016 AED'000
Finished goods (net of net realizable value adjustment)	**893,859**	827,522
Less: provision for slow moving and obsolete inventories	**(139,170)**	(122,357)
	754,689	705,165
Raw materials	**233,312**	236,705
Goods-in-transit	**76,019**	59,851
Work-in-progress	**25,485**	25,532
Stores and spares	**186,928**	209,920
	1,276,433	1,237,173
Less: provision for slow moving raw materials and stores and spares *	**(61,731)**	(57,853)
	1,214,702	1,179,320

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

At 31 December 2017, the Group has recognized a cumulative loss due to write-down of finished goods inventories of AED 75.56 million against cost of AED 271.37 million *(2016: AED 56.46 million against cost of AED 189.78 million)* to bring them to their net realizable 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 8).

Inventories amounting to AED 243.43 million *(2016: AED 245.49 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 24(b)(ii)).

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

	2017 AED'000	2016 AED'000
As at 1 January	**180,210**	122,018
Add: charge for the year (refer note 13)	**21,828**	70,671
Add: addition due to acquisitions	**3,623**	339
Less: written off	**(7,186)**	(10,645)
Effect of movements in exchange rates	**2,426**	(2,173)
At 31 December	**200,901**	180,210

19 Trade and other receivables

	2017	2016
	AED'000	AED'000
Trade receivables	**1,129,249**	1,022,340
Less: allowance for impairment losses (refer note 33)	**(187,078)**	(184,017)
	942,171	838,323
Advances and prepayments	**173,227**	154,437
Deposits	**19,795**	16,800
Other receivables (refer note below (i))	**155,985**	123,179
	1,291,178	1,132,739

Trade receivables amounting to AED 120.91 million *(2016: AED 77.80 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 24(b)(ii)).

(i) Long term receivables

	2017	2016
	AED'000	AED'000
Long term amount receivables	**150,790**	139,045
Less: current portion	**(83,384)**	(44,082)
Long term portion	**67,406**	94,963

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

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

	2017	2016
	AED'000	AED'000
Costs incurred to date	**94,433**	380,462
Add: estimated attributable profits less expected losses	**4,422**	27,453
	98,855	407,915
Less: progress billings	**(91,807)**	(395,510)
Contract work-in-progress	**7,048**	12,405

Disclosed in the consolidated statement of financial position as below:

Contract work in progress	**7,048**	13,271
Billing in excess of valuation	**-**	(866)
	7,048	12,405

21 Cash in hand and at bank

	2017	2016
	AED'000	AED'000
Cash in hand	**2,398**	1,808
Cash at bank		
- in fixed deposits	**259,020**	163,223
- in wakala deposits	**60,545**	25,000
- in current accounts	**170,528**	227,724
- in margin deposits	**597**	1,055
- in call accounts	**23,390**	5,650
	516,478	424,460

Cash in hand and cash at bank includes AED 1.23 million *(2016: AED 0.62 million)* and AED 117.73 million *(2016: AED 63.08 million)* respectively, held outside UAE.

Fixed deposits carry interest at normal commercial rates. Fixed deposits include AED 0.37 million *(2016: AED 22.08 million)* which are held at bank under lien against bank facilities availed by the Group (refer note 24(b)(ii)). Wakala deposits carry profit at rates agreed with Islamic banks and placed with the banks for an original maturity period of less than three months.

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

22 Capital and reserves

(i) Share capital

	2017	2016
	AED'000	AED'000
Authorized and issued		
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	**688,398**	688,398
	858,398	858,398

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)**
Less: share premium released on disposal (refer note (c) below)	**(141)**
Total	**221,667**

(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.

22 Capital and reserves (continued)

(ii) Share premium reserve (continued)

(c) In 2012, the Group sold 500,000 number of shares of RAK Ceramics (Bangladesh) Limited out of shares issued at a premium. Accordingly share premium was reduced 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 the Group's net investment in foreign operations.

(iv) Hyperinflation reserve

The hyperinflation reserve comprises of all foreign currency differences arising from the translation of the financial statements of RAK Iran when it was operating in a hyperinflationary condition and the effect of translating their financial statements at the current inflation index due in accordance with IAS 29: *Financial Reporting in Hyperinflation Economies*.

	RAK Iran AED'000
As at 1 January 2016	(82,676)
For the year 2016	
Foreign currency translation differences	(9,441)

As at 31 December 2016	(92,117)
	======
For the year 2017	
Foreign currency translation differences	**(6,838)**

As at 31 December 2017	**(98,955)**
	======

In 2015, the economy of the Islamic Republic of Iran ceased to meet the criteria of a hyperinflationary economy. Accordingly, the Group ceased to apply hyperinflation accounting on a prospective basis for its subsidiary in Iran. However, the foreign currency differences which arose on the RAK Ceramics PJSC limited operations (Subsidiary in Iran) continues to be classified under hyperinflation reserve in 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 applicable subsidiary companies.

(vi) General reserve

General reserve of AED 82.8 million *(2016: AED 82.8 million)* represents net profit of prior years retained in reserve. This reserve is distributable.

22 Capital and reserves (continued)

(vii) Capital reserve

Capital reserve of AED 52.8 million *(2016: AED 53.87 million)* represents the Group's share of retained earnings capitalized by various subsidiaries. The capital reserve is non-distributable.

(viii) Dividend

For 2017, the Directors have proposed a cash dividend of 25% and a stock dividend of 5% which will be submitted for approval of the shareholders at the Annual General Meeting on 27 February 2018. On 14 March 2017, the shareholders of the Company in their Annual General Meeting, approved a 15% cash dividend (AED 0.15 per share) for the year 2016, which was proposed by the Board of Directors.

(ix) Directors' fee

At the Annual General Meeting (AGM) held on 14 March 2017, the Directors of the Company waived their remuneration for the year ended 31 December 2016 *(2016: shareholders approved the directors' remuneration amounting AED 3.7 million)*.

(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.

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 31 December 2017, calculated as follows:

	2017	2016
Net profit / (loss) attributable to the owners of the Company (AED '000)	**270,483**	(4,920)
	======	=====
Weighted average number of shares outstanding ('000s)	**858,398**	858,398
	======	======
Earning per share (AED)	**0.32**	(0.01)
	===	====

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.

24 Bank financing arrangements

(a) Islamic bank financing

	2017 **AED'000**	2016 AED'000
i) Short term		
Mudaraba facilities (A)	**45,000**	137,955
Commodity Murabaha facilities (B)	**174,752**	85,000
Ijarah facilities (C)	**-**	154,288
Current portion of long term financing (refer note (ii) below)	**111,873**	93,302
	----------	----------
	331,625	470,545
	======	======
ii) Long term - Commodity Murabaha facilities		
Commodity Murabaha facilities	**486,896**	508,932
Less: current portion	**(111,873)**	(93,302)
	----------	----------
	375,023	415,630
	======	======

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

Currency	**Profit range**	**2017** **AED'000**	2016 AED'000
AED	2.5% - 2.6%	**64,352**	75,000
USD	2.4% - 3.7%	**422,544**	433,932
		----------	----------
		486,896	508,932
		======	======

Islamic financings represent 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 up to 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 646 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.

24 Bank financing arrangements (continued)

(b) Interest bearing bank financing

	2017 AED'000	2016 AED'000
i) Short term		
Bank overdrafts	**3,973**	8,734
Short-term loans	**119,559**	99,253
Current portion of long-term loans (refer note (ii) below)	**225,076**	197,708
	348,608	305,695

	2017 AED'000	2016 AED'000
ii) Long term bank loans		
Bank loans	**1,094,192**	1,090,007
Less: current portion of long-term loans	**(225,076)**	(197,708)
Long term portion	**869,116**	892,299

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

Currency	**Interest range**	**2017 AED'000**	2016 AED'000
AUD	5.0% - 6.0%	**10,255**	12,780
EUR	2.4% - 2.5%	**82**	125
GBP	3.2% - 4.9%	**123**	385
INR	8.8% - 9.2%	**7,496**	4,509
USD	2.4% - 3.7%	**1,075,920**	1,072,208
SAR	9.4% - 9.6%	**316**	-
		1,094,192	1,090,007

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 up to 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 887 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).

25 Trade and other payables

	2017 AED'000	2016 AED'000
Trade payables	**354,282**	342,954
Accrued and other expenses	**224,192**	241,192
Advances from customers	**67,671**	38,395
Commissions and rebates payables	**58,505**	64,960
Other payables	**27,569**	27,540
	732,219	715,041

26 Provision for employees' end of service benefits

	2017 AED'000	2016 AED'000
At 1 January	**83,780**	78,285
On acquisition of subsidiaries	**2,853**	1,372
Charge for the year	**17,369**	21,116
Payments made during the year	**(13,900)**	(17,095)
On disposal of subsidiaries	**(4,160)**	-
Effect of movements in exchange rate	**(199)**	102
At 31 December	**85,743**	83,780

27 Derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. During the previous year, the Group 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 profit or loss and 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 analyzed 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.

27 Derivative financial instruments (continued)

	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**
31 December 2017					
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 currency and interest rate swaps	**(3,691)**	**221,266**	**14,694**	**206,572**	**-**
	3,634	**586,032**	**97,514**	**472,114**	**16,404**
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

Fair value hierarchy

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

Level 1: quoted 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 which 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 33.

During the current and previous 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.

27 Derivative financial instruments (continued)

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 which is substantially the same;
- discounted cash flow analysis;
- option pricing models; and
- a standard industry valuation technique which provides a 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.

28 Related parties

The Group, in the ordinary course of business, enters into transactions with other business enterprises which 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 year, other than those disclosed elsewhere in these consolidated financial statements (in particular notes 5 and 17), are as follows:

Transactions with related parties

		2017	2016
		AED'000	AED'000
A)	**Equity accounted investees**		
	Sale of goods and services and construction contracts	**48,266**	175,049
	Purchase of goods and services	**1,149**	1,564
	Rental income	**2,278**	4,708
	Interest expense (refer note 12)	**29**	-
		====	====
B)	**Other related parties**		
	Sales of goods and services and construction contracts	**110,371**	131,376
	Purchase of goods and services	**253,239**	237,244
	Interest income (refer note 12)	**-**	90
	Rental income	**4,497**	8,632
		====	====

28 Related parties (continued)

C) Investments and divestments with related parties

(i) Consideration on sale of an equity accounted investee

	2017	2016
	AED'000	AED'000
RAK Warehouse Leasing LLC (refer note 17(ii) and below (a))	**125,000**	-
	======	==

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

	2017	2016
	AED'000	AED'000
ARK International Trading Company Limited (refer note 5(a)(iii))	**21,569**	-
GRIS Ceramic Limited Liability Partnership (refer note 5(a)(ii))	**4,907**	-
Gryphon Ceramics Private Limited (refer note 5(a)(ii))	**1,772**	-
RAK Ceramics UK Limited (refer note 5(a)(iv))	**-**	7,390
RAK Ceramics GmbH (refer note 5(a)(iv))	**-**	101
	====	====

Key management personnel compensation

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

	2017	2016
	AED'000	AED'000
Short-term benefits	**9,689**	15,893
Staff terminal benefits	**252**	246
Board of Directors' remuneration	**-**	3,700
	====	====

Due from related parties

Due from related parties includes receivables 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, is of the view that the existing provision is sufficient to cover any likely impairment losses. During the current and previous year, the Group has recognized impairment losses on amount due from related parties primarily domiciled in the UAE and other gulf countries. Also refer note 33.

28 Related parties (continued)

	2017 AED'000	2016 AED'000
Equity accounted investees (refer note 5(a)(i) and (iii))	**179,760**	311,636
Other related parties	**124,552**	67,743
	304,312	379,379
Less: allowance for impairment losses (refer notes 13 and 33)	**(97,078)**	(74,659)
Less: long term receivables (refer note (a) below)	**(38,361)**	(3,446)
	168,873	301,274
Due to related parties		
Equity accounted investees	**3,875**	-
Others related parties	**40,400**	49,451
	44,275	49,451

(a) Long term receivables

	2017	2016
Long term amount receivables	**80,361**	6,892
Less: current portion	**(42,000)**	(3,446)
Long term portion	**38,361**	3,446

Also refer note 17(ii).

29 Tax expense

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

	2017 AED'000	2016 AED'000
Current tax		
Current year	**19,568**	19,462
Deferred tax		
Originating and reversal of temporary tax differences	**2,590**	(3,641)
Total deferred tax	**2,590**	(3,641)
Tax expense for the year	**22,158**	15,821
Provision for tax	**151,439**	136,739
Deferred tax liabilities	**8,187**	6,128
Deferred tax assets	**1,007**	2,753

The Company operates in a tax free jurisdiction. The Group's consolidated effective tax rate is 6.56% for 2017 *(2016: 33.9%)* which is primarily due to the effect of tax rates in foreign jurisdictions.

30 Contingent liabilities and commitments

	2017	2016
	AED'000	AED'000
Letters of guarantee	**17,479**	28,560
Letters of credit	**44,727**	47,037
Capital commitments	**44,861**	3,078
Value added tax and other tax contingencies	**51,429**	45,279
	=====	=====

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 2017 amounts to AED 363.9 million *(2016: AED 343.8 million)*.

31 Non-controlling interests

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

	Subsidiaries within UAE		Subsidiaries outside UAE		Intra group eliminations		Total	
December	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	AED'000							
Non-current assets	**52,714**	61,223	**212,517**	244,281	**(14,634)**	(25,904)	**250,597**	279,600
Current assets	**211,500**	312,001	**352,010**	360,380	**-**	-	**563,510**	672,381
Non-current liabilities	**12,656**	15,006	**26,915**	34,829	**-**	-	**39,571**	49,835
Current liabilities	**51,822**	123,188	**242,730**	246,860	**-**	-	**294,552**	370,048
Net assets	**199,736**	235,030	**294,882**	322,972	**(14,634)**	(25,904)	**479,984**	532,098
Carrying amount of NCI	**104,722**	121,725	**96,550**	79,956	**(14,634)**	(25,904)	**186,638**	175,777
Revenue	**246,048**	277,724	**328,472**	265,047	**-**	-	**574,520**	542,771
Profit	**54,762**	49,008	**44,965**	42,001	**-**	-	**99,727**	91,009
Other comprehensive income	**1,432**	(210)	**(12,809)**	(2,250)	**-**	-	**(11,377)**	(2,460)
Total comprehensive income	**56,194**	48,798	**32,156**	39,751	**-**	-	**88,350**	88,549
Profit allocated to NCI	**30,669**	24,087	**14,276**	11,900	**90**	(225)	**45,035**	35,762
Other comprehensive income allocated to NCI	**784**	(441)	**(4,015)**	(638)	**-**	-	**(3,231)**	(1,079)
Total	**31,453**	23,646	**10,261**	11,262	**90**	(225)	**41,804**	34,683

32 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.

	2017	2016
	AED'000	AED'000
Less than one year	**25,789**	30,884
Between two and five years	**36,372**	67,226
More than five years	**81,335**	95,000
	----------	---------
	143,496	193,110
	======	======

33 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. The 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.

33 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.

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

At 31 December 2017, 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 18.91 million *(2016: AED 64.54 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.

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.

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, amount due from related parties and balances with banks.

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:

	2017	2016
	AED’000	AED’000
Long term receivables	**105,767**	98,409
Trade and other receivables (excluding advances and prepayments)	**1,117,951**	978,302
Due from related parties	**168,873**	301,274
Cash at bank	**514,080**	422,652
	1,906,671	1,800,637

33 Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk (continued)

Trade and other receivables and amount 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 23% *(2016: 33.72%)* of the outstanding trade receivables as at 31 December 2017. Geographically the credit risk is significantly concentrated in the Middle East and Asian region.

The Group's management has established a credit policy under which each new customer is analyzed 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 evidence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and other receivables and amount due from related parties. 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 identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

	2017 **AED'000**	2016 AED'000
Middle East (ME)	**869,521**	855,304
Euro-zone countries	**122,847**	127,628
Asian countries (Other than ME)	**205,424**	173,130
Other regions	**194,799**	221,923
	------------	-----------
	1,392,591	1,377,985
	=======	=======
Trading and manufacturing	**1,255,726**	1,184,379
Contracting	**11,603**	75,216
Other industrial	**82,500**	63,966
Others	**42,762**	54,424
	-----------	-----------
	1,392,591	1,377,985
	=======	=======

33 Financial instruments (continued)

Credit risk (continued)

Impairment losses

The movement in the allowance for impairment loss of trade receivables is as follows:

	2017 AED'000	2016 AED'000
At 1 January	**184,017**	155,992
Charged during the year (refer note 13)	**15,150**	46,452
On acquisition/(disposal) of subsidiaries - net	**(2,390)**	4,871
Witten off during the year	**(10,204)**	(21,260)
Effect of movement in exchange rates	**505**	(2,038)
At 31 December	**187,078**	184,017

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

	2017 AED'000	2016 AED'000
At 1 January	**74,659**	142,170
Charge for the year (refer note 13)	**23,150**	15,229
Written off during the year	**(731)**	(82,740)
At 31 December	**97,078**	74,659

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
2017	**942,171**	**536,414**	**302,740**	**28,925**	**74,092**
2016	838,323	385,997	267,991	53,537	130,798

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 postdated 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.

33 Financial instruments (continued)

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.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings which 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 arrangemens 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 which 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**
31 December 2017	**‘000**	
Trade and other receivable (including due from related parties)	**8,985**	**43,121**
Cash and bank balances	**919**	**4,203**
Trade and other payables	**(3,375)**	**(20,745)**
Bank borrowings	**-**	**(143)**
Derivative - currency Swap / forward exchange contracts	**(1,750)**	**(16,502)**
Net consolidated statement of financial position exposure	**4,779**	**9,934**

	GBP	EURO
31 December 2016	‘000	
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

33 Financial instruments (continued)

Market risk (continued)

Exposure to currency risk (continued)

The following are exchange rates applied during the year:

	Reporting date Spot rate		Average rate	
	2017	2016	**2017**	2016
Great Britain Pound (GBP)	**4.964**	4.490	**4.728**	4.966
Euro (EUR)	**4.407**	3.823	**4.139**	4.064

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 2016.

	Strengthening		Weakening	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
	---------------------------AED'000-------------------------			
31 December 2017				
GBP	**(1,109)**	**-**	**1,109**	**-**
EURO	**(2,056)**	**-**	**2,056**	**-**
31 December 2016				
GBP	(1,245)	-	1,245	-
EURO	(5,889)	-	5,889	-

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 2017, 24.7% *(2016: 14.30%)* of the Group's term financings are at a fixed rate of interest.

33 Financial instruments (continued)

Market risk (continued)

Interest risk (continued)

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

	2017 AED'000	2016 AED'000
Fixed rate instruments		
Financial asset		
Fixed deposits	**319,565**	188,223
	======	======
Financial liability		
Bank borrowings	**475,245**	297,955
	======	======
Variable rate instruments		
Financial liabilities		
Due to related parties	**4,000**	-
Bank borrowings	**1,449,127**	1,786,214
	=======	=======

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 2016.

Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or loss	
	100bp increase AED'000	100 bp decrease AED'000
31 December 2017		
Financial liability		
Variable instruments	**(14,491)**	**14,491**
	======	=====
31 December 2016		
Financial liability		
Variable instruments	(17,862)	17,862
	======	====

33 Financial instruments (continued)

Market risk (continued)

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.

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

		----------- Contractual cash flows ------------			
	Carrying amount AED’000	**Total AED’000**	**0-1 year AED’000**	**1-2 years AED’000**	**More than 2 years AED’000**
At 31 December 2017					
Non-derivative financial liabilities					
Bank borrowings	**1,924,372**	**(2,061,971)**	**(736,966)**	**(392,798)**	**(932,207)**
Trade and other payables	**664,548**	**(664,548)**	**(664,548)**	**-**	**-**
Due to related parties	**44,275**	**(44,275)**	**(44,275)**	**-**	**-**
	2,633,195	**(2,770,794)**	**(1,445,789)**	**(392,798)**	**(932,207)**
At 31 December 2016					
Non-derivative financial liabilities					
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)

Equity risk

The Group is not significantly exposed to equity price risk.

33 Financial instruments (continued)

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.

The Group manages its capital structure and adjusts 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 2,851 million as at 31 December 2017 *(2016: AED 2,680 million)*. Debt comprises Islamic and interest bearing loans.

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

	2017	2016
	AED'000	AED'000
Equity	**2,850,895**	2,680,080
	=======	=======
Debt	**1,920,399**	2,075,435
	=======	=======
Debt equity ratio	**0.67**	0.77
	===	===

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, amount due from / due to related parties, trade and other payables (excluding advances) 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 the 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.

34 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 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.

35 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:

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

Information about the reportable segments

Information regarding each reportable segment is set out below. Segment profit (loss) before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of respective segments relative to other entities that operate in the same industries.

35 Segment reporting (continued)

Information about the reportable segments (continued)

	Ceramics Products AED'000	Contracting AED'000	Other Industrial AED'000	Others AED'000	Eliminations AED'000	Total AED'000
31 December 2017						
External revenue	**2,377,175**	**98,047**	**358,536**	**21,143**	**-**	**2,854,901**
Inter segment revenue	**286,127**	**1,152**	**238,755**	**1,540**	**(527,574)**	**-**
Segment revenue	**2,663,302**	**99,199**	**597,291**	**22,683**	**(527,574)**	**2,854,901**
Segment profit before tax	**362,825**	**27,346**	**77,381**	**(726)**	**(129,150)**	**337,676**
Interest income	**3,767**	**1,145**	**529**	**8**	**(1,301)**	**4,148**
Interest expense	**65,622**	**2**	**-**	**4**	**(1,301)**	**64,327**
Depreciation and amortization	**131,147**	**18,354**	**7,869**	**8,844**	**-**	**166,214**
Share of profit of equity accounted investees	**(3,702)**	**(738)**	**10,573**	**3,311**	**91**	**9,535**
Segment assets	**6,551,206**	**225,422**	**540,517**	**282,408**	**(1,798,605)**	**5,800,948**
Segment liabilities	**3,265,270**	**72,088**	**121,701**	**99,786**	**(608,792)**	**2,950,053**
31 December 2016						
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)	-
Segment revenue	2,537,800	248,400	463,865	55,633	(512,620)	2,793,078
Segment profit before tax	36,452	43,173	73,242	17,438	(123,642)	46,663
Interest income	2,391	1,074	444	113	(1,212)	2,810
Interest expense	59,937	47	12	37	(1,196)	58,837
Depreciation and amortization	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)
Segment assets	6,225,732	405,025	519,017	373,858	(1,767,378)	5,756,254
Segment liabilities	3,217,834	173,546	127,722	129,593	(572,521)	3,076,174

Geographic information

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

35 Segment reporting (continued)

Geographic information (continued)

	2017	2016
	AED'000	AED'000
Revenue		
Middle East (ME)	**1,463,229**	1,437,017
Euro zone countries	**452,846**	495,641
Asian countries (other than ME)	**756,440**	645,011
Others	**182,386**	215,409
	2,854,901	2,793,078
Non-current assets		
Middle East (ME)	**2,144,291**	2,159,095
Asian countries (other than ME)	**377,377**	371,565
Others	**70,574**	168,586
	2,592,242	2,699,246

Reconciliation of reportable segment

	2017	2016
	AED'000	AED'000
Revenues		
Total revenue for reportable segments	**3,382,475**	3,305,698
Elimination of inter segment revenue	**(527,574)**	(512,620)
Consolidated revenue	**2,854,901**	2,793,078
Profit before tax		
Total profit or loss for reportable segments before tax	**466,826**	170,305
Elimination of inter-segment profits	**(129,150)**	(123,642)
Consolidated profit before tax	**337,676**	46,663
Assets		
Total assets for reportable segment	**5,759,184**	5,643,876
Equity accounted investees	**41,764**	112,378
Consolidated total assets	**5,800,948**	5,756,254
Other material items		
Interest income	**4,148**	2,810
Interest expense	**64,869**	58,837
Depreciation and amortization	**166,214**	195,809

36 Subsidiaries and equity accounted investees

Name of the entity	Country of incorporation	Ownership interest 2017	2016	Principal activities
A Subsidiaries of R.A.K Ceramics PJSC				
RAK Ceramics (Bangladesh) Limited (refer note 5(b)(ii))	Bangladesh	**68.13%**	71.67%	Manufacturers of ceramic tiles and sanitary ware
RAK (Gao Yao) Ceramics Co. Limited	China	**100%**	100%	Manufacturers of ceramic tiles
RAK Ceramics PJSC Limited	Iran	**100%**	100%	Manufacturers of ceramic tiles
RAK Ceramics India Private Limited	India	**100%**	100%	Manufacturers of ceramic tiles and sanitary ware
Elegance Ceramics LLC	UAE	**100%**	100%	Manufacturers of ceramic tiles
RAK Ceramics Australia PTY Limited (refer notes 5(a)(v) and below (v))	Australia	**100%**	100%	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(b)(i))	UAE	**-**	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

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2017	Ownership interest 2016	Principal activities
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)(iv))	UK	**100%**	100%	Trading in ceramic tiles and sanitary ware
	RAK Ceramics GmbH (refer note 5(a)(iv))	Germany	**100%**	100%	Trading in ceramic tiles and sanitary ware
	ARK International Trading Company Limited (refer note 5(a)(iii))	Saudi Arabia	**100%**	-	Trading in ceramic tiles
B	**Subsidiaries of RAK Ceramics Bangladesh Limited**				
	RAK Power Private Limited	Bangladesh	**100%**	100%	Power generation for captive consumption
	RAK Securities and Services Private Limited	Bangladesh	**100%**	100%	Providing security services
C	**Subsidiaries of Electro RAK LLC (refer note 5(b)(i))**				
	Encom Trading LLC	UAE	**-**	90%	Trading in electrical goods
	RAK Industries LLC	UAE	**-**	70%	Manufacturing and trading of switchgears
	Emirates Heavy Engineering LLC	UAE	**-**	50%	Heavy industrial engineering and related fabrication works
	Electro RAK (India) Private Limited	India	**-**	51%	Electrical, plumbing, ducting, air - conditioning works
D	**Subsidiary of Emirates Heavy Engineering LLC (refer note 5(b)(i))**				
	RAK Fabrication LLC	UAE	**-**	100%	Fabrication contract works

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2017	2016	Principal activities
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 (i) 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)(iv))	Italy	**100%**	100%	Trading in ceramic tiles and sanitary ware
G	**Subsidiary of RAK Paints LLC**				
	Altek Emirates LLC (refer note (ii) 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 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 (iii) below)	Thailand	**40%**	40%	Extraction, distribution and export of clay and other minerals

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2017	2016	Principal activities
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.	Luxemburg	**91%**	91%	Import and Export of porcelain tableware
	Restofair RAK LLC (refer notes 5(a)(i) and 17(ii))	UAE	**47%**	-	Contracting of furnishing the Public firm
L	**Subsidiary of RAK Porcelain Europe S.A.**				
	RAK Porcelain USA Inc. refer note 5(a)(vi))	USA	**100%**	100%	Trading of tableware
M	**Subsidiaries of RAK Ceramics India Private Limited**				
	Gris Ceramics Limited Liability Partnership refer note 5(a)(ii))	India	**51%**	-	Manufacturing of ceramics tiles
	Gryphon Ceramics Private Limited refer note 5(a)(ii))	India	**51%**	-	Manufacturing of ceramics tiles
N	**Joint ventures 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 (iv) below)	UAE	**55.55%**	55.55%	Manufacturing of chemicals used in ceramic industries
	Kludi RAK LLC (refer note (iv) below)	UAE	**51%**	51%	Manufacturing of water tap faucets etc.
	RAK Warehouse Leasing LLC (refer note 17(ii))	UAE	**-**	50%	Leasing industrial warehouse spaces
	ARK International Trading Company Limited (refer note 5(a)(iii))	Saudi Arabia	**-**	50%	Trading in ceramics tiles
	RAK Ceramics Holding LLC Georgia (refer note (iv) below)	Georgia	**51%**	51%	Trading in ceramic tiles and sanitary ware items

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest **2017**	2016	Principal activities
O	**Associate of RAK Ceramics PJSC**				
	Encom Trading LLC (refer note 5b(i))	UAE	**-**	10%	Trading in electrical goods
P	**Associate of Ceramin FZ LLC**				
	Palang Suriya Company Limited	Thailand	**40%**	40%	Extraction, distribution and export of clay and other minerals
Q	**Joint ventures of RAK Ceramics Australia PTY LTD**				
	Massa Imports Pty Limited	Australia	**50%**	50%	Trading in ceramic tiles
R	**Joint ventures of RAK Ceramics Holding LLC**				
	RAK Watertech LLC	UAE	**51%**	51%	Waste-water treatment works
	Keraben Gulf LLC (refer note (iv) below)	UAE	**51%**	51%	General trading
	Emirates Heavy Engineering LLC (refer note 5(b)(i))	UAE	**-**	50%	Heavy industrial engineering and related fabrication works
S	**Joint venture of RAK Porcelain LLC (refer note 15(i))**				
	Restofair RAK LLC (refer notes 5(a)(i) and 17(ii))	UAE	**-**	47%	Trading in Catering and turnkey contracting projects
T	**Subsidiary of Palang Suriya Company Limited**				
	Feldspar Minerals Co. Limited	Thailand	**60%**	60%	Extraction, distribution and export of clay and other minerals
U	**Associate of Encom Trading LLC**				
	RAK Industries LLC (refer note 5(b)(i))	UAE	**-**	30%	Manufacturing and trading of Switchgears

36 Subsidiaries and equity accounted investees (continued)

(i) 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.

(ii) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the Group also holds remaining 1% equity interest that 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.

(iii) 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.

(iv) 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.

(v) During the current year, Prestige Tiles PTY Limited name changed to RAK Ceramics Australia PTY Limited.

37 Significant accounting estimates and judgements

The Group makes estimates and assumptions which 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.

37 Significant accounting estimates and judgements (continued)

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 current year. Refer notes 14(iii).

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.

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

The Group reviews its inventory to assess loss on account of obsolescence and any write down for net realizable 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 realizable value for such product. Provision for net realizable value write down is made where the net realizable value is less than cost based on best estimates by 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.

37 Significant accounting estimates and judgements (continued)

Impairment losses on trade and other receivables (including amount due from 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 judgements 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 affect tax expense in the period in which a determination is made.

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.

38 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.