R.A.K Ceramics PJSC
and its subsidiaries

Consolidated financial statements
31 December 2018

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Report of the Board of Directors

on financial performance during the year 2018
12 February 2019

Dear Members,

It is our pleasure to present the business & operations report for the year 2018, along with the Consolidated Financial Statements for the Group as on 31 December 2018. The key highlights for the year 2018 were -

- **Stable performance in line with expectations**

The company reported total revenues of AED2.78 billion, a slight decline of -2.8% due to lower non-core revenue contribution, in line with the company's strategy to divest non-core entities. Reported net profit was AED225.1 million, -28.7% year on year, however net profit in 2017 included a net extraordinary gain of AED38.6 million from the sale of non-core entities RAK Warehouse and Electro RAK. RAK Ceramics reported 'all time high' total gross profit margins of 33.2%, +160bps YoY, as a result of operational efficiencies, the consolidation of Saudi Arabian entities and higher gross profits in the UAE and tableware businesses. 'All time high' total gross profit margins were achieved despite significant increases in energy costs relative to its peers. The tableware business continued to show strong growth with revenues reaching AED264m, +11.0% YoY, supported by growth in US, European and Asian markets.

- **Saudi Arabia expansion**

RAK Ceramics announces their intention to invest in a state-of-the-art production facility that utilises the latest technology in ceramics manufacturing and, in the first phase, will initially add approximately 10 million square metres per annum to RAK Ceramics' tile total production capacity. The company is optimistic for growth in Saudi Arabia due to increasing construction and real estate activity and the attractive cost advantages for manufacturing due to competitive energy costs.

- **India turnaround on track**

In October 2018, RAK Ceramics began commercial production in its recently expanded Indian facility. The Greenfield project for producing slabs began trials production in January 2019 with commercial production expected to commence in Q1 2019.

Financial highlights for the year 2018

Particulars	Unit	Year 2018	Year 2017	Change
Total Revenue	AED Mio	2,776.2	2,854.9	-2.8%
Gross Profit	AED Mio	920.9	901.7	2.1%
GP Margin	%	33.2%	31.6%	160bps
EBITDA	AED Mio	461.6	533.4	-13.5%
EBITDA Margin	%	16.6%	18.7%	-210 bps
Reported Net Income	AED Mio	225.1	315.5	-28.7%
Reported Net Income margin	%	8.1%	11.1%	-300bps
Net income before one-off, provisions & strategic gains	AED Mio	225.5	288.2	-21.7%
Net income margin before one-off, provisions & strategic gains	%	8.1%	10.1%	-200bps
Reported Profit after NCI (Minority)	AED Mio	182.6	270.5	-32.5%
Reported Earnings per share	AED	0.20	0.30	-
		31 December 2018	**31 December 2017**	**Change**
Total Assets	AED Mio	5,497.0	5,800.9	-5.2%
Share Capital	AED Mio	901.3	858.4	5%
Owners' Equity	AED Mio	2,501.4	2,664.3	-6.1%
Net Debt	AED Mio	1,428.9	1,407.9	1.5%
Net Debt / EBITDA	Times	3.10	2.64	0.5
Cost of Debt	%	3.98%	3.15%	83bps

Corporate Social Responsibility, Exhibitions, Awards & Social Activities during the year 2018

Awards

The Company received

- BKU Awards – for Best Tile Brand
- EPDA Award for Collaboration
- Emirates Environmental Group (EEG) Award - UAE Top 10 in Aluminium Can Collection
- Rebrand 100 Award

The CEO received

- Visionary CEO Award for Manufacturing Leadership from Frost & Sullivan
- CEO Today – Middle East Award from CEO Today Magazine

- Game Changer Award from Finance Monthly
- Outstanding CEO - Global Business Excellence Awards
- Executive of the Year - BIG Awards for Business
- 2018 CEO of the Year, UAE - CEO Monthly Magazine
- Business Leader of the Year - CEO - 2018 BOC Brilliance Awards

Corporate Social Responsibility

- Participation in Terry Fox Run, RAK
- Participation in Earth Hour
- Participation in 'Beach Clean Up' campaign
- Donations to charity & sports clubs
- Participation in RAK Waste Management Recycling Programme

Visits to corporate facilities

- Consul General of Singapore
- Traders from India
- Business Delegation from Pakistan

Exhibitions

- Participation in KBB 2018 - Kitchen and Bathrooms
- **Cersaie, Italy**: We showcased most innovative and stylish tiles and sanitaryware collections including the 'M-Project' and the 'RAK Cloud' series

Future Outlook

Looking ahead for 2019, there are a number of external macro factors which will continue to affect our business. However, we are focused on enhancing our brand and optimising operations across the group, while continuing to protect our strong market share in the United Arab Emirates, India, Bangladesh and Saudi Arabia. We are pleased to announce our intention to invest in a state-of-the-art production facility in Saudi Arabia, which has historically been one of our most important markets in the region. We are also focused on improving the profitability of our Indian and European operations and the growth of our tableware business in the US, European and Asian markets.

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.

12 FEB 2019

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 2018, 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 2018, 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 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 have assessed the Cash Generating Unit's (CGU) current and forecast performance and considered whether any other factors exist that would suggest the goodwill is impaired. We have performed the following procedures: • challenged management's identification of CGUs against our understanding of the business and the definition as set out in the accounting standards; • assessed the appropriateness of the calculation of the value in use of each CGU and the associated headroom, performing mathematical accuracy of those amounts; • forecast inputs and growth assumptions were compared against historical trends to assess the reliability of management's forecast, in addition to comparing forecast assumptions to external market analysis; • with the assistance of specialists, we recalculated the discount rate applied to the future cash flows; • performed sensitivity analysis; and • evaluated the adequacy of the financial statement disclosures.

Key audit matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Valuation of inventories	
Refer to note 18 to the consolidated financial statements	
As described in the accounting policies in note 3 to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value. As a result, the management applies judgment in determining the appropriate provisions for obsolete stock based upon a detailed analysis of old inventory, net realisable value below cost based upon future plans for sale of inventory.	• Tested the operating effectiveness of key controls operating over inventories; including observing the process of management's year end inventory count. • Verified for a sample of inventory items that costs have been appropriately recorded. • Tested on a sample basis the net realizable value by comparing cost to recent selling prices and assessing the reasonableness of any resulting write down of inventory items. • Assessed the reasonableness of provision for obsolete and slow moving inventories by testing the age profile and evaluating management's basis of determining the usability of inventories. • Reviewed the historical accuracy of inventory provisioning and the level of inventory write-offs during the year.

Key audit matter	**How our audit addressed the key audit matter**
Expected credit losses on trade receivables	
Refer Note 33 to the consolidated financial statements:	
As at 31st December 2018, the Group has significant balances of trade receivables. IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Group on 1 January 2018 and has resulted in change in accounting for impairment from an incurred loss model to a forward looking expected credit loss ("ECL") model The determination of expected loss involves significant estimates and judgment. Given the inherently judgmental nature of determining ECL and this being the first year of its application, this is considered as a key audit matter.	• We obtained an understanding of the Group's process for estimating ECL and assessed the appropriateness of the ECL methodology and the new accounting policy against the requirements of IFRS 9. • Our audit procedures includes identification and testing of key controls over the ECL model. • We assessed the reasonableness of management's key assumptions and judgments made in determining the ECL allowances including segmenting of receivables, selection of ECL model and macroeconomic factors.

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables (continued) Refer Note 33 to the consolidated financial statements:	
	• We tested key inputs of the model, such as those used to calculate the likelihood of default and the subsequent loss on default, by comparing to historical data. We also assessed the reasonableness of forward looking factors used by the Group by corroborating with publicly available information. • We tested the opening balance adjustment due to application of impairment requirements of IFRS 9 and assessed the adequacy of the credit risk disclosure.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 obtained up 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.

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.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements (continued)

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

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

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

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

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

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

- 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.

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

- 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 2018;

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 2018 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 2018.

KPMG Lower Gulf Limited

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

Date: 12 FEB 2019

R.A.K Ceramics PJSC and its subsidiaries

Consolidated income statement
for the year ended 31 December 2018

	Note	**2018 AED'000**	2017* AED'000
Revenue	*7*	**2,776,185**	2,854,901
Cost of sales	*8*	**(1,855,326)**	(1,953,154)
Gross profit		**920,859**	901,747
Administrative and general expenses	*9*	**(232,205)**	(217,663)
Selling and distribution expenses	*10*	**(451,352)**	(410,519)
Other income	*11*	**91,757**	76,512
Impairment losses	*13*	**(19,339)**	(45,528)
Operating profit		**309,720**	304,549
Finance income	*12*	**9,410**	33,198
Finance costs	*12*	**(91,153)**	(71,323)
Share in profits of equity accounted investees	*17*	**9,549**	9,535
Gain on disposal of a subsidiary	*5(b)(ii)*	**-**	3,818
Gain on disposal of an equity accounted investee	*17(ii)*	**-**	57,899
Profit before tax		**237,526**	337,676
Tax expense	*29*	**(12,432)**	(22,158)
Profit for the year		**225,094**	315,518
Profit attributable to:			
Owners of the Company		**182,620**	270,483
Non-controlling interests	31	**42,474**	45,035
Profit for the year		**225,094**	315,518
Earnings per share			
- basic and diluted (AED)	*23*	**0.20**	0.30

*The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer notes 3(d) and 3(q).

The notes on pages 18 to 89 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages from 5 to 10.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

	Note	**2018** **AED'000**	2017* AED'000
Profit for the year		**225,094**	315,518
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		**(33,831)**	(3,792)
Reclassification of foreign currency translation reserve on disposal of a subsidiary		**-**	128
Cash flow hedges – effective portion of changes in fair value	*27*	**(5,648)**	1,508
Total comprehensive income for the year		**185,615**	313,362
Total comprehensive income attributable to:			
Owners of the Company		**144,824**	271,558
Non-controlling interests		**40,791**	41,804
Total comprehensive income for the year		**185,615**	313,362

*The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer notes 3(d) and 3(q).

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R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of financial position

as at 31 December 2018

	Note	2018 AED'000	2017* AED'000
Assets			
Non-current assets			
Property, plant and equipment	*14*	**1,181,301**	1,136,424
Goodwill	*6*	**120,144**	89,001
Intangible assets	*15*	**27,243**	27,929
Investment properties	*16*	**1,181,191**	1,190,350
Investments in equity accounted investees	*17*	**42,606**	41,764
Long term receivables	*19(i) & 28(a)*	**33,352**	105,767
Deferred tax assets	*29*	**7,613**	1,007
		2,593,450	2,592,242
Current assets			
Inventories	*18*	**1,249,505**	1,214,702
Trade and other receivables	*19*	**1,210,788**	1,291,178
Contract work-in-progress	*20*	**263**	7,048
Due from related parties	*28*	**112,630**	168,873
Derivative financial assets	*27*	**6,295**	7,452
Cash in hand and at bank	*21*	**324,109**	516,478
Assets held for sale		**-**	2,975
		2,903,590	3,208,706
Total assets		**5,497,040**	5,800,948
Equity and liabilities			
Equity			
Share capital	*22*	**901,318**	858,398
Reserves	*22*	**1,600,094**	1,805,859
Equity attributable to owners of the Company		**2,501,412**	2,664,257
Non-controlling interests	*31*	**212,697**	186,638
Total equity		**2,714,109**	2,850,895
Non-current liabilities			
Islamic bank financing	*24(a)(ii)*	**354,615**	375,023
Interest bearing bank financing	*24(b)(ii)*	**711,387**	869,116
Provision for employees' end of service benefits	*26*	**85,464**	85,743
Deferred tax liabilities	*29*	**8,829**	8,187
		1,160,295	1,338,069
Current liabilities			
Islamic bank financing	*24(a)(i)*	**325,020**	331,625
Interest bearing bank financing	*24(b)(i)*	**361,980**	348,608
Trade and other payables	*25*	**720,925**	732,219
Due to related parties	*28*	**49,514**	44,275
Derivative financial liabilities	*27*	**4,127**	3,818
Provision for taxation	*29*	**161,070**	151,439
		1,622,636	1,611,984
Total liabilities		**2,782,931**	2,950,053
Total equity and liabilities		**5,497,040**	5,800,948

* The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer notes 3(d) and 3(q).

The notes on pages 18 to 89 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 12 February 2019.

12 FEB 2019

Chairman | Director | Chief Executive Officer

The independent auditors' report is set out on pages from 3 to 10.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of cash flows
for the year ended 31 December 2018

	2018 **AED'000**	2017* AED'000
Cash flows from operating activities		
Profit for the year before tax	**237,526**	337,676
Adjustments for:		
- share in profit of equity accounted investees	**(9,549)**	(9,535)
- interest expense	**48,953**	40,161
- profit expense on Islamic financings	**24,372**	24,137
- interest income	**(4,856)**	(4,241)
- profit income on Wakala deposits	**(372)**	(600)
- gain on disposal of property, plant and equipment	**(19,163)**	(12,061)
- gain on disposal of investment properties	**(154)**	(2,244)
- depreciation on property, plant and equipment	**139,445**	150,854
- depreciation on investment properties	**10,389**	10,296
- amortization of intangible assets	**6,459**	5,064
- capital work in progress written off	**1,528**	1,935
- provision for employees' end-of-service benefits	**16,235**	17,369
- impairment loss on property, plant and equipment	**-**	6,597
- impairment loss on investment properties	**-**	631
- write offs and provision for impairment of inventories	**5,538**	21,828
- provision for impairment of trade receivables	**19,201**	15,150
- provision for impairment of amount due from related parties	**138**	23,150
- gain on disposal of assets held for sale	**(3,838)**	-
- gain on sale of an equity accounted investee	**-**	(57,899)
- gain on sale of subsidiaries	**-**	(3,818)
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	471,852	564,450
Changes in:		
- inventories (including contract work in progress)	**(17,311)**	(2,771)
- trade and other receivables (including long term)	**43,759**	(89,203)
- due from related parties (including long term)	**41,430**	22,106
- derivative financial instruments	**(4,182)**	3,818
- trade and other payables (including billings-in-excess of valuation)	**(15,786)**	24,188
- due to related parties	**5,239**	(3,989)
Employees' end of services benefits paid	**(18,139)**	(13,900)
Income tax paid	**(20,709)**	(20,256)
Currency translation adjustments	**(2,070)**	(1,609)
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Net cash from operating activities	**484,083**	482,834
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R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2018

	2018 AED'000	2017* AED'000
Cash flow from investing activities		
Acquisition of property, plant and equipment and capital work in progress	**(237,948)**	(85,022)
Acquisition of intangible assets	**(5,459)**	(2,013)
Acquisition of investment properties	**(1,479)**	(161)
Proceeds from disposal of property, plant and equipment	**40,765**	9,951
Proceeds from disposal of investment properties	**1,501**	13,105
Proceeds from disposal of assets held for sale	**6,813**	-
Interest received	**4,856**	4,241
Profit received on Wakala deposits	**372**	600
Dividend received from equity accounted investees	**7,557**	6,032
Consideration paid for acquisition of subsidiaries	**(15,682)**	(28,248)
Proceeds from sale of subsidiaries	**-**	15,000
Proceeds from sale of shares in a subsidiary	**1,960**	24,699
Proceeds from sale of an equity accounted investee	**-**	42,000
Cash acquired as part of acquisitions	**1,145**	22,183
Cash forgone as part of sale of subsidiaries	**-**	(6,598)
Net cash (used in) / generated from investing activities	**(195,599)**	15,769
Cash flow from financing activities		
Long term bank financing availed	**109,556**	185,875
Long term bank financing repaid	**(265,603)**	(186,628)
Long term Islamic bank financing availed	**91,837**	73,471
Long term Islamic bank financing repaid	**(111,873)**	(95,507)
Net movement in short term financing	**11,388**	20,306
Net movement in short term Islamic bank financing	**(6,977)**	(157,491)
Change in bank deposits	**-**	1,115
Interest paid	**(48,953)**	(40,161)
Profit paid on Islamic financing	**(24,372)**	(24,137)
Remuneration paid to the Board of Directors	**(3,700)**	-
Dividend paid	**(214,600)**	(128,760)
Dividend paid to non-controlling interests	**(28,342)**	(28,199)
Funds invested by non-controlling interests	**11,165**	-
Net cash used in financing activities	**(480,474)**	(380,116)
Net (decrease) / increase in cash and cash equivalents	**(191,990)**	118,487
Cash and cash equivalents at the beginning of the year	**512,135**	393,648
Cash and cash equivalents at the end of the year	**320,145**	512,135
These comprise the following:		
Cash in hand and at bank (net of bank deposits on lien)	**324,420**	516,108
Bank overdrafts	**(4,275)**	(3,973)
	320,145	512,135

*The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer notes 3(d) and 3(q).

The notes on pages 18 to 89 are an integral part of these consolidated financial statements.

The independent auditors' report on is set out on pages from 5 to 10.

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Attributable to owners of the Company												
			Reserves										
	Share capital AED'000	**Share premium AED'000**	**Legal reserve AED'000**	**Translation reserve AED'000**	**Hyper-inflation reserve AED'000**	**Hedging reserve AED'000**	**General reserves AED'000**	**Capital reserves AED'000**	**Retained earnings AED'000**	**Total reserves AED'000**	**Total 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 a subsidiary	-	-	-	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)(ii)(iii) &(b)(ii)(iii))	-	-	-	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

R.A.K Ceramics PJSC and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2018

	Attributable to owners of the Company												
			Reserves										
	Share capital AED'000	Share premium AED'000	Legal reserve AED'000	Translation reserve AED'000	Hyper-inflation reserve AED'000	Hedging reserve AED'000	General reserves AED'000	Capital reserves AED'000	Retained earnings AED'000	Total reserves AED'000	Total parent equity AED'000	Non-controlling interests (NCI) AED'000	Total equity AED'000
Balance at 1 January 2018	858,398	221,667	529,066	(94,594)	(98,955)	7,452	82,805	52,798	1,105,620	1,805,859	2,664,257	186,638	2,850,895
Adjustments on application of IFRS 9*	-	-	-	-	-	-	-	-	(72,683)	(72,683)	(72,683)	-	(72,683)
	858,398	221,667	529,066	(94,594)	(98,955)	7,452	82,805	52,798	1,032,937	1,733,176	2,591,574	186,638	2,778,212
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	182,620	182,620	182,620	42,474	225,094
Other comprehensive income													
Foreign currency translation differences (FCTR) (refer note 22(iv))	-	-	-	(19,094)	(13,054)	-	-	-	-	(32,148)	(32,148)	(1,683)	(33,831)
Changes in cash flow hedges (refer note 27)	-	-	-	-	-	(5,648)	-	-	-	(5,648)	(5,648)	-	(5,648)
Total comprehensive income for the year	-	-	-	(19,094)	(13,054)	(5,648)	-	-	182,620	144,824	144,824	40,791	185,615
Other equity movements													
Transfer to legal reserve	-	-	23,935	-	-	-	-	-	(23,935)	-	-	-	-
Dividends distributed to NCI	-	-	-	-	-	-	-	-	-	-	-	(28,342)	(28,342)
Funds invested by NCI	-	-	-	-	-	-	-	-	-	-	-	11,165	11,165
Capitalization of retained earnings	-	-	-	-	-	-	-	10,621	(10,621)	-	-	-	-
Directors' remuneration (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 (refer note 22(viii))	-	-	-	-	-	-	-	-	(214,600)	(214,600)	(214,600)	-	(214,600)
Bonus shares issued (refer note 22(viii))	42,920	-	-	-	-	-	-	-	(42,920)	(42,920)	-	-	-
Changes in ownership interests in subsidiaries													
Change in NCI due to acquisition and disposals (refer note 5(a)(i)&(b)(i))	-	-	-	-	-	-	-	-	(16,686)	(16,686)	(16,686)	2,445	(14,241)
Balance at 31 December 2018	**901,318**	**221,667**	**553,001**	**(113,688)**	**(112,009)**	**1,804**	**82,805**	**63,419**	**903,095**	**1,600,094**	**2,501,412**	**212,697**	**2,714,109**

*The Group has applied IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer notes 3(d) and 3(q).

The notes on pages 18 to 89 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 2018 comprise the Company and its subsidiaries (collectively referred to as “the Group” and individually as “the 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 (refer note 35).

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Details of the Group’s accounting policies are included in Note 3.

This is the first set of the Group’s annual financial statements in which IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments* have been applied.

Except for the changes in accounting policy for Revenue (refer note 3(q)) and Financial Instruments (refer note 3(d)) as a result of adoption of IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*, the Group has consistently applied the accounting policies to all years presented, unless otherwise stated.

The effect of initially applying these standards is primarily an increase in impairment losses recognized on financial assets (refer note 3(d)).

(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.

2 Basis of preparation (continued)

(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 and 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.

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.

(e) Measurement of fair values

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

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

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

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

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

Note 5 – acquisition of subsidiaries;
Note 16.1 – property, plant and equipment and investment properties; and
Note 33 – financial instruments.

3 Significant accounting policies

(a) 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.

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.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Loss of control

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

Stepped acquisition

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

(b) 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.

3 Significant accounting policies (continued)

(b) Hyperinflation (continued)

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

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

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

(c) 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)

(c) 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.

(d) Financial instruments

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

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

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

i. Classification and measurement of financial assets and financial liabilities

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

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

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

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

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

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

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

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

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

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

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

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

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

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

Financial assets at FVTPL

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

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

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

Financial assets at amortised cost

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

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

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

Financial assets	**Note**	**Previous classification -IAS 39**	**New classification -IFRS 9**	**Previous carrying amount -IAS 39 AED'000**	**New carrying amount -IFRS 9 AED'000**
Trade and other receivables	a	Loans and receivables	Amortised cost	**1,358,584**	**1,266,741**
Due from related parties	a	Loans and receivables	Amortised cost	**207,234**	**227,077**
Interest rate swaps used for hedging		Fair value - hedging instrument	Fair value - hedging instrument	**7,452**	**7,452**
Cash in hand and at bank	b	Loans and receivables	Amortised cost	**516,478**	**515,795**
				------------	------------
Total financial assets				**2,089,748**	**2,017,065**
				=======	=======

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

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

Financial liabilities	**Previous classification -IAS 39**	**New classification -IFRS 9**	**Previous carrying amount -IAS 39 AED'000**	**New carrying amount -IFRS 9 AED'000**
Islamic bank financings	Other financial liabilities	Other financial liabilities	**(706,648)**	**(706,648)**
Interest bearing bank financings	Other financial liabilities	Other financial liabilities	**(1,217,724)**	**(1,217,724)**
Trade and other payables	Other financial liabilities	Other financial liabilities	**(732,219)**	**(732,219)**
Due to related parties	Other financial liabilities	Other financial liabilities	**(44,275)**	**(44,275)**
Other currency and interest rate swaps	Designated as at FVTPL	Mandatorily at FVTPL	**(3,691)**	**(3,691)**
Forward exchange contracts	Designated as at FVTPL	Mandatorily at FVTPL	**(127)**	**(127)**
Total financial liabilities			**(2,704,684)**	**(2,704,684)**

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

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

ii. Impairment of financial assets

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

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

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

ii. Impairment of financial assets (continued)

The Group measures impairment allowances using the general or simplified approach as considered appropriate.

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

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

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

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

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

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

Measurement of ECLs

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

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

Under the simplified approach, the Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. Loss rates are calculated using a ‘roll rate’ method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

Under the simplified approach, impairment allowances are always measured at an amount equal to lifetime ECL.

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

ii. Impairment of financial assets (continued)

Credit-impaired financial assets

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

Presentation of impairment

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

Impact of the new impairment model

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

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

iii. Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial 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 in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

iii. Derecognition (continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v. Hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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 recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

v. Hedge accounting (continued)

Cash flow hedges (continued)

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

vi. Transition

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The Group has assessed business model within which a financial asset is held based on the facts and circumstances that existed at the date of initial application.

All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

(e) 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.

3 Significant accounting policies (continued)

(f) 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:

- 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.

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	4-15
• Furniture and fixtures	3-10
• Vehicles	3-10
• Roads and asphalting	5-10
• Quarry and land development	10
• Office equipment	2-10

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

3 Significant accounting policies (continued)

(g) 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.

(h) 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.

(i) 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 20 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.

3 Significant accounting policies (continued)

(i) Investment property (continued)

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.

(j) 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.

(k) 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.

3 Significant accounting policies (continued)

(l) 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.

(m) Impairment of non-financial assets

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)

(n) 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.

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.

(o) 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.

(p) 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.

3 Significant accounting policies (continued)

(q) Revenue

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

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

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

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

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

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

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

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

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

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

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

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

For performance obligations where none of the above conditions is met, revenue is recognized at the point in time at which performance obligation is satisfied.

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

3 Significant accounting policies (continued)

(q) Revenue (continued)

Sale of goods

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

Rendering of services

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

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

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognized, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date. Claims and variations are included in the contract accounting when they are approved.

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.

IFRS15 did not have a significant impact on the Group's accounting policies.

(r) Finance income and finance costs

Finance income comprises interest income on fixed deposits, profit on wakala deposits and amount due from related parties. Finance 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)

(s) 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 assets are 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)

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

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.

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.

3 Significant accounting policies (continued)

(x) Fair value (continued)

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 issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing consolidated financial statements. The new standards which may be relevant to the Group are set out below.

IFRS 16 *Leases*

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group does not expect the application of IFRS 16 to have a significant impact on its consolidated financial statements. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 – *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC-15 – *Operating Leases – Incentives* and SIC-27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

i. Leases in which the Group is a lessee

The Group will recognize new assets and liabilities for its operating leases of showrooms, sales offices, warehouses, vehicle and equipment. The nature of expenses related to those leases will then change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

In addition, the Group will no longer recognize provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

4 Standards issued but not yet effective (continued)

ii. Leases in which the Group is a lessor

The Group will reassess the classification of leases in which the Group is a lessor.

As at reporting date, the Group is in process of assessing the impact of requirements of IFRS 16 on its accounting for all leases where Group is either lessor or lessee.

iii. Transition

The Group plans to apply IFRS 16 with effect from from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative profit or loss effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the permitted expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards

The following standards, amendments and interpretations apply mandatorily for the first time in 2018 but do not have the significant impact on the consolidated financial statements:

- Transfers of Investment Property (Amendments to IAS 40).
- Annual Improvements to IFRSs 2015-2017 Cycle – various standards (amendments to IFRS 1 and IAS 28).

The following forthcoming amendments to standards and interpretation are not expected to have a significant impact on the Group's consolidated financial statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9) (effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (effective for annual periods beginning on or after 1 January 2019).
- Annual improvements to IFRS Standards 2015 – 2017 Cycle – various standards (effective for annual periods beginning on or after 1 January 2019).
- Amendments to References to Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

5 Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisitions

Acquisition of subsidiaries in 2018

(i) Effective 1 February 2018, the Group acquired a further 30% equity interest in its previously equity accounted investee, RAK Saudi LLC thereby increasing the shareholding of the Group to 80% stake. Accordingly, from that date the Group exercises control over the financial and operating policies of the investee.

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

(a) Acquisitions (continued)

Acquisition of subsidiaries in 2018 (continued)

The fair values of the identifiable assets and liabilities of RAK Saudi LLC on 1 February 2018 were as follows:

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

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

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

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

Goodwill (refer note 6)	**31,486**
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The goodwill is attributable mainly to the synergies in distribution and realisation expected to be achieved from integrating the Company into the Group's existing Ceramic business. None of the goodwill recognised is expected to be deductible for tax purposes.

In the period from acquisition of controlling interests in RAK Saudi LLC, the investee contributed total revenue of AED 36.49 million and a net loss of AED 9.54 million to the Group's result (before eliminations). Had the acquisition been effective 1 January 2018, the subsidiary would have contributed a total revenue of AED 38.79 million and net loss of AED 9.54 million.

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

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

Net consideration paid	**(9,800)**
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5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

(a) Acquisitions (continued)

Acquisition of subsidiaries in 2017

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

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

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

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

(iii) During the 2017, one of the Group's subsidiaries, "RAK Ceramics India (Pvt) Limited" invested AED 4.9 million and AED 1.8 million for acquiring control in "GRIS Ceramic Limited Liability Partnership" and "Gryphon Ceramics Private Limited" respectively. As a result of these investments, the Group acquired a 51% interest in the operations of the investee entities and accordingly non-controlling interests increased by AED 6.42 million. The details of the fair value of the net assets at the date of acquisition were as follows:

	GRIS Ceramic Limited Liability Partnership AED'000	Gryphon Ceramics Private Limited AED'000	Total AED'000
Total Assets	24,054	5,768	29,822
Less: total liabilities*	(14,432)	(2,293)	(16,725)
	-------	-------	--------
Net assets	9,622	3,475	13,097
	-------	-------	--------
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
	====	====	====

*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.

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

(a) Acquisitions (continued)

Acquisition of subsidiaries in 2017 (continued)

(iv) During the year 2017, the Group 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 of identifiable assets and liabilities acquired by the Group were as follows:

	AED'000
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

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.

(b) Disposals

Disposals of subsidiaries in 2018

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

Disposals of subsidiaries in 2017

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

(iii) During 2017, the Group sold 12.5 million shares out of a total 354 million issued and paid up shares of RAK Ceramics (Bangladesh) Limited through the automated trading system of Dhaka Stock Exchange Limited. Accordingly, the Group's shareholding decreased from 71.67 % to 68.13%, resulting in an increase in non-controlling interests of AED 7.5 million.

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:

	2018 **AED'000**	2017 AED'000
RAK Saudi LLC	**1,145**	-
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
	1,145	(5,008)

6 Goodwill

	2018 **AED'000**	2017 AED'000
At 1 January	**89,001**	61,780
Add: acquisition through business combination (refer note 5(a)(i) & (iv))	**31,486**	27,002
	120,487	88,782
Add: effect of movements in exchange rates	**(343)**	219
At 31 December	**120,144**	89,001

As at 31 December 2018, Goodwill comprises AED 50.36 million, AED 5.61 million, AED 5.71 million, AED 27 million and AED 31.46 million recognized on the acquisition of Ceramin FZ LLC, RAK Ceramics UK Limited, RAK Distribution Europe S.A.R.L, ARK International Trading Company Limited and RAK Saudi LLC respectively.

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	**10%-15%**
Average annual growth rate	**8%-13%**
Terminal value growth rate	**1%**
Years of forecast	**5 years**

Based on the assessment, the Group has not recorded any impairment loss during the year (2017: Nil) as the recoverable amounts are higher than the carrying values as at the reporting date. Further, based on the sensitivity analysis, management has not identified that a reasonably possible change in key assumptions could cause the carrying amount to exceed recoverable amount.

6 Goodwill (continued)

The discount rate was a pre-tax measure based on the rate of 20-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

7 Revenue

	2018 **AED'000**	2017* AED'000
Sale of goods	**2,746,430**	2,735,711
Rendering of services	**13,476**	21,143
Construction contract revenue	**16,279**	98,047
	------------	------------
	2,776,185	2,854,901
	=======	=======

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

(a) Disaggregation of revenue by geographical markets

31 December 2018	**Ceramics** **AED'000**	**Contracting** **AED'000**	**Other Industrial** **AED'000**	**Others** **AED'000**	**Total** **AED'000**
Middle East (ME)	**1,175,765**	**16,279**	**191,017**	**10,755**	**1,393,816**
Euro-zone countries	**352,096**	**-**	**101,661**	**-**	**453,757**
Asian countries	**743,150**	**-**	**28,118**	**2,721**	**773,989**
Other regions	**105,389**	**-**	**49,234**	**-**	**154,623**
	------------	------------	------------	------------	------------
	2,376,400	**16,279**	**370,030**	**13,476**	**2,776,185**
	=======	=======	=======	=======	=======

31 December 2017	Ceramics AED'000	Contracting AED'000	Other Industrial AED'000	Others AED'000	Total AED'000
Middle East (ME)	1,118,359	98,047	202,473	12,388	1,431,267
Euro-zone countries	368,973	-	93,096	-	462,069
Asian countries	747,597	-	34,204	8,755	790,556
Other regions	142,246	-	28,763	-	171,009
	------------	------------	------------	------------	------------
	2,377,175	98,047	358,536	21,143	2,854,901
	=======	=======	=======	=======	=======

8 Cost of sales

	2018 AED'000	2017 AED'000
Raw materials consumed	**897,509**	950,528
Change in inventory of finished goods	**(47,046)**	(66,337)
Provision for slow moving and obsolete inventory (refer note 18)	**5,538**	21,828
Direct labour	**235,127**	265,152
Power and fuel	**151,933**	178,268
LPG and natural gas	**231,754**	194,985
Depreciation on property, plant and equipment (refer note 14)	**111,718**	130,397
Packing material	**104,763**	105,190
Repairs and maintenance	**113,262**	126,667
Sub-contractors' fee	**2,549**	425
Others	**48,219**	46,051
	1,855,326	1,953,154

9 Administrative and general expenses

	2018 AED'000	2017 AED'000
Staff salaries and its related costs	**107,528**	101,785
Depreciation on property, plant and equipment (refer note 14)	**22,446**	18,102
Legal and professional fee	**12,307**	11,606
Depreciation on investment properties (refer note 16)	**10,389**	10,296
Telephone, postal and office supplies	**6,787**	6,096
Repairs and maintenance	**7,203**	7,436
Rental expenses	**2,781**	2,538
Utility expenses	**5,559**	5,187
Security charges	**1,782**	2,240
Amortization of intangible assets (refer note 15)	**6,459**	5,064
Investment property related expenses	**9,203**	8,822
Information technology & consultancy expenses	**11,007**	9,631
Others	**28,754**	28,860
	232,205	217,663

10 Selling and distribution expenses

	2018 AED'000	2017 AED'000
Staff salaries and its related costs	**137,884**	130,335
Freight and transportation	**126,983**	110,703
Agents commission	**84,252**	76,050
Advertisement and promotions	**42,443**	43,549
Rent expenses	**30,395**	21,872
Travel and entertainment	**5,149**	5,788
Depreciation on property, plant and equipment (refer note 14)	**5,281**	2,355
Others	**18,965**	19,867
	451,352	410,519

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2018

11 Other income

	2018	2017
	AED'000	AED'000
Rental income from investment properties (refer note 16(i))	**32,244**	35,250
Sale of scrap and miscellaneous items	**6,929**	4,253
Insurance claims	**4,733**	2,626
Gain on disposal of property, plant and equipment	**19,163**	12,061
Gain on disposal of investment properties	**154**	2,244
Discounts earned (refer note (i) below)	**1,488**	9,225
Other miscellaneous income	**27,046**	10,853
	91,757	76,512

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

12 Finance income and costs

	2018	2017
	AED'000	AED'000
Finance income		
Interest on fixed deposits	**3,867**	3,548
Profit income on Wakala deposits	**372**	600
Net change in fair value of derivatives	**4,182**	-
Net foreign exchange gain	-	28,357
Others	**989**	693
Total (A)	**9,410**	33,198
Finance costs		
Interest on bank financing	**48,953**	40,161
Profit expense on Islamic financing	**24,372**	24,137
Interest on amount due to related parties (refer note 28(A))	**40**	29
Net change in fair value of derivatives	-	3,818
Bank charges	**3,060**	3,178
Net foreign exchange loss	**14,728**	-
Total (B)	**91,153**	71,323
Net finance expense recognized in profit or loss (B-A)	**81,743**	38,125

13 Impairment losses

	2018	2017
	AED'000	AED'000
Provision for impairment loss on trade receivables (refer note 33)	**19,201**	15,150
Provision for impairment loss on amounts due from related parties (refer note 33)	**138**	23,150
Impairment loss on property plant and equipment (refer note 14(iii))	-	6,597
Impairment loss on investment properties (refer note 16)	-	631
	19,339	45,528

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 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(a))	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**
Balance at 1 January 2018	**613,927**	**2,939,051**	**107,144**	**48,815**	**68,260**	**20,959**	**129**	**64,676**	**3,862,961**
Acquisition through business combinations (refer note 5(i))	**7,377**	**1,049**	**1,391**	**2,334**	**2,352**	**-**	**-**	**-**	**14,503**
Additions during the year	**1,431**	**34,449**	**673**	**7,704**	**2,411**	**-**	**-**	**191,280**	**237,948**
Transfer from capital work in progress	**17,568**	**82,682**	**38**	**843**	**2,615**	**1,012**	**-**	**(104,758)**	**-**
Transfer to intangibles / investment properties (refer notes 15 and 16)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,720)**	**(1,720)**
Disposals/write offs	**(9,085)**	**(155,933)**	**(60,017)**	**(4,109**	**(3,873)**	**-**	**-**	**(1,528)**	**(234,545)**
Effect of movements in exchange rates	**(20,050)**	**(65,896)**	**(969)**	**(1,132)**	**(1,565)**	**(493)**	**-**	**(4,174)**	**(94,279)**
Balance at 31 December 2018	**611,168**	**2,835,402**	**48,260**	**54,455**	**70,200**	**21,478**	**129**	**143,776**	**3,784,868**

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 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(a))	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 (iii) 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
Balance at 1 January 2018	**315,884**	**2,206,129**	**96,556**	**36,885**	**54,381**	**16,573**	**129**	**-**	**2,726,537**
Acquisition through business combination (refer note 5(i))	**4,397**	**679**	**1,391**	**2,074**	**2,050**	**-**	**-**	**-**	**10,591**
Charge for the year	**24,040**	**99,890**	**3,282**	**5,528**	**6,025**	**680**	**-**	**-**	**139,445**
On disposals/write offs	**(5,567)**	**(140,810)**	**(56,295)**	**(2,799)**	**(3,544)**	**-**	**-**	**-**	**(209,015)**
Effect of movements in exchange rates	**(10,370)**	**(50,556)**	**(1,040)**	**(683)**	**(893)**	**(449)**	**-**	**-**	**(63,991)**
Balance at 31 December 2018	**328,384**	**2,115,332**	**43,894**	**41,005**	**58,019**	**16,804**	**129**	**-**	**2,603,567**
Net book value									
At 31 December 2018	**282,784**	**720,070**	**4,366**	**13,450**	**12,181**	**4,674**	**-**	**143,776**	**1,181,301**
At 31 December 2017	298,043	732,922	10,588	11,930	13,879	4,386	-	64,676	1,136,424

14 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2018	2017
	AED'000	AED'000
Cost of sales (refer note 8)	**111,718**	130,397
Administrative and general expenses (refer note 9)	**22,446**	18,102
Selling and distribution expenses (refer note 10)	**5,281**	2,355
	139,445	150,854

(i) Land and buildings

Certain of the Group's factory buildings and investment properties are constructed on plots of land 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) Impairment of property, plant and equipment

Property, plant and equipment includes AED 29.24 million and AED 57.92 million *(2017: AED 43.66 million and AED 84.06 million)* in certain manufacturing units of the Group where production had previously been suspended. Although, the production has resumed in one of those units, the management, during the year, carried out an impairment test for this 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. The fair value measurement has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

Based on the assessment, the carrying amounts of the related cash generating units did not exceed their recoverable values and accordingly, no impairment loss has been recorded against plant and equipment in the current year *(2017: AED 6.59 million)*.

15 Intangible assets

	2018	2017
	AED'000	AED'000
Balance at 1 January	**27,929**	28,332
Additions during the year	**5,459**	2,013
Transfer from property, plant and equipment (refer note 14)	**441**	2,425
Amortization for the year (refer note 9)	**(6,459)**	(5,064)
Effect of movements in exchange rates	**(127)**	223
Balance at 31 December	**27,243**	27,929

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

	2018	2017
	AED'000	AED'000
Cost		
Balance at 1 January	**1,278,515**	1,247,453
Additions during the year	**1,479**	10,761
Transfers from property, plant and equipment (refer note 14)	**1,279**	32,672
Disposals	**(1,652)**	(12,037)
Effect of movements in exchange rates	**(182)**	(334)
Balance at 31 December	**1,279,439**	1,278,515
Accumulated depreciation and impairment losses		
Balance at 1 January	**88,165**	78,393
Charge for the year (refer note 9)	**10,389**	10,296
Impairment loss for the year (refer note 13 and (i) below)	**-**	631
Transfers from property, plant and equipment (refer note 14)	**-**	30
On disposals	**(305)**	(1,176)
Effect of movements in exchange rates	**(1)**	(9)
Balance 31 December	**98,248**	88,165
Net book value – at 31 December	**1,181,191**	1,190,350
Fair value - at 31 December	**1,332,700**	1,372,393

16 Investment properties (continued)

(i) During the year ended 31 December 2018, the Group has earned rental income amounting to AED 32.24 million *(2017: AED 35.25 million)* from its investment properties (refer note 11).

An independent valuation of the fair value of the Group's properties is undertaken annually. The fair value of the Group's investment properties at 31 December 2018 has been arrived at on the basis of an independent property valuation as of that date. The valuer has appropriate qualifications and recent experience in the valuation of properties in the location and category of the property being valued. The fair value as at 31 December 2018 was AED 1,333 million *(2017: AED 1,372 million)*.

The fair value measurement has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

As the recoverable amount was higher than the carrying value, the Group has not recorded an impairment loss *(2017: AED 0.63 million).*

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 were valued using the market approach, adjusted by the influence of the major driving market factors, including demand, transactions, availability, inflation and the purchasing power of money	-Inflation rate : < 2% -Risk free rate : 3.99% -Risk Premium : 6.65% -Interest Rate : EIBOR + 1% -Statistical average growth rate : 2.3%	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 cost.	- 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:

	2018 AED'000	2017 AED'000
At 1 January	**41,764**	112,378
Share of profits	**9,549**	9,535
Disposals (refer note (ii) below)	**-**	(64,461)
Adjustment due to controlling interest in a joint venture (refer note 5(a)(ii))	**-**	(10,278)
Dividends received during the year	**(7,557)**	(6,032)
Effect of movements in exchange rates	**(1,150)**	622
At 31 December	**42,606**	41,764

(i) Acquisition equity accounted investees

Acquisition of / further investment in equity accounted investees

There were no acquisitions or further addition to any of the equity accounted investees during the year ended 31 December 2018 or during the year ended 31 December 2017.

(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 venture entity until 31 December 2016), the Group was able to exercise control over the financial and operating policies of the investee. Accordingly, the acquisition had been accounted for from the date when the Group acquired the control. Also refer note 5(a)(ii).

Disposal of an equity accounted investees:

The group disposed its entire 50% equity interest in a joint venture entity, RAK Warehouse Leasing LLC, for a total consideration of AED 125 million and realised a gain of AED 57.9 million.

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.

	Kludi RAK LLC (51%)		**Others**		**Total**	
December	**2018**	2017	**2018**	2017	**2018**	2017
	AED '000					
Non-current assets	**12,220**	13,221	**69,982**	84,365	**82,202**	97,586
Current assets (*includes cash & cash equivalent of AED 4.96 million *(2017: AED 5.32 million)*)	**79,418***	71,101*	**23,857**	137,952	**103,275**	209,053
Non-current liabilities (* comprises of provision for employees' end of service benefits)	**2,800***	2,243*	**12,400**	15,672	**15,200**	17,915
Current liabilities (* comprises of trade payables and provisions)	**23,395***	23,962*	**63,622**	169,922	**87,017**	193,884
Net assets	**65,443**	58,117	**17,817**	36,723	**83,260**	94,840
Group's share of net assets	**33,376**	29,639	**9,230**	19,168	**42,606**	48,807
Elimination of unrealized profit on downstream sales	**-**	-	**-**	(7,043)	**-**	(7,043)
Carrying amount of interest in equity accounted investees	**33,376**	29,639	**9,230**	12,125	**42,606**	41,764
Revenue	**137,579**	119,363	**28,860**	31,857	**166,439**	151,220
Depreciation and amortization	**1,434**	1,943	**-**	-	**1,434**	1,943
Interest Income	**158**	63	**-**	-	**158**	63
Profit and total comprehensive income	**21,327**	18,812	**1,160**	(349)	**22,487**	18,463
Group's share of profit	**10,877**	9,594	**(1,328)**	(59)	**9,549**	9,535
Dividend received by the Group	**7,140**	5,610	**417**	422	**7,557**	6,032

18 Inventories

	2018 AED'000	2017 AED'000
Finished goods (net of net realizable value adjustment)	**940,905**	893,859
Less: provision for slow moving and obsolete inventories	**(130,504)**	(139,170)
	810,401	754,689
Raw materials	**230,449**	233,312
Goods-in-transit	**73,097**	76,019
Work-in-progress	**18,027**	25,485
Stores and spares	**185,210**	186,928
	1,317,184	1,276,433
Less: provision for slow moving raw materials and stores and spares *	**(67,679)**	(61,731)
	1,249,505	1,214,702

* 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 2018, the Group has recognized a cumulative loss due to write-down of finished goods inventories of AED 92.54 million against cost of AED 274.21 million *(2017: AED 75.56 million against cost of AED 271.37 million)* to bring them to their net realizable value which was lower than their costs. The difference in write down of AED 16.98 million is included in cost of sales in the consolidated statement of profit or loss.

Inventories amounting to AED 241.56 million *(2017: AED 243.43 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:

	2018 AED'000	2017 AED'000
As at 1 January	**200,901**	180,210
Add: charge for the year (refer note 8)	**5,538**	21,828
Add: addition due to acquisitions	**17,593**	3,623
Less: written off	**(22,275)**	(7,186)
Effect of movements in exchange rates	**(3,574)**	2,426
At 31 December	**198,183**	200,901

19 Trade and other receivables

	2018 AED'000	2017* AED'000
Trade receivables	**1,076,506**	1,129,249
Less: allowance for impairment losses (refer note 33)	**(252,438)**	(187,078)
	824,068	942,171
Advances and prepayments	**178,284**	173,227
Deposits	**23,278**	19,795
Other receivables (refer note below (i))	**185,158**	155,985
	1,210,788	1,291,178

Trade receivables amounting to AED 114.48 million *(2017: AED 120.91 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 24(b)(ii)).

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

(i) Long term receivables

	2018 AED'000	2017 AED'000
Long term amount receivables	**128,840**	150,790
Less: allowance for impairment loss	**(26,375)**	-
	102,465	150,790
Less: current portion	**(69,113)**	(83,384)
Long term portion	**33,352**	67,406

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

	2018 AED'000	2017 AED'000
Costs incurred to date	**237**	94,433
Add: estimated attributable profits less expected losses	**26**	4,422
	263	98,855
Less: progress billings	**-**	(91,807)
Contract work-in-progress	**263**	7,048
Disclosed in the consolidated statement of financial position as below:		
Contract work in progress	**263**	7,048
	263	7,048

21 Cash in hand and at bank

		2018 AED'000	2017* AED'000
Cash in hand	(A)	**1,669**	2,398
Cash at bank			
- in fixed deposits		**119,166**	259,020
- in wakala deposits		**19,800**	60,545
- in current accounts		**168,799**	170,528
- in margin deposits		**817**	597
- in call accounts		**14,541**	23,390
Less: impairment for cash at bank		**(683)**	-
Cash at bank	(B)	**322,440**	514,080
Cash in hand and at bank	A+B	**324,109**	516,478

* The Group has applied IFRS 9 – *Financial Instruments* at 1 January 2018. Under this transition method chosen, comparative information has not been restated. Also refer note 3(d).

Cash in hand and cash at bank includes AED 0.52 million *(2017: AED 1.23 million)* and AED 86.04 million *(2017: AED 117.73 million)* respectively, held outside UAE.

Fixed deposits carry interest at normal commercial rates. Fixed deposits include AED 0.37 million *(2017: AED 0.37 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

	2018 AED'000	2017 AED'000
Authorized and issued		
170,000,000 shares of AED 1 each paid up in cash	**170,000**	170,000
731,318,783 shares of AED 1 each issued as bonus shares	**731,318**	688,398
	901,318	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**

22 Capital and reserves (continued)

(ii) Share premium reserve (continued)

(a) In October 1998, the shareholders of the Company had resolved to issue 15 million ordinary shares at an exercise price of AED 12 per share resulting in share premium of AED 165 million.

(b) In February 2010, the shareholders of RAK Ceramics (Bangladesh) Limited resolved to issue 44.51 million ordinary shares at an exercise price of AED 1.36 per share resulting in share premium of AED 60.39 million. The share issue costs resulting from the increase in share capital of RAK Ceramics (Bangladesh) Limited of AED 3.58 million was recognized as a reduction in equity.

(c) In 2012, the Group sold 500,000 number of shares of RAK Ceramics (Bangladesh) Limited out of shares issued at 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 Ceramics PJSC Limited, 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 2017	(92,117)
For the year 2017	
Foreign currency translation differences	(6,838)
As at 31 December 2017	(98,955)
For the year 2018	
Foreign currency translation differences	**(13,054)**
As at 31 December 2018	**(112,009)**

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.

22 Capital and reserves (continued)

(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 *(2017: AED 82.8 million)* represents net profit of prior years retained in reserve. This reserve is distributable.

(vii) Capital reserve

Capital reserve of AED 63.42 million *(2017: AED 52.8 million)* represents the Group's share of retained earnings capitalized by various subsidiaries. The capital reserve is non-distributable.

(viii) Dividend

The Directors have proposed a cash dividend of 15% (AED 0.15 per share) and stock dividend of 5% for the year 2018, which will be submitted for the approval of the shareholders at the Annual General Meeting on 11 March 2019. On 27 February 2018, the shareholders of the Company in their Annual General Meeting, approved a cash dividend of 25% and stock dividend of 5% for the year 2017, which was proposed by Board of Directors.

(ix) Directors' fee

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

(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 2018, calculated as follows:

	2018	2017
Net profit attributable to the owners of the Company (AED '000)	**182,620**	270,483
	======	=====
Weighted average number of ordinary shares ('000s)	**901,318**	901,318
	======	======
Basic and diluted earning per share (AED)	**0.20**	0.30
	===	====

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

	2018 AED'000	2017 AED'000
i) Short term		
Mudaraba facilities (A)	**70,000**	45,000
Commodity Murabaha facilities (B)	**142,775**	174,752
Current portion of long term financing (refer note (ii) below)	**112,245**	111,873
	325,020	331,625
ii) Long term – Islamic bank financing		
Commodity Murabaha facilities	**375,023**	486,896
Ijarah facilities (C)	**91,837**	-
Less: current portion	**(112,245)**	(111,873)
	354,615	375,023

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

Currency	**Profit range**	**2018 AED'000**	2017 AED'000
USD	3.1% - 4.9%	**417,034**	422,544
AED	2.5% - 2.6%	**49,826**	64,352
		466,860	486,896

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 2026.

These financings are secured by:

- negative pledge over certain assets of the Group;
- pari passu rights with other unsecured and unsubordinated creditors; and
- a promissory note for AED 323 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

	2018 AED'000	2017 AED'000
i) Short term		
Bank overdrafts	**4,275**	3,973
Short-term loans	**130,947**	119,559
Current portion of long-term loans (refer note (ii) below)	**226,758**	225,076
	361,980	348,608

	2018 AED'000	2017 AED'000
ii) Long term bank loans		
Bank loans	**938,145**	1,094,192
Less: current portion of long-term loans	**(226,758)**	(225,076)
Long term portion	**711,387**	869,116

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

Currency	Interest range	2018 AED'000	2017 AED'000
USD	2.9% - 5.9%	**890,241**	1,075,920
INR	8.8% - 9.3%	**47,636**	7,496
SAR	9.4% - 9.6%	**135**	316
GBP	3.1% - 5.0%	**85**	123
EUR	1.5% - 2.0%	**48**	82
AUD	5.0% - 6.0%	-	10,255
		938,145	1,094,192

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:

- a negative pledge over certain assets of the Group;
- pari passu rights with other unsecured and unsubordinated creditors;
- a promissory note for AED 852 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

	2018 AED'000	2017 AED'000
Trade payables	**377,091**	354,282
Accrued and other expenses	**206,804**	224,192
Advances from customers	**39,718**	67,671
Commissions and rebates payables	**60,109**	58,505
Other payables	**37,203**	27,569
	720,925	732,219

26 Provision for employees' end of service benefits

	2018 AED'000	2017 AED'000
At 1 January	**85,743**	83,780
On acquisition of a subsidiary	**1,952**	2,853
Charge for the year	**16,235**	17,369
Payments made during the year	**(18,139)**	(13,900)
On disposal of subsidiaries	**-**	(4,160)
Effect of movements in exchange rate	**(327)**	(199)
At 31 December	**85,464**	85,743

27 Derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. The Group classified interest rate swaps and commodity derivatives as cash flow hedges in accordance with the recognition criteria of IFRS 9, as it is mitigating the risk of cash flow variations due to movements in interest rates and commodity prices.

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values.

	2018 AED'000	2017 AED'000
Derivative financial assets		
Interest rate swaps used for hedging	**5,505**	7,452
Other currency and interest rate swaps	**790**	-
	6,295	7,452
Derivative financial liabilities		
Commodity derivative used for hedging	**(3,701)**	-
Forward exchange contracts	**(426)**	(127)
Other currency and interest rate swaps	**-**	(3,691)
	(4,127)	(3,818)

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 (see in particular notes 5 and 17), are as follows:

Transactions with related parties

	2018 AED'000	2017 AED'000
A) Equity accounted investees		
Sale of goods and services and construction contracts	**5,362**	48,266
Purchase of goods and services	**209**	1,149
Rental income	**323**	2,278
Interest expense (refer note 12)	**40**	29
	====	====
B) Other related parties		
Sales of goods and services and construction contracts	**100,537**	110,371
Purchase of goods and services	**318,507**	253,239
Rental income	**2,991**	4,497
	====	====

C) Investments and divestments with related parties

(i) Consideration on sale of an equity accounted investee

	2018 AED'000	2017 AED'000
RAK Warehouse Leasing LLC (refer note 17(ii))	-	125,000
	==	======

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

	2018 AED'000	2017 AED'000
ARK International Trading Company Limited (refer note 5(a)(iv))	-	21,569
GRIS Ceramic Limited Liability Partnership (refer note 5(a)(iii))	-	4,907
Gryphon Ceramics Private Limited (refer note 5(a)(iii))	-	1,772
RAK Saudi LLC, Saudi Arabia (refer note 5(a)(i))	**5,882**	-
	====	====

28 Related parties (continued)

Key management personnel compensation

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

	2018 AED'000	2017 AED'000
Short-term benefits	**10,504**	9,689
Staff terminal benefits	**226**	252
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 Management 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.

	2018 AED'000	2017* AED'000
Equity accounted investees	**96,731**	179,760
Other related parties	**90,449**	124,552
	----------	----------
	187,180	304,312
Less: allowance for impairment losses (refer notes 13 and 33)	**(74,550)**	(97,078)
Less: long term receivables (refer note (a) below)	-	(38,361)
	----------	----------
	112,630	168,873
	======	======

Due to related parties

	2018 AED'000	2017* AED'000
Equity accounted investees	**5,084**	3,875
Others related parties	**44,430**	40,400
	--------	--------
	49,514	44,275
	=====	=====

(a) Long term receivables

	2018 AED'000	2017* AED'000
Long term amount receivables	**38,361**	80,361
Less: current portion	**(38,361)**	(42,000)
	---------	---------
Long term portion	-	38,361
	=====	====

Also refer note 17(ii).

*The Group has applied IFRS 9 – *Financial Instruments* effective from 1 January 2018. Under the transition method chosen, comparative information has not been restated. Also refer note 3(d).

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:

	2018 **AED'000**	2017 AED'000
Current tax		
Current year	**18,440**	19,568
Deferred tax		
Origination and reversal of temporary tax differences	**(6,008)**	2,590
Total deferred tax	**(6,008)**	2,590
Tax expense for the year	**12,432**	22,158
Provision for tax	**161,070**	151,439
Deferred tax liabilities	**8,829**	8,187
Deferred tax assets	**7,613**	1,007

The Company operates in a tax free jurisdiction. The Group's consolidated effective tax rate is 5.23% for 2018 *(2017: 6.56%)* which is primarily due to the effect of tax rates in foreign jurisdictions.

30 Contingent liabilities and commitments

	2018 **AED'000**	2017 AED'000
Letters of guarantee	**17,136**	17,479
Letters of credit	**62,612**	44,727
Capital commitments	**32,845**	44,861
Value added tax and other tax contingencies	**72,754**	51,429

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 the 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 2018 amounts to AED 258.5 million *(2017: AED 363.9 million).*

31 Non-controlling interests

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

	RAK Ceramics (Bangladesh) Limited		RAK Porcelain LLC		Others		Elimination		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
NCI Percentage	**31.87%**	31.87%	**50%**	50%						
	AED'000									
Non-current assets	**188,091**	195,011	**64,424**	47,913						
Current assets	**364,020**	341,361	**213,139**	204,472						
Non-current liabilities	**(12,644)**	(23,910)	**(6,935)**	(6,486)						
Current liabilities	**(236,148)**	(230,398)	**(56,633)**	(48,985)						
Net assets	**303,319**	282,064	**213,995**	196,914						
Net assets attributable to NCI	**97,144**	90,393	**111,939**	104,234	**18,350**	6,645	**(14,736)**	(14,634)	**212,697**	186,638
Revenue	**300,386**	320,248	**263,986**	237,943						
Profit	**38,318**	45,278	**56,015**	54,568						
Other comprehensive income	**(1,540)**	(12,933)	**(561)**	1,432						
Total comprehensive income	**36,778**	32,345	**55,454**	56,000						
Profit allocated to NCI	**12,211**	14,429	**31,385**	30,574	**(1,122)**	(58)	**-**	90	**42,474**	45,035
Other comprehensive income allocated to NCI	**(470)**	(4,139)	**(306)**	781	**(907)**	127	**-**	-	**(1,683)**	(3,231)

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.

	2018	2017
	AED'000	AED'000
Less than one year	**26,108**	25,789
Between two and five years	**36,372**	36,372
More than five years	**72,743**	81,335
	135,223	143,496

As lessee

The Group leases a number of showrooms, sales offices, warehouses, vehicles and equipment under operating lease. The leases typically run for a period of three to ten years, with an option to renew the lease after that date.

	2018	2017
	AED'000	AED'000
Less than one year	**24,825**	16,351
Between two and five years	**44,007**	42,398
More than five years	**14,030**	16,906
	82,862	75,655

33 Financial instruments

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 3(d). Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

33 Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2018	Carrying Value: Fair value hedging instruments AED'000	Carrying Value: Mandatorily at FVTPL-others AED'000	Carrying Value: Financial assets at amortized cost AED'000	Carrying Value: Other financial liabilities AED'000	Carrying Value: Total AED'000	Fair Value: Level 1 AED'000	Fair Value: Level 2 AED'000	Fair Value: Level 3 AED'000	Fair Value: Total AED'000
Financial assets measured at fair value									
Interest rate swap used for hedging	**5,505**	-	-	-	**5,505**	-	**5,505**	-	**5,505**
Other currency and interest rate swap	-	**790**	-	-	**790**	-	**790**	-	**790**
	5,505	**790**	-	-	**6,295**	-	**6,295**	-	**6,295**
Financial assets not measured at fair value									
Long term receivables	-	-	**33,352**	-	**33,352**	-	-	-	-
Trade and other receivables (excluding advances and prepayments)	-	-	**1,032,504**	-	**1,032,504**	-	-	-	-
Due from related parties	-	-	**112,630**	-	**112,630**	-	-	-	-
Cash and bank balances	-	-	**324,109**	-	**324,109**	-	-	-	-
	-	-	**1,502,595**	-	**1,502,595**	-	-	-	-
Financial liabilities measured at fair value									
Commodity derivative used for hedging	**(3,701)**	-	-	-	**(3,701)**	-	**(3,701)**	-	**(3,701)**
Forward exchange contracts	-	**(426)**	-	-	**(426)**	-	**(426)**	-	**(426)**
	(3,701)	**(426)**	-	-	**(4,127)**	-	**(4,127)**	-	**(4,127)**
Financial liabilities not measured at fair value									
Islamic bank financings	-	-	-	**(679,635)**	**(679,635)**	-	-	-	-
Interest bearing bank financings	-	-	-	**(1,073,367)**	**(1,073,367)**	-	-	-	-
Trade and other payables	-	-	-	**(720,925)**	**(720,925)**	-	-	-	-
Due to related parties	-	-	-	**(49,514)**	**(49,514)**	-	-	-	-
	-	-	-	**(2,523,441)**	**(2,523,441)**	-	-	-	-

33 Financial instruments (continued)

Accounting classifications and fair values (continued)

	Carrying amount					Fair Value			
31 December 2017	**Fair value hedging instruments AED'000**	**FVTPL-designated at fair value AED'000**	**Loans and receivables AED'000**	**Other financial liabilities AED'000**	**Total AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets measured at fair value									
Interest rate swap used for hedging	7,452	-	-	-	7,452	-	7,452	-	7,452
	7,452	-	-	-	7,452	-	7,452	-	7,452
Financial assets not measured at fair value									
Long term receivables	-	-	105,767	-	105,767	-	-	-	-
Trade and other receivables (excluding advances and prepayments)	-	-	1,117,951	-	1,117,951	-	-	-	-
Due from related parties	-	-	168,873	-	168,873	-	-	-	-
Cash and bank balances	-	-	516,478	-	516,478	-	-	-	-
	-	-	1,909,069	-	1,909,069	-	-	-	-
Financial liabilities measured at fair value									
Forward exchange contracts	-	(127)	-	-	(127)	-	(127)	-	(127)
Other currency and interest rate swap	-	(3,691)	-	-	(3,691)	-	(3,691)	-	(3,691)
	-	(3,818)	-	-	(3,818)	-	(3,818)	-	(3,818)
Financial liabilities not measured at fair value									
Islamic bank financings	-	-	-	(706,648)	(706,648)	-	-	-	-
Interest bearing bank financings	-	-	-	(1,217,724)	(1,217,724)	-	-	-	-
Trade and other payables	-	-	-	(732,219)	(732,219)	-	-	-	-
Due to related parties	-	-	-	(44,275)	(44,275)	-	-	-	-
	-	-	-	(2,700,866)	(2,700,866)	-	-	-	-

33 Financial instruments (continued)

During the current and previous years, 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.

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.

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 amounts due to related parties. The Group has various financial assets such as trade and other receivables, cash and cash equivalents and amounts due from related parties.

At 31 December 2018, 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 44.84 million *(2017: AED 18.91 million)* as at that date.

33 Financial instruments (continued)

Risk management framework (continued)

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 has been restricted. Management continues to assess and monitor the implications of such changes on the business. Based on its review, management is of the view that the Group will be able to recover its investment in Iran and accordingly is 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:

	2018	2017
	AED'000	AED'000
Long term receivables	**33,352**	105,767
Trade and other receivables (excluding advances and prepayments)	**1,032,504**	1,117,951
Due from related parties	**112,630**	168,873
Cash at bank	**322,440**	514,080
	1,500,926	1,906,671

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 21.5% *(2017: 23%)* of the outstanding trade receivables as at 31 December 2018. Geographically the credit risk is significantly concentrated in the Middle East and Asian regions.

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 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.

33 Financial instruments (continued)

Credit risk (continued)

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.

	2018	2017
	AED'000	AED'000
Middle East (ME)	**699,494**	869,521
Euro-zone countries	**99,602**	122,847
Asian countries (Other than ME)	**245,640**	205,424
Other regions	**133,750**	194,799
	1,178,486	1,392,591
Trading and manufacturing	**1,047,864**	1,255,726
Contracting	**5,467**	11,603
Other industrial	**85,214**	82,500
Others	**39,941**	42,762
	1,178,486	1,392,591

Impairment losses

Expected credit loss assessment for Trade Receivables as at 1 January and 31 December 2018

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	Weighted average loss rate	**Gross carrying amount AED'000**	**Loss allowance AED'000**	**Credit impaired**
Current (not past due)	**0.51%**	**475,508**	**(2,444)**	**No**
1 – 90 days past due	**1.69%**	**211,807**	**(3,579)**	**No**
91 – 180 days past due	**6.98%**	**75,241**	**(5,255)**	**No**
181 – 360 days past due	**16.58%**	**70,131**	**(11,630)**	**No**
More than 360 days past due	**94.14%**	**243,819**	**(229,530)**	**Yes**
Total		**1,076,506**	**(252,438)**	

Loss rates are based on actual credit loss experience over the past years and are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on GDP forecast and industry outlook.

33 Financial instruments (continued)

Credit risk (continued)

At 31 December 2017, 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
	942,171	536,414	302,740	28,925	74,092
	======	======	======	=====	======

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, letters of credit and collections documents backed by bill of exchange over certain receivables, however, the majority of receivables are unsecured.

Impairment losses

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

	2018 AED'000	2017 AED'000
At 1 January	**187,078**	184,017
Adjustment on application of IFRS 9	**46,566**	-
Charge during the year (refer note 13)	**19,201**	15,150
On acquisition/(disposal) of subsidiaries - net	**20,804**	(2,390)
Witten off during the year	**(17,474)**	(10,204)
Effect of movement in exchange rates	**(3,737)**	505
	----------	----------
At 31 December	**252,438**	187,078
	======	======

Expected credit loss assessment for related party and other receivables as at 1 January and 31 December 2018

The following table indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

33 Financial instruments (continued)

Credit risk (continued)

Impairment losses (continued)

	2018 – At amortized cost			2017 – At amortized cost
Related party	**12 month ECL AED'000**	**Lifetime ECL not credit impaired AED'000**	**Lifetime ECL credit impaired AED'000**	**Loans & receivables AED'000**
Gross carrying amount	-	**91,315**	**95,865**	304,312
Loss allowance	-	**(11,519)**	**(63,031)**	(97,078)
	-	**79,796**	**32,834**	207,234

	2018 – At amortized cost			2017 – At amortized cost
Other receivables	**12 month ECL AED'000**	**Lifetime ECL not credit impaired AED'000**	**Lifetime ECL credit impaired AED'000**	**Loans & receivables AED'000**
Gross carrying amount	-	**155,824**	**112,339**	243,186
Loss allowance	-	-	**(26,375)**	-
	-	**155,824**	**85,964**	243,186

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

	2018 AED'000	2017 AED'000
At 1 January	**97,078**	74,659
Adjustment on application of IFRS 9	**(19,843)**	-
Charge for the year (refer note 13)	**138**	23,150
Written off during the year	**(2,823)**	(731)
At 31 December	**74,550**	97,078

The movement in the allowances for impairment loss on other receivables is as follows:

	2018 AED'000	2017 AED'000
At 1 January	**-**	-
Adjustment on application of IFRS 9	**45,277**	-
Written off during the year	**(18,902)**	-
At 31 December	**26,375**	-

33 Financial instruments (continued)

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.

Impairment of cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Group recognized an impairment allowance as at 1 January 2018 in the amount of AED 0.68 million.

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.

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 2018	**‘000**	
Trade and other receivable (including due from related parties)	**11,254**	**39,365**
Cash and bank balances	**778**	**1,719**
Trade and other payables	**(1,995)**	**(17,713)**
Bank borrowings	**-**	**-**
Derivative - currency Swap / forward exchange contracts	**(9,250)**	**(20,099)**
Net consolidated statement of financial position exposure	**787**	**3,272**

33 Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

Exposure to currency risk (continued)

31 December 2017	GBP	EURO
	|---------'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
	====	====

The following are exchange rates applied during the year:

	Reporting date			
	Spot rate		Average rate	
	2018	2017	**2018**	2017
Great Britain Pound (GBP)	**4.686**	4.964	**4.897**	4.728
Euro (EUR)	**4.213**	4.407	**4.332**	4.139

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.

	Strengthening		Weakening	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
	---------------------------AED'000-------------------------			
31 December 2018				
GBP	**(184)**	**-**	**184**	**-**
EURO	**(689)**	**-**	**689**	**-**
31 December 2017				
GBP	(1,109)	-	1,109	-
EURO	(2,056)	-	2,056	-

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 2018 70.4% *(2017: 24.7%)* 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:

	2018 **AED'000**	2017 AED'000
Fixed rate instruments		
Financial asset		
Fixed deposits	**138,966**	319,565
	======	======
Financial liability		
Bank borrowings	**1,234,733**	475,245
Due to related parties	**4,000**	4,000
	======	======
Variable rate instruments		
Financial liabilities		
Bank borrowings	**518,269**	1,449,127
	=======	=======

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.

	Profit or loss	
	100bp increase AED'000	**100 bp decrease AED'000**
31 December 2018		
Financial liability		
Variable instruments	**(5,183)**	**5,183**
	=====	====
31 December 2017		
Financial liability		
Variable instruments	(14,491)	14,491
	======	====

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 2018					
Non-derivative financial liabilities					
Bank borrowings	**1,753,002**	**(1,899,380)**	**(742,365)**	**(400,050)**	**(756,965)**
Trade and other payables	**681,207**	**(681,207)**	**(681,207)**	**-**	**-**
Due to related parties	**49,514**	**(49,514)**	**(49,514)**	**-**	**-**
	2,483,723	**(2,630,101)**	**(1,473,086)**	**(400,050)**	**(756,965)**
Derivative financial liabilities					
Commodity derivative used for hedging	**3,701**	**(3,772)**	**(2,902)**	**(870)**	**-**
Forward exchange contracts	**426**	**(426)**	**(426)**	**-**	**-**
	4,127	**(4,198)**	**(3,328)**	**(870)**	**-**

33 Financial instruments (continued)

Market risk (continued)

Liquidity risk (continued)

		----------- 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)
Derivative financial liabilities					
Forward exchange contracts	127	(127)	(127)	-	-
Other currency and interest rate swaps	3,691	(3,912)	(934)	(797)	(2,181)
	3,818	(4,039)	(1,061)	(797)	(2,181)

Equity risk

The Group is not significantly exposed to equity price risk.

Capital management

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

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 2,714 million as at 31 December 2018 *(2017: AED 2,851 million)*. Debt comprises Islamic and interest bearing loans.

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

	2018 AED'000	2017 AED'000
Equity	**2,714,109**	2,850,895
Debt	**1,748,727**	1,920,399
Debt equity ratio	**0.64**	0.67

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

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 applied in RAK Ceramics PJSC Limited, a subsidiary in Iran (from 2013) 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, chemicals, and faucets.
Others	other operations include trading and real estate.

35 Segment reporting (continued)

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.

	Ceramics Products AED'000	Contracting AED'000	Other Industrial AED'000	Others AED'000	Eliminations AED'000	Total AED'000
31 December 2018						
External revenue	**2,376,400**	**16,279**	**370,030**	**13,476**	**-**	**2,776,185**
Inter segment revenue	**353,717**	**-**	**213,880**	**1,856**	**(569,453)**	**-**
Segment revenue	**2,730,117**	**16,279**	**583,910**	**15,332**	**(569,453)**	**2,776,185**
Segment profit before tax	**171,561**	**23,506**	**77,513**	**(3,079)**	**(31,975)**	**237,526**
Interest income	**4,279**	**1,918**	**515**	**-**	**(2,473)**	**4,239**
Interest expense	**75,279**	**-**	**36**	**-**	**(1,950)**	**73,365**
Depreciation and amortization	**133,810**	**5,181**	**8,653**	**8,649**	**-**	**156,293**
Share of profit of equity accounted investees	**(520)**	**(34)**	**10,863**	**(760)**	**-**	**9,549**
Segment assets	**6,573,710**	**226,024**	**581,941**	**245,460**	**(2,130,095)**	**5,497,040**
Segment liabilities	**3,446,758**	**20,828**	**132,437**	**96,477**	**(913,569)**	**2,782,931**
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

35 Segment reporting (continued)

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.

	2018 AED'000	2017 AED'000
Revenue		
Middle East (ME)	**1,393,816**	1,431,267
Euro zone countries	**453,757**	462,069
Asian countries (other than ME)	**773,989**	790,556
Others	**154,623**	171,009
	2,776,185	2,854,901
Non-current assets		
Middle East (ME)	**2,130,368**	2,144,291
Asian countries (other than ME)	**383,070**	377,377
Others	**80,012**	70,574
	2,593,450	2,592,242

Reconciliation of reportable segment

	2018 AED'000	2017 AED'000
Revenues		
Total revenue for reportable segments	**3,345,638**	3,382,475
Elimination of inter segment revenue	**(569,453)**	(527,574)
Consolidated revenue	**2,776,185**	2,854,901
Profit before tax		
Total profit or loss for reportable segments before tax	**269,501**	466,826
Elimination of inter-segment profits	**(31,975)**	(129,150)
Consolidated profit before tax	**237,526**	337,676
Assets		
Total assets for reportable segment	**5,454,434**	5,759,184
Equity accounted investees	**42,606**	41,764
Consolidated total assets	**5,497,040**	5,800,948
Other material items		
Interest income	**4,239**	4,148
Interest expense	**73,365**	64,327
Depreciation and amortization	**156,293**	166,214

36 Subsidiaries and equity accounted investees

Name of the entity	Country of incorporation	Ownership interest 2018	2017	Principal activities
A Subsidiaries of R.A.K Ceramics PJSC				
RAK Ceramics (Bangladesh) Limited (refer note 5(b)(iii))	Bangladesh	**68.13%**	68.13%	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	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
RAK Ceramics Holding LLC	UAE	**100%**	100%	Investment company
Al Jazeerah Utility Services LLC	UAE	**100%**	100%	Provision of utility services
Ceramin FZ LLC	UAE	**100%**	100%	Manufacturing, processing import & export of industrial minerals
Al Hamra Construction Company LLC	UAE	**100%**	100%	Construction company
RAK Porcelain LLC (refer note (v) below)	UAE	**50%**	50%	Manufacturing of porcelain tableware
RAK Ceramics Company LLC	Saudi Arabia	**100%**	100%	Trading in ceramic tiles and sanitary ware

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2018	Ownership interest 2017	Principal activities
A	**Subsidiaries of R.A.K Ceramics PJSC (continued)**				
	RAK Ceramics UK Limited	UK	**100%**	100%	Trading in ceramic tiles and sanitary ware
	RAK Ceramics GmbH	Germany	**100%**	100%	Trading in ceramic tiles and sanitary ware
	ARK International Trading Company Limited (refer note 5(a)(iv))	Saudi Arabia	**100%**	100%	Trading in ceramic tiles
	RAK Saudi LLC (refer note 5(a)(i))	Saudi Arabia	**100%**	-	Trading in ceramic tiles and sanitary ware items
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 RAK Ceramics Holding LLC**				
	RAK Paints LLC (refer note 5(b)(i))	UAE	**51%**	100%	Manufacturers of paints and allied products
	RAK Universal Plastics Industries LLC (refer note (i) below)	UAE	**66%**	66%	Manufacturers of pipes
D	**Subsidiaries of RAK Ceramics UK Limited**				
	RAK Distribution Europe SARL	Italy	**100%**	100%	Trading in ceramic tiles and sanitary ware
E	**Subsidiary of RAK Paints LLC**				
	Altek Emirates LLC (refer note (ii) below)	UAE	**99%**	99%	Manufacturers of paints and adhesive products

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2018	2017	Principal activities
F	**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
G	**Subsidiary of Elegance Ceramics LLC**				
	Venezia Ceramics	UAE	**100%**	100%	General trading
H	**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)(ii) and 17(ii))	UAE	**47%**	47%	Contracting of furnishing the Public firm
I	**Subsidiary of RAK Porcelain Europe S.A.**				
	RAK Porcelain USA Inc.	USA	**100%**	100%	Trading of tableware
J	**Subsidiaries of RAK Ceramics India Private Limited**				
	Gris Ceramics Limited Liability Partnership (refer note 5(a)(iii))	India	**51%**	51%	Manufacturing of ceramics tiles
	Gryphon Ceramics Private Limited (refer note 5(a)(iii))	India	**51%**	51%	Manufacturing of ceramics tiles
K	**Joint ventures of R.A.K Ceramics PJSC**				
	RAK Saudi LLC (refer note 5(a)(i))	Saudi Arabia	**-**	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.

36 Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest 2018	2017	Principal activities
L	**Associate of Ceramin FZ LLC**				
	Palang Suriya Company Limited	Thailand	**40%**	40%	Extraction, distribution and export of clay and other minerals
M	**Joint ventures of RAK Ceramics Australia PTY LTD**				
	Massa Imports Pty Limited	Australia	**50%**	50%	Trading in ceramic tiles
N	**Joint ventures of RAK Ceramics Holding LLC**				
	RAK Watertech LLC (refer note (iv) below)	UAE	**51%**	51%	Waste-water treatment works
O	**Subsidiary of Palang Suriya Company Limited**				
	Feldspar Minerals Co. Limited	Thailand	**60%**	60%	Extraction, distribution and export of clay and other minerals

(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 LL 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) RAK Porcelain has been considered as a subsidiary since the Group exercises control over the financial and operating policies of the entity by way of composition of the board of directors.

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.

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.

Fair valuation of investment property

The Group follows the cost model under IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Fair value of investment properties are disclosed in note 16 of the consolidated financial statements. The fair values for buildings have been determined by taking into consideration both income/profits and comparable sales approach having regard to market rental and transactional evidence. 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 a 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.

37 Significant accounting estimates and judgements (continued)

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 property, plant and equipment and intangible assets requires management to estimate the recoverable amount of the cash generating unit.

Impairment losses on trade and other receivables (including 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 receivables, 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 in accordance with 'expected credit loss' (ECL) model. This will requires considerable judgement about how the changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

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

In accordance with 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 the ability to use its power to affect those returns. In determining control, judgements have been exercised about the relationship of the Group with the investees.

38 Exposure in Abraaj Holdings and its Group Entities and Funds

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

39 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.