THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND REVIEW REPORT
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholders

The Saudi Arabian Amiantit Company

(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Saudi Arabian Amiantit Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2019, and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three-month and six-month periods then ended, the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with IAS 34 '*Interim Financial Reporting*' as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Material Uncertainty Related to Going Concern

We draw attention to Note 4 to the accompanying interim condensed consolidated financial statements, which indicates that the Group is in breach of certain financial covenants stated in credit facility agreements and that accumulated losses as at 30 June 2019 exceeded 50% of share capital. As stated in note 4, these events or conditions, along with other matters as set forth in Note 4, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Emphasis of matter: Material estimation uncertainty

We draw attention to Note 6 to the accompanying interim condensed consolidated financial statements which describes the uncertainty related to the estimation of impairment loss on trade receivables, contract assets and non-current receivables. Our conclusion is not modified in respect of this matter.

BAKER TILLY MKM & CO.
Certified Public Accountants

Ayad Obeyan Alseraihi
License No. 405

Al-Khobar 29 Dhu Al-Qa'dah 1440H
1 August 2019

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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

	Note	For the three-month period ended 30 June 2019	2018	For the six-month period ended 30 June 2019	2018
		SR '000 (Unaudited)	SR '000 (Unaudited)	**SR '000 (Unaudited)**	SR '000 (Unaudited)
Continuing operations:					
Revenue from contracts with customers	11	**163,582**	199,408	**396,615**	399,381
Cost of revenue		**(368,592)**	(180,469)	**(585,991)**	(348,401)
Gross (loss) profit		**(205,010)**	18,939	**(189,376)**	50,980
Selling, general and administrative expenses		**(32,955)**	(28,545)	**(62,639)**	(55,708)
Operating loss		**(237,965)**	(9,606)	**(252,015)**	(4,728)
Other expenses, net		**(4,381)**	(668)	**(2,857)**	(1,513)
Share in results of equity accounted investments	8	**11,610**	(9,903)	**11,083**	(18,665)
Finance costs		**(25,509)**	(22,315)	**(51,974)**	(44,245)
Loss before zakat and foreign income tax		**(256,245)**	(42,492)	**(295,763)**	(69,151)
Zakat		**(5,750)**	(6,304)	**(11,500)**	(12,554)
Foreign income tax		**(191)**	(129)	**303**	(538)
Loss from continuing operations		**(262,186)**	(48,925)	**(306,960)**	(82,243)
Discontinued operations:					
Profit (loss) after zakat from discontinued operations	2.2	**156**	(4,726)	**3,597**	(10,201)
LOSS FOR THE PERIOD		**(262,030)**	(53,651)	**(303,363)**	(92,444)
Attributable to:					
Shareholders of the Company		**(255,750)**	(53,264)	**(296,116)**	(93,246)
Non-controlling interests		**(6,280)**	(387)	**(7,247)**	802
		(262,030)	(53,651)	**(303,363)**	(92,444)
Loss per share					
Loss per share for the year attributed to the shareholders of the Company:					
Basic (SR)		**(2.25)**	(0.47)	**(2.61)**	(0.82)
Diluted (SR)		**(2.25)**	(0.47)	**(2.61)**	(0.82)
Loss per share from continuing operations					
Loss per share for the year from continuing operations attributed to the shareholders of the Company:					
Basic (SR)		**(2.31)**	(0.43)	**(2.70)**	(0.72)
Diluted (SR)		**(2.31)**	(0.43)	**(2.70)**	(0.72)
Weighted average number of shares outstanding:					
Basic ('000 shares)		**113,564**	113,564	**113,564**	113,564
Diluted ('000 shares)		**113,564**	113,564	**113,564**	113,564

Dr. Khalil A. Kurdi
Board Authorised Representative

AMIANTIT
C R 2050002103
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SAUDI ARABIAN AMIANTIT CO. (A SAUDI JOINT STOCK CO.)

Dr. Solaiman A. Al-Twaijri
Chief Executive Officer

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

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

	For the three-month period ended 30 June		**For the six-month period ended 30 June**	
	2019	2018	**2019**	2018
	SR '000	SR '000	**SR '000**	SR '000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Loss for the period	**(262,030)**	(53,651)	**(303,363)**	(92,444)
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	**8,574**	(36,722)	**2,522**	(19,803)
Change in the fair value of interest rate swap	**79**	-	**79**	590
Other comprehensive income (loss)	**8,653**	(36,722)	**2,601**	(19,213)
Total comprehensive loss for the period	**(253,377)**	(90,373)	**(300,762)**	(111,657)
Attributable to:				
Shareholders of the Company	**(247,683)**	(90,493)	**(294,316)**	(112,524)
Non-controlling interests	**(5,694)**	120	**(6,446)**	867
	(253,377)	(90,373)	**(300,762)**	(111,657)

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Chief Executive Officer

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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	30 June 2019 SR '000 (Unaudited)	31 December 2018 SR '000 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		**87,679**	93,280
Trade receivables	7	**441,452**	487,719
Contract assets	7	**197,163**	216,124
Prepayments and other receivables		**69,838**	78,412
Inventories		**560,765**	675,694
Assets held for sale	2	**112**	1,469
		1,357,009	1,552,698
Non-current assets			
Non-current receivables	7	**352,835**	381,656
Equity accounted investments	8	**377,355**	372,542
Property, plant and equipment	9	**258,356**	402,788
Other non-current assets		**38,903**	45,816
		1,027,449	1,202,802
TOTAL ASSETS		**2,384,458**	2,755,500
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	10	**874,907**	929,726
Current maturity of long-term borrowings	10	**215,660**	255,244
Current maturity of lease obligations		**1,379**	-
Accounts payable		**357,158**	324,125
Accrued expenses and other liabilities		**127,400**	122,326
Contract liabilities		**59,250**	63,014
Zakat and foreign taxes payable		**138,933**	128,928
		1,774,687	1,823,363
Non-current liabilities			
Long-term borrowings	10	**127,578**	157,916
Lease obligations		**5,035**	-
Employees' termination benefits		**68,199**	67,691
Warranty provision		**9,494**	6,216
Other non-current liabilities		**13,424**	13,511
		223,730	245,334
Total liabilities		**1,998,417**	2,068,697
Equity			
Share capital		**1,155,000**	1,155,000
Statutory reserve		**189,472**	189,472
Accumulated losses		**(810,483)**	(514,367)
Employee share ownership plan and reserve		**(31,914)**	(31,914)
Change in fair value of interest rate swap		**(103)**	(182)
Foreign currency translation reserve		**(140,711)**	(142,432)
Equity attributable to the shareholders of the Company		**361,261**	655,577
Non-controlling interests		**24,780**	31,226
Total equity		**386,041**	686,803
TOTAL LIABILITIES AND EQUITY		**2,384,458**	2,755,500

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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	Note	Attributable to the shareholders of the Company								
		Share capital SR '000	Statutory reserve SR '000	Accumulated losses SR '000	Employee share ownership plan and reserve SR '000	Change in fair value of interest rate swap SR '000	Foreign currency translation reserve SR '000	Total SR '000	Non-controlling interests SR '000	Total equity SR '000
2019:										
As at 1 January 2019 (Audited)		1,155,000	189,472	(514,367)	(31,914)	(182)	(142,432)	655,577	31,226	686,803
Loss for the period		-	-	(296,116)	-	-	-	(296,116)	(7,247)	(303,363)
Other comprehensive income		-	-	-	-	79	1,721	1,800	801	2,601
Total comprehensive loss		-	-	(296,116)	-	79	1,721	(294,316)	(6,446)	(300,762)
As at 30 June 2019 (Unaudited)		1,155,000	189,472	(810,483)	(31,914)	(103)	(140,711)	361,261	24,780	386,041
2018:										
As at 1 January 2018 (Audited)		1,155,000	189,472	(217,941)	(31,914)	(1,506)	(126,232)	966,879	31,151	998,030
Adoption of IFRS 9		-	-	(64,446)	-	-	-	(64,446)	1,223	(63,223)
Adjusted balance as at 1 January 2018		1,155,000	189,472	(282,387)	(31,914)	(1,506)	(126,232)	902,433	32,374	934,807
Loss for the period		-	-	(93,246)	-	-	-	(93,246)	802	(92,444)
Other comprehensive loss		-	-	-	-	590	(19,868)	(19,278)	65	(19,213)
Total comprehensive loss		-	-	(93,246)	-	590	(19,868)	(112,524)	867	(111,657)
Transaction with non-controlling interest	2.1	-	-	797	-	-	-	797	(2,597)	(1,800)
As at 30 June 2018 (Unaudited)		1,155,000	189,472	(374,836)	(31,914)	(916)	(146,100)	790,706	30,644	821,350

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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	2019	2018
	SR '000	SR '000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Loss for the period	**(303,363)**	(92,444)
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**154,335**	28,974
Share in results of equity accounted investments	**(11,083)**	18,665
Zakat and foreign income tax charges, net	**11,197**	13,101
Employees' termination benefits, net	**508**	(21)
Warranty provision, net	**3,278**	46
Loss on disposal of property, plant and equipment	**266**	-
Finance costs	**51,974**	46,375
	(92,888)	14,696
Changes in working capital:		
Trade receivables (current and non-current) and contract assets	**98,766**	39,617
Prepayments and other receivables	**9,889**	(2,797)
Inventories	**113,877**	(23,929)
Accounts payable	**33,129**	91,266
Accrued expenses, contract liabilities and other liabilities	**479**	(25,891)
Net cash generated from operating activities	**163,252**	92,962
INVESTING ACTIVITIES		
Acquisition of non-controlling interest in a subsidiary	**-**	(1,800)
Dividends received from equity accounted investments	**4,901**	-
Purchase of property, plant and equipment	**(2,537)**	(2,484)
Net change in other non-current assets	**6,396**	931
Net cash from (used in) investing activities	**8,760**	(3,353)
FINANCING ACTIVITIES		
Movement in short-term borrowings	**(54,819)**	(14,682)
Proceeds from long-term borrowings	**63,638**	-
Repayment of long-term borrowings	**(133,668)**	(97,541)
Net change in lease obligations	**(600)**	-
Finance costs paid	**(51,974)**	(46,375)
Net change in other non-current liabilities	**(8)**	-
Net cash used in financing activities	**(177,431)**	(158,598)
Net change in cash and cash equivalents	**(5,419)**	(68,989)
Cash and cash equivalents at the beginning of the period	**93,280**	119,552
Foreign currency translation effect on cash and cash equivalents	**(182)**	(1,469)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**87,679**	49,094

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Board Authorised Representative

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Dr. Solaiman A. Al-Twaijri
Chief Executive Officer

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

1. CORPORATE INFORMATION

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and its subsidiaries (collectively referred to as the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing and selling various types of pipes and related products, licensing of related technologies, and water management services including related consultancy, engineering and operations.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050002103 issued in Dammam on 17 Rabi' I 1388 H (13 June 1968 G). The registered address of the Company is P.O. Box 589, First Industrial Area, Dammam 31421, Kingdom of Saudi Arabia. The Company's shares are publicly traded on the Saudi Stock Exchange ("Tadawul").

Following is the list of significant operating subsidiaries of the Group:

Subsidiary	Principal activity	Country of incorporation	Ownership percentage as at 30 June 2019 %	31 December 2018 %
Amiantit Fiberglass Industries Limited (AFIL)	A	Saudi Arabia	**100**	100
Factory of Saudi Arabian Ductile Iron Pipe Company Limited (SADIP)	A	Saudi Arabia	**100**	100
International Infrastructure Management and Operations Company Limited (AMIWATER)	B	Saudi Arabia	**100**	100
Infrastructure Engineering Contracting Company (ISECC)	C	Saudi Arabia	**100**	100
Factory of Amiantit Rubber Industries Company Limited (ARIL) (note 2.1)	A	Saudi Arabia	**100**	100
Ameron Saudi Arabia Limited (ASAL)	A,E	Saudi Arabia	**100**	100
Bondstrand Limited (BSL)	A	Saudi Arabia	**60**	60
Saudi Arabia Concrete Products Limited (SACOP)	A,E	Saudi Arabia	**100**	100
Fiberglass Pipes and Ductile Iron Pipes Factory Company Ltd (FPC)	A	Saudi Arabia	**100**	100
Flowtite Technology Bahrain W.L.L	D	Bahrain	**100**	100
PWT Wasser - und Abwassertechnik GmbH (PWT)	C	Germany	**100**	100
Amitech Astana LLC	A	Kazakhstan	**51**	51

A- Pipe manufacturing
B- Water management
C- Contracting
D- Research and development
E- Discontinued operations (note 2.2)

The country of incorporation for these subsidiaries is also their principal place of business.

2. CHANGES IN THE REPORTING ENTITY

2.1 Acquisition of non-controlling interest in ARIL

On 20 December 2017, the Company executed a share purchase agreement with Deccan Enterprise Private Ltd., L.L.C, an Indian based corporation, whereby the Company acquired the non-controlling interests in Factory of Amiantit Rubber Industries Company Limited (ARIL). The Company purchased 20% of the shares of ARIL, thereby becoming the sole owner of ARIL, for total consideration of SR 1.8 million. The legal formalities for this transaction were completed during the six-month period ended 30 June 2018. The consideration paid was less than the carrying amount of non-controlling interests acquired of SR 2.6 million by SR 0.8 million. This difference was recognized directly as an increase in retained earnings.

2. CHANGES IN THE REPORTING ENTITY (continued)

2.2 Discontinued operations

On 20 February 2019 (corresponding to 15 Jumada II 1440H), management resolved to discontinue ASAL and SACOP operations and transfer their assets, liabilities and operations to SAAC at book value, from the date of obtaining approval from the regulatory authority. The legal formalities in this regard are in progress.

The discontinued operations comprise the following entities:

Company name	Country of incorporation	Ownership percentage
SACOP	Saudi Arabia	100%
ASAL	Saudi Arabia	100%

On 31 December 2018, the operations of these subsidiaries were presented as discontinued operations. The business of the discontinued operations represented part of the Group's Saudi Arabian operating segment (geographical segment) until 31 December 2018.

2.2.1 Discontinued Operations of SACOP

The results of SACOP for the six-month period ended 30 June are presented below:

	2019 SR '000	2018 SR '000
Revenue	35	1,118
Expenses	(645)	(4,266)
Operating loss	(610)	(3,148)
Finance costs	(718)	(1,816)
Other income (expense), net	2,582	(4)
Profit (loss) before zakat	1,254	(4,968)
Zakat	-	-
Profit (loss) for the period from discontinued operations	1,254	(4,968)
Profit (loss) per share from discontinued operations:		
Basic (SR)	0.01	(0.04)
Diluted (SR)	0.01	(0.04)

The major classes of assets and liabilities of SACOP were as follows:

	As at 30 June 2019 SR '000	As at 31 December 2018 SR '000
Assets		
Bank balances and cash	12	27
Trade receivables	32,274	32,601
Prepayments and other receivables	29	8
Inventories	3,700	3,736
Property, plant and equipment	112	500
	36,127	36,872
Liabilities		
Accounts payable	45,487	48,052
Accrued expenses and other liabilities	185	1,033
Zakat payable	1,537	1,014
	47,209	50,099
Carrying amount of net assets directly related to the discontinued operation	(11,082)	(13,227)

2. CHANGES IN THE REPORTING ENTITY (continued)

2.2 Discontinued operations (continued)

2.2.1 Discontinued Operations of SACOP (continued)

The net cash flows incurred by SACOP for the six-month period ended 30 June are as follows:

	2019 SR '000	2018 SR '000
Operating	(15)	(6)
Investing	-	-
Financing	-	-
Net cash (outflow) inflow	(15)	(6)

2.2.2 Discontinued Operations of ASAL

The results of ASAL for the six-month period ended 30 June are presented below:

	2019 SR '000	2018 SR '000
Sales to a sister company	40,867	3,752
Expenses	(41,456)	(8,666)
Operating loss	(589)	(4,914)
Finance costs	(176)	(314)
Other income (expense), net	3,108	(5)
Profit (loss) before zakat	2,343	(5,233)
Zakat	-	-
Profit (loss) for the period from discontinued operations	2,343	(5,233)
Profit (loss) per share from discontinued operations:		
Basic (SR)	0.02	(0.05)
Diluted (SR)	0.02	(0.05)

The major classes of assets and liabilities of ASAL were as follows:

	As at 30 June 2019 SR '000	As at 31 December 2018 SR '000
Assets		
Bank balances and cash	300	336
Trade receivables	26,963	1,972
Prepayments and other receivables	223	1,819
Inventories	-	40,042
Property, plant and equipment	-	969
	27,486	45,138
Liabilities		
Accounts payable	2,300	18,911
Accrued expenses and other liabilities	1,213	1,757
Zakat payable	6,861	6,707
Employees' termination benefits	227	1,554
	10,601	28,929
Carrying amount of net assets directly related to the discontinued operation	16,885	16,209

2. CHANGES IN THE REPORTING ENTITY (continued)

2.2 Discontinued Operations (continued)

2.2.2 Discontinued Operations of ASAL (continued)

The net cash flows incurred by ASAL for the six-month period ended 30 June are as follows:

	2019	2018
	SR '000	SR '000
Operating	(36)	203
Investing	-	-
Financing	-	-
Net cash outflow	(36)	203

3. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34 '*Interim Financial Reporting*' that is endorsed in the Kingdom of Saudi Arabia.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

3.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

Except as described below, the accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the last annual consolidated financial statements.

The changes in the accounting policies are also expected to be reflected in the Group's consolidated financials statements as at and for the year ending 31 December 2019.

The Group has applied IFRS 16 effective from 1 January 2019. The nature and effect of changes as a result of adoption of these new accounting standards are described below.

IFRS 16 *'Leases'*

The International Accounting Standard Board (IASB) published the new standard on leases, IFRS 16 'Leases' on 13 January 2016. The rules and definitions of IFRS 16 supersede IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect on initial application is recognised in accumulated losses at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

The Group has also elected not to apply the requirements of IFRS 16 on short-term leases or leases of low value assets.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease.* The Group now assesses whether a contract is, or contains, a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

3. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

3.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

IFRS 16 *'Leases'* (continued)

Definition of a lease (continued)

On transition to IFRS 16, the Group elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group leases properties. As a lessee, the Group previously classified leases as operating or finance leases based on its assessments of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on balance sheet.

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset in initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in assessments of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessments of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group classified property leases as operating leases under IAS 17. These include land and warehouses. The leases typically run for a period of 5 to 20 years. Some leases include an option to renew the lease for an additional 1 year after the end of the non-cancellable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Accounted for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.
- Excluded initial direct costs from measuring the right of use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

3.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

IFRS 16 *'Leases'* (continued)

Transition (continued)

Impact on accumulated losses

The effect of adopting IFRS 16 on the carrying amounts of right-to-use assets and lease liabilities at 1 January 2019 is as follows:

	Accumulated losses	*Property, plant and equipment*	*Lease obligations*
	SR '000	SR '000	SR '000
Balance at 1 January 2019	-	7,014	7,014

Leased liabilities included in the statement of financial position

	At 1 January 2019
	SR'000
Current	2,117
Non-current	4,897
	7,014

4. GOING CONCERN BASIS OF ACCOUNTING

The interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the credit facilities as disclosed in Note 10 and trade payables.

The Group has incurred a net loss of SR 303.4 million for the six-month period ended 30 June 2019 and, as at that date, current liabilities exceed current assets by SR 417.7 million. As at that date as well, the Group is in breach of certain financial covenants stated in credit facility agreements which are subject to annual review by lenders. In addition to the above, accumulated losses as at 30 June 2019 exceeded 50% of share capital. When accumulated losses exceed 50% of share capital, article 150 of the Companies' Regulation require the Board of Directors to call for an extraordinary general assembly to restructure share capital or dissolve the Company before the expiry of its term.

The Company's Board of Directors has recommended a reduction in share capital to reduce accumulated losses below 50% of share capital and the management of the Group appointed a capital reduction consultant. Management is confident that the capital restructuring process will be completed within the regulatory period. Management also believes that the repayment of the facilities will occur as required and they intend to roll-over the majority of short-term borrowings. Management is also planning for a share capital increase subsequent to share capital reduction.

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its credit facilities as they fall due. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the interim condensed consolidated financial statements.

5. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable segments, as follows:

(i) Manufacturing and selling various types of pipes and development and licensing of related technologies; and
(ii) Water management and related consultancy, engineering and operations.

Selected financial information as at 30 June 2019 and 31 December 2018 and for the six-month periods ended 30 June 2019 and 2018, summarized by the above business segments, are as follows:

	Pipe manufacturing and technology	Water management	Eliminations	Total
	SR '000	SR '000	SR '000	SR '000
As at and for the six-month period ended 30 June 2019				
Sales to external customers	382,134	14,481	-	396,615
Inter-segment	19,791	-	(19,791)	-
Total revenue	401,925	14,481	(19,791)	396,615
Share in results of equity accounted investments	6,785	4,298	-	11,083
Finance costs	(46,738)	(5,236)	-	(51,974)
Depreciation, amortisation and impairment	(153,648)	(687)	-	(154,335)
Zakat and foreign income taxes	(11,524)	327	-	(11,197)
Net loss	(210,923)	(92,440)	-	(303,363)
Capital expenditures	(9,487)	(64)	-	(9,551)
Equity accounted investments	291,300	86,055	-	377,355
Total assets	1,729,630	654,828	-	2,384,458
Total liabilities	(1,239,859)	(758,558)	-	(1,998,417)

5. SEGMENT INFORMATION (Continued)

	Pipe manufacturing and technology SR '000	Water management SR '000	Eliminations SR '000	Total SR '000
For the six-month period ended 30 June 2018				
Sales to external customers	333,237	66,144	-	399,381
Inter-segment	36,106	-	(36,106)	-
Total revenue	369,343	66,144	(36,106)	399,381
Share in results of equity accounted investments	(22,581)	3,916	-	(18,665)
Finance costs	(36,075)	(8,170)	-	(44,245)
Depreciation and amortization	(28,198)	(776)	-	(28,974)
Zakat and foreign income taxes	(12,638)	(454)	-	(13,092)
Net loss	(79,078)	(13,366)	-	(92,444)
Capital expenditures	(2,334)	(150)	-	(2,484)
As at 31 December 2018				
Equity accounted investments	290,626	81,916	-	372,542
Total assets	2,057,398	698,102	-	2,755,500
Total liabilities	(1,344,566)	(724,131)	-	(2,068,697)

5. SEGMENT INFORMATION (Continued)

The Group's operations are conducted in Saudi Arabia, Europe and other geographical areas. Selected financial information as at 30 June 2019 and 31 December 2018 and for the six-month periods ended 30 June 2019 and 2018, summarized by geographic area, are as follows:

	Saudi Arabia	Europe	Other Countries	Eliminations	Total
As at and for the six-month period ended 30 June 2019	**SR '000**	**SR '000**	**SR '000**	**SR '000**	**SR '000**
Revenue	**373,477**	**14,481**	**28,448**	**(19,791)**	**396,615**
Non-current assets:					
- Property, plant and equipment	**241,391**	**4,920**	**12,045**	**-**	**258,356**
- Other non-current assets	**442,332**	**264,632**	**62,129**	**-**	**769,093**
For the six-month period ended 30 June 2018					
Revenue	361,984	66,144	7,269	(36,016)	399,381
As at 31 December 2018					
Non-current assets:					
- Property, plant and equipment	385,524	5,520	11,744	-	402,788
- Other non-current assets	475,893	264,626	59,495	-	800,014

6. FINANCIAL INSTRUMENTS

6.1. Fair value measurements of financial instruments

	30 June 2019						
	Carrying amount			Fair value			
	Fair value	Amortised cost	Total	Level 1	Level 2	Level 3	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Financial assets							
Trade receivables (current and non-current)	-	794,287	794,287	-	-	-	-
Contract assets	-	197,163	197,163	-	-	-	-
Loans to equity accounted investments	-	22,430	22,430	-	-	-	-
	-	1,013,880	1,013,880	-	-	-	-
Financial liabilities							
Short-term borrowings	-	874,907	874,907	-	-	-	-
Long-term borrowings	-	343,238	343,238	-	-	-	-
Lease obligations	-	6,414	6,414	-	-	-	-
Trade and other payables	-	473,402	473,402	-	-	-	-
Derivative financial instrument	103	-	103	-	-	103	103
	103	1,697,961	1,698,064	-	-	103	103

	31 December 2018						
	Carrying amount			Fair value			
	Fair value	Amortised cost	Total	Level 1	Level 2	Level 3	Total
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Financial assets							
Trade receivables (current and non-current)	-	869,375	869,375	-	-	-	-
Contract assets	-	216,124	216,124	-	-	-	-
Loans to equity accounted investments	-	26,460	26,460	-	-	-	-
	-	1,111,959	1,111,959	-	-	-	-
Financial liabilities							
Short-term borrowings	-	929,726	929,726	-	-	-	-
Long-term borrowings	-	413,160	413,160	-	-	-	-
Lease obligations	-	-	-	-	-	-	-
Trade and other payables	-	417,508	417,508	-	-	-	-
Derivative financial instruments	182	-	182	-	-	182	182
	182	1,760,394	1,760,576	-	-	182	182

7. RECEIVABLES AND CONTRACT ASSETS

7.1 Trade Receivables

	30 June 2019 SR'000	31 December 2018 SR'000
Trade receivables, third parties	**534,898**	587,720
Trade receivables, related parties	**36,779**	44,904
	571,677	632,624
Less: allowance for impairment	**(130,225)**	(144,905)
	441,452	487,719

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

The above allowance includes allowance for impairment related to trade receivables from related parties of SR 21.7 million (31 December 2018: the same).

Set out below is the information about the credit risk exposure on the Company third parties' trade receivables using a provision matrix:

	Not past due	**Days past due**				
		< 180 days	**181-365 days**	**366-730 days**	**> 730 days**	**Total**
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
30 June 2019						
Gross carrying amount at default	**115,110**	**180,800**	**58,120**	**74,269**	**106,599**	**534,898**
Expected credit loss	**(2,660)**	**(5,343)**	**(2,919)**	**(37,134)**	**(60,457)**	**(108,513)**
Net trade receivables	**112,450**	**175,457**	**55,201**	**37,135**	**46,142**	**426,385**
31 December 2018						
Gross carrying amount at default	96,544	205,627	80,010	123,833	81,706	587,720
Expected credit loss	(2,231)	(6,075)	(4,019)	(51,412)	(59,456)	(123,193)
Net trade receivables	94,313	199,552	75,991	72,421	22,250	464,527

7.2 Contract Assets

	30 June 2019 SR'000	31 December 2018 SR'000
Contract assets	**202,008**	216,624
Less: allowance for impairment	**(4,845)**	(500)
	197,163	216,124

7.3 Non-current Receivables

The balance under non-current receivables comprise the following:

	30 June 2019 SR'000	31 December 2018 SR'000
Trade receivables under legal collection	**424,449**	450,513
Retentions receivable	**50,919**	50,919
	475,368	501,432
Less: allowance for impairment	**(122,533)**	(119,776)
	352,835	381,656

8. EQUITY ACCOUNTED INVESTMENTS

The equity accounted investments comprise the following:

	30 June 2019	31 December 2018
	SR'000	SR'000
Interests in joint ventures		
Amiblu Holding GmbH ("Amiblu")	228,775	230,179
International Water Distribution Company ("Tawzea")	76,294	71,950
Total interests in joint ventures	305,069	302,129
Investments in associates:		
Amiantit Qatar Pipe Company Limited ("AQAP")	49,645	46,839
Other associates	22,641	23,574
Total investment in associates	72,286	70,413
Total equity accounted investments	377,355	372,542

The movement in the interests in joint ventures is as follows:

	For the six-month period ended 30 June 2019	For the year ended 31 December 2018
	SR'000	SR'000
Interests in joint ventures		
At the beginning of the period / year	302,129	354,012
Share in results	4,192	(50,282)
Transferred from due from related party	-	19,070
Currency translation adjustments	(1,252)	(21,020)
Share of other comprehensive income	-	349
At the end of the period / year	305,069	302,129

The movement in the investment in associates is as follows:

	For the six-month period ended 30 June 2019	For the year ended 31 December 2018
	SR'000	SR'000
Investments in associates		
At the beginning of the period / year	70,413	62,395
Share in results	6,891	9,883
Dividends	(4,901)	(1,711)
Currency translation adjustments	(117)	(154)
At the end of the period / year	72,286	70,413

9. PROPERTY, PLANT AND EQUIPMENT

	Opening 1 January	Additions	(Transfer)/ Reclassific-ation/ disposals	Foreign currency translation adjustments	Closing
	SR'000	SR'000	SR'000	SR'000	SR'000
30 June 2019:					
Cost					
Land	**196,549**	-	-	-	**196,549**
Buildings and land improvements	**271,485**	**1,505**	**274**	**63**	**273,327**
Plant, machinery and equipment	**861,727**	**31,654**	**(39,844)**	**142**	**853,679**
Furniture, fixtures and office equipment	**55,031**	**224**	**(123)**	**(90)**	**55,042**
Right-of-use assets (note 3.2)	-	**7,014**	-	-	**7,014**
Construction in progress	**42,870**	**(30,846)**	**(540)**	-	**11,484**
	1,427,662	**9,551**	**(40,233)**	**115**	**1,397,095**
Accumulated depreciation and impairment					
Land	**(150,000)**	-	-	-	**(150,000)**
Buildings and land improvements	**(179,711)**	**(32,182)**	-	**(54)**	**(211,947)**
Plant, machinery and equipment	**(651,568)**	**(114,578)**	**39,844**	**(131)**	**(726,433)**
Furniture, fixtures and office equipment	**(43,595)**	**(1,938)**	**123**	**79**	**(45,331)**
Right-of-use assets (note 3.2)	-	**(422)**	-	-	**(422)**
Construction in progress	-	**(4,606)**	-	-	**(4,606)**
	(1,024,874)	**(153,726)**	**39,967**	**(106)**	**(1,138,739)**
Net book value as of 30 June 2019	**402,788**				**258,356**
31 December 2018:					
Cost					
Land	196,549	-	-	-	196,549
Buildings and land improvements	299,924	4,126	(31,722)	(843)	271,485
Plant, machinery and equipment	889,685	7,306	(32,544)	(2,720)	861,727
Furniture, fixtures and office equipment	55,688	1,018	(912)	(763)	55,031
Construction in progress	50,916	(7,442)	(604)	-	42,870
	1,492,762	5,008	(65,782)	(4,326)	1,427,662
Accumulated depreciation and impairment					
Land	(150,000)	-	-	-	(150,000)
Buildings and land improvements	(191,621)	(13,233)	24,467	676	(179,711)
Plant, machinery and equipment	(608,921)	(77,550)	32,544	2,359	(651,568)
Furniture, fixtures and office equipment	(41,775)	(3,283)	912	551	(43,595)
	(992,317)	(94,066)	57,923	3,586	(1,024,874)
Net book value as of 31 December 2018	500,445				402,788

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The results of the Cash Generating Units (CGUs) of AFIL, SADIP and BSL for the six-month period ended 30 June 2019 were significantly worse than management's forecast used in the last annual impairment test performed in December 2018. Accordingly, the Group had to reperform impairment test for these CGUs after taking into consideration current conditions.

Management appointed an independent consultant licenced by the Saudi Authority for Accredited Valuers (Taqeem) to review their impairment models as of 30 June 2019. The recoverable amount of these CGUs has been determined based on a value-in-use calculation. The post-tax discount rate applied to cash flow projections is ranging from 8.7% to 10.4%. and cash flows beyond 2019 are extrapolated using a 1% growth rate. It was concluded that the fair value less costs of disposal cannot be measured reliably.

The results of the impairment test performed as of 30 June 2019 were as follows:

CGUs	*Carrying amount*	*Recoverable amount*	*Impairment loss*
	SR'000	**SR'000**	**SR'000**
AFIL	**141,450**	**113,640**	**27,810**
SADIP	**81,670**	**-**	**81,670**
BSL	**16,250**	**-**	**16,250**
	239,370	**113,640**	**125,730**

The impairment loss for the six-month period ended 30 June has been recognised as follows:

	2019	2018
	SR '000	SR '000
Recognised under cost of revenue	**123,027**	-
Recognised under selling, general and administrative expenses	**2,703**	-
	125,730	-

10. BORROWINGS

10.1 SHORT-TERM BORROWINGS

Short-term borrowings comprise the following:

	30 June 2019	31 December 2018
	SR'000	SR'000
Short-term bank loans	**874,907**	929,726

These represent borrowing facilities obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offered rates plus a fixed margin. Management intends to roll-over the majority of short-term loans as they mature.

10.2 LONG-TERM BORROWINGS

Long-term borrowings comprise the following:

	30 June 2019	31 December 2018
	SR'000	SR'000
Commercial bank loans	**343,238**	413,160
Current portion shown under current liabilities	**(215,660)**	(255,244)
Non-current portion shown under non-current liabilities	**127,578**	157,916

10. BORROWINGS (continued)

10.2 LONG-TERM BORROWINGS (continued)

Commercial bank loans:

The Group has obtained loan facilities from various commercial banks. These loans generally bear financial charges based on inter-bank offered rates plus a fixed margin. The aggregate maturities of the loans outstanding at 30 June 2019, based on their respective repayment schedules, are repayable at dates from 2019 to 2021.

10.3 BREACHES OF LOAN COVENANTS

The covenants of certain of the short-term and long-term borrowing facilities require the Group to maintain a certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount, and limit the amount of annual capital expenditure and certain other requirements. The Group has breached some of the financial covenants stated in the credit facility agreements with commercial banks. The main financial covenants the Group has breached are as follows:

Covenant	Requirements
Total liabilities to tangible net worth	200% - 250%
Current ratio	100% - 125%
Minimum shareholders' equity	SR 950m - SR 1,312.5m

None of the Group's lenders exercised their rights to cancel credit facilities or accelerate repayment of future payments. Management of the Group believes that the breaches will not affect the maturity profile of its debt or the availability of credit.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

11.1 DISAGGREGATED REVENUE INFORMATION

Segments	For the six-month period ended 30 June	
	2019	2018
	SR '000	SR '000
Type of goods or service		
Sale of goods	**346,473**	298,431
Construction contracts	**50,142**	100,950
Total revenue from contracts with customers	**396,615**	399,381
Type of customer		
Government and quasi-government customers	**14,978**	56,137
Corporate customers	**381,637**	343,244
Total revenue from contracts with customers	**396,615**	399,381
Geographical markets		
Central region	**36,758**	56,676
Western region	**24,504**	26,599
Eastern region	**125,709**	129,344
Europe	**5,785**	17,612
Others	**203,859**	169,150
Total revenue from contracts with customers	**396,615**	399,381

11. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

11.2 CONTRACT BALANCES

	30 June 2019	31 December 2018
	SR '000	SR '000
Trade receivables - current and non-current (note 7)	**794,287**	869,375
Contract assets (see note (a) below)	**197,163**	216,124
Contract liabilities (see note (b) below)	**59,250**	63,014

a) Contract assets:
Contract assets are initially recognised for revenue earned from construction contracts as receipt of consideration is conditional on successful completion of specific milestones. Upon completion of a milestone and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. As at 30 June 2019, contract assets are carried net of expected credit losses of SR 4.8 million.

b) Contract liabilities:
Contract liabilities include long-term advances against construction contracts and short-term advances received to install pipes as well as transaction price allocated to unsatisfied performance obligations.

Revenue from contracts with customers recognised from amounts included in contract liabilities at the beginning of 2019 amounted to SR 3.8 million for the six-month period ended 30 June 2019 (30 June 2018: SR 5.5 million).

11.3 PERFORMANCE OBLIGATIONS

a) Sale of goods:
The performance obligation is satisfied upon delivery of the goods and payment is generally due in advance or within 90 days from delivery.

b) Construction contracts:
Revenue is recognised over time based on the cost-to-cost method. The related costs are recognised in profit or loss when they are incurred. Payment terms comprise a long-term advance, progress payments and payment of retentions one or two years after completion of the project. The duration of each project depends on the size and complexity of customer design and normally span for more than one year.

12. CONTINGENCIES AND COMMITMENTS

12.1 The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to SR 113.2 million at 30 June 2019. The Company, collectively with other shareholders of associated companies, is also contingently liable for corporate guarantees amounting to SR 175.1 million at 30 June 2019 in relation to the borrowing facilities of related associated companies.

12.2 The capital expenditure contracted by the Group but not yet incurred till 30 June 2019 was approximately SR 3.6 million.

12.3 The Group owns a parcel of industrial land in Jeddah which was acquired in 2009 through the acquisition, from a related party, of a subsidiary that owns this land. The ownership of this parcel is being contested in the Saudi Arabian judicial system. Management of the Group believes that the outcome of the litigation process will not result in any liabilities.

13. DATE OF AUTHORIZATION:

These interim condensed consolidated financial statements were authorized for issue by the Company's board of directors on 29 Dhu Al-Qa'dah 1440H corresponding to 1 August 2019.