



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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AND REVIEW REPORT
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

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FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 31 March 2018, and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-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.

Emphasis of matters

Without qualifying our conclusion, we would like to draw attention to the following:

- I. Note 8 to the accompanying interim condensed consolidated financial statements which describes the dispute over the Group's ownership of a parcel of industrial land in Jeddah.
- II. Note 7 to the accompanying interim condensed consolidated financial statements which indicates that these interim condensed consolidated financial statements put the Group in breach of some of the financial covenants stated in the credit facility agreements with commercial banks. Management of the Group believes that the breach will not affect the maturity profile of its debt or the availability of credit.

BAKER TILLY MKM & CO.
Certified Public Accountants


Ayad Obeyan Alseraihi
License No. 405

Al-Khobar 16 Sha'aban 1439H
2 May 2018



THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH

	Note	2018 SR '000 (Unaudited)	2017 SR '000 (Unaudited)
Continuing operations:			
Sale of goods		169,401	168,702
Rendering of services		34,363	41,431
Total revenue		<u>203,764</u>	<u>210,133</u>
Cost of revenue		<u>(175,493)</u>	<u>(186,789)</u>
Gross profit		28,271	23,344
Selling, general and administrative expenses		(27,803)	(29,200)
Other (expenses) income, net		(845)	2,851
Operating loss		(377)	(3,005)
Share of results of equity accounted investments		(8,762)	(695)
Finance costs		<u>(22,990)</u>	<u>(24,613)</u>
Loss before zakat and foreign income tax		<u>(32,129)</u>	<u>(28,313)</u>
Foreign income tax		(414)	(110)
Zakat		<u>(6,250)</u>	<u>(8,250)</u>
Loss from continuing operations		<u>(38,793)</u>	<u>(36,673)</u>
Discontinued operations:			
Loss after tax from discontinued operations	2	-	(7,961)
LOSS FOR THE PERIOD		<u>(38,793)</u>	<u>(44,634)</u>
Attributable to:			
Shareholders of the Company		(39,982)	(45,753)
Non-controlling interests		1,189	1,119
		<u>(38,793)</u>	<u>(44,634)</u>
Loss per share			
Loss per share for the period attributable to the shareholders of the Company:			
Basic (SR)		<u>(0.35)</u>	<u>(0.40)</u>
Diluted (SR)		<u>(0.35)</u>	<u>(0.40)</u>
Loss per share from continuing operations			
Loss per share for the period from continuing operations attributed to the shareholders of the Company:			
Basic (SR)		<u>(0.35)</u>	<u>(0.33)</u>
Diluted (SR)		<u>(0.35)</u>	<u>(0.33)</u>
Weighted average number of shares outstanding:			
Basic ('000 shares)		<u>113,564</u>	<u>113,564</u>
Diluted ('000 shares)		<u>113,564</u>	<u>113,564</u>


Board Authorised Representative


Chief Executive Officer


Chief Financial 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 PERIOD ENDED 31 MARCH

Note	2018	2017
	SR '000	SR '000
	(Unaudited)	(Unaudited)
Loss for the period	(38,793)	(44,634)
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	16,919	11,264
Change in the fair value of interest rate swap	590	(186)
Other comprehensive income	17,509	11,078
Total comprehensive loss for the period	(21,284)	(33,556)
Attributable to:		
Shareholders of the Company	(22,031)	(33,968)
Non-controlling interests	747	412
	(21,284)	(33,556)


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THE SAUDI ARABIAN AMIANTIT COMPANY


(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note	As at	
	31 March	31 December
	2018	2017
	SR '000	SR '000
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	79,497	119,552
Trade receivables	779,859	795,519
Prepayments and other receivables	82,371	82,303
Inventories	764,816	742,856
	<u>1,706,543</u>	<u>1,740,230</u>
Non-current assets		
Non-current receivables	463,714	463,465
Equity accounted investments	6 413,992	416,407
Property, plant and equipment	487,477	500,445
Other non-current assets	59,495	58,359
	<u>1,424,678</u>	<u>1,438,676</u>
TOTAL ASSETS	<u>3,131,221</u>	<u>3,178,906</u>
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	7 1,118,842	1,062,785
Current maturity of long-term borrowings	7 202,919	202,443
Accounts payable	221,805	203,385
Accrued expenses and other liabilities	173,067	196,063
Zakat and foreign taxes payable	113,120	105,263
	<u>1,829,753</u>	<u>1,769,939</u>
Non-current liabilities		
Long-term borrowings	7 246,828	320,409
Employees' terminal benefits	66,849	66,609
Warranty provisions	8,453	8,375
Other non-current liabilities	14,954	15,544
	<u>337,084</u>	<u>410,937</u>
Total liabilities	<u>2,166,837</u>	<u>2,180,876</u>
Equity		
Share capital	1,155,000	1,155,000
Statutory reserve	189,472	189,472
Accumulated losses	(267,688)	(217,941)
Employee share ownership program and reserve	(31,914)	(31,914)
Change in fair value of interest rate swap	(916)	(1,506)
Foreign currency translation reserve	(108,871)	(126,232)
	<u>935,083</u>	<u>966,879</u>
Equity attributable to the shareholders of the Company	<u>935,083</u>	<u>966,879</u>
Non-controlling interests	29,301	31,151
Total equity	<u>964,384</u>	<u>998,030</u>
TOTAL LIABILITIES AND EQUITY	<u>3,131,221</u>	<u>3,178,906</u>


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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH

Note	Attributable to the shareholders of the Company									
	Share capital	Statutory reserve	Accumulated losses	Employee share ownership program and reserve		Change in fair value of interest rate swap	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
				SR '000	SR '000					
2018:	1,155,000	189,472	(217,941)	(31,914)	(1,506)	(126,232)	966,879	31,151	998,030	
As at 1 January 2018 (Audited)	-	-	(10,562)	-	-	-	(10,562)	-	(10,562)	
Adoption of IFRS 9	1,155,000	189,472	(228,503)	(31,914)	(1,506)	(126,232)	956,317	31,151	987,468	
Adjusted balance as at 1 January 2018	-	-	(39,982)	-	-	-	(39,982)	1,189	(38,793)	
Loss for the period	-	-	-	-	590	17,361	17,951	(442)	17,509	
Other comprehensive income	-	-	(39,982)	-	590	17,361	(22,031)	747	(21,284)	
Total comprehensive loss	-	-	-	-	-	-	797	(2,597)	(1,800)	
Transaction with non-controlling interest	-	-	-	-	-	-	-	-	-	
As at 31 March 2018 (Unaudited)	1,155,000	189,472	(267,688)	(31,914)	(916)	(108,871)	935,083	29,301	964,384	
2017:	1,155,000	189,472	(126,720)	(31,914)	(2,143)	(209,241)	974,454	35,964	1,010,418	
As at 1 January 2017 (Audited)	-	-	(45,753)	-	-	-	(45,753)	1,119	(44,634)	
Loss for the period	-	-	(186)	-	(186)	11,971	11,785	(707)	11,078	
Other comprehensive income	-	-	(45,753)	-	(186)	11,971	(33,968)	412	(33,556)	
Total comprehensive loss	-	-	-	-	-	-	-	-	-	
As at 31 March 2017 (Unaudited)	1,155,000	189,472	(172,473)	(31,914)	(2,329)	(197,270)	940,486	36,376	976,862	


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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH

	Note	2018	2017
		SR '000	SR '000
		(Unaudited)	
OPERATING ACTIVITIES			
Loss for the period		(38,793)	(44,634)
Adjustments for non-cash items:			
Depreciation, amortization and impairment		14,574	25,505
Share of results of equity accounted investments		8,762	695
Zakat and foreign income tax charges		6,664	8,726
Employees' terminal benefits, net		240	(1,392)
Warranty provisions, net		46	(151)
Finance costs		22,990	24,933
		14,483	13,682
Changes in working capital:			
Trade receivables (current and non-current)		12,070	8,120
Prepayments and other receivables		545	(39,962)
Inventories		(16,322)	42,893
Accounts payable		17,661	(21,335)
Accrued expenses and other liabilities		(24,007)	(23,892)
Net cash generated from / (used in) operating activities		4,430	(20,494)
INVESTING ACTIVITIES			
Acquisition of non-controlling interest in a subsidiary		(1,800)	-
Dividends received from equity accounted investments		-	553
Purchase of property, plant and equipment		(2,451)	(7,397)
Net change in other non-current assets		(1,246)	2,884
Net cash used in investing activities		(5,497)	(3,960)
FINANCING ACTIVITIES			
Movement in short-term borrowings		56,057	51,864
Net movement in long-term borrowings		(73,438)	3,684
Finance costs paid		(22,990)	(24,933)
Net change in other non-current liabilities		(14)	339
Net cash (used in) / generated from financing activities		(40,385)	30,954
Net change in cash and cash equivalents		(41,452)	6,500
Cash and cash equivalents at the beginning of the period		119,552	116,064
Foreign currency translation effect on cash and cash equivalents		1,397	2,217
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		79,497	124,781


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Chief Executive Officer


Chief Financial Officer

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THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

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 activities	Country of incorporation	Ownership percentage as at	
			31 March 2018	31 March 2017
			%	%
Amiantit Fiberglass Industries Limited (AFIL)	A	Saudi Arabia	100	100
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	C	Saudi Arabia	100	100
Factory of Amiantit Rubber Industries Company Limited (ARIL) (note 2.1)	A	Saudi Arabia	100	80
Ameron Saudi Arabia Limited (ASAL)	A	Saudi Arabia	100	100
Bondstrand Limited (BSL)	A	Saudi Arabia	60	60
Saudi Arabia Concrete Products Limited (SACOP)	A	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
Amiantit Germany GmbH (note 2.2)	A	Germany	5.5	100
Flowtite Technology A.S. (note 2.2)	D	Norway	-	100
Amitech Poland Sp.z o.o. (note 2.2)	A	Poland	-	100
Amiantit Spain (note 2.2)	A	Spain	-	100
Amitech France (note 2.2)	A	France	-	100
Amiantit Norway AS (note 2.2)	A	Norway	-	100

A- Pipe manufacturing

B- Water management

C- Contracting

D- Research and development

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

THE SAUDI ARABIAN AMIANTIT COMPANY

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018****2. CHANGES IN THE REPORTING ENTITY****2.1 Acquisition of non-controlling interest in ARL**

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 partner of ARIL, for total consideration of SR 1.8 million. The legal formalities for this transaction were completed in the current quarter. 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.

2.2 Amiantit - Hobas merger in Europe

On 15 December 2016, the Group publicly announced that it had signed a Memorandum of Understanding (MOU) with the Austrian holding company WIG Wietersdorfer Holding GmbH ("WIG") regarding a merger of its European pipe manufacturing and sales companies and its Flowtite technology (the "Disposal Group") with the Hobas AG group of companies. Furthermore, On 6 February 2017 the Company signed a joint venture agreement with WIG whereby its Disposal Group will be merged with the Hobas AG group of companies in Europe under a Joint Venture ("Amiblu"). On 28 August 2017, most of the legal formalities necessary for the closure of the merger and the foundation of Amiblu were completed.

The Disposal Group comprises of the following entities:

Company name	Country of incorporation	Ownership percentage as at	
		31 March 2018	31 March 2017
		%	%
Amiantit Germany GmbH	Germany	5.5	100
Flowtite Technology A.S.	Norway	-	100
Amitech Poland Sp.z o.o.	Poland	-	100
Amiantit Spain	Spain	-	100
Amitech France	France	-	100
Amiantit Norway AS	Norway	-	100

On 28 August 2017, the operations of the Disposal Group were deconsolidated and were presented as discontinued operations. The business of the Disposal Group represented part of the Group's European operating segment (geographical segment) until 28 August 2017. With these entities being classified as discontinued operations, their respective operations are no longer presented as part of the European segment in the segment information note and the results for the period ended 31 March 2017 duly re-stated.

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018**

2. CHANGES IN THE REPORTING ENTITY (Continued)

2.2 Amiantit - Hobas merger in Europe (Continued)

The results of the Disposal Group for the period are presented below:

	For the period from 1 January 2017 to 28 August 2017 SR '000	For the three months period ended 31 March 2017 SR '000
Revenue	257,850	75,172
Expenses	(264,189)	(80,753)
Operating (loss) / profit	(6,339)	(5,581)
Finance costs	(561)	(319)
Other expenses, net	(1,355)	(1,695)
(Loss)/profit before tax	(8,255)	(7,595)
Tax	(119)	(366)
(Loss)/profit for the period from ordinary activities	(8,374)	(7,961)
Gain on disposal of the Disposal Group	63,596	-
Profit after tax for the period from discontinued operations	<u>55,222</u>	<u>(7,961)</u>
Earnings per share from discontinued operations:		
Basic (SR)	<u>0.49</u>	<u>(0.07)</u>
Diluted (SR)	<u>0.49</u>	<u>(0.07)</u>

The major classes of assets and liabilities of the Disposal Group as at 28 August 2017 were as follows:

	As at 28 August 2017 SR '000
Assets	
Cash and short-term deposits	21,191
Debtors	161,855
Inventories	80,978
Property, plant and equipment	117,967
Intangible assets	442
Assets of the Disposal Group	<u>382,433</u>
Liabilities	
Creditors	116,244
Interest-bearing liabilities	51,310
Liabilities directly associated with assets of the Disposal Group	<u>167,554</u>
Carrying amount of net assets directly associated with the Disposal Group	<u>214,879</u>

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

2. CHANGES IN THE REPORTING ENTITY (Continued)

2.2 Amiantit - Hobas merger in Europe (Continued)

The net cash flows incurred by the Disposal Group are as follows:

	For the period from 1 January 2017 to 28 August 2017 SR '000	For the three- month period ended 31 March 2017 SR '000
Operating	10,901	29,633
Investing	(8,782)	(36,685)
Financing	(23,633)	(2,395)
Net cash outflow	<u>(21,514)</u>	<u>(9,447)</u>

As a result of the acquisition of a 50% share in Amiblu and the disposal of the Disposal Group, the Group recognized a gain on the deal in the amount of SR 63.6 million on 28 August 2017 and reported the gain under profit from discontinued operations. The gain was calculated as follows:

	SR '000
Cash proceeds	4,421
Fair value of 50% share in Amiblu	289,600
Fair value of consideration received	<u>294,021</u>
Less:	
Carrying amount of net assets directly associated with the Disposal Group	214,879
Realization of the foreign currency translation reserve directly associated with the Disposal Group	<u>15,546</u>
	<u>230,425</u>
Gain on the deal	<u>63,596</u>

The fair value of the 50% share in Amiblu was calculated using the Discounted Cash Flows method. The significant unobservable valuation inputs are provided below:

Discount rate	9.1% - 10.1%
Growth rate used in the calculation of terminal value	1% - 2%

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 three months ended 31 March 2018 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 2017.

3.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 '*Revenue from Contracts with Customers*' and IFRS 9 '*Financial Instruments*' that require retrospective application. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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)

A. IFRS 15 'Revenue from contract with customers'

The International Accounting Standard Board (IASB) published the new standard on revenue recognition, IFRS 15 'Revenue from contracts with customer' on 28 May 2014. The rules and definitions of IFRS 15 supersede the contents of IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRIC 13 'Customer Loyalty Programs'. The new standard particularly aims to standardize existing regulations and thus improve transparency and the comparability of financial information. The change became effective to the Group from 1 January 2018. The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous periods has not been restated, as previously reported, under IAS 18 and related interpretations.

IFRS - 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customer. It establishes a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized when the entity satisfies a performance obligation by transferring promised goods or services to a customer. An asset is transferred when control is transferred that is either over time or at a point in time. The Group uses the input method to measure progress towards complete satisfaction of performance obligation in each contract.

Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

The group estimates the variable consideration such as the returns, allowances, trade discounts and volume rebates as the most likely amount based on available market information. The Group includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the associated variable consideration is subsequently resolved.

Rendering of services

Revenue from providing services is recognised over a period of time as the related services are performed. For fixed-price contracts, revenue is recognised based on the 'percentage of completion' method which measures actual cost incurred to the end of the reporting period as a proportion of the total cost to be incurred. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group was already recognizing the revenue on the same basis as envisaged by IFRS 15. Consequently, there are no material and reportable changes due to its adoption of IFRS 15.

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)

B. IFRS 9 'Financial instruments'

On 24 July 2014, the IASB issued the final version of IFRS 9, concluding the multiyear project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial assets impairments, and a reformed approach to hedge accounting. The changes became effective to the Group from 1 January 2018.

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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.

Financial assets

i. *Classification and subsequent measurement*

The group classifies its financial assets as those to be measured subsequently at amortized cost if they meet the following criteria:

- 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
- The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets cash flow

The Group initially measures the accounts receivable at the transaction price as the accounts receivable do not contain a significant financing component.

The Group classifies investments in equity securities or funds under fair value through profit or loss (FVTPL). No financial asset is classified under fair value through other comprehensive income (FVOCI).

ii. *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Group recognizes a loss allowance for expected credit losses ("ECL") for financial assets measured at amortized cost. The ECL is recognized either for lifetime or for 12 months. 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 assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

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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)

B. IFRS 9 'Financial instruments' (continued)

ii. Impairment of financial assets (continued)

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations
- Actual or expected significant changes in the operating results of the customer
- Significant increases in credit risk on other financial instruments of the same customer
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of customers and changes in the operating results of the customer
- Macroeconomic information (such as market interest rates or growth rates)
- Past due information adjusted for future information

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has adopted the simplified approach as allowed by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses for all current trade receivables that result from contracts with the customers. The Group determines the expected credit losses on current trade receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency of the counterparty, restructuring of amounts due on terms that the Group would not otherwise consider, indications that a customer will enter bankruptcy, or other observable data relating to customers such as adverse changes in the economic conditions that correlate with defaults by the customers.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively (with similar risk characteristics) assessed for any impairment that has been incurred but not yet identified.

Impairment losses for a financial instrument are recognized in the consolidated statement of profit or loss and reflected in impairment for credit losses. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the consolidated statement of profit or loss.

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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)

B. IFRS 9 'Financial instruments' (continued)

iii. Derecognition

The Group derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. A financial liability is derecognized from the statement of financial position when the Group has discharged its obligation or the contract is cancelled or expires.

Financial liabilities

There are no changes in the recognition and measurement of financial liabilities. Consequently, accounting policies in relation to financial liabilities are not presented.

Interest rate swap

There are no changes in the recognition and measurement of the interest rate swap contract. Consequently, accounting policies in relation to financial derivatives are not presented.

Impact on accumulated losses

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

	<u>Accumulated losses</u>
Balance as at 31 December 2017	SR'000 (217,941)
Recognition of additional expected credit losses under IFRS 9	<u>(10,562)</u>
Opening balance as at 1 January 2018	<u><u>(228,503)</u></u>

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4. 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 31 March 2018 and 31 December 2017 and for the three-month period ended 31 March 2018 and 2017, summarized by the above business segments, are as follows:

	Pipe			Total SR '000
	manufacturing and technology SR '000	Water management SR '000	Eliminations SR '000	
As at and for the period ended 31 March 2018				
Sales to external customers	179,037	24,727	-	203,764
Inter-segment	15,974	-	(15,974)	-
Total revenue	195,011	24,727	(15,974)	203,764
Share of results of equity accounted investments	(10,681)	1,919	-	(8,762)
Finance costs	(20,053)	(2,937)	-	(22,990)
Depreciation and amortization	(14,176)	(398)	-	(14,574)
Zakat and income tax	(6,299)	(365)	-	(6,664)
Net loss	(32,034)	(6,759)	-	(38,793)
Equity accounted investments	338,053	75,939	-	413,992
Total assets	2,410,063	721,158	-	3,131,221
Total liabilities	(1,417,822)	(749,015)	-	(2,166,837)
Capital expenditures	5,408	89	-	5,497

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FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

4. SEGMENT INFORMATION (Continued)

	Pipe manufacturing and technology			Water management	Eliminations	Total
	SR '000	SR '000	SR '000			
For the period ended 31 March 2017						
Sales to external customers	196,578		13,555		-	210,133
Inter-segment	24,984		-		(24,984)	-
Total revenue	221,562		13,555		(24,984)	210,133
Share of results of equity accounted investments	(3,341)		2,646		-	(695)
Finance costs	(22,645)		(1,968)		-	(24,613)
Depreciation and amortization	(25,084)		(421)		-	(25,505)
Zakat and income tax	(8,266)		(94)		-	(8,360)
Net loss	(33,370)		(11,264)		-	(44,634)
Capital expenditures	3,960		-		-	3,960
As at 31 December 2017						
Equity accounted investments	342,377		74,030		-	416,407
Total assets	2,187,988		990,918		-	3,178,906
Total liabilities	(1,150,389)		(1,030,487)		-	(2,180,876)

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4. SEGMENT INFORMATION (Continued)

The Group's operations are conducted in Saudi Arabia, Europe and other geographical areas. Selected financial information as at 31 March 2018 and 31 December 2017 and for the three-month period ended 31 March 2018 and 2017, summarized by geographic area, are as follows:

	Saudi Arabia	Europe	Other Countries	Eliminations	Total
	SR '000	SR '000	SR '000	SR '000	SR '000
As at and for the period ended 31 March 2018					
Revenue	194,460	24,727	551	(15,974)	203,764
Non-current assets:					
- Property, plant and equipment	470,217	6,376	10,884	-	487,477
- Other non-current assets	1,233,209	303,009	167,652	(766,669)	937,201
For the period ended 31 March 2017					
Revenue	220,681	13,555	881	(24,984)	210,133
As at 31 December 2017					
Non-current assets:					
- Property, plant and equipment	483,446	6,491	10,508	-	500,445
- Other non-current assets	1,438,423	308,394	161,703	(970,289)	938,231

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5. FINANCIAL INSTRUMENTS

5.1. Fair-value measurements of financial instruments

		31 March 2018							31 December 2017						
		Carrying amount		Fair value					Carrying amount		Fair value				
		Fair value SR '000	Amortised cost SR '000	Total SR '000	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000	Fair value SR '000	Amortised cost SR '000	Total SR '000	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets		-	779,859	779,859	-	-	-	-	-	795,519	-	-	-	-	
Trade receivables (current)		-	463,714	463,714	-	-	-	-	-	463,465	-	-	-	-	
Trade receivables (non-current)		-	1,243,573	1,243,573	-	-	-	-	-	1,258,984	-	-	-	-	
Financial liabilities		-	1,118,842	1,118,842	-	-	-	-	-	1,062,785	-	-	-	-	
Short-term borrowings		-	449,747	449,747	-	-	-	-	-	522,852	-	-	-	-	
Long-term borrowings		-	394,872	394,872	-	-	-	-	-	399,448	-	-	-	-	
Trade and other payables		916	-	916	-	-	-	-	-	1,506	-	-	-	-	
Derivative financial instrument		916	1,963,461	1,964,377	-	-	-	-	-	1,985,085	-	-	-	-	

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6. EQUITY ACCOUNTED INVESTMENTS

The equity accounted investments comprise of the following:

	31 March 2018	31 December 2017
	SR'000	SR'000
Interests in joint ventures		
Amiblu Holding GmbH ("Amiblu")	272,103	274,143
International Water Distribution Co. ("Tawzea")	65,745	63,825
Other joint ventures	12,160	16,044
Total interests in joint ventures	350,008	354,012
Investments in associates:		
Amiantit Qatar Pipe Co. Ltd. ("AQAP")	40,138	38,617
Other associates	23,846	23,778
Total investment in associates	63,984	62,395
Total equity accounted investments	413,992	416,407

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

	For the three- month period ended 31 March 2018	For the year ended 31 December 2017
	SR'000	SR'000
At the beginning of the period / year	354,012	77,255
Addition	-	286,298
Share of profit	(10,283)	(11,202)
Share of other comprehensive income	6,279	1,661
At the end of the period / year	350,008	354,012

The movement in the investment in associates is as follows:

	For the three- month period ended 31 March 2018	For the year ended 31 December 2017
	SR'000	SR'000
At the beginning of the period / year	62,395	49,488
Additions	-	3,302
Share of results	1,521	12,125
Dividends	-	(2,878)
Currency translation adjustments	68	358
At the end of the period / year	63,984	62,395

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018****7 BORROWINGS****7.1 SHORT-TERM BORROWINGS**

Short-term borrowings comprise the following:

	31 March 2018	31 December 2017
	SR'000	SR'000
Short-term bank loans	<u>1,118,842</u>	<u>1,062,785</u>

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.

7.2 LONG-TERM BORROWINGS

Long term borrowings comprise the following:

	31 March 2018	31 December 2017
	SR'000	SR'000
Commercial bank loans	449,747	522,852
Current portion shown under current liabilities	<u>(202,919)</u>	<u>(202,443)</u>
Non-current portion shown under non-current liabilities	<u>246,828</u>	<u>320,409</u>

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 31 March 2018, based on their respective repayment schedules, are repayable at dates from 2018 to 2021.

7.3 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:

<u>Covenant</u>	<u>Requirements</u>
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.

8. CONTINGENCIES AND COMMITMENTS

- (i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting SR 229.1 million at 31 March 2018. The Company, collectively with other shareholders of associated companies, is also contingently liable for corporate guarantees amounting to SR 179.2 million at 31 March 2018 in relation to the borrowing facilities of related associated companies.
- (ii) The capital expenditure contracted by the Group but not yet incurred till 31 March, 2018 was approximately SR 2.0 million.
- (iii) 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.