



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 2019**

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 2019**

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BAKER TILLY

MKM & CO. Certified Public Accountants

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 31 March 2019, 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 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.
- II. Note 8.3 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

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9 May 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 PERIOD ENDED 31 MARCH

	Note	2019 SR '000 (Unaudited)	2018 SR '000 (Unaudited)
Continuing operations:			
Revenue from contracts with customers	9	233,033	199,973
Cost of revenue		(217,399)	(167,932)
Gross profit		15,634	32,041
Selling, general and administrative expenses		(29,684)	(27,163)
Operating loss		(14,050)	4,878
Other expenses, net		1,524	(845)
Share in results of equity accounted investments	7	(527)	(8,762)
Finance costs		(26,465)	(21,930)
Loss before zakat and foreign income tax		(39,518)	(26,659)
Zakat		(5,750)	(6,250)
Foreign income tax		494	(409)
Loss from continuing operations		(44,774)	(33,318)
Discontinued operations:			
Profit (loss) after zakat from discontinued operations	2.2	3,441	(5,475)
LOSS FOR THE PERIOD		(41,333)	(38,793)
Attributable to:			
Shareholders of the Company		(40,366)	(39,982)
Non-controlling interests		(967)	1,189
Loss per share		(41,333)	(38,793)
Loss per share for the year attributed to the shareholders of the Company:			
Basic (SR)		(0.36)	(0.35)
Diluted (SR)		(0.36)	(0.35)
Loss per share from continuing operations			
Loss per share for the year from continuing operations attributed to the shareholders of the Company:			
Basic (SR)		(0.39)	(0.29)
Diluted (SR)		(0.39)	(0.29)
Weighted average number of shares outstanding:			
Basic ('000 shares)		113,564	113,564
Diluted ('000 shares)		113,564	113,564


Dr. Khalil A. Kurdi
Board Authorised Representative


Dr. Solaiman A. Al-Twajjri
Chief Executive Officer

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

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

	<u>2019</u>	<u>2018</u>
	SR '000	SR '000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(41,333)</u>	<u>(38,793)</u>
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	(6,052)	16,919
Change in the fair value of interest rate swap	-	590
Other comprehensive income	<u>(6,052)</u>	<u>17,509</u>
Total comprehensive loss for the period	<u>(47,385)</u>	<u>(21,284)</u>
Attributable to:		
Shareholders of the Company	(46,633)	(22,031)
Non-controlling interests	<u>(752)</u>	<u>747</u>
	<u>(47,385)</u>	<u>(21,284)</u>



Dr. Khalil A. Kurdi
Board Authorised Representative



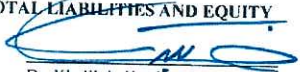
Dr. Solaiman A. Al-Twajri
Chief Executive Officer


The accompanying notes form an integral part of these interim condensed consolidated financial statements. 62

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT

	31 March 2019	31 December 2018
Note	SR '000	SR '000
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	172,846	93,280
Trade receivables	6 470,285	487,719
Contract assets	6 195,897	216,124
Prepayments and other receivables	66,518	78,412
Inventories	647,703	675,694
Assets held for sale	2 307	1,469
	<u>1,553,556</u>	<u>1,552,698</u>
Non-current assets		
Non-current receivable	6 384,711	381,656
Equity accounted investments	7 362,701	372,542
Property, plant and equipment	390,784	402,788
Other non-current assets	24,196	45,816
	<u>1,162,392</u>	<u>1,202,802</u>
TOTAL ASSETS	<u><u>2,715,948</u></u>	<u><u>2,755,500</u></u>
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	8 912,192	929,726
Current maturity of long-term borrowings	8 301,467	255,244
Accounts payable	315,486	324,125
Accrued expenses and other liabilities	120,343	122,326
Contract liabilities	56,786	63,014
Zakat and foreign taxes payable	134,203	128,928
	<u>1,840,477</u>	<u>1,823,363</u>
Non-current liabilities		
Long-term borrowings	8 148,382	157,916
Employees' termination benefits	67,251	67,691
Warranty provisions	6,919	6,216
Other non-current liabilities	13,501	13,511
	<u>236,053</u>	<u>245,334</u>
Total liabilities	<u>2,076,530</u>	<u>2,068,697</u>
Equity		
Share capital	1,155,000	1,155,000
Statutory reserve	189,472	189,472
Accumulated losses	(554,733)	(514,367)
Employee share ownership plan and reserve	(31,914)	(31,914)
Change in fair value of interest rate swap	(182)	(182)
Foreign currency translation reserve	(148,699)	(142,432)
Equity attributable to the shareholders of the Company	<u>608,944</u>	<u>655,577</u>
Non-controlling interests	30,474	31,226
Total equity	<u>639,418</u>	<u>686,803</u>
TOTAL LIABILITIES AND EQUITY	<u><u>2,715,948</u></u>	<u><u>2,755,500</u></u>


Dr. Khalil A. Kurdi
Board Authorised Representative


Dr. Solaiman A. Al-Twajiri
Chief Executive Officer

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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 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	-	-	(40,366)	-	-	-	(40,366)	(967)	(41,333)	
Other comprehensive loss	-	-	(40,366)	-	-	(6,267)	(6,267)	215	(6,052)	
Total comprehensive loss	-	-	(40,366)	-	-	(6,267)	(46,633)	(752)	(47,385)	
As at 31 March 2019 (Unaudited)	1,155,000	189,472	(554,733)	(31,914)	(182)	(148,699)	608,944	30,474	639,418	
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	-	-	(39,982)	-	-	-	(39,982)	1,189	(38,793)	
Other comprehensive income	-	-	-	-	590	17,361	17,951	(442)	17,509	
Total comprehensive loss	-	-	(39,982)	-	590	17,361	(22,031)	747	(21,284)	
Transaction with non-controlling interest	-	-	797	-	-	-	797	(2,597)	(1,800)	
As at 31 March 2018 (Unaudited)	1,155,000	189,472	(321,572)	(31,914)	(916)	(108,871)	881,199	30,524	911,723	



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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 CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH

	2019	2018
	SR '000	SR '000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Loss for the period	(41,333)	(38,793)
Adjustments for non-cash items:		
Depreciation and amortization	14,116	14,574
Share in results of equity accounted investments	527	8,762
Zakat and foreign tax charges, net	5,275	6,664
Employees' termination benefits, net	(440)	240
Warranty provisions, net	703	46
Finance costs	26,465	22,990
	<u>5,313</u>	<u>14,483</u>
Changes in working capital:		
Trade receivables (current and non-current) and contract assets	36,463	12,070
Prepayments and other receivables	12,809	545
Inventories	23,980	(16,322)
Accounts payable	(8,282)	17,661
Accrued expenses, contract liabilities and other liabilities	(6,984)	(24,007)
Net cash generated from operating activities	<u>63,299</u>	<u>4,430</u>
INVESTING ACTIVITIES		
Acquisition of non-controlling interest in a subsidiary	-	(1,800)
Cash proceeds from disposal of property, plant and equipment	46	-
Dividends received from equity accounted investments	4,901	-
Purchase of property, plant and equipment	(1,923)	(2,451)
Net change in other non-current assets	21,268	(1,246)
Net cash from (used in) investing activities	<u>24,292</u>	<u>(5,497)</u>
FINANCING ACTIVITIES		
Movement in short-term borrowings	(17,534)	56,057
Net movement in long-term borrowings	36,564	(73,438)
Finance costs paid	(26,465)	(22,990)
Net change in other non-current liabilities	22	(14)
Net cash used in financing activities	<u>(7,413)</u>	<u>(40,385)</u>
Net change in cash and cash equivalents	80,178	(41,452)
Cash and cash equivalents at the beginning of the period	93,280	119,552
Foreign currency translation effect on cash and cash equivalents	(612)	1,397
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>172,846</u>	<u>79,497</u>



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Dr. Solaiman A. Al-Twajjri
Chief Executive Officer

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

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 2019****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:

<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Ownership percentage as at</u>	
			<u>31 March 2019</u>	<u>31 December 2018</u>
			<u>%</u>	<u>%</u>
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 three-month period ended 31 March 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.

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 2019

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 three-month period ended 31 March are presented below:

	2019	2018
	SR '000	SR '000
Revenue	35	1,113
Expenses	(400)	(2,969)
Operating loss	(365)	(1,856)
Finance costs	(718)	(919)
Other income (expense), net	3,460	(3)
Profit (loss) before zakat	2,377	(2,778)
Zakat	-	-
Profit (loss) for the period from discontinued operations	<u>2,377</u>	<u>(2,778)</u>
Profit (loss) per share from discontinued operations:		
Basic (SR)	<u>0.02</u>	<u>(0.02)</u>
Diluted (SR)	<u>0.02</u>	<u>(0.02)</u>

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

	As at 31 March 2019	As at 31 December 2018
	SR '000	SR '000
Assets		
Bank balances and cash	26	27
Trade receivables	34,790	32,601
Prepayments and other receivables	12	8
Inventories	3,700	3,736
Property, plant and equipment	307	500
	<u>38,835</u>	<u>36,872</u>
Liabilities		
Accounts payable	47,945	48,052
Accrued expenses and other liabilities	200	1,033
Zakat payable	1,542	1,014
	<u>49,687</u>	<u>50,099</u>
Carrying amount of net assets directly related to the discontinued operation	<u>(10,852)</u>	<u>(13,227)</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 2019

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 three-month period ended 31 March are as follows:

	<u>2019</u>	<u>2018</u>
	SR '000	SR '000
Operating	(1)	148
Investing	-	-
Financing	-	-
Net cash (outflow) inflow	<u>(1)</u>	<u>148</u>

2.2.2 Discontinued Operations of ASAL

The results of ASAL for the three-month period ended 31 March are presented below:

	<u>2019</u>	<u>2018</u>
	SR '000	SR '000
Revenue	3,687	2,679
Expenses	<u>(3,872)</u>	<u>(5,231)</u>
Operating loss	(185)	(2,552)
Finance costs	(175)	(141)
Other income (expense), net	<u>1,424</u>	<u>(4)</u>
Profit (loss) before zakat	1,064	(2,697)
Zakat	-	-
Profit (loss) for the period from discontinued operations	<u>1,064</u>	<u>(2,697)</u>

Profit (loss) per share from discontinued operations:

Basic (SR)	<u>0.01</u>	<u>(0.02)</u>
Diluted (SR)	<u>0.01</u>	<u>(0.02)</u>

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

	<u>As at 31</u>	<u>As at 31</u>
	<u>March 2019</u>	<u>December 2018</u>
	SR '000	SR '000
Assets		
Bank balances and cash	313	336
Trade receivables	3,579	1,972
Prepayments and other receivables	412	1,819
Inventories	36,617	40,042
Property, plant and equipment	-	969
	<u>40,921</u>	<u>45,138</u>
Liabilities		
Accounts payable	14,109	18,911
Accrued expenses and other liabilities	1,216	1,757
Zakat payable	6,869	6,707
Employees' termination benefits	1,451	1,554
	<u>23,645</u>	<u>28,929</u>
Carrying amount of net assets directly related to the discontinued operation	<u>17,276</u>	<u>16,209</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 2019

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 three-month period ended 31 March are as follows:

	<u>2019</u>	<u>2018</u>
	SR '000	SR '000
Operating	(23)	(48)
Investing	-	-
Financing	-	-
Net cash outflow	<u>(23)</u>	<u>(48)</u>

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-month period ended 31 March 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.

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.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied 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.

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 2019

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

3.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

IFRS 16 'Leases' (continued)

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 is 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 payment 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 recognises the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit, for the short term leases which they applied exemptions.

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 one year. Some leases include an option to renew the lease for an additional one year after the end of the non-cancellable period.

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

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- 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.

Impact on accumulated losses

There is no effect of adopting IFRS 16 as the Group does not have lease contracts with a term of more than 12 months. Therefore, the Group has applied the exemption not to recognise right-of-use assets and lease liabilities for the leases with less than 12 months of lease term. Hence, there is no adjustment required on transition.

Impacts for the period

During three-month period ended 31 March 2019, the Group has recognised lease payments as an expense on straight-line accrual basis.

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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 2019 and 31 December 2018 and for the three-month period ended 31 March 2019 and 2018, summarized by the above business segments, are as follows:

	Pipe			Total SR '000
	Pipe manufacturing and technology SR '000	Water management SR '000	Eliminations SR '000	
As at and for the period ended 31 March 2019				
Sales to external customers	198,324	34,709	-	233,033
Inter-segment	12,672	-	(12,672)	-
Total revenue	210,996	34,709	(12,672)	233,033
Share in results of equity accounted investments	(2,407)	1,880	-	(527)
Finance costs	(23,614)	(2,851)	-	(26,465)
Depreciation and amortization	(13,767)	(349)	-	(14,116)
Zakat and foreign taxes	(5,752)	496	-	(5,256)
Net loss	(32,389)	(8,944)	-	(41,333)
Capital expenditures	(1,909)	(14)	-	(1,923)
Equity accounted investments	278,905	83,796	-	362,701
Total assets	2,029,862	686,086	-	2,715,948
Total liabilities	(1,362,332)	(714,198)	-	(2,076,530)

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4. SEGMENT INFORMATION (Continued)

	Pipe manufacturing and technology SR '000	Water management SR '000	Eliminations SR '000	Total SR '000
For the period ended 31 March 2018				
Sales to external customers	175,246	24,727	-	199,973
Inter-segment	15,974	-	(15,974)	-
Total revenue	191,220	24,727	(15,974)	199,973
Share in results of equity accounted investments	(10,681)	1,919	-	(8,762)
Finance costs	(18,993)	(2,937)	-	(21,930)
Depreciation and amortization	(14,176)	(398)	-	(14,574)
Zakat and foreign taxes	(6,294)	(365)	-	(6,659)
Net loss	(32,034)	(6,759)	-	(38,793)
Capital expenditures	(2,362)	(89)	-	(2,451)
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)

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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 2019 and 31 December 2018 and for the three-month period ended 31 March 2019 and 2018, summarized by geographic area, are as follows:

	Saudi Arabia SR '000	Europe SR '000	Other Countries SR '000	Eliminations SR '000	Total SR '000
As at and for the period ended 31 March 2019					
Revenue	200,554	34,709	10,442	(12,672)	233,033
Non-current assets:					
- Property, plant and equipment	373,628	5,114	12,042	-	390,784
- Other non-current assets	472,148	241,491	57,969	-	771,608
For the period ended 31 March 2018					
Revenue	190,669	24,727	551	(15,974)	199,973
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

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5. FINANCIAL INSTRUMENTS

5.1. Fair value measurements of financial instruments

	31 March 2019							
	Carrying amount		Fair value				Total	
	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	-	854,996	854,996	-	-	-	-	
Trade receivables (current and non-current)	-	195,897	195,897	-	-	-	-	
Contract assets	-	1,050,893	1,050,893	-	-	-	-	
Financial liabilities	-	912,192	912,192	-	-	-	-	
Short-term borrowings	-	449,849	449,849	-	-	-	-	
Long-term borrowings	-	419,777	419,777	-	-	-	-	
Trade and other payables	182	-	182	-	-	182	182	
Derivative financial instrument	182	1,781,818	1,782,000	-	-	182	182	
		31 December 2018						
		Carrying amount		Fair value				Total
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	-	869,375	869,375	-	-	-	-	
Trade receivables (current and non-current)	-	216,124	216,124	-	-	-	-	
Contract assets	-	1,085,499	1,085,499	-	-	-	-	
Financial liabilities	-	929,726	929,726	-	-	-	-	
Short-term borrowings	-	413,160	413,160	-	-	-	-	
Long-term borrowings	-	417,508	417,508	-	-	-	-	
Trade and other payables	182	-	182	-	-	182	182	
Derivative financial instruments	182	1,760,394	1,760,576	-	-	182	182	

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6. RECEIVABLES AND CONTRACT ASSETS

The Group uses a provision matrix to calculate Expected Credit Losses "ECLs" for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The letters of credit and other forms of credit insurance are considered an integral part of trade receivables and considered in the calculation of impairment. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

6.1 Trade Receivables

	<u>31 March</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
	SR'000	SR'000
Trade receivables	552,048	587,720
Trade receivables - related parties	52,466	44,904
	<u>604,514</u>	<u>632,624</u>
Less: allowance for impairment	<u>(134,229)</u>	<u>(144,905)</u>
	<u>470,285</u>	<u>487,719</u>

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

6.2 Contract Assets

	<u>31 March</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
	SR'000	SR'000
Contract assets	198,434	216,624
Less: allowance for impairment	<u>(2,537)</u>	<u>(500)</u>
	<u>195,897</u>	<u>216,124</u>

6.3 Non-current Receivable

The balance under non-current receivable comprise the following:

	<u>31 March</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
	SR'000	SR'000
Trade receivables under legal collection	453,568	450,513
Retentions receivable	<u>50,919</u>	<u>50,919</u>
	504,487	501,432
Less: allowance for impairment	<u>(119,776)</u>	<u>(119,776)</u>
	<u>384,711</u>	<u>381,656</u>

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7. EQUITY ACCOUNTED INVESTMENTS

The equity accounted investments comprise the following:

	<u>31 March 2019</u>	<u>31 December 2018</u>
	SR'000	SR'000
Interests in joint ventures		
Amiblu Holding GmbH ("Amiblu")	220,814	230,179
International Water Distribution Company ("Tawzea")	73,830	71,950
Total interests in joint ventures	<u>294,644</u>	<u>302,129</u>
Investments in associates:		
Amiantit Qatar Pipe Company Limited ("AQAP")	45,275	46,839
Other associates	22,782	23,574
Total investment in associates	<u>68,057</u>	<u>70,413</u>
Total equity accounted investments	<u>362,701</u>	<u>372,542</u>

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

	<u>For the three- month period ended 31 March 2019</u>	<u>For the year ended 31 December 2018</u>
	SR'000	SR'000
Interests in joint ventures		
At the beginning of the period / year	302,129	354,012
Share in results	(3,103)	(50,282)
Transferred from due from related party	-	19,070
Currency translation adjustments	(4,382)	(21,020)
Share of other comprehensive income (loss)	-	349
At the end of the period / year	<u>294,644</u>	<u>302,129</u>

The movement in the investment in associates is as follows:

	<u>For the three- month period ended 31 March 2018</u>	<u>For the year ended 31 December 2017</u>
	SR'000	SR'000
Investments in associates		
At the beginning of the period / year	70,413	62,395
Share in results	2,576	9,883
Dividends	(4,901)	(1,711)
Currency translation adjustments	(31)	(154)
At the end of the period / year	<u>68,057</u>	<u>70,413</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019****8. BORROWINGS****8.1 SHORT-TERM BORROWINGS**

Short-term borrowings comprise the following:

	31 March	31 December
	2019	2018
	SR'000	SR'000
Short-term bank loans	<u>912,192</u>	<u>929,726</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.

8.2 LONG-TERM BORROWINGS

Long term borrowings comprise the following:

	31 March	31 December
	2019	2018
	SR'000	SR'000
Commercial bank loans	449,849	413,160
Current portion shown under current liabilities	<u>(301,467)</u>	<u>(255,244)</u>
Non-current portion shown under non-current liabilities	<u>148,382</u>	<u>157,916</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 2019, based on their respective repayment schedules, are repayable at dates from 2018 to 2021.

8.3 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.

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9. REVENUE FROM CONTRACTS WITH CUSTOMERS

9.1 DISAGGREGATED REVENUE INFORMATION

<u>Segments</u>	For the three-month period ended 31 March	
	2019	2018
	SR '000	SR '000
Type of goods or service		
Sale of goods	183,288	157,085
Construction contracts	49,745	42,888
Total revenue from contracts with customers	233,033	199,973
Type of customer		
Government and quasi-government customers	30,343	19,900
Corporate customers	202,690	180,073
Total revenue from contracts with customers	233,033	199,973
Geographical markets		
Central region	19,839	13,940
Western region	10,243	16,321
Eastern region	67,565	85,621
European region	6,758	8,522
Exports and other foreign subsidiaries	128,628	75,569
Total revenue from contracts with customers	233,033	199,973

9.2 CONTRACT BALANCES

	31 March 2019	31 December 2018
	SR '000	SR '000
Trade receivables - current and non-current (note 6)	854,996	869,375
Contract assets (see note (a) below)	195,897	216,124
Contract liabilities (see note (b) below)	56,786	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 31 March 2019, the contract assets are carried net of an expected credit losses impact of SR 2.5 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 6.23 million for the three-month period ended 31 March 2019 (31 March 2018: 5.47 million).

9.3 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.

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9. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

9.3 PERFORMANCE OBLIGATIONS (continued)

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.

10. CONTINGENCIES AND COMMITMENTS

10.1 The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to SR 134.86 million at 31 March 2019. The Company, collectively with other shareholders of associated companies, is also contingently liable for corporate guarantees amounting to SR 175.13 million at 31 March 2019 in relation to the borrowing facilities of related associated companies.

10.2 The capital expenditure contracted by the Group but not yet incurred till 31 March 2019 was approximately SR 4.5 million.

10.3 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.