

**R.A.K. Ceramics P.J.S.C.
and its subsidiaries**

Consolidated financial statements
31 December 2022

R.A.K. Ceramics P.J.S.C. and its subsidiaries

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Dear Members,

It is our pleasure to present the business & operations report for the year 2022, along with the consolidated financial statements for the Group as on 31 December 2022. RAK Ceramics reported record high full year performance for the year 2022 with a total revenue increase of 22.9% to AED 3.52 billion and reported net profit increase of 19.8% to AED 340.1 million when compared to 2021.

Despite the challenging economic environment marked by high inflation and persistent energy crisis, the Company has managed to achieve remarkable results. The total revenue increased by 22.9% YoY, reaching the highest level since 2009, driven by robust core business growth in Tiles, Sanitaryware and Tableware in addition to growth in faucets on the back of KLUDI acquisition. This is a testament to our unwavering commitment to delivering value to our stakeholders. Despite the challenging economic environment, The Company has managed to maintain our gross profit margin level, mainly due to our improved production efficiencies and optimized utilization in 2022. Growth was hindered by further costs associated with Saudi Custom Duty, higher input costs and energy challenges; nonetheless, the Company is working hard to overcome these challenges and is already seeing hints of correction in some instances. Operationally, the Company continued to progress in the expansionary projects in the UAE across all lines of businesses and advance on multiple greenfield fronts including in Bangladesh and in Saudi Arabia. Strategically, the Company finalized its core businesses consolidation exercise: the value creation plan for KLUDI is well underway and the Company is closely monitoring its progress; the Company has reached 92% stake in RAK Porcelain following a series of minority acquisitions. RAK Porcelain has also acquired final 9% minority stake in RAK Porcelain Europe S.A., fully consolidating its subsidiary. The Company solidifies its position and is committed to leveraging on synergies to strengthen operations across all core businesses.

The Board of Directors proposes a dividend distribution of 10 fils per share (AED 99.37 million) for H2 2022.

Strategic Highlights

In the **UAE**, the tiles upgradation project is in progress and production is set to begin in Q1 2023 for 5 million square meters of GP tiles. The sanitaryware capacity enhancement has also been completed and production has commenced, with full capacity estimated for 2023 (260,000 pieces). The tableware capacity expansion is still underway, with commercial production estimated for Q3 2023 (10 million pieces). In **Bangladesh**, following Board approval of Tiles and Faucet Greenfield project in Q2 2022, the land acquisition, title ownership and registration process have been completed thus far, along with obtaining NOCs and approvals from municipal bodies. Today, the team is working on shortlisting consultants and preparing the factory design layout for the Faucets project. In **Saudi Arabia**, an application has been filed to transfer the previously obtained gas allocation approval and the team is preparing the factory layout plan and seeking relevant environmental clearances and approvals.

Operational Review

In the **UAE**, revenue increased by 19.7% YoY in 2022. The strong performance was bolstered by solid market fundamentals in 2022. Retail expansion, launch of e-commerce, increased participation in international fairs, among other initiatives, resulted in further brand visibility and strengthened positioning. In **Saudi Arabia**, revenue increased by 9.0% YoY in 2022, driven by growth in retail and projects despite the 12% custom duty charges. The focus remains on offering premium products, securing mega projects and expanding the retail footprint. In **Europe**, revenue increased by 3.5% YoY in 2022 while in local currency increased by 14.5% YoY. Given the slowdown in economic activity and albeit the applied price increases in 2022, the macroeconomic pressure weighed in on bottom-line performance; Q4 2022 financials, however, saw signs of relief, enabled by correction in exchange rates and decrease in freight rates. In **India**, RAK Ceramics reported a revenue growth of 2.9% for FY 2022, versus 9.3% YoY in local currency implying impact of currency depreciation. Efforts were maintained in expanding distributors' network and increasing retail presence via showroom openings. The performance remained solid, driven by growth in the top line and improved efficiencies, although hindered by rising input and energy costs. In **Bangladesh**, revenue recorded a

slight drop of 1.2% YoY in 2022. The macroeconomic challenges and the currency devaluation impacted top line growth, as revenue is seen increasing by 8.8% YoY in local currency. Gas supply shortages experienced from the 17th of September till the 7th of December 2022 caused production disruptions, weighing in further on its bottom-line performance. In the **Middle East** (excluding UAE and KSA), revenue increased by 22.2% in 2022 mainly due to increase in brand exposure and growth in distribution network.

Financial highlights for year 2022

Particulars	Unit	Year 2022	Year 2021	Change
Total Revenue	AED Mio	3,517.2	2,860.7	22.9%
Gross Profit	AED Mio	1,270.3	1,034.6	22.8%
GP Margin	%	36.1%	36.2%	-10bps
EBITDA	AED Mio	549.9	501.3	9.7%
EBITDA Margin	%	15.6%	17.5%	-190bps
Reported Net Profit	AED Mio	340.1	283.9	19.8%
Reported Net Profit margin	%	9.7%	9.9%	-20bps
Net income before one-off, provisions & strategic gains	AED Mio	315.5	265.3	18.9%
Net income margin before one-off, provisions & strategic gains	%	9.0%	9.3%	-
Reported Profit after NCI (Minority)	AED Mio	302.8	246.5	22.9%
Reported Earnings per share	AED	0.30	0.25	-
		31 December 2022	31 December 2021	Change
Total Assets	AED Mio	5,417.6	5,096.7	6.3%
Share Capital	AED Mio	993.7	993.7	-
Shareholder's Equity	AED Mio	2,164.6	2,231.6	-3.0%
Net Debt	AED Mio	1,301.1	971.2	34.0%
Net Debt / EBITDA	Times	2.4	1.9	22.2%
Cost of Debt	%	4.1%	3.4%	70bps

CSR activities, exhibitions, sponsorships and awards

Events & Sponsorships in Q4 2022

The Company sponsored Design Middle East Awards and Construction Innovation Awards in the UAE

Awards received in Q4 2022

The Company has been awarded as –

- 2022 Specialist Manufacturer of the Year - 2022 Construction Innovation Awards
- Ceramics and Tiles Brand of the Year - 2022 Design Middle East Awards
- B-Materia Winner - Archiproducts Design Awards 2022
- 2022 GCC Best Employer Brand of the Year – Employer Branding Institute
- Trade Showroom of the Year (London Design Hub) - Designerati Awards 2022

The Group CEO received -

- Best CX Leadership Award – SAP
- Best CEO with an HR Orientation – Employer Branding Institute

Future Outlook

Despite the challenges, we are humbly proud of our progress and growth in 2022 and remain steadfast in our commitment to delivering value to our stakeholders. We are monitoring the economic environment closely and remain focused on executing our growth strategy.

Financial Reporting

The consolidated financial statements of the Company, prepared in accordance with International Financial Reporting Standards (IFRSs), fairly presents 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 of Directors would like to take this opportunity to thank Government bodies, the shareholders, investors, bankers & employees for their continuous commitment, co-operation, confidence & support in achieving the Company's objectives.



Chairman

08 FEB 2023



Group Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

**The Shareholders of
R.A.K. Ceramics P.J.S.C.
Ras Al Khaimah
United Arab Emirates**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of R.A.K Ceramics P.J.S.C. (“the Company”) and its subsidiaries (together the “Group”), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the 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 year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF R.A.K. CERAMICS P.J.S.C. (continued)**

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties</i></p> <p>Investment properties represented 17% of total assets as at 31 December 2022. Investment properties are measured in accordance with the cost model described in International Accounting Standard 40 <i>Investment Properties</i>. Management obtained valuations from independent external valuers for the purposes of identifying impairment indicators and compiling fair value disclosures.</p> <p>The valuation of investment properties, as detailed in Note 18, requires significant judgements and estimates to be made by both management and the independent external valuers. Consequently, we considered this to be a key audit matter.</p>	<p>We obtained an understanding of management's process of valuing investment properties. Further, we performed the following:</p> <ul style="list-style-type: none"> • We evaluated the design and determined the implementation of relevant controls over the determination of the fair value of investment property to determine if they had been appropriately designed and implemented; • We assessed the competence, skills, qualifications and objectivity of the independent external valuer; • We reviewed the scope of the engagement between the external valuer and the Group to determine if this was sufficient for audit purposes; • We verified the accuracy, completeness and relevance of the input data used for deriving fair values; • We utilised our internal valuation experts to evaluate on a sample basis the methodology used and the appropriateness of the model and key assumptions used in the investment property valuations; • We tested the mathematical accuracy of the valuations on a sample basis; • We agreed the results of the valuations to the amounts disclosed in the consolidated financial statements; and • We assessed the adequacy of disclosures included in the consolidated financial statements against the requirements of IFRSs.



**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF R.A.K. CERAMICS P.J.S.C. (continued)**

Other information

The Board of Directors and management is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Directors' report prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRSs and their preparation in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Decree Law No. (32) of 2021, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF R.A.K. CERAMICS P.J.S.C. (continued)**

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

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.
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF R.A.K. CERAMICS P.J.S.C. (continued)

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

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.

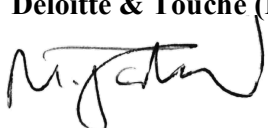
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. (32) of 2021, we report that for the year ended 31 December 2022:

- i) we have obtained all the information 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 Decree Law No. (32) of 2021;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the report of the Directors is consistent with the books of account of the Group;
- v) as disclosed in Note 32 to consolidated financial statements, the Group has purchased or invested in shares during the year ended 31 December 2022;
- vi) Note 21 to the consolidated financial statements discloses material related party transactions and balances and the terms under which they were conducted;
- 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 2022 any of the applicable provisions of the UAE Federal Decree Law No. (32) of 2021 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022 and
- viii) 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 2022 any of the applicable provisions of the UAE Federal Law No. (32) of 2021 (as amended) or in respect of the Company, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022; and
- ix) Note 7 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2022.

Deloitte & Touche (M.E.)



Signed by:
Mohammad Jallad
Registration No. 1164
8 February 2023
Dubai, United Arab Emirates

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of profit or loss for the year ended 31 December 2022

	<i>Notes</i>	2022 AED'000	2021 AED'000
Revenue	5	3,517,214	2,860,740
Cost of sales	6	(2,246,878)	(1,826,218)
Gross profit		1,270,336	1,034,522
Administrative and general expenses	7	(229,499)	(205,440)
Selling and distribution expenses	8	(712,556)	(537,259)
Other operating income	9	149,009	88,698
Finance costs	10	(92,578)	(77,973)
Finance income	10	7,084	11,092
Loss on net monetary position	34	(3,923)	(2,708)
Share of profit in equity accounted investees	11	6,286	16,592
Foreign currency translation gain on cessation of control over subsidiary	32(b)(i)	-	5,644
Profit before impairment loss		394,159	333,168
Impairment loss	7(i)	(53,317)	(32,839)
Net impairment loss on Investment properties	18	(928)	-
Gain on acquisition of subsidiaries	7(ii)	32,374	-
Net reversal of impairment loss on investment properties	18	-	563
Profit before tax		372,288	300,892
Tax Expenses	12	(32,181)	(16,975)
Profit for the year		340,107	283,917
<i>Profit attributable to:</i>			
Owners of the Company		302,816	246,471
Non-controlling interests		37,291	37,446
Profit for the year		340,107	283,917
Earnings per share			
- basic and diluted (AED)	13	0.30	0.25

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

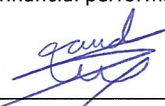
	2022	2021
	AED'000	AED'000
Profit for the year	340,107	283,917
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign exchange differences on translation of foreign operations	(82,733)	(12,457)
Cash flow hedges – effective portion of changes in fair value loss on hedging instruments	29,592	24,804
Effects of application of hyperinflation accounting (refer Note 34)	13,725	8,808
Foreign currency translation gain on cessation of control over subsidiary classified to profit or loss (refer Note 32(b)(i))	-	(5,644)
Total comprehensive income for the year	300,691	299,428
<i>Total comprehensive income/(loss) attributable to:</i>		
Owners of the Company	282,126	264,310
Non-controlling interests	18,565	35,118
Total comprehensive income for the year	300,691	299,428

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Assets			
Non-current assets			
Property, plant and equipment	14	1,243,400	1,088,236
Goodwill	15	119,855	120,500
Right-of-use assets	16	95,697	69,881
Intangible assets	17	18,545	20,531
Investment properties	18	904,191	918,826
Investments in equity accounted investees	11	10,587	55,006
Long-term receivables	19(i)	3,560	2,505
Derivative financial assets	22	9,658	2,811
Deferred tax assets	12	6,398	3,720
Total non-current assets		2,411,891	2,282,016
Current assets			
Inventories	20	1,309,292	1,086,048
Trade and other receivables	19	1,205,067	1,124,477
Due from related parties	21	41,826	36,988
Derivative financial assets	22	10,924	1,866
Bank deposits with an original maturity of more than three months	23	117,321	202,339
Cash and cash equivalents	23	321,291	362,982
Total current assets		3,005,721	2,814,700
Total assets		5,417,612	5,096,716
Equity and liabilities			
Capital and reserves			
Share capital	24	993,703	993,703
Reserves	24	1,170,866	1,237,856
Equity attributable to owners of the Company		2,164,569	2,231,559
Non-controlling interests	25	133,440	226,535
Total equity		2,298,009	2,458,094
Non-current liabilities			
Islamic bank financing	26a(ii)	372,628	303,309
Interest bearing bank financing	26b(ii)	595,649	480,639
Provision for employees' end of service benefits	29	132,450	82,740
Lease liabilities	27	72,318	48,164
Derivative financial liabilities	22	-	1,157
Deferred tax liabilities	12	25,397	10,131
Total non-current liabilities		1,198,442	926,140
Current liabilities			
Islamic bank financing	26a(i)	284,767	212,365
Interest bearing bank financing	26b(i)	486,686	540,187
Trade and other payables	28	903,666	711,206
Due to related parties	21	39,495	28,343
Derivative financial liabilities	22	4,548	7,853
Lease liabilities	27	27,626	25,726
Provision for taxation	12	174,373	186,802
Total current liabilities		1,921,161	1,712,482
Total liabilities		3,119,603	2,638,622
Total equity and liabilities		5,417,612	5,096,716

To the best of our knowledge the consolidated financial statements present fairly in all respects, the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group as of, and periods presented therein.


Chairman

08 FEB 2023


Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December 2022

	2022 AED'000	2021 AED'000
Operating activities		
Profit for the year before tax	372,288	300,892
<i>Adjustments for:</i>		
Share of profit in equity accounted investees	(6,286)	(16,592)
Interest expense	51,977	45,665
Profit expense on Islamic financing	19,724	11,528
Interest income	(6,270)	(5,882)
Profit on wakala deposits	(814)	(302)
Interest expense on lease liabilities	6,376	4,801
Net change in fair value of derivative financial instruments	9,225	(4,908)
(Gain)/loss on disposal of property, plant and equipment	(43,474)	1,012
Gain on disposal of assets classified as held for sale	-	(50,118)
Loss on de-recognition of excess lease rent recognized in earlier years	-	27,184
Impairment loss/(reversal) on investment properties	928	(563)
Depreciation on property, plant and equipment	132,388	124,870
Depreciation on investment properties	10,893	10,442
Amortization of intangible assets	6,178	7,473
Depreciation of right-of-use assets	29,075	24,292
Capital work in progress written off	68	-
Provision for employees' end-of-service benefits	18,711	20,105
Loss on net monetary position	3,923	2,708
Allowance for slow moving inventories	19,194	31,302
Write-down of net realizable value of finished goods	7,120	7,851
Allowance for impairment loss on trade receivables	25,516	30,852
Allowance for impairment loss on other receivables	27,551	7,500
Reversal/allowance of impairment loss on due from related parties	-	(5,513)
Foreign currency translation gain on cessation of control over subsidiary	-	(5,644)
Gain on acquisition on sale of subsidiary	(32,374)	-
Impairment loss on bank balances	250	-
Impairment loss on property, plant and equipment	2,906	-
	655,073	568,955
Changes in:		
- inventories	(98,253)	(49,303)
- trade and other receivables (including long-term portion)	(41,785)	(17,498)
- due from related parties	(4,838)	(1,580)
- trade and other payables	40,407	71,072
- due to related parties	23,960	3,984
Income tax paid	(28,946)	(16,334)
Employees' end-of-service benefits paid	(11,037)	(15,317)
Currency translation adjustments	(25,466)	741
Net cash generated from operating activities	509,115	544,720

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2022

	2022 AED'000	2021 AED'000
Investing activities		
Additions to property, plant and equipment	(205,775)	(90,634)
Proceeds from disposal of property, plant and equipment	74,835	1,914
Additions to intangible assets	(493)	(774)
Additions to investment property	(166)	(534)
Dividend received from equity accounted investees	575	6,417
Interest received	6,270	5,882
Profit received on Wakala deposits	814	302
Proceeds from disposal of assets held for sale	-	69,648
Cash paid for acquisition of further shares in a subsidiary	(234,462)	-
Cash paid for settlement of liabilities of the acquired subsidiary	(17,332)	-
Cash paid for acquisition of subsidiaries	(56,760)	-
Cash acquired as part of acquisition of subsidiaries	(29,269)	-
Proceeds / (deposits made) on maturity of bank deposits with an original maturity of more than three months	85,018	(58,668)
Net cash used in investing activities	(376,745)	(66,447)
Financing activities		
Long-term bank financing availed	402,296	386,618
Long-term bank financing repaid	(268,999)	(280,033)
Long-term Islamic bank financing availed	193,447	-
Long-term Islamic bank financing repaid	(116,694)	(151,717)
Short-term bank financing availed	663,384	668,726
Short-term bank financing repaid	(784,793)	(744,102)
Short-term Islamic bank financing availed	562,142	301,234
Short-term Islamic bank financing repaid	(497,174)	(452,034)
Interest paid	(51,977)	(45,665)
Profit paid on Islamic bank financing	(19,724)	(11,528)
Repayment of lease liabilities	(39,362)	(30,536)
Remuneration paid to Board of Directors	(3,574)	(1,850)
Dividend paid	(198,741)	(173,898)
Dividend paid to non-controlling interests	(24,054)	(15,485)
Net cash used in financing activities	(183,823)	(550,270)
Net decrease in cash and cash equivalents	(51,453)	(71,997)
Cash and cash equivalents at the beginning of the year	294,081	366,078
Net cash and cash equivalents at the end of the year	242,628	294,081
Represented by:		
Cash and cash equivalents (refer Note 23)	321,291	362,982
Bank overdraft	(78,663)	(68,901)
	242,628	294,081

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Attributable to owners of the Company											Non-controlling interests (NCI) AED'000	Total equity AED'000
	Reserves												
	Share capital AED'000	Share premium AED'000	Legal reserve AED'000	Translation reserve AED'000	Hyper-inflation reserve AED'000	Hedging reserve AED'000	General reserve AED'000	Capital reserve AED'000	Retained earnings AED'000	Total reserves AED'000	Total AED'000		
Balance at 31 December 2021	993,703	221,667	568,803	(130,569)	(168,321)	(9,010)	82,805	75,040	597,441	1,237,856	2,231,559	226,535	2,458,094
Total comprehensive income/(loss) for the year													
Profit for the year	-	-	-	-	-	-	-	-	302,816	302,816	302,816	37,291	340,107
Other comprehensive income/(loss)													
Foreign exchange differences on translation of foreign operations	-	-	-	(51,722)	(12,285)	-	-	-	-	(64,007)	(64,007)	(18,726)	(82,733)
Changes in cash flow hedges	-	-	-	-	-	29,592	-	-	-	29,592	29,592	-	29,592
Effects of application of IAS 29 (refer Note 34)	-	-	-	-	13,725	-	-	-	-	13,725	13,725	-	13,725
Total comprehensive income/(loss) for the year	-	-	-	(51,722)	1,440	29,592	-	-	302,816	282,126	282,126	18,565	300,691
Other equity movements													
Transfer to legal reserve	-	-	9,800	-	-	-	-	-	(9,800)	-	-	-	-
Directors' remuneration (refer Note 24 (x))	-	-	-	-	-	-	-	-	(3,574)	(3,574)	(3,574)	-	(3,574)
Transaction with owners													
Dividend paid (refer Note 24 (ix))	-	-	-	-	-	-	-	-	(198,741)	(198,741)	(198,741)	-	(198,741)
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	(24,054)	(24,054)
Funds invested by NCI	-	-	-	-	-	-	-	-	-	-	-	55	55
Acquisition of NCI	-	-	-	-	-	-	-	-	(146,801)	(146,801)	(146,801)	(87,661)	(234,462)
Balance at 31 December 2022	993,703	221,667	578,603	(182,291)	(166,881)	20,582	82,805	75,040	541,341	1,170,866	2,164,569	133,440	2,298,009

* The hyperinflation reserve comprises of foreign currency differences arising from the translation of the financial statements of RAK Ceramics (PJSC) Limited, Iran and the effect of translating the financial statements at the corresponding inflation index in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies*.

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2022

	Attributable to owners of the Company											Non-controlling interests (NCI)	Total equity
	Share capital	Share premium	Legal reserve	Translation reserve	Hyper-inflation reserve	Hedging reserve	General reserve	Capital reserve	Retained earnings	Total reserves	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance as at 31 December 2020	993,703	221,667	568,020	(116,913)	(175,012)	(33,814)	82,805	75,040	527,501	1,149,294	2,142,997	206,902	2,349,899
Profit for the year	-	-	-	-	-	-	-	-	246,471	246,471	246,471	37,446	283,917
Other comprehensive income/(loss)													
Foreign exchange differences on translation of foreign operations	-	-	-	(8,012)	(2,117)	-	-	-	-	(10,129)	(10,129)	(2,328)	(12,457)
Changes in cash flow hedges	-	-	-	-	-	24,804	-	-	-	24,804	24,804	-	24,804
Effects of application of IAS 29 (refer Note 34)	-	-	-	-	8,808	-	-	-	-	8,808	8,808	-	8,808
Foreign currency translation gain on cessation of control over subsidiary (refer Note 32(b)(i))	-	-	-	(5,644)	-	-	-	-	-	(5,644)	(5,644)	-	(5,644)
Total comprehensive income/(loss) for the year	-	-	-	(13,656)	6,691	24,804	-	-	246,471	264,310	264,310	35,118	299,428
Other equity movements													
Transfer to legal reserve	-	-	783	-	-	-	-	-	(783)	-	-	-	-
Directors' remuneration (refer Note 24 (x))	-	-	-	-	-	-	-	-	(1,850)	(1,850)	(1,850)	-	(1,850)
Transaction with owners													
Dividend paid (refer Note 24 (ix))	-	-	-	-	-	-	-	-	(173,898)	(173,898)	(173,898)	-	(173,898)
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	(15,485)	(15,485)
Balance at 31 December 2021	993,703	221,667	568,803	(130,569)	(168,321)	(9,010)	82,805	75,040	597,441	1,237,856	2,231,559	226,535	2,458,094

* The hyperinflation reserve comprises of foreign currency differences arising from the translation of the financial statements of RAK Ceramics (PJSC) Limited, Iran and the effect of translating the financial statements at the corresponding inflation index in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies*.

The accompanying notes form an integral part of these consolidated financial statements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements

for the year ended 31 December 2022

1. General information

R.A.K. Ceramics P.J.S.C. (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 undertakes business and operations under the Industrial License number 20 issued by the Ras Al Khaimah Economic Zone (RAKEZ) under the Government of Ras Al Khaimah, UAE. The Company is listed on Abu Dhabi Securities Exchange, UAE.

These consolidated financial statements as at and for the year ended 31 December 2022 comprise the financial statements of the Company and its subsidiaries (collectively referred to as “the Group” and individually as “the Group entities”) and the Group’s interest in equity accounted investees. 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 Group are manufacturing and sale of a variety of ceramic products including tiles, bathroom sets, sanitary wares, table wares and faucets. The Company and certain entities in the Group are also engaged in investing in other entities, in the 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.

Federal Law No. 32 of 2021 on Commercial Companies (the “New Companies Law”) was issued on 20 September 2021 and has come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended (the “2015 Law”). The Company has applied the requirements of the New Companies Law during the year ended 31 December 2022.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

2.1 New and revised IFRSs applied by the Group

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current period but may affect the accounting for the Group’s future transactions or arrangements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to ‘Interest Rate Benchmark Reform – Phase 2’, that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

The Group is exposed to the USD LIBOR (1-month & 3-month settings) [collectively ‘IBORs’] interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform. The Group has been closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by the IBOR regulators. The regulators have made clear that all LIBOR settings for all currencies will either cease or no longer be representative immediately after.

- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

For the Group’s derivatives, the International Swaps and Derivatives Association’s (ISDA) fall-back clauses have been incorporated in all its ISDA contracts in 2022.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

2.1 New and revised IFRSs adopted by the Group (continued)

For the Group’s floating rate debt, the Group has initiated actions to start changing benchmark reference rates and aims to revise all its floating debt contracts by the end of 30th June 2023.

The Group will continue to apply the amendments to IFRS 9 until the end of the uncertainty arising from the interest rate benchmark reforms to which the Group is exposed with respect to the timing and the amount of the underlying cash flows. The Group has assumed that this uncertainty will not end until the Group’s contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the cash flows of the alternative benchmark rate are determined including any fixed spread adjustment.

Below are details of the hedging instruments and the related hedged items that have been or will be subject to transition to alternative benchmark rates, by hedge type. The terms including the maturity and nominal amount of the hedged items listed below match with those of the corresponding hedging instruments.

Instrument type	Maturing in	Nominal amount in original currency (million)	Nominal amount in AED (million)	Hedged item	Transition progress
Cash flow hedges					
Receive 1-month USD LIBOR, pay US dollar fixed interest rates swap	2026-27	USD 48.39	177.77	Bank borrowing in USD	Expected by June 2023.
Receive 3-month USD LIBOR, pay US dollar fixed interest rates swap	2023-27	USD 45.14	165.84	Bank borrowing in USD	Expected by June 2023.
Total			343.61		

In the case of derivatives, transition is expected following International Swaps and Derivatives Association protocols.

- Amendments to IFRS 16 to extend the exemption from assessing whether a COVID-19 related rent concession is a lease modification.

During the year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current period but may affect the accounting for the Group’s future transactions or arrangements.

- Amendments relating IAS 16, IAS 37, IFRS 3 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.
- Amendments to IFRS 9 clarifying that for the purpose of performing the “10 per cent test” for derecognition of financial liabilities in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on 1 January 2022.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

2.2 New and revised IFRS and interpretations but not yet effective

Management do not expect that the adoption of the below standards will have a material impact on the consolidated financial statements.

- IFRS 17 ‘Insurance Contracts’ relating to providing a more uniform measurement and presentation approach for all insurance contracts (effective for annual periods beginning after 1 January 2023).
- Amendments to IFRS 10 ‘Consolidated Financial Statements’ and IAS 28 ‘Investments in Associates and Joint Ventures’ (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture (effective date deferred indefinitely, early adoption permitted).
- IAS 1 ‘Presentation of Financial Statements’ – Amendments on classifications of liabilities. Effective for annual period beginning on or after 1 January 2023.
- IFRS 4 ‘Insurance contracts’ relating to amendments regarding the expiry date of the deferral approach. The fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 is now 1 January 2023.
- Amendments regarding Disclosure of Accounting policies (IAS 1 and IFRS practice statement 2), amendments to IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’—Definition of Accounting Estimates and Amendments to IAS 12 ‘Income Taxes’—Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).

3. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and comply with the Articles of Association of the Company and the UAE Federal Law No. (32) of 2021 (as amended). Details of the Group’s accounting policies are included in Note 4.

(b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost convention except for certain financial instruments which are carried at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors which are considered to be relevant. 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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

3. Basis of preparation (continued)

(e) Measurement of fair values

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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.

(f) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and the Group entities controlled by the Company (its Subsidiaries) made up to 31 December each year.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

3. Basis of preparation (continued)

(f) Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognized in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

4. Summary of significant accounting policies

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are the present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(a) Business combinations (continued)

The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if those interests were disposed of.

(b) Goodwill

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(c) Interests in equity accounted investees

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate or a joint venture is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(c) Interests in equity accounted investees (continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(d) Hyperinflation

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*, prior to their translation to AED for its consolidation into the consolidated financial statements. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not that of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary is recognized in other comprehensive income and presented in the hyperinflation reserve in equity.

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

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

To determine the existence or cessation of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the preceding 36 months to the reporting date.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(e) Foreign currencies

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in a foreign exchange translation reserve. Foreign currency translation differences pertaining to hyperinflationary economies are recorded in the hyperinflation reserve in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in a foreign exchange translation reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange differences arising at the time of translation are recognized in other comprehensive income.

(f) Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Financial assets

All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method resulting in any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Amortized cost and effective interest method (continued)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on other receivables, due from related parties and trade receivables as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group estimates impairment allowances using the general or simplified approach. Under the general approach, the Group applies a three-stage approach to estimate 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 FVTOCI. 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:

- 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.
- 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.
- 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.

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. Impairment allowances are always measured at an amount equal to lifetime ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group always recognizes lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including the time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment.

In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract. The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, hedges of certain interest rate and commodity derivatives as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) and interest rate swap contracts as the hedging instrument for all of its hedging relationships involving forward/interest rate swap contracts.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognized in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight-line amortization. Those reclassified amounts are recognized in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognized non-financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognized in profit or loss.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Where hedging gains or losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses'.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity price risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Derivative financial instruments (continued)

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

Financial liabilities and equity

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Offsetting

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

(g) Property, plant and equipment

Recognition and measurement

Items of property plant and equipment (except land and capital work in progress) are measured at cost less accumulated depreciation and identified 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 at its carrying value at the time of reclassification 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 (except land and capital work in progress) 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. 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
• Vehicles	3-10
• Furniture and fixtures	3-10
• Office equipment	2-10
• Roads and asphaltting	5-10

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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(h) 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.

(i) Intangible assets

Recognition and measurement

Other intangible asset, which are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and identified impairment losses, if any. Trademarks are initially measured at the purchase cost and are amortized on a straight-line basis over their estimated lives.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

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

(j) Investment properties

Investment properties are properties 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 properties are accounted for using the "Cost Model" under the IAS 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. Investment properties are individually tested for impairment, at least annually, based on their prevailing fair market values. Any impairment to the carrying value is charged to profit or loss.

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

The cost of investment properties 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 investment properties (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 properties 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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(k) Leases

At inception of the contract, the Group assesses whether a contract is or contains a lease. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate. If the change in lease payments is due to a change in a floating interest rate, then the discount rate is also revised.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the period(s) presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(k) Leases (continued)

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

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

(l) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost method, 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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(m) Impairment of 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 or more frequently if there are indicators that goodwill might be impaired. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually or whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognized for the asset in prior years.

(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

UAE national employees of the Group in the UAE are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(n) Employee benefits (continued)

Terminal benefits

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

(o) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, if it is virtually certain that such reimbursement will be received and the amount of the receivable can be measured reliably, a receivable is recognized as an asset.

(p) 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.

(q) Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(r) Revenue

The Group recognizes revenue mainly from sale of goods consisting of tiles, sanitary wares, and related items. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer.

For sales of goods to the wholesale market, revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on-selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

For sales of goods to retail customers, revenue is recognized when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

The Group has a right to recover the product when customers exercise their right of return. Consequently, the Group recognizes a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its past experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent level of returns over previous years.

Rendering of services

Revenue is recognized point in 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.

Dividend income

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

(s) Finance income and finance costs

Finance income comprises interest income on bank 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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(t) Tax

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

4. Summary of significant accounting policies (continued)

(t) Tax (continued)

Current tax and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 amounts, if any, that may become due on finalization of an asset are accounted for in the year in which the assessment is finalized.

(u) Basic and diluted 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.

(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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

5. Revenue

	2022	2021
	AED'000	AED'000
Sale of goods	3,502,326	2,850,607
Others	14,888	10,133
	3,517,214	2,860,740

The Group derives its revenue from contracts with customers for transfer of goods at a point in time.

(a) Disaggregation of revenue by geographical markets

31 December 2022	Ceramic products		Other industrial		Others	Total
	AED'000	Faucets	AED'000	AED'000	AED'000	AED'000
Middle East (ME)	1,576,319	86,677	23,476	13,252	1,699,724	
Europe	517,785	160,081	19,691	-	697,557	
Asian countries	817,325	13,192	75,733	1,636	907,886	
Other regions	190,055	16,562	5,430	-	212,047	
	3,101,484	276,512	124,330	14,888	3,517,214	

31 December 2021	Ceramics products		Other industrial		Others	Total
	AED'000	Faucets	AED'000	AED'000	AED'000	AED'000
Middle East (ME)	1,364,323	-	32,951	8,583	1,405,857	
Europe	478,314	-	170	-	478,484	
Asian countries	777,510	-	63,927	1,550	842,987	
Other regions	129,498	-	3,914	-	133,412	
	2,749,645	-	100,962	10,133	2,860,740	

6. Cost of sales

	2022	2021
	AED'000	AED'000
Raw materials consumed	1,214,379	844,188
(Increase)/decrease in inventory of finished goods	(39,338)	71,224
Allowance for slow moving inventories – net (refer Note 20)	19,194	31,302
Direct labor	269,283	208,815
Power and fuel	120,456	129,657
LPG and natural gas	257,501	185,977
Depreciation on property, plant and equipment (refer Note 14)	106,826	104,510
Depreciation of right-of-use assets (refer Note 16)	1,825	50
Repairs and maintenance	115,464	99,876
Packing material	124,585	105,411
Amortization of intangible assets (refer Note 17)	135	-
Insurance	7,272	7,229
Clearing charges on trading goods	4,189	3,796
Hire charges on machinery & equipment	3,823	1,261
Others	41,284	32,922
	2,246,878	1,826,218

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

7. Administrative and general expenses

	2022	2021
	AED'000	AED'000
Staff salaries and other associated costs	108,745	92,459
Depreciation on property, plant and equipment (refer Note 14)	13,361	12,323
Depreciation on investment properties (refer Note 18)	10,893	10,442
Depreciation of right-of-use assets (refer Note 16)	728	727
Amortization of intangible assets (refer Note 17)	6,043	7,473
Telephone, postal and office supplies	7,237	6,226
Repairs and maintenance	7,876	8,344
Legal and professional fees	16,118	14,114
Utility expenses	4,889	5,145
Security charges	1,851	1,680
Information technology licenses and consultancy expenses	11,218	9,798
Expenses on investment properties (refer Note 18(iiii))	8,873	9,082
Insurance	2,864	2,923
Managerial remuneration and workers' participation fund	2,894	4,410
Vehicles and equipment hire charges	2,373	2,537
Travel	948	509
Impairment of property plant and equipment	2,906	-
Write off straight-line lease rent	1,139	2,629
Others	18,543	14,619
	229,499	205,440

Others include AED 0.41 million (2021: AED 0.33 million) towards social contribution expenses.

7(i) Impairment loss/(reversal)

	2022	2021
	AED'000	AED'000
Impairment loss on trade receivables (refer Note 19)	25,516	30,852
Impairment loss on other receivables (refer Note 19)	27,551	7,500
Impairment reversal on due from related parties (refer Note 21)	-	(5,513)
Impairment loss on bank balances (refer Note 23)	250	-
	53,317	32,839

7(ii) Gain on acquisition of subsidiaries

	2022	2021
	AED'000	AED'000
Gain on fair valuation of pre-existing share in equity accounted investee (refer Note 11)	9,114	-
Gain on bargain purchase (refer Note 32)	23,260	-
	32,374	-

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

8. Selling and distribution expenses

	2022	2021
	AED'000	AED'000
Staff salaries and other associated costs	189,587	136,829
Freight, duty and transportation	336,461	280,940
Agents' commission	31,502	27,702
Advertisement and promotion	74,055	34,608
Rental expenses	3,408	2,699
Travel and entertainment	6,697	2,426
Depreciation on property, plant and equipment (refer Note 14)	12,201	8,037
Depreciation of right-of-use assets (refer Note 16)	26,522	23,515
Repairs, maintenance & consumables	3,585	2,725
Royalty	735	333
Testing and certification charges	580	507
Consultancy & outsourcing Charges	1,524	1,068
Postal, courier charge & stationary	2,610	2,036
Others	23,089	13,834
	712,556	537,259

9. Other operating income

	2022	2021
	AED'000	AED'000
Rental income from investment properties (refer Note 18(iii))	39,149	30,320
Sale of scrap and miscellaneous items	5,831	4,797
Insurance claims	3,598	4,682
Net gain on disposal of property, plant and equipment	43,474	49,106
Discounts earned on purchases and freight	15,359	10,568
Customer credit balances /supplier old balance write-off	14,805	1,100
Provisions write back	7,711	2,970
Duty draw backs	1,636	782
Lease rental for property plant & equipment	2,035	1,805
Other miscellaneous income	15,411	9,752
	149,009	115,882
Less: Loss on de-recognition of excess lease rent recognized in earlier years(refer Note 18(v))	-	(27,184)
	149,009	88,698

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

10. Finance costs and income

	2022 AED'000	2021 AED'000
Finance costs		
Interest on bank financing	51,951	45,601
Profit expense on Islamic financing	19,724	11,528
Interest on amount due to related parties (refer Note 21)	26	64
Interest expense on lease liabilities	6,376	4,801
Net change in the fair value of derivatives	9,225	-
Bank charges	4,678	3,890
Net foreign exchange loss	598	12,089
Total (A)	92,578	77,973
	2022 AED'000	2021 AED'000
Finance income		
Interest on bank deposits	6,270	5,882
Profit on wakala deposits	814	302
Net change in the fair value of derivatives	-	4,908
Total (B)	7,084	11,092
Net finance costs (A-B)	85,494	66,881

11. Investments in equity accounted investees

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

	2022 AED'000	2021 AED'000
Balance at 1 January	55,006	50,596
Share of profit	6,286	16,592
Gain on disposal of equity accounted investee	9,114	-
Disposal	(2,112)	-
Conversion to wholly owned subsidiary	(56,389)	-
Dividend income during the year	(575)	(11,637)
Effect of movement in exchange rates	(743)	(545)
Balance at 31 December	10,587	55,006

Details of interests in equity accounted investees are disclosed in Note 36.

Prior to acquiring the remaining 49% equity interest in Kludi RAK LLC, UAE on 31 May 2022, the carrying value of the Group's 51% equity interest amounted to AED 47.28 million. Accordingly, the Group has fair valued its pre-existing 51% equity interest on acquisition at AED 56.39 million and recognized a fair value gain of AED 9.11 million at the date of acquisition. (Refer note 7ii)

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Notes to the consolidated financial statements (continued)
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11. Investments in equity accounted investees (continued)

The following summarizes the information relating to the Group's investments in equity accounted investees:

December	Kludi RAK LLC (51%)		Others		Total	
	2022	2021	2022	2021	2022	2021
AED'000						
Non-current assets	-	13,253	11,893	13,642	11,893	26,895
Current assets <i>(*includes cash & cash equivalents of (2021: AED 3.11 million)</i>	-	120,406*	24,953	30,524	24,953	150,930
Non-current liabilities <i>(*comprises provision for employees' end of service benefits)</i>	-	9,209*	5,984	7,623	5,984	16,832
Current liabilities <i>(*comprises trade payables and provisions)</i>	-	41,540*	7,785	9,940	7,785	51,480
Net assets	-	82,910	23,077	26,603	23,077	109,513
Group's share of net assets	-	42,284	10,587	12,722	10,587	55,006
Revenue	64,900	166,509	35,154	31,958	100,054	198,467
Depreciation and amortization	712	1,533	-	-	712	1,533
Interest expense	128	-	-	-	128	-
Interest income	12	96	-	-	12	96
Profit	10,478	30,684	3,120	2,665	13,598	33,349
Group's share of profit	4,991	15,648	1,295	944	6,286	16,592
Profit on the acquisition	9,114	-	-	-	9,114	-
Dividend received by the Group	-	11,220	575	417	575	11,637

- (i) RAK Watertech LLC, RAK Chimica LLC, Kludi RAK LLC (refer Note 32) are considered as Joint Ventures of the Group since the Group has joint control of these entities with other partners and has rights to the net assets of the arrangement.
- (ii) Operations of RAK Chimica LLC were shut down in the past and during the current year the equity accounting investee has been discontinued without any financial impact.

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12. Income tax

Foreign operations of the Group are liable to corporate taxes in the respective jurisdictions at prevailing tax rates. The corporate taxes are payable on the total income of the foreign operations after making adjustments for certain disallowable expenses, exempt income and investment and other allowances.

	2022	2021
	AED'000	AED'000
Current tax		
In respect of current year	32,120	17,072
Deferred tax		
Origination and reversal of temporary tax differences during the year	61	(97)
Tax expense for the year	32,181	16,975
Provision for tax	174,373	186,802
Deferred tax liabilities	25,397	10,131
Deferred tax assets	6,398	3,720

Currently the Company operates in an income tax free jurisdiction. The Group's consolidated effective tax rate is 8.62% for 2022 (2021: 5.65%) which is due to the mix effect of tax rates in foreign jurisdictions in which the Group's operations are taxed.

Corporate Income Tax

On 3 October 2022, the United Arab Emirates (UAE) Ministry of Finance ("MoF") issued Federal Decree-Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law ("CT Law") to implement a new CT regime in the UAE. The new CT regime is applicable for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate, however a rate of 0% could be applied to taxable income not exceeding a particular threshold or to certain types of entities, to be prescribed by way of a Cabinet Decision.

The Group/Company is currently assessing the impact of these laws and regulations and will apply the requirements as further guidance is provided by the relevant tax authorities.

13. Earnings per share

	2022	2021
Profit attributable to the owners of the Company (AED'000)	302,816	246,471
Weighted average number of ordinary shares ('000s)	993,703	993,703
Basic and diluted earnings per share (AED)	0.30	0.25

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

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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	Capital work in progress AED'000	Total AED'000
Cost								
Balance at 1 January 2021	689,561	2,793,230	45,844	57,391	67,330	24,403	67,184	3,744,943
Hyperinflation impact (refer Note 34)	-	44,334	796	182	164	444	6	45,926
Additions during the year	1,073	10,036	3,661	4,216	2,028	35	69,585	90,634
Transfer from capital work in progress	15,397	69,606	270	1,410	217	-	(86,900)	-
Disposals/write offs	(62,924)	(212,308)	(2,150)	(4,939)	(12,085)	-	-	(294,406)
Effect of movements in exchange rates	(6,484)	(20,476)	(469)	(729)	(420)	208	(131)	(28,501)
Balance at 31 December 2021	636,623	2,684,422	47,952	57,531	57,234	25,090	49,744	3,558,596
Balance at 1 January 2022	636,623	2,684,422	47,952	57,531	57,234	25,090	49,744	3,558,596
Hyperinflation impact (refer Note 34)	-	76,779	1,379	315	283	769	10	79,535
Additions during the year	36,626	9,819	2,312	1,506	3,521	3,260	148,731	205,775
Additions due to Acquisitions	169,360	122,648	4,829	98,712	22,012	-	3,998	421,559
Transfer from capital work in progress	31,959	70,149	283	4,189	432	-	(107,012)	-
Transfer to intangible/investment properties	-	-	-	-	-	-	(1,590)	(1,590)
Disposals/write offs	(33,191)	(40,624)	(1,473)	(4,163)	(3,193)	-	(68)	(82,712)
Effect of movements in exchange rates	(27,704)	(146,348)	(2,724)	(2,345)	(1,964)	(1,084)	(1,009)	(183,178)
Balance at 31 December 2022	813,673	2,776,845	52,558	155,745	78,325	28,035	92,804	3,997,985

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

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	Capital work in progress AED'000	Total AED'000
Accumulated depreciation and impairment								
Balance at 1 January 2021	341,277	2,085,332	41,544	46,805	59,786	17,919	-	2,592,663
Hyperinflation impact (refer Note 34)	-	41,914	792	142	103	402	-	43,353
Charge for the year	19,387	95,752	1,066	4,052	3,514	1,099	-	124,870
Disposals/write offs	(47,299)	(206,269)	(2,106)	(4,557)	(11,719)	-	-	(271,950)
Effect of movements in exchange rates	(2,378)	(15,031)	(368)	(474)	(291)	(34)	-	(18,576)
Balance at 31 December 2021	310,987	2,001,698	40,928	45,968	51,393	19,386	-	2,470,360
Balance at 1 January 2022	310,987	2,001,698	40,928	45,968	51,393	19,386	-	2,470,360
Hyperinflation impact (refer Note 34)	-	72,922	1,374	259	206	704	-	75,465
Charge for the year	23,610	95,243	2,163	6,789	3,632	951	-	132,388
Additions due to acquisitions	53,150	99,732	3,036	86,493	20,019	-	-	262,430
Disposals/write offs	(4,767)	(38,759)	(1,368)	(3,220)	(3,169)	-	-	(51,283)
Impairment loss	-	2,906	-	-	-	-	-	2,906
Effect of movements in exchange rates	(8,729)	(122,958)	(2,304)	(1,398)	(1,490)	(802)	-	(137,681)
Balance at 31 December 2022	374,251	2,110,784	43,829	134,891	70,591	20,239	-	2,754,585
Carrying amount 31 December 2022	439,422	666,061	8,729	20,854	7,734	7,796	92,804	1,243,400
31 December 2021	325,636	682,724	7,024	11,563	5,841	5,704	49,744	1,088,236

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

14. Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2022	2021
	AED'000	AED'000
Cost of sales (refer Note 6)	106,826	104,510
Administrative and general expenses (refer Note 7)	13,361	12,323
Selling and distribution expenses (refer Note 8)	12,201	8,037
	132,388	124,870

(i) Land and buildings

Certain of the Group's factory buildings are constructed on plots of land measuring 46,634,931 sq.ft. which were received free of cost from the Government of Ras Al Khaimah under an Emiri Decree.

(ii) Capital work-in-progress

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

(iii) Transfer from/(to) investment properties

During the year, there has been no transfer between investment properties and self-occupied properties.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

15. Goodwill

	2022	2021
	AED'000	AED'000
Balance as at 1 January	120,500	120,561
Add: effect of movements in exchange rate	(645)	(61)
Balance as at 31 December	119,855	120,500

As at 31 December 2022, Goodwill comprises AED 50.4 million, AED 5.6 million, AED 5.4 million, AED 27 million and AED 31.5 million recognized on 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.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

	2022	2021
Discount rate	14%-15%	11%-12%
Average annual growth rate	3%	3%
Terminal value growth rate	1%	1%
Years of forecast	5 Years	5 years

The discount rate is a pre-tax measure based on the rate of 20-year US treasury bond, adjusted for country, market, size, company specific risks, etc. 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.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the cash generating units to which goodwill is allocated. Management believes that a reasonably possible change in key assumptions would not cause the carrying amount to exceed the recoverable amount.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

16. Rights-of-use assets

	Properties AED'000	Vehicles AED'000	Total AED'000
Cost			
Balance at 1 January 2021	131,447	8,706	140,153
Additions during the year	21,568	-	21,568
Deletions	(10,497)	-	(10,497)
Effects of movements in exchange rate	(1,902)	(118)	(2,020)
Balance at 31 December 2021	140,616	8,588	149,204
Balance at 1 January 2022	140,616	8,588	149,204
Additions during the year	45,048	19,192	64,240
Deletions	(10,212)	-	(10,212)
Effects of movements in exchange rate	(3,309)	(1,410)	(4,719)
Balance at 31 December 2022	172,143	26,370	198,513
Accumulated depreciation			
Balance at 1 January 2021	58,774	4,030	62,804
Charge for the year	21,050	3,242	24,292
Deletions	(6,904)	-	(6,904)
Effects of movements in exchange rate	(802)	(67)	(869)
Balance at 31 December 2021	72,118	7,205	79,323
Balance at 1 January 2022	72,118	7,205	79,323
Charge for the year	15,788	13,287	29,075
Deletions	(3,489)	-	(3,489)
Effects of movements in exchange rate	(1,099)	(994)	(2,093)
Balance at 31 December 2022	83,318	19,498	102,816
Carrying amount 31 December 2022	88,825	6,872	95,697
31 December 2021	68,498	1,383	69,881

The depreciation charge has been allocated as follows:

	2022 AED'000	2021 AED'000
Cost of sales (refer Note 6)	1,825	50
Administrative and general expenses (refer Note 7)	728	727
Selling and distribution expenses (refer Note 8)	26,522	23,515
	29,075	24,292

The Group leases several assets including showrooms and vehicles. The average lease term is 5 years. The maturity analysis of lease liabilities is disclosed in Note 27.

Amounts recognized in the consolidated statement of profit or loss

	2022 AED'000	2021 AED'000
Depreciation of right-of-use assets	29,075	24,292
Expenses relating to short-term leases / low value assets	3,639	3,320
Interest expense on lease liabilities	6,376	4,801

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17. Intangible assets

	2022	2021
	AED'000	AED'000
Balance at 1 January	20,531	27,402
Additions during the year	493	774
Additions due to acquisitions	1,634	-
Transfers	1,590	-
Amortization for the year (refer Note 6 & 7)	(6,178)	(7,473)
Effect of movement in exchange rates	475	(172)
Balance at 31 December	18,545	20,531

Intangible assets mainly comprise ERP software and trademarks.

18. Investment properties

	2022	2021
	AED'000	AED'000
Cost		
Balance at 1 January	1,273,068	1,265,764
Hyperinflation impact (refer Note 34)	16,957	9,791
Additions during the year	166	534
Effect of movement in exchange rates	(20,034)	(3,021)
Balance at 31 December	1,270,157	1,273,068
Accumulated depreciation		
Balance at 1 January	354,242	339,605
Hyperinflation impact (refer Note 34)	12,120	6,685
Charge for the year (refer Note 7)	10,893	10,442
Impairment charge/(reversal)	928	(563)
Effect of movement in exchange rates	(12,217)	(1,927)
Balance at 31 December	365,966	354,242
Carrying amount – at 31 December	904,191	918,826
Fair value – at 31 December	1,032,312	1,028,046

- (i) Investment properties comprise land and buildings that are located in the United Arab Emirates, Bangladesh, Lebanon and Iran.
- (ii) The investment properties located outside U.A.E amount to AED 27.01 million (2021: AED 38.60 million).
- (iii) During the year ended 31 December 2022, the Group earned rental income amounting to AED 39.15 million (2021: AED 30.32 million) from its investment properties (refer Note 9) and direct operating expenses incurred on these investment properties amounted to AED 8.87 million (2021: AED 9.08 million) (refer Note 7).
- (iv) During the year ended 31 December 2022, the long term operating lease of an investment property leased to a hotel operator was cancelled midway through the lease term. In accordance with the requirements of IFRS, a loss of AED 1.14 million, being the excess of cumulative lease rent recognized as compared to the lease rent due as per the lease agreement, has been recognized in the consolidated statement of profit or loss (refer Note 31).

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

18. Investment properties (continued)

- (v) During the previous year, the long term operating lease of an investment property leased to a hotel operator was cancelled midway through the lease term. In accordance with the requirements of IFRS, a loss of AED 27.18 million (refer Note 9), being the excess of cumulative lease rent recognized as compared to the lease rent due as per the lease agreement, has been recognized in the consolidated statement of profit or loss.

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 2022 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 2022 was AED 1,032.31 million (2021: AED 1,028.05 million).

The fair value measurement has been categorized as a Level 3 fair value based on the inputs to the valuation technique used and in estimating the fair value, the highest and best use of the properties is their current use.

As the recoverable amount was higher than the carrying value in the case of the certain properties and the recoverable amount was lower than the carrying value of certain properties, the Group has recorded a net impairment loss (net of reversal of impairment loss recorded in the past) of AED 0.93 million during the year (2021: impairment gain AED 0.56 million) A change of +/- 5% to 10% in various assumptions would result in a further change in the fair value of the impaired investment properties in the range of -7.5% and +7.8%.

19. Trade and other receivables

	2022 AED'000	2021 AED'000
Trade receivables	1,076,543	965,755
Less: Allowance for expected credit loss	(211,859)	(229,633)
Subtotal (A)	864,684	736,122
Other receivables	129,730	119,886
Less: Allowance for expected credit loss	(33,791)	(9,933)
Subtotal (B)	95,939	109,953
Advances and prepayments (C)	214,495	250,762
Deposits (D)	29,949	27,640
Total (A+B+C+D)	1,205,067	1,124,477

Trade receivables amounting to AED 169.94 million (2021: AED 159.08 million) are subject to a charge in favor of banks against facilities obtained by the Group (refer Note 26(b)(ii)).

No interest is charged on outstanding trade receivables.

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

19. Trade and other receivables (continued)

Other receivables include receivables due from a Sudanese Group of AED 53.8 million (gross AED 115.2 million) (2021: AED 81.3 million; gross AED 115.2 million). These receivables are partially secured by post-dated cheques.

Considering the continued uncertain political situation in Sudan, resulting in consequential delays in recovery, the Group's management has made a provision of AED 27.6 million during the year 2022, against the carrying value of these receivables (2021: AED 7.5 million). Group management continues to monitor the situation closely.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables is estimated using a loss rate by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

(i) Long-term receivables

	2022 AED'000	2021 AED'000
Trade receivables	4,570	3,262
Less: Allowance for expected credit loss	(272)	(252)
	4,298	3,010
Less : current portion included in trade receivables	(738)	(505)
Long-term trade receivables (A)	3,560	2,505
Other receivables	-	108,114
Less : Allowance for expected credit loss	-	(32,808)
	-	75,306
Less: current portion included in other receivables	-	(75,306)
Long-term other receivables (B)	-	-
Long-term receivables (A+B)	3,560	2,505

Expected credit loss assessment for trade receivables

The following table provides information about the exposure to credit risk and the loss allowance for trade receivables (including long-term portion) as at 31 December 2022.

	Weighted average loss rate	Gross carrying amount AED'000	Loss allowance AED'000	Credit impaired
Current (not past due)	1.89%	535,719	(10,115)	No
1 – 90 days past due	3.59%	234,453	(8417)	No
91 – 180 days past due	13.48%	55,204	(7,442)	No
181 – 360 days past due	37.99%	40,969	(15,563)	No
More than 360 days past due	79.71%	214,030	(170,594)	Yes
		1,080,375	(212,131)	

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Notes to the consolidated financial statements (continued)
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19. Trade and other receivables (continued)

Expected credit loss assessment for trade receivables (continued)

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 forecasts and industry outlook.

The following table provides information about the exposure to credit risk and the loss allowance for trade receivables as at 31 December 2021.

	Weighted average loss rate	Gross carrying amount AED'000	Loss allowance AED'000	Credit impaired
Current (not past due)	1.01%	410,945	(4,149)	No
1 – 90 days past due	2.96%	193,324	(5,724)	No
91 – 180 days past due	8.85%	50,044	(4,428)	No
181 – 360 days past due	22.25%	68,194	(15,172)	No
More than 360 days past due	81.47%	246,005	(200,412)	Yes
		968,512	(229,885)	

Impairment losses

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

	2022 AED'000	2021 AED'000
At 1 January	229,885	227,107
Charge during the year (refer Note 7(i))	25,516	30,852
Transfer due to acquisition	9,994	-
Written off during the year	(50,405)	(27,476)
Effect of movements in exchange rate	(2,859)	(598)
At 31 December	212,131	229,885

The movement in the allowance for expected credit loss on other receivables is as follows:

	2022 AED'000	2021 AED'000
At 1 January	42,741	35,241
Charge during the year (refer Note 7(i))	27,551	7,500
Written off during the year	(3,694)	-
At 31 December	66,598	42,741

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20. Inventories

	2022	2021
	AED'000	AED'000
Finished goods (net of net realizable value adjustments)	907,383	840,895
Less : Allowance for slow-moving inventories	(152,962)	(136,305)
Subtotal (A)	754,421	704,590
Raw materials	301,923	227,212
Stores and spares*	254,125	186,545
	556,048	413,757
Less : Allowance for slow-moving inventories	(80,170)	(72,848)
Subtotal (B)	475,878	340,909
Goods-in-transit (C)	23,255	19,314
Work-in-progress (D)	55,738	21,235
Total (A+B+C+D)	1,309,292	1,086,048

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

At 31 December 2022, the Group has recognized a cumulative loss due to write-down of finished goods inventories of AED 165.96 million against cost of AED 425.99 million (2021: AED 158.84 million against cost of AED 408.73 million) to bring finished goods to its net realizable value which was lower than the cost. The difference in write down of AED 7.12 million (2021: AED 7.85 million) is included in cost of sales in the consolidated statement of profit or loss with a currency loss of AED (3.36) million for the year (2021: AED 0.32 million).

Inventories amounting to AED 230.61 million (2021: AED 235.26 million) have been pledged as security in favor of certain banks against facilities obtained by the Group (refer Note 26 (b)(ii)).

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

	2022	2021
	AED'000	AED'000
As at 1 January	209,153	212,172
Add: charge for the year (refer Note 6)	19,194	31,302
Addition due to acquisition	13,222	-
Less: written off	(5072)	(33,432)
Effect of movements in exchange rates	(3,365)	(889)
As at 31 December	233,132	209,153

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

21. Related parties

The transactions of the Group with its related parties are at arm's length. 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 11 and 31), are as follows:

Transactions with related parties

	2022 AED'000	2021 AED'000
A) Equity accounted investees		
Sale of goods and services and construction contracts	2,665	2,561
Purchase of goods and rendering of services	11,183	12,410
Rental income	125	323
Interest expenses (refer Note 10)	26	64
	<hr/>	<hr/>
B) Other related parties		
Sale of goods and services and construction contracts	119,525	110,305
Purchase of goods and rendering of services	276,167	235,759
Rental income	3,304	2,586
	<hr/>	<hr/>

Key management personnel compensation

The remuneration of Directors and other key management personnel of the Company during the year was as follows:

	2022 AED'000	2021 AED'000
Short-term benefits	11,709	9,780
Staff terminal benefits	245	252
Board of Directors' remuneration	3,574	1,850
	<hr/>	<hr/>

Due from related parties

Management of the Group, based on their review of these outstanding balances, is of the view that the existing provision is sufficient to cover any likely credit losses.

	2022 AED'000	2021 AED'000
Equity accounted investees	39,807	40,485
Other related parties	42,235	36,785
	<hr/>	<hr/>
	82,042	77,270
Less : Allowance for expected credit loss	(40,216)	(40,282)
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	41,826	36,988
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R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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21. Related parties (continued)

The movement in the allowance for ECL on amounts due from related parties is as follows:

	2022	2021
	AED'000	AED'000
At 1 January	40,282	45,799
Reversed during the year (refer Note 7(i))	-	(5,513)
Effect of movements in exchange rate	(66)	(4)
At 31 December	40,216	40,282

Due to related parties

	2022	2021
	AED'000	AED'000
Equity accounted investees	-	10,056
Other related parties	39,495	18,287
	39,495	28,343

22. 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.

Non-current	2022	2021
	AED'000	AED'000
Derivative financial assets		
Interest rate swaps used for hedging	9,658	-
Other currency and interest rate swaps	-	2,811
	9,658	2,811
Non-current	2022	2021
	AED'000	AED'000
Derivative financial liabilities		
Interest rate swaps used for hedging	-	1,157
	-	1,157

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22. Derivative financial instruments (continued)

Current	2022 AED'000	2021 AED'000
Derivative financial assets		
Interest rate swaps used for hedging	10,924	-
Forward exchange contracts	-	396
Other currency and interest rate swaps	-	1,470
	10,924	1,866

Current	2022 AED'000	2021 AED'000
Derivative financial liabilities		
Interest rate swaps used for hedging	-	7,853
Forward exchange contracts	570	-
Other currency and interest rate swaps	3,978	-
	4,548	7,853

23. Bank balances and cash

	2022 AED'000	2021 AED'000
Cash in hand	2,024	1,429
Cash at bank		
- in bank deposits with maturity less than three months	76,545	-
- in Wakala deposits with maturity less than three months	25,000	-
- in current accounts	194,301	333,243
- in margin deposits	1,536	5,223
- in call accounts	22,318	23,270
Cash and cash equivalents (excluding allowance for expected credit loss)	321,724	363,165
Less : Allowance for expected credit loss (refer Note 7 (i))	(433)	(183)
Cash and cash equivalents (A)	321,291	362,982
Bank deposits with an original maturity of more than three months (B)	117,321	202,339
Bank balances and cash (A+B)	438,612	565,321

Cash in hand and cash at bank includes AED 0.50 million (2021: AED 0.49 million) and AED 123.15 million (2021: AED 139.98 million) respectively, held outside the UAE.

All fixed deposits carry interest at commercial rates. Bank deposits with an original maturity of more than three months include AED 0.58 million (2021: AED 0.46 million) which are held by bank under lien against bank facilities availed by the Group (refer Note 26 (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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
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24. Capital and reserves

(i) Share capital

	2022	2021
	AED'000	AED'000
<i>Authorized, issued and paid up</i>		
170,000,000 shares of AED 1 each paid up in cash	170,000	170,000
823,703,958 shares of AED 1 each issued as bonus shares	823,703	823,703
	993,703	993,703

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

	2022	2021
	AED'000	AED'000
On the issue of shares of :		
- R.A.K. Ceramics P.J.S.C.	165,000	165,000
- R.A.K Ceramics (Bangladesh) Limited, Bangladesh	56,667	56,667
Total	221,667	221,667

(iii) Legal reserve

In accordance with the Articles of Association of the Company and certain subsidiaries ("the entities") of the Group and the provisions of UAE Federal Law No. (32) of 2021, 10% of the net profit for the year of the listed entity in the UAE and 5% of the net profit for the year of limited liability entities in the UAE 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 permitted by the abovementioned Law. The consolidated legal reserve reflects transfers made post acquisition for applicable subsidiaries.

(iv) Translation reserve

The translation reserve comprises 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, except for the translation difference of the subsidiary in Iran which is included in hyperinflation reserve. At 31 December 2022 and 2021 the balance on the translation reserve was negative, reflecting the fact that cumulative losses in the account exceeded cumulative gains.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

24. Capital and reserves (continued)

(v) Hyperinflation reserve

The hyperinflation reserve comprises all foreign currency differences arising from the translation of the financial statements of RAK Ceramics PJSC Limited, Iran and the effect of translating the financial statements at the current inflation index in accordance with IAS 29.

	AED'000
As at 31 December 2020	(175,012)
<i>For the year 2021</i>	
Foreign currency translation differences	(2,117)
Hyperinflation effect (refer Note 34) – gain	8,808
<hr/>	
As at 31 December 2021	(168,321)
<i>For the year 2022</i>	
Foreign currency translation differences	(12,285)
Hyperinflation effect (refer Note 34) – gain	13,725
<hr/>	
As at 31 December 2022	(166,881)

(vi) 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. At 31 December 2022 the cumulative gains on the hedging reserve exceeded cumulative losses. At 31 December 2021 the cumulative losses on the hedging reserve exceeded cumulative gains.

(vii) General reserve

General reserve of AED 82.8 million (*2021: AED 82.8 million*) is distributable subject to the approval of shareholders.

(viii) Capital reserve

Capital reserve of AED 75.04 million (*2021: AED 75.04 million*) represents the Group's share of retained earnings capitalized by various subsidiaries by way of dividend from time to time. The capital reserve is non-distributable.

(ix) Dividend

The Board of Directors recommend a final dividend distribution of 10 fils per share (AED 99,370 thousand) for the second half of the year 2022 which will be submitted for the approval of the shareholders at the Annual General Meeting on 10 March 2023, along with the approval of the interim dividend of 10 fils (AED 99,370 thousand) for the first half of year 2022 which was paid in August 2022. At the Annual General Meeting (AGM) held on 15 March 2022, the shareholders approved a cash dividend of 10% amounting to AED 99,370 thousand for second half of year 2021 and at the General Assembly held on 04 October 2021, the shareholders approved and interim dividend of 10 fils (AED 99,370 thousand) for the first half of year 2021. At the Annual General Assembly held on 30 March 2021, the shareholders approved annual cash dividend of 7.5 fils (AED 74,528 thousand) for the year 2020.

(x) Directors' remuneration

At the Annual General Meeting (AGM) held on 15 March 2022, the shareholders approved the Directors' remuneration amounting to AED 3,700 thousand for the year ended 31 December 2021, the actual payout was AED 3,574 thousand based on the number of Directors in post (for the year ended 31 December 2020: approved and paid AED 1,850 thousand in 2021).

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

25. Non-controlling interests

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

	RAK Ceramics (Bangladesh) PLC		RAK Porcelain LLC, UAE		Others (India & UAE)		Elimination		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	AED'000									
Non-current assets	141,267	143,799	98,978	95,709	74,682	81,834				
Current assets	380,081	457,784	270,506	213,553	75,867	81,706				
Non-current liabilities	(4,345)	(6,209)	(18,770)	(17,187)	(31,968)	(38,012)				
Current liabilities	(250,758)	(281,639)	(89,950)	(68,589)	(69,078)	(74,448)				
Net assets	266,245	313,735	260,764	223,486	49,503	51,080				
NCI Percentage	31.87%	31.87%	8%	50%	-	-				
Net assets attributable to NCI	85,312	100,454	38,813	115,747	23,903	24,768	(14,588)	(14,434)	133,440	226,535
Revenue	293,559	297,100	355,313	254,410	151,024	144,917				
Profit/(loss)	25,603	38,405	70,318	36,006	3,231	4,858				
Other comprehensive income/(loss)	(50,244)	(4,874)	(340)	(639)	(2,662)	(430)				
Total comprehensive income/(loss)	(24,641)	33,531	69,978	35,367	569	4,428				
Profit/(loss) allocated to NCI	8,159	12,240	27,725	22,518	1,407	2,688	-	-	37,291	37,446
Other comprehensive income/(loss) allocated to NCI	(15,986)	(1,545)	(358)	(374)	(2,382)	(409)	-	-	(18,726)	(2,328)
Dividend distributed to NCI	7,314	5,945	16,740	9,540	-	-	-	-	24,054	15,485

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

26. Bank financing arrangements

(a) Islamic bank financing

	2022	2021
	AED'000	AED'000
(i) Short-term		
Mudaraba facilities (A)	48,379	50,000
Commodity Murabaha facilities (B)	127,842	61,253
Current portion of long-term financing (refer Note 26 (a)(ii))	108,546	101,112
	284,767	212,365
	2022	2021
	AED'000	AED'000
(ii) Long-term – Islamic bank financing		
Mudaraba facilities(A)	120,000	-
Commodity Murabaha facilities (B)	183,405	184,668
Ijarah facilities (C)	177,770	219,753
Less : current portion of long-term financing (refer Note 26 (a)(i))	(108,546)	(101,112)
	372,628	303,309
	2022	2021
	AED'000	AED'000
Movement:		
Balance as at 1 January	404,421	556,138
Availed during the year	193,447	-
Less : repaid during the year	(116,694)	(151,717)
Balance as at end of the year	481,174	404,421
Less : current portion included in short-term (refer Note 26 (a)(i))	(108,546)	(101,112)
	372,628	303,309

The terms and conditions of outstanding long-term Mudaraba, Commodity Murabaha and Ijarah facilities:

Currency	2022	2021	2022	2021
	Profit range	Profit range	AED'000	AED'000
USD	2.1% - 4.0%	1.5%-3.9%	244,305	338,571
AED	2.5% - 2.7%	2.5%-2.7%	172,214	65,850
EURO	2.7% - 2.8%	-	64,655	-
			481,174	404,421

The terms and conditions of outstanding short-term Mudaraba and Commodity Murabaha facilities:

Currency	2022	2021	2022	2021
	Profit range	Profit range	AED'000	AED'000
AED	3.3% - 6.3%	1.3%-2.5%	174,334	111,253
EURO	3.5% - 3.6%	-	1,887	-
			176,221	111,253

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

26. Bank financing arrangements (continued)

(a) Islamic bank financing (continued)

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 to which the functional currency of the Company is currently pegged. The long-term Commodity Murabaha facilities mature up to 2029.

The financing is secured by:

- negative pledge over certain assets of the Group;
- pari passu rights among each other;
- assignment of blanket insurance policy of certain Group entities in favour of the bank; and
- a promissory note for AED 774 million (2021: AED 513 million)

- (A) Mudaraba is a mode of Islamic financing where a contract is entered into by 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.

(b) Interest bearing bank financing

	2022	2021
	AED'000	AED'000
(i) Short-term		
Bank overdraft	78,663	68,901
Short-term bank loan	162,305	254,114
Current portion of long-term financing (refer Note 26 (b)(ii))	245,718	217,172
	486,686	540,187
	2022	2021
	AED'000	AED'000
(ii) Long-term bank loans		
Balance as at 1 January	697,811	591,226
Availed during the year	412,555	386,618
Less : repaid during the year	(268,999)	(280,033)
Balance as at end of the year	841,367	697,811
Less : current portion of long-term financing (refer Note 26 (b)(i))	(245,718)	(217,172)
	595,649	480,639

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

26. Bank financing arrangements (continued)

(b) Interest bearing bank financing (continued)

(ii) Long-term bank loans (continued)

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

Currency	2022 Interest range	2021 Interest range	2022 AED'000	2021 AED'000
AED	4.8%-6.9%	2.2% - 2.6%	74,697	42,047
USD	3.2%-7.5%	1.5% - 3.1%	726,871	613,939
INR	7.1% -9.3%	6.4% - 9.3%	31,472	41,656
GBP	1.6% - 5%	1.6% - 5.0%	28	169
EURO	0.7%-1.8%	-	5,993	-
HUF	0.9% - 1.0%	-	2,306	-
			841,367	697,811

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

Currency	2022 Interest range	2021 Interest range	2022 AED'000	2021 AED'000
AED	4.8%-7.3%	1.8% - 4.0%	124,772	215,273
USD	7.1%-8.3%	2.0% - 3.5%	12,738	18,464
INR	4.3%-9.5%	6.5% - 9.5%	75,781	89,278
EURO	1.7%-7.9%	-	25,928	-
HUF	0.9% - 1.0%	-	1,749	-
			240,968	323,015

The Group has obtained long-term and short-term interest bearing bank facilities from various banks for financing the 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 subsidiaries or in USD, a currency to 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 2029.

These bank borrowings are secured by:

- a negative pledge over certain assets of the Group;
- pari passu rights among each other;
- a promissory note for AED 2,302 million (2021: AED 1,875 million);
- assignment of blanket insurance policy of certain Group entities in favour of the bank;
- hypothecation of inventories and assignment of receivables of certain Group entities (refer Notes 20 and 19); and
- fixed deposits held under lien (refer Note 23).

R.A.K. Ceramics P.J.S.C. and its subsidiaries
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for the year ended 31 December 2022

27. Lease liabilities

	2022 AED'000	2021 AED'000
Analysed as:		
Non-current	72,318	48,164
Current	27,626	25,726
	99,944	73,890

Maturity analysis

	2022 AED'000	2021 AED'000
Year 1	37,815	27,712
Year 2	22,421	20,175
Year 3	17,928	12,735
Year 4	11,631	10,005
Year 5	8,986	4,326
Thereafter	17,849	8,633
	116,630	83,586
Less: unearned future interest	(16,686)	(9,696)
	99,944	73,890

	2022 AED'000	2021 AED'000
Balance as at 1 January	73,890	81,650
Cash flows	(39,362)	(30,536)
Non cash changes	65,416	22,776
Balance as at end of the year	99,944	73,890

28. Trade and other payables

	2022 AED'000	2021 AED'000
Trade payables	417,804	310,796
Accrued and other expenses	249,795	215,169
Advance from customers	106,394	78,450
Commission and rebates payable	73,898	60,847
Other payables	55,775	45,944
	903,666	711,206

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The carrying amount of trade payables approximates their fair value.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

29. Provision for employees' end of service benefits

	2022	2021
	AED'000	AED'000
As at 1 January	82,740	78,123
Charge for the year	18,711	20,105
Provision due to acquisition	42,525	-
Payments made during the year	(11,037)	(15,317)
Effect of movements in exchange rate	(489)	(171)
As at 31 December	132,450	82,740

30. Contingent liabilities and commitments

	2022	2021
	AED'000	AED'000
Contingent liabilities		
Letters of guarantee	65,820	59,010
Letters of credit	60,931	35,250
Value added tax and other tax contingencies	62,979	95,183
Commitments		
Capital commitments	83,382	64,349

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 believes that adequate provisions have been recognized for potential tax contingencies.

31. Operating leases

As lessor

Certain investment properties are leased to third parties under operating leases agreements. 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.

Maturity analysis

	2022	2021
	AED'000	AED'000
Less than one year	4,208	8,950
Between two and five years	9,592	40,101
More than five years	-	48,000
	13,800	97,051

During the year ended 31 December 2022, the long term operating lease agreement with one party was cancelled. A new agreement should be concluded. The receivable amounts have been revised to reflect the contractual position at 31 December (Refer note 18).

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

32. Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisitions

- i. On 31 May 2022, the Group acquired a consortium of Kludi entities in Europe through its SPV in Austria, "RAK Ceramics Austria GmbH". The Group also acquired the remaining 49% equity interest in its previously held equity accounted investee, Kludi RAK LLC, UAE, and converted it into a wholly owned subsidiary. The Group paid an aggregate consideration of Euro 18.8 million (AED 74.1 million) including Euro 4.4 million (AED 17.3 million) towards settlement of Kludi Group's liabilities and payables.

The provisional amounts recognized in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:-

	Kludi Europe AED'000	Kludi RAK AED'000	Total AED'000
Assets			
Property, plant and equipment	133,331	25,675	159,006
Intangible assets	1,081	553	1,634
Right-of-use assets	14,661	4,803	19,464
Other financial assets	1,645	-	1,645
Deferred tax assets	2,508	11	2,519
Inventories	100,234	51,071	151,305
Trade and other receivables	64,942	54,554	119,496
Cash and bank balance	7,762	7,575	15,337
Total assets	326,164	144,242	470,406
Liabilities			
Bank borrowings	(39,859)	-	(39,859)
Bank overdrafts	(44,606)	-	(44,606)
Provision for employees' end-of-service benefits	(38,352)	(4,173)	(42,525)
Deferred tax liabilities	(16,708)	-	(16,708)
Lease Liabilities	(16,078)	(4,782)	(20,860)
Trade and other payables	(144,663)	(24,722)	(169,385)
Total liabilities	(300,266)	(33,677)	(333,943)
Net assets	25,898	110,565	136,463
Less:- Non-controlling interest	(55)	-	(55)
Fair value of pre-existing interest	-	(56,388)	(56,388)
Net assets acquired (A)	25,843	54,177	80,020
Gross consideration			(74,092)
Less:- Settlement of liabilities			17,332
Net consideration paid (B)			(56,760)
Gain on bargain purchase (A + B)			23,260
Cash acquired as part of acquisition of subsidiaries			
Cash and bank balance			15,337
Bank overdrafts			(44,606)
Cash acquired as part of acquisition of subsidiaries			(29,269)

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

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

(a) Acquisitions (continued)

Gain on bargain purchase represents the difference between purchase consideration and fair value of net assets acquired and is recognized in the consolidated statement of profit or loss. The fair value of the assets and liabilities have been determined by an external expert.

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

During the period from the date of being accounted for as subsidiaries to 31 December 2022, the units contributed aggregate revenue of AED 276.51 million and a net loss of AED 53.09 million to the Group's result.

Had this acquisition been effective 01 January 2022, it would have resulted in additional revenue of AED 198.22 million and incurrence of additional loss of AED 45.99 million.

- ii. During the current year the Group acquired (a) a further 42% interest in one of its subsidiaries, RAK Porcelain LLC, UAE, for a consideration of AED 231 million, thereby increasing the shareholding of the Group to 92% and (b) through RAK Porcelain LLC, UAE, the remaining 9% stake in RAK Porcelain Europe for a consideration of AED 3.46 million. On these two transactions, the Group recognized:

	RAK Porcelain UAE AED'000	RAK Porcelain Europe AED'000	Total AED'000
Decrease/(increase) in non-controlling interest	89,306	(1,646)	87,660
Decrease in retained earnings	141,694	5,108	146,802
Total consideration paid	231,000	3,462	234,462

Acquisition of subsidiaries in 2021

No subsidiaries were acquired during the year.

(b) Disposals

During 2022, the Group shut down subsidiaries in Malaysia and Thailand. These companies had not operated in the recent years and there was no financial impact of the closure.

Disposal of subsidiaries in 2021

- (i) During the previous year, the Group has liquidated its 100% held subsidiary in China, "RAK (Gao Yao) Ceramics Co. Limited" and sold its property, plant and equipment. The Group has recognised a cumulative gain of AED 55.76 million on liquidation of the subsidiary, as follows:

Gain on sale of property, plant and equipment AED 50.12 million, included in 'Gain on disposal of property, plant and equipment' (refer Note 9).

Transfer of accumulated foreign currency translation gain to consolidated statement of profit or loss AED 5.64 million.

33. Financial instruments

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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Accounting classifications and fair values (continued)

	-----Carrying value-----					-----Fair value-----			
	Fair value hedging instruments AED'000	Mandatory at FVTPL* AED'000	Financial assets at amortized cost AED'000	Financial liabilities at amortised cost AED'000	Total AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2022									
Financial assets measured at fair value									
Interest rate swaps used for hedging	-	20,582	-	-	20,582	-	20,582	-	20,582
	-	20,582	-	-	20,582	-	20,582	-	20,582
Financial assets measured at amortized cost									
Long-term receivables	-	-	3,560	-	3,560	-	-	-	-
Trade and other receivables	-	-	990,572	-	990,572	-	-	-	-
Due from related parties	-	-	41,826	-	41,826	-	-	-	-
Bank balances and cash	-	-	438,612	-	438,612	-	-	-	-
	-	-	1,474,570	-	1,474,570	-	-	-	-
Financial liabilities measured at fair value									
Forward exchange contracts / Options	-	570	-	-	570	-	570	-	570
Other currency and interest rate swaps	-	3,978	-	-	3,978	-	3,978	-	3,978
	-	4,548	-	-	4,548	-	4,548	-	4,548
Financial liabilities measured at amortized cost									
Islamic bank financing	-	-	-	657,395	657,395	-	-	-	-
Interest bearing bank financing	-	-	-	1,082,335	1,082,335	-	-	-	-
Trade and other payables	-	-	-	797,272	797,272	-	-	-	-
Due to related parties	-	-	-	39,495	39,495	-	-	-	-
Lease liabilities	-	-	-	99,944	99,944	-	-	-	-
	-	-	-	2,676,441	2,676,441	-	-	-	-

*FVTPL: fair value through profit or loss

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Accounting classifications and fair values (continued)

	-----Carrying value-----					-----Fair value-----			
	Fair value hedging instruments AED'000	Financial assets at FVTPL* AED'000	Financial assets at amortised cost AED'000	Financial liabilities at amortised cost AED'000	Total AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2021									
Financial assets measured at fair value									
Forward exchange contracts	-	396	-	-	396	-	396	-	396
Other currency and interest swaps	-	4,281	-	-	4,281	-	4,281	-	4,281
	-	4,677	-	-	4,677	-	4,677	-	4,677
Financial assets measured at amortised cost									
Long-term receivables	-	-	2,505	-	2,505	-	-	-	-
Trade and other receivables	-	-	873,715	-	873,715	-	-	-	-
Due from related parties	-	-	36,988	-	36,988	-	-	-	-
Bank balances and cash	-	-	565,321	-	565,321	-	-	-	-
	-	-	1,478,529	-	1,478,529	-	-	-	-
Financial liabilities measured at fair value									
Interest rate swaps used for hedging	9,010	-	-	-	9,010	-	9,010	-	9,010
	9,010	-	-	-	9,010	-	9,010	-	9,010
Financial liabilities measured at amortised cost									
Islamic bank financing	-	-	-	515,674	515,674	-	-	-	-
Interest bearing bank financing	-	-	-	1,020,826	1,020,826	-	-	-	-
Trade and other payables	-	-	-	632,756	632,756	-	-	-	-
Due to related parties	-	-	-	28,343	28,343	-	-	-	-
Lease liabilities	-	-	-	73,890	73,890	-	-	-	-
	-	-	-	2,271,489	2,271,489	-	-	-	-

*FVTPL: fair value through profit or loss

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

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
- Market risk
- Liquidity 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 is responsible for developing and monitoring the Group's risk management policies and reports 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 Audit and Risk Committee ("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 Audit Committee is assisted in its oversight role by the Internal Control department. Internal control undertakes both regular and ad hoc 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, bank balances and deposits and amounts due from related parties.

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 the reporting date.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

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. To manage this risk, the Group periodically assesses country and customer credit risk, assigns individual credit limits and takes appropriate actions to mitigate credit risk.

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:

	2022	2021
	AED'000	AED'000
Long-term receivables	3,560	2,505
Trade and other receivables (excluding advances and prepayments)	990,572	873,715
Due from related parties	41,826	36,988
Cash at bank and cash equivalents	436,588	563,892
	1,472,546	1,477,100

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 19.4% (2021: 21.3%) of the outstanding gross trade receivables as at 31 December 2022. Geographically the credit risk is significantly concentrated in the Middle East, Europe 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.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Credit risk (continued)

Exposure to 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.

	2022 AED'000	2021 AED'000
Middle East (ME)	591,827	517,794
Europe	159,991	106,097
Asian countries (Other than ME)	168,712	177,558
Other regions	115,428	111,759
	1,035,958	913,208
Trading and manufacturing	1,004,288	851,181
Other industrial	11,180	38,256
Others	20,490	23,771
	1,035,958	913,208

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.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity price 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 optimizing 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 EUR, GBP & AUD.

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 the respective borrowing and generally borrowings are denominated in currencies which match the cash flows generated by the underlying operations of the Group.

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Currency risk (continued)

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 '000	AUD '000	EUR '000
31 December 2022			
Trade and other receivable (including due from related parties)	19,365	1,631	99,386
Cash and bank balances	569	187	5,110
Trade and other payables	(8,022)	(460)	(38,484)
Bank borrowings	(12,906)	-	(21,104)
Derivative – currency swap forward exchange contracts	12,906 (13,500)	- (400)	- (54,500)
Net exposure	(1,588)	958	(9,592)
	GBP '000	AUD '000	EUR '000
31 December 2021			
Trade and other receivable (including due from related parties)	16,663	4,484	48,167
Cash and bank balances	2,100	4,088	7,837
Trade and other payables	(6,064)	(380)	(21,303)
Bank borrowings	(18,068)	-	-
Derivative – currency swap forward exchange contracts	18,068 (11,500)	- (8,000)	- (33,390)
Net exposure	1,199	192	1,311

The following are the exchange rates applied during the year:

	Reporting date			
	Spot rate			Average rate
	2022	2021	2022	2021
Great Britain Pound (GBP)	4.444	4.970	4.526	5.051
Euro (EUR)	3.931	4.176	3.861	4.343
Australian Dollar (AUD)	2.503	2.667	2.547	2.757

Sensitivity analysis

A strengthening (weakening) of the AED, as indicated below, against the EUR, GBP and AUD 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

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Currency risk (continued)

	Strengthening		Weakening	
	Profit or loss	Equity	Profit or loss	Equity
-----AED'000-----				
31 December 2022				
GBP	353	-	(353)	-
EUR	1,886	-	(1,886)	-
AUD	(120)	-	120	-
31 December 2021				
GBP	(298)	-	298	-
EUR	(274)	-	274	-
AUD	(26)	-	26	-

The following tables detail the foreign currency forward contracts outstanding at the end of reporting period, as well as information regarding their related hedged items.

Hedging instrument	Notional value (respective foreign currency)	Notional principal value	Carrying	Change in fair
			amount of the	value used for
			hedging	recognizing
			instruments	hedge
			assets/(liabilities)	ineffectiveness
	2022	2022	2022	2022
	'000	AED'000	AED'000	AED'000
Forward contracts				
- GBP	13,500	59,992	870	-
- EUR	54,500	214,260	(1,387)	-
- AUD	400	1,001	(54)	-
Currency swap				
- GBP	12,906	57,352	(3,978)	-

Hedging instrument	Notional value (respective foreign currency)	Notional principal value	Carrying	Change in fair
			amount of the	value used for
			hedging	recognizing
			instruments	hedge
			assets/(liabilities)	ineffectiveness
	2021	2021	2021	2021
	'000	AED'000	AED'000	AED'000
Forward contracts				
- GBP	11,500	57,154	(227)	-
- EUR	30,500	127,369	345	-
- AUD	8,000	21,336	278	-
Currency swap				
- GBP	18,068	89,797	3,936	-

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Currency risk (continued)

Hedge item	Notional principal value	Accumulated amount of fair value hedge adjustment included in carrying amount	Change in fair value used for recognizing hedge ineffectiveness
	2022 AED'000	2022 AED'000	2022 AED'000
Trade receivables			
- GBP	(59,992)	(870)	-
- EUR	(214,260)	1,387	-
- AUD	(1,001)	54	-
Term Loan			
- GBP	(57,352)	3,978	-

Hedge item	Notional principal value	Accumulated amount of fair value hedge adjustment included in carrying amount	Change in fair value used for recognizing hedge ineffectiveness
	2021 AED'000	2021 AED'000	2021 AED'000
Trade receivables			
- GBP	(57,154)	227	-
- EUR	(127,369)	(345)	-
- AUD	(21,336)	(278)	-
Term Loan			
- GBP	(89,797)	(3,936)	-

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, from time to time the Group enters into interest rate swaps, 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 2022, 39.83 % (2021: 61.05%) of the Group's term financings are at a fixed rate of interest.

As the critical term of interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and is expected that the value of interest rate swap contracts and the value of corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying interest rates. The main source of hedge effectiveness in these hedge relationships is the effect of counterparty risk on the fair value of interest rate swap contracts, which is not reflected in the fair value of hedged items attributable to the change in interest rates. There is no other source of ineffectiveness from these hedging relationships.

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Interest rate risk (continued)

The following tables detail various information regarding interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Cash flow hedges

Hedging instrument	Average contracted fixed interest rate	Notional principal value	Carrying amount of the hedging instruments assets/(liabilities)	Change in fair value used for calculating hedge ineffectiveness
	2022 %	2022 AED'000	2022 AED'000	2022 AED'000
Receive floating, pay fixed, contracts	1.71	439,789	20,582	-

Hedging instrument	Average contracted fixed interest rate	Notional principal value	Carrying amount of the hedging instruments assets/(liabilities)	Change in fair value used for calculating hedge ineffectiveness
	2021 %	2021 AED'000	2021 AED'000	2021 AED'000
Receive floating, pay fixed, contracts	1.74	704,603	(9,010)	-

Designated hedge items	Nominal Amount of the hedged items assets/ (liabilities)	Change in value used for calculating hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges	Balance in cash flow hedge reserve for which hedge accounting is no longer applied
	2022 AED'000	2022 AED'000	2022 AED'000	2022 AED'000
Variable rate borrowings	(439,789)	-	(20,582)	-

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow hedges (continued)

	Nominal amount of the hedged items assets/ (liabilities)	Change in value used for calculating hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges	Balance in cash flow hedge reserve for which hedge accounting is no longer applied
	2021 AED'000	2021 AED'000	2021 AED'000	2021 AED'000
Designated hedge items				
Variable rate borrowings	(704,603)	-	9,010	-

Fair Value

Hedging instrument	Notional principal value	Carrying amount of the hedging instrument assets/ (liabilities)	Change in fair value used for calculating hedge ineffectiveness
	2022 AED'000	2022 AED'000	2022 AED'000
Receive floating, pay fixed contracts	-	-	-

Hedging instrument	Notional principal value	Carrying amount of the hedging instrument assets/ (liabilities)	Change in fair value used for calculating hedge ineffectiveness
	2021 AED'000	2021 AED'000	2021 AED'000
Receive floating, pay fixed contracts	12,490	345	-

Non-designated hedged items	Nominal amount of the hedged items assets/ (liabilities)	Accumulated amount of fair value hedge adjustment included in carrying amount	Change in fair value used for recognizing hedge ineffectiveness
	2022 AED'000	2022 AED'000	2022 AED'000
Variable rate borrowings	-	-	-

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow hedges (continued)

	Nominal amount of the hedged items assets/ (liabilities)	Accumulated amount of fair value hedge adjustment included in carrying amount	Change in fair value used for recognizing hedge ineffectiveness
	2021 AED'000	2021 AED'000	2021 AED'000
Non-designated hedged items			
Variable rate borrowings	(12,490)	(345)	-

The Group is exposed to the USD IBOR interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform. The Group has been closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by the IBOR regulators. The regulators have made clear that, at the end of June 2023, they will no longer seek to persuade, or compel, banks to submit IBORs.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses have been incorporated in all its ISDA contracts.

For the Group's floating rate debt, the Group has started discussions with Banks to change benchmark reference rates and aims to finalize these amendments by end of June 2023.

The Group will continue to apply the amendments to IFRS 9 until the end of the uncertainty arising from the interest rate benchmark reforms to which the Group is exposed with respect to the timing and the amount of the underlying cash flows. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment.

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

	2022 AED'000	2021 AED'000
Fixed rate instruments		
Financial assets		
Bank deposits	218,886	202,339
Due from related parties	-	-
Financial liabilities		
Islamic bank financing	471,760	465,674
Interest bearing bank financing	221,118	472,293
Due to related parties	-	4,000

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Interest rate risk (continued)

	2022	2021
	AED'000	AED'000
<i>Variable rate instruments</i>		
<i>Financial liability</i>		
Islamic bank financing	185,635	50,000
Interest bearing bank financing	861,217	548,533

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	100bp decrease
	AED'000	AED'000
31 December 2022		
<i>Financial liability</i>		
Variable instruments	(10,469)	10,469
31 December 2021		
<i>Financial liability</i>		
Variable instruments	(5,985)	5,985

Commodity price risk

Commodity price risk in the Group primarily arises from price fluctuations of Brent crude oil. The Group entered into derivative transactions to limit these risks. Hedging activities are evaluated regularly to align with Group expectations about the price changes and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

Commodity options

In the current year, the Group has designated certain commodity options as a cash flow hedge of highly probable purchases. Because the critical terms, i.e. the quantity, maturity and observation period of the commodity option and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the intrinsic value of the commodity option and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the price of the underlying commodity.

The main potential source of hedge ineffectiveness is the effect of the counterparty and the Group's own credit risk on the fair value of the option contracts, which is not reflected in the fair value of the hedged item, and circumstances in which the forecast transaction will happen earlier or later than originally expected.

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Commodity options (continued)

Commodity price sensitivity analysis

If the commodity prices had been 5 per cent higher (lower) as of 31 December 2022, profit after tax would have been AED 7.45 million (2021: AED 5.75 million) higher (lower).

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.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group's credit terms require the amounts to be received within 90-180 days (2021: 90 -180 days) from the date of invoice. Trade payables are normally settled within 45-90 days (2021: 45-90 days) of the date of purchase.

The Group ensures that it has sufficient cash 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:

	Carrying amount AED'000	-----Contractual cash flows-----			
		Total AED'000	0-1 year AED'000	1-2 year AED'000	More than 2 years AED '000
At 31 December 2022					
Non-derivative financial liabilities					
Bank financing	1,739,730	(1,973,262)	(850,647)	(364,623)	(757,992)
Trade and other payables	797,272	(797,272)	(797,272)	-	-
Due to related parties	39,495	(39,495)	(39,495)	-	-
	2,576,497	(2,810,029)	(1,687,414)	(364,623)	(757,992)
Derivative financial liabilities					
Forward exchange contacts	570	(570)	(570)	-	-
Other currency and interest swaps	3,978	(3,978)	(3,978)	-	-
	4,548	(4,548)	(4,548)	-	-

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Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

33. Financial instruments (continued)

Risk management framework (continued)

Market risk (continued)

Liquidity risk (continued)

	Carrying amount AED'000	-----Contractual cash flows-----			
		Total AED'000	0-1 year AED'000	1-2 year AED'000	More than 2 years AED '000
At 31 December 2021					
<i>Non-derivative financial liabilities</i>					
Bank financing	1,536,500	(1,620,490)	(781,011)	(267,647)	(571,832)
Trade and other payables	632,756	(632,756)	(632,756)	-	-
Due to related parties	28,343	(28,343)	(28,343)	-	-
	2,197,599	(2,281,589)	(1,442,110)	(267,647)	(571,832)
<i>Derivative financial liabilities</i>					
Interest rate swaps used for hedging	9,010	(9,010)	(7,853)	(1,532)	375
	9,010	(9,010)	(7,853)	(1,532)	375

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. A balance between the higher returns and the advantages and security offered by a sound capital position, is maintained.

The Group manages its capital structure and adjusts it in light of changes in business conditions. Capital comprises share capital, reserves, retained earnings and non-controlling interests and amounts to AED 2,298 million as at 31 December 2022 (2021: AED 2,458 million). Debt comprises Islamic and interest bearing loans and equity includes all capital and reserves of the Group that are managed as capital.

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

	2022 AED'000	2021 AED'000
Equity	2,298,009	2,458,094
Debt	1,739,730	1,536,500
Debt equity ratio	0.76	0.63

There was no change in the Group's approach to capital management during the current year. The Group is not subject to externally imposed capital requirements.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

34. Hyperinflationary economy

The Group has a subsidiary in the Islamic Republic of Iran which was designated as hyper-inflationary economy during the current year, having previously ceased to be so in 2015. The subsidiary did not have material operations during the years ended 31 December 2022 or 31 December 2021 and the total assets of the Iranian subsidiary are approximately 0.53 % of the Group's consolidated total assets as at 31 December 2022.

The hyperinflation impact has been calculated by means of conversion factors derived from the Consumer Price Index (CPI). The conversion factors used to restate the financial statements of the subsidiary are as follows:

	Index	Conversion factor
31 December 2022	563.00	1.4847
31 December 2021	379.20	1.3514
31 December 2020	280.60	1.4479
31 December 2019	193.80	1.2775
31 December 2018	151.70	1.3558

The above mentioned restatement is effected as follows:

- Hyperinflation accounting was applied as of 1 January 2020;
- The consolidated statement of profit or loss is adjusted at the end of each reporting period using the change in the general price index and is converted at the closing exchange rate of each period (rather than the year to date average rate for non-hyperinflationary economies), thereby restating the year to date consolidated statement of profit or loss accounts both for inflation index and currency conversion;
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the date of the consolidated statement of financial position. Monetary items are money held and items to be recovered or paid in money; and
- Non-monetary assets and liabilities are stated at historical cost (e.g. property plant and equipment, investment properties etc.) and equity of the subsidiary is restated using an inflation index. The hyperinflation impact resulting from changes in the general purchasing power until 31 December 2021 were reported in Hyperinflation reserve directly as a component of equity and the impacts of changes in the general purchasing power from 1 January 2022 are reported through the statement of profit or loss in a separate line as a loss on net monetary position, besides having the impact on depreciation charge for the period.
- All items in the consolidated statement of profit or loss are restated by applying the relevant quarterly average or year-end conversion factors.

The impact of hyperinflationary accounting on the consolidated financial statements due to the subsidiary in the Republic of Iran is as follows:

	1 January 2022 AED'000	1 January 2021 AED'000
Impact on consolidated statement of financial position		
Increase in property, plant and equipment – net	4,070	2,573
Increase in investment properties – net	4,837	3,106
Increase in other assets	4,818	3,129
Increase in equity	13,725	8,808
<i>Allocated to:</i>		
Increase in opening equity due to cumulative hyperinflation	13,725	8,808
Impact on consolidated statement of profit or loss		
Increase in depreciation charge for the year	2,233	1,604
Loss on net monetary position	3,923	2,708
	6,156	4,312

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

35. Segment reporting

Basis for segmentation

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.

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

<i>Ceramics products</i>	includes manufacture and sale of ceramic wall and floor tiles, gres porcellanato, bath-ware and table ware products.
<i>Faucets</i>	includes manufacture and sale of Taps and Faucets *
<i>Other industrial</i>	includes manufacturing and distribution of power, paints, plastics, mines and chemicals.
<i>Others</i>	includes security services, material movement, real estate, construction projects and civil works.

Information regarding the operations of each separate segment is included below. Performance is measured based on segment profit as management believes that profit is the most relevant factor in evaluating the results of certain segments relative to other entities that operate within these industries. There are regular transactions between the segments and any such transaction is priced on mutually agreed terms.

*Following the acquisition described in Note 32 the Group has now added Faucets as a new segment with effect from the year 2022.

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.

	Ceramic products AED'000	Faucets AED'000	Other industrial AED'000	Others AED'000	Elimination AED'000	Total AED'000
At 31 December 2022						
External revenue	3,101,484	276,512	124,330	14,888	-	3,517,214
Intersegment revenue	727,341	30,892	101,960	1,819	(862,012)	-
Segment revenue	3,828,825	307,404	226,290	16,707	(862,012)	3,517,214
Segment profit/(loss)	353,110	8,136	15,228	7,751	(44,118)	340,107
Segment EBITDA	574,171	25,817	(14,262)	12,493	(48,350)	549,869
Interest/profit income	11,967	38	1,366	284	(6,571)	7,084
Interest/profit expense	74,760	3,346	229	259	(517)	78,077
Depreciation and amortization	159,979	11,683	3,704	6,366	(3,198)	178,534
Share of profit in equity accounted investees	6,286	-	-	-	-	6,286
Segment assets	6,775,248	483,804	155,298	282,547	(2,279,285)	5,417,612
Segment liabilities	3,743,743	411,181	64,693	96,613	(1,196,627)	3,119,603

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35. Segment reporting (continued)

Information about the reportable segments (continued)

	Ceramic products AED'000	Faucets AED'000	Other industrial AED'000	Others AED'000	Elimination AED'000	Total AED'000
At 31 December 2021						
External revenue	2,749,645	-	100,962	10,133	-	2,860,740
Intersegment revenue	706,081	-	112,599	1,653	(820,333)	-
Segment revenue	3,455,726	-	213,561	11,786	(820,333)	2,860,740
Segment profit/(loss)	315,103	-	23,377	(22,071)	(32,492)	283,917
Segment EBITDA	500,381	-	26,385	10,674	(36,146)	501,294
Interest/profit income	6,169	-	31	837	(853)	6,184
Interest/profit expense	62,482	-	689	101	(1,278)	61,994
Depreciation and amortization	159,670	-	3,938	6,273	(2,804)	167,077
Share of profit in equity accounted investees	943	-	15,649	-	-	16,592
Segment assets	6,341,163	-	192,576	284,241	(1,721,264)	5,096,716
Segment liabilities	3,366,230	-	73,754	105,224	(906,586)	2,638,622

EBITDA is earnings for the period before net interest expense, net profit expense on Islamic financing, income tax expense, depreciation, amortization, gain or loss on sale of assets and impairment loss on investment properties.

Geographic information

The ceramic products, faucets and other industrial segments are managed on a worldwide basis, but manufacturing facilities are located in the UAE, India, Bangladesh and Europe.

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.

	2022 AED'000	2021 AED'000
Revenue		
Middle East (ME)	1,699,724	1,405,857
Europe	697,557	478,484
Asian countries	907,886	842,987
Other	212,047	133,412
	3,517,214	2,860,740
Non-currents assets		
Middle East (ME)	1,891,952	1,865,301
Asian countries	280,989	298,722
Other	238,950	117,993
	2,411,891	2,282,016

R.A.K. Ceramics P.J.S.C. and its subsidiaries
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35. Segment reporting (continued)

Reconciliation of reportable segment

	2022	2021
	AED'000	AED'000
Revenues		
Total revenue for reportable segments	4,379,226	3,681,073
Elimination of intersegment revenue	(862,012)	(820,333)
Consolidated revenue	3,517,214	2,860,740
Profit/(loss)		
Total profit or loss for reportable segments	384,225	316,409
Elimination of inter-segment profits	(44,118)	(32,492)
Consolidated profit/(loss)	340,107	283,917
Assets		
Total assets for reportable segment	5,407,025	5,041,710
Equity accounted investees	10,587	55,006
Consolidated total assets	5,417,612	5,096,716
Other material items		
Interest/profit income	7,084	6,184
Interest/profit expense	78,077	61,994
Depreciation and amortization	178,534	167,077

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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36. Subsidiaries and equity accounted investees

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2022	2021	
A	Subsidiaries of R.A.K. Ceramics P.J.S.C.				
	RAK Ceramics (Bangladesh) PLC	Bangladesh	68.13%	68.13%	Manufactures of ceramic tiles and sanitary ware
	RAK Ceramics PJSC Limited	Iran	100%	100%	Manufactures of ceramic tiles
	RAK Ceramics India Private Limited	India	100%	100%	Manufactures of ceramic tiles and sanitary ware
	Elegance Ceramics LLC	UAE	100%	100%	Manufactures 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 32)	UAE	92%	50%	Manufacturing of porcelain tableware
	RAK Ceramics Company LLC	Saudi Arabia	100%	100%	Trading in ceramic tiles and sanitary ware
	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	Saudi Arabia	100%	100%	Trading in ceramic tiles and sanitary ware
	Kludi RAK LLC (refer Note 32)	UAE	100%	-	Manufacturing of water tap faucets etc.
	RAK Ceramics Austria GmbH	Austria	100%	-	Investment company
B	Subsidiaries of RAK Ceramics (Bangladesh) PLC				
	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	UAE	51%	51%	Manufacturers of paints and allied products
	RAK Universal Plastics Industries LLC	UAE	87.6%	87.6%	Manufactures of pipes

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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36. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2022	2021	
D	Subsidiary of RAK Ceramics UK Limited RAK Distribution Europe SARL	Italy	100%	100%	Trading in ceramic tiles and sanitary ware
E	Subsidiary of RAK Distribution Europe SARL RAK Ceramics CE GmbH	Germany	100%	100%	Trading in ceramic tiles and sanitary ware
F	Subsidiary of RAK Paints LLC Altek Emirates LLC (refer Note (i) below)	UAE	99%	99%	Manufacturers of paints and adhesive products
G	Subsidiaries of Ceramin FZ LLC Ceramin India Private Limited Ceramin SDN BHD Feldspar Mineral Company Limited (refer Note (ii) below)	India Malaysia Thailand	100% - -	100% 100% 40%	Extraction, distribution and export of clay and other minerals Extraction, distribution and export of clay and other minerals Extraction, distribution and export of clay and other minerals
H	Subsidiary of Elegance Ceramics LLC Venezia Ceramics	UAE	100%	100%	General trading
I	Subsidiaries of RAK Porcelain LLC RAK Porcelain Europe S.A. Restofair RAK LLC	Luxemburg UAE	100% 47%	91% 47%	Import and export of porcelain tableware Contracting of furnishing the public firms
J	Subsidiary of RAK Porcelain Europe S.A. RAK Porcelain USA Inc.	USA	100%	100%	Trading of tableware
K	Subsidiaries of RAK Ceramics India Private Limited Gris Ceramics Limited Liability Partnership Gryphon Ceramics Private Limited Totus Ceramics India Private Limited	India India India	51% 51% 100%	51% 51% 100%	Manufacturers of ceramic tiles Manufacturers of ceramic tiles Trading of ceramic tiles and sanitary ware

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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36. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2022	2021	
L	Joint Ventures of R.A.K. Ceramics P.J.S.C.				
	RAK Chimica LLC (refer Note 11(ii))	UAE	-	55.55%	Manufacturing of chemicals used in ceramic industries
	Kludi RAK LLC (refer Note 32)	UAE	-	51%	Manufacturing of water tap faucets etc.
M	Associate of Ceramin FZ LLC				
	Palang Suriya Company Limited	Thailand	-	40%	Extraction, distribution and export of clay and other minerals
N	Joint Venture of RAK Ceramics Australia PTY LTD				
	Massa Imports PTY Limited	Australia	50%	50%	Trading in ceramic tiles
O	Joint Venture of RAK Ceramics Holding LLC				
	RAK Watertech LLC (refer Note 11(i))	UAE	51%	51%	Waste-water treatment works
P	Subsidiary of Palang Suriya Company Limited				
	Feldspar Minerals Co. Limited	Thailand	-	60%	Extraction, distribution and export of clay and other minerals
Q	Associate of Restofair RAK LLC				
	Naranjee Hirjee Hotel Supplies LLC	Oman	25%	25%	Hotel supplies
R	Subsidiary of RAK Ceramics Austria GmbH				
	Scheffer Beteiligungs GmbH (DE)	Germany	100%	-	Investment company
	Kludi Armaturen GmbH & Co. KG (AT)	Austria	100%	-	Manufacturing and distribution of faucets
	Kludi Armaturen GmbH (AT)	Austria	100%	-	Investment Company
	Kludi GmbH & Co. KG (DE)	Germany	100%	-	Manufacturing and distribution of faucets
	Kludi Management GmbH (DE)	Germany	100%	-	Investment Company
S	Subsidiary of Kludi Armaturen Austria GmbH				
	Kludi Armaturen SP. Z.O.O. (PL)	Poland	100%	-	Distribution of faucets
	Kludi Szerelvények (HU)	Hungary	99.46%	-	Manufacturing and distribution of faucets
	Kludi France S.A.R.L.	France	100%	-	Distribution of faucets
	Kludi Sanitary Products Shanghai	China	100%	-	Distribution of faucets
	S.C Kludi Romania S.R.L.	Romania	99.99%	-	Distribution of faucets

R.A.K. Ceramics P.J.S.C. and its subsidiaries
Notes to the consolidated financial statements (continued)
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36. Subsidiaries and equity accounted investees (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2022	2021	
T	Associates of Kludi Szerelvenyek (HU) S.C Kludi Romania S.R.L.	Romania	0.01%	-	Distribution of faucets
U	Subsidiary of Kludi Szerelvenyek (HU) Kludi Bulgaria EOOD	Bulgaria	100%	-	Distribution of faucets
V	Subsidiary of Kludi GmbH & Co. KG (DE) Kludi Benelux C.V. (NL) Kludi UK Ltd.	Netherlands United Kingdom	90% 100%	- -	Distribution of faucets Dormant
W	Associates of Kludi GmbH & Co. KG (DE) Kludi Benelux C.V. (NL)	Netherlands	10%	-	Distribution of faucets
X	Subsidiary of Kludi GmbH & Co. KG (DE) Kludi Asia-Pacific LLP (Singapore) Kludi Armaturen Austria GmbH	Singapore Austria	100% 100%	- -	Dormant Manufacturing and distribution of faucets
Y	Subsidiary of Kludi Armaturen SP. Z.O.O. (PL) Kludi Armaturen S.R.O. (CZ) Kludi Myjava S.R.O. (SK)	Czech Republic Slovakia	100% 100%	- -	Distribution of faucets Distribution of faucets
Z	Subsidiary of Kludi France S.A.R.L. Kludi Armaturen Espana	Spain	100%	-	Dormant

- (i) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the remaining 1% equity interest is held by RAK Ceramics Holding LLC, a fully owned subsidiary of the Group. Accordingly, the entity has been treated as a fully owned subsidiary of the Group.
- (ii) Ceramin FZ LLC held a 40% equity interest in Feldspar Minerals Company Limited. In addition to this, Palang Suriya Company Limited in which Ceramin FZC held a 40% equity interest, also has 60% equity interest in this entity. Accordingly, the Group effectively held a 64% equity interest in Feldspar Minerals Company Limited.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

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for the year ended 31 December 2022

37. Significant accounting estimates and critical accounting judgements

The Group makes estimates and assumptions which affect the reported amounts of assets and liabilities within the next financial year. Estimates and critical accounting 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.

Critical accounting judgements

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

The Group estimates the useful lives of property, plant and equipment and investment properties 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 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 the 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 properties

The Group follows the Cost Model per IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Fair values of investment properties are disclosed in Note 18. 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 either having regard to recent market transactions in the vicinity or by using the residual method.

Allowance for slow moving inventories and net realizable value write down on inventories

The Group reviews its inventory for any write down to net realizable value on a regular basis. In determining whether a provision for slow moving inventory 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 salability of the product and the net realizable value for the product. Provision is made where the net realizable value is less than cost based on best estimates by management. The provision for slow moving inventory is based on its ageing and the past trend of consumption.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating units to which goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

R.A.K. Ceramics P.J.S.C. and its subsidiaries

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

37. Significant accounting estimates and critical accounting judgements (continued)

Impairment of goodwill (Continued)

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, using financial budgets approved by senior management, covering a five-year period. Cash flows beyond the five-year period are extrapolated using a growth rate which management believes approximates the long-term growth rate for the industry in which the cash generating unit operates.

Key assumptions used for the calculation of value-in-use

The calculation of value-in-use is sensitive to the following assumptions:

Growth rate

Growth rates are based on management's assessment of the market share having regard to the forecast growth and demand for the products offered. Growth rates of 3% per annum have been applied in the calculation.

Profit margins

Profit margins are based on management's assessment of achieving a stable level of performance based on the approved business plan of the cash generating unit for the next five years.

Discount rates

Management has used a discount rate of 14% - 15% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

Calculation of loss allowance

When measuring expected credit losses, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the ECL rates on trade receivables between 91 and 180 days past due had been 5 per cent higher (lower) as of 31 December 2022, the loss allowance on trade receivables would have been AED 0.37 million (2021: AED 0.22 million) higher (lower).

If the ECL rates on trade receivables between 181 and 360 days past due had been 5 per cent higher (lower) as of 31 December 2022, the loss allowance on trade receivables would have been AED 0.78 million (2021: AED 0.76 million) higher (lower).

38. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorized for issue, by the Board of Directors on 8 February 2023.