



THE SAUDI ARABIAN AMIAANTIT COMPANY

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2019

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

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INDEPENDENT AUDITOR'S REPORT

**To the shareholders of
The Saudi Arabian Amiantit Company**

Qualified Opinion

We have audited the consolidated financial statements of The Saudi Arabian Amiantit Company (the "Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Qualified Opinion

- The balance of trade receivables, non-current receivables and contract assets as at 31 December 2019 amounted to SR 527.4 million, SR 367.8 million and SR 353.8 million, respectively. The Group accounts for these balances using the amortized cost method and the allowance for expected credit losses is estimated using the simplified approach. The estimate of allowance for expected credit losses depends on the financial conditions of the Group's customers, the majority of which are contracting companies and also depends on the outcome of cases before courts and the outcome of executive orders issued to enforce judgements. Although the Group's management believes that the provision for impairment of these balances as at 31 December 2019 represents its best estimate in light of available information, the Group's management cannot, for circumstances beyond its control, obtain reliable information on the financial condition of its customers or predict reliably the outcome of cases before courts and the outcome of executive orders. Had we been able to complete our audit and obtain this information, matters might have come to our attention indicating that adjustments might be necessary to the balance of trade receivables, non-current receivables and contract assets.
- The Group's investment in Amiblu, a joint venture which is accounted for using the equity method, is carried at SR 258.3 million as at 31 December 2019 (SR 230.2 million as at 31 December 2018). We were unable to obtain sufficient appropriate audit evidence on management's assessment of the impairment of the Group's investment in Amiblu. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the shareholders of
The Saudi Arabian Amiantit Company**

Material Uncertainty Related to Going Concern

We draw attention to note 4 to the accompanying consolidated financial statements, which indicates, among other matters, that the Group has incurred a net loss of SR 344.8 million for the year ended 31 December 2019 (2018: 231.2 million) and as at that date, current liabilities exceed its current assets by SR 467.9 million. As stated in note 4, the Group's ability to continue as a going concern depends to a large extent on the success of Group's management in raising the Company's capital and rescheduling its bank borrowings.

Our opinion is not modified in respect of this matter.

Other Information

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

The Group's 2019 annual report is expected to be made available to us after the date of this audit report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the shareholders of
The Saudi Arabian Amiantit Company**

Key Audit Matters

Key audit matters, other than those already described in the 'Basis for Qualified Opinion' section, are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in the context.

The Key Audit Matter

Impairment of property, plant and equipment

As at 31 December 2019, the net book value of property, plant and equipment amounted to SR 246.9 million. During 2019, certain Cash Generating Units (CGUs) of the Group had impairment indicators due to the significant decline in sales and adverse external market conditions. Management of the Group performed its test of impairment in June 2019 and recognized an impairment loss of SR 125.7 million for 3 of its CGUs.

We considered this as a key audit matter because the assessment of the recoverable amount of CGUs requires significant management judgment which in turn could significantly impact the consolidated financial statements.

Note 4 details significant accounting estimates and note 24 details disclosures on property, plant and equipment.

How the matter was addressed in our audit

We performed the following procedures in respect of the impairment of property, plant and equipment:

- we obtained an understanding of the Group's structure and CGUs;
- we assessed management's process for the identification of impairment indicators;
- we reviewed the report of the independent expert who performed the following:
 - assessed the appropriateness of the methodology used by management for the calculation of recoverable amounts;
 - assessed the reasonableness of management assumptions; and
 - ensured the accuracy of management calculations.
- we assessed the adequacy of the Group's disclosures on impairment.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**To the shareholders of
The Saudi Arabian Amiantit Company**

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's Bylaws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the shareholders of
The Saudi Arabian Amiantit Company

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


- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

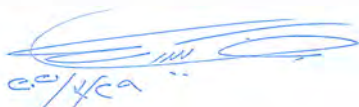
For Baker Tilly MKM & Co.
Certified Public Accountants


Ayad Obeyan Alseraihi
(License No. 405)
Al-Khobar
6 Sha'aban 1441H
30 March 2020



THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 SR '000	2018 SR '000 (Restated, note 39)
Continuing operations:			
Revenue from contracts with customers	7	780,409	947,594
Cost of revenue	8	(926,922)	(851,484)
Gross (loss) profit		(146,513)	96,110
Selling, general and administrative expenses	9	(101,001)	(137,228)
Operating loss		(247,514)	(41,118)
Other income (expenses), net	10	961	(13,033)
Share in results of equity accounted investments	23	25,511	(41,340)
Finance costs	11	(100,210)	(86,422)
Loss before zakat and foreign income tax		(321,252)	(181,913)
Zakat	12	(21,000)	(21,888)
Foreign income tax	12	(597)	(2,957)
Loss from continuing operations		(342,849)	(206,758)
Discontinued operations:			
Loss after zakat and tax from discontinued operations	2	(1,968)	(24,468)
LOSS FOR THE YEAR		(344,817)	(231,226)
Attributable to:			
Shareholders of the Company		(338,475)	(233,535)
Non-controlling interests		(6,342)	2,309
		(344,817)	(231,226)
Loss per share			
Loss per share for the year attributed to the shareholders of the Company:			
Basic (SR)	13	(9.99)	(6.89)
Diluted (SR)	13	(9.99)	(6.89)
Loss per share from continuing operations			
Loss per share for the year from continuing operations attributed to the shareholders of the Company:			
Basic (SR)		(9.93)	(6.17)
Diluted (SR)		(9.93)	(6.17)
Weighted average number of shares outstanding:			
Basic ('000 shares)		33,875	33,875
Diluted ('000 shares)		33,875	33,875



Dr. Khalil A. Kurdi
Board Authorised Representative

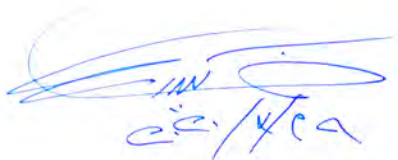


Dr. Solaiman A. Al-Twaijri
Chief Executive Officer

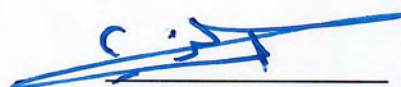
The accompanying notes form an integral part of these consolidated financial statements.

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 SR '000	2018 SR '000 (Restated, note 39)
Loss for the year		(344,817)	(231,226)
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent years:</i>			
Exchange differences on translation of foreign operations		(3,948)	(17,060)
Change in the fair value of interest rate swap	36	152	1,324
		(3,796)	(15,736)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent years:</i>			
Remeasurement loss on defined benefit plans	30	(2,858)	(532)
Other comprehensive (loss) income from equity accounted investments	23	(572)	308
		(3,430)	(224)
Other comprehensive loss		(7,226)	(15,960)
Total comprehensive loss for the year		(352,043)	(247,186)
Attributable to:			
Shareholders of the Company		(345,756)	(248,635)
Non-controlling interests		(6,287)	1,449
		(352,043)	(247,186)



Dr. Khalil A. Kurdi
Board Authorised Representative



Dr. Solaiman A. Al-Twajiri
Chief Executive Officer

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

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 SR '000	31 December 2018 SR '000 (Restated, note 39)	1 January 2018 SR '000 (Restated, note 39)
ASSETS				
Current assets				
Cash and cash equivalents	18	89,819	93,280	119,552
Trade receivables	19	527,383	662,252	741,869
Contract assets	7	353,842	369,709	372,720
Prepayments and other receivables	20	66,514	80,912	82,303
Inventories	21	341,643	466,678	526,140
Assets held for sale	2	-	1,469	-
		1,379,201	1,674,300	1,842,584
Non-current assets				
Non-current receivables	22	367,811	381,656	420,316
Equity accounted investments	23	407,445	366,948	411,795
Property, plant and equipment	24	246,864	402,788	500,445
Other non-current assets	25	16,955	43,316	58,359
		1,039,075	1,194,708	1,390,915
TOTAL ASSETS		2,418,276	2,869,008	3,233,499
LIABILITIES AND EQUITY				
Current liabilities				
Borrowings	26	1,206,260	1,184,970	1,265,228
Accounts payable	28	332,785	324,125	203,385
Accrued expenses and other liabilities	29	80,794	74,417	73,422
Contract liabilities	7	80,153	91,957	103,675
Current portion of lease liability	27	1,136	-	-
Zakat and foreign taxes payable	12	145,976	128,928	105,263
		1,847,104	1,804,397	1,750,973
Non-current liabilities				
Borrowings	26	-	157,916	320,409
Employees' termination benefits provision	30	69,522	67,691	66,609
Warranty provisions	31	4,752	6,216	8,375
Provision for onerous contracts	32	128,655	119,102	122,428
Non-current portion of lease liability	27	6,547	-	-
Other non-current liabilities		13,564	13,511	15,544
		223,040	364,436	533,365
Total liabilities		2,070,144	2,168,833	2,284,338
Equity				
Share capital	34	344,517	1,155,000	1,155,000
Statutory reserve		189,472	189,472	189,472
Accumulated losses		(32,369)	(500,995)	(268,033)
Employee share ownership plan and reserve	35	(31,914)	(31,914)	(31,914)
Change in fair value of interest rate swap	36	(30)	(182)	(1,506)
Foreign currency translation reserve		(146,483)	(142,432)	(126,232)
Equity attributable to the shareholders of the Company		323,193	668,949	916,787
Non-controlling interests		24,939	31,226	32,374
Total equity		348,132	700,175	949,161
TOTAL LIABILITIES AND EQUITY		2,418,276	2,869,008	3,233,499

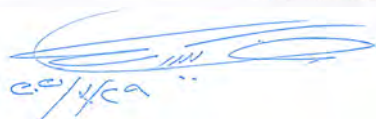
Dr. Khalil A. Kurdi
Board Authorised Representative

Dr. Solaiman A. Al-Twajri
Chief Executive Officer


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

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Attributable to the shareholders of the Company										
Note	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	
For the year ended 31 December 2019:										
As at 1 January 2019 (restated)	39	1,155,000	189,472	(500,995)	(31,914)	(182)	(142,432)	668,949	31,226	700,175
Loss for the year		-	-	(338,475)	-	-	-	(338,475)	(6,342)	(344,817)
Other comprehensive loss		-	-	(3,382)	-	152	(4,051)	(7,281)	55	(7,226)
Total comprehensive loss		-	-	(341,857)	-	152	(4,051)	(345,756)	(6,287)	(352,043)
Capital reduction	34	(810,483)	-	810,483	-	-	-	-	-	-
As at 31 December 2019		344,517	189,472	(32,369)	(31,914)	(30)	(146,483)	323,193	24,939	348,132
For the year ended 31 December 2018:										
As at 31 December 2017		1,155,000	189,472	(217,941)	(31,914)	(1,506)	(126,232)	966,879	31,151	998,030
Prior years adjustment	39	-	-	14,354	-	-	-	14,354	-	14,354
Adoption of IFRS 9		-	-	(64,446)	-	-	-	(64,446)	1,223	(63,223)
Adjusted balance as at 1 January 2018		1,155,000	189,472	(268,033)	(31,914)	(1,506)	(126,232)	916,787	32,374	949,161
Loss for the year (restated)	39	-	-	(233,535)	-	-	-	(233,535)	2,309	(231,226)
Other comprehensive loss		-	-	(224)	-	1,324	(16,200)	(15,100)	(860)	(15,960)
Total comprehensive loss (restated)	39	-	-	(233,759)	-	1,324	(16,200)	(248,635)	1,449	(247,186)
Transaction with non-controlling interests	2.1	-	-	797	-	-	-	797	(2,597)	(1,800)
As at 31 December 2018		1,155,000	189,472	(500,995)	(31,914)	(182)	(142,432)	668,949	31,226	700,175



Dr. Khalil A. Kurdi
Board Authorised Representative



Dr. Solaiman A. Al-Twaijri
Chief Executive Officer

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

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 SR '000	2018 SR '000
			(Restated, note 39)
OPERATING ACTIVITIES			
Loss for the year		(344,817)	(231,226)
Adjustments for non-cash items:			
Depreciation, amortization and impairment	15	173,318	95,314
Share in results of equity accounted investments	23	(25,511)	41,340
Zakat and foreign income tax charges	12	22,158	26,061
Employees' termination benefits incurred	30	5,119	5,099
Reversal of warranty provision	31	(1,441)	(1,874)
Realization of currency translation (gain)/loss	10,23	-	12,259
Provision for onerous contracts	32	33,601	-
Finance costs incurred	11	100,210	86,422
Gain on disposal of property, plant and equipment	10	(1,868)	(1,590)
Gain on disposal of equity accounted investment	10,23	(4,578)	-
		(43,809)	31,805
Changes in working capital:			
Trade receivables (current and non-current) and contract assets		157,491	(105,489)
Prepayments and other receivables		13,890	219
Inventories		125,035	265,187
Accounts payable		9,156	122,884
Accrued expenses, other liabilities and contract liabilities		(10,675)	(6,857)
		251,088	307,749
Zakat and foreign income tax paid	12	(5,110)	(2,396)
Employees' termination benefits paid	30	(8,354)	(7,175)
Utilization of provision for onerous contracts	32	(21,433)	-
Net cash generated from operating activities		216,191	298,178
INVESTING ACTIVITIES			
Cash proceeds from disposal of property, plant and equipment	24	3,949	1,590
Cash proceeds from disposal of equity accounted investment	23	9,000	-
Dividends received from equity accounted investments	23	6,947	1,711
Purchase of property, plant and equipment	24	(8,948)	(5,008)
Net change in other non-current assets	25	(1,260)	7,808
Net cash generated from (used in) investing activities		9,688	6,101
FINANCING ACTIVITIES			
Movement in short-term borrowings	26	(136,626)	(241,430)
Acquisition of non-controlling interests in a subsidiary	2.1	-	(1,800)
Finance costs paid	11	(92,303)	(83,796)
Lease liability paid	27	(172)	-
Net change in other non-current liabilities		205	(670)
Net cash used in financing activities		(228,896)	(327,696)
Net change in cash and cash equivalents		(3,017)	(23,417)
Cash and cash equivalents at the beginning of the year		93,280	119,552
Foreign currency translation effect on cash and cash equivalents		(444)	(2,855)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		89,819	93,280
Non-cash transactions:			
Loan to related party transferred to equity accounted investments	23,33	(26,387)	19,070
Remeasurement loss on defined benefit plan	30	(2,858)	(532)
Impact of IFRS 9 adoption		-	(63,223)
Share in OCI of equity accounted investments	23	(572)	308
Share capital reduction	34	(810,483)	-
Adoption of IFRS 16	3.4	7,404	-

Dr. Khalil A. Kurdi
Board Authorised Representative

Dr. Solaiman A. Al-Twaijri
Chief Executive Officer

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

THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 activities</u>	<u>Country of incorporation</u>	<u>Effective ownership percentage as at</u>	
			<u>31 December 2019</u>	<u>31 December 2018</u>
			<u>%</u>	<u>%</u>
Factory of Amiantit Fiberglass Industries Limited ("AFIL")	A	Saudi Arabia	100	100
Saudi Arabian Ductile Iron Pipes 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 limited ("ARIL")	A	Saudi Arabia	100	100
Factory of Bondstrand Limited ("BSL")	A	Saudi Arabia	60	60
Saudi Amicon Company Limited (<i>Formerly "Fiberglass Pipes and Ductile Iron Pipes Factory Company Ltd (FPC)"</i>)	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
<i>Discontinued operations (note 2.2)</i>				
Ameron Saudi Arabia Limited ("ASAL")	A	Saudi Arabia	100	100
Saudi Arabia Concrete Products Limited ("SACOP")	A	Saudi Arabia	100	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.

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., 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 quarter 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 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:

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>
SACOP	Saudi Arabia	100%
ASAL	Saudi Arabia	100%

On 31 December 2019, 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 2019.

2.2.1 The results of the subsidiaries for the year are presented below:

	<u>ASAL</u>		<u>SACOP</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Revenue	41,092	5,294	3,713	6,980
Expenses	(40,831)	(16,567)	(4,439)	(15,693)
Operating loss	261	(11,273)	(726)	(8,713)
Finance costs	(224)	(872)	(719)	(3,704)
Other income (expense), net	-	(5,029)	1	6,339
Loss before zakat	37	(17,174)	(1,444)	(6,078)
Zakat	(561)	(1,176)	-	(40)
Loss for the year from discontinued operations	(524)	(18,350)	(1,444)	(6,118)
Loss per share from discontinued operations:				
Basic (SR)	(0.02)	(0.54)	(0.04)	(0.18)
Diluted (SR)	(0.02)	(0.54)	(0.04)	(0.18)

2.2.2 The major classes of assets and liabilities of the subsidiaries as at 31 December were as follows:

	<u>ASAL</u>		<u>SACOP</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Assets				
Bank balances and cash	303	336	2	27
Trade receivables (ASAL includes receivable from SAAC SR 24.6 million/(2018: nil))	24,619	1,972	41	32,601
Prepayments and other receivables	48	1,819	-	8
Inventories	-	40,042	-	3,736
Property, plant and equipment	-	969	-	500
	24,970	45,138	43	36,872

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****2. CHANGES IN THE REPORTING ENTITY (continued)****2.2 Discontinued Operations (continued)**

2.2.2 The major classes of assets and liabilities of the subsidiaries as at 31 December were as follows (continued):

	ASAL		SACOP	
	2019	2018	2019	2018
	SR '000	SR '000	SR '000	SR '000
Liabilities				
Accounts payable (SACOP includes payable to SAAC SR nil /(2018:SR 13.0 million)	895	18,911	13,097	48,052
Accrued expenses and other liabilities	1,124	1,757	99	1,033
Zakat and income tax payable	6,851	6,707	1,521	1,014
Employees' termination benefits	-	1,554	-	-
	8,870	28,929	14,717	50,099
Carrying amount of net assets directly related to the discontinued operations	16,100	16,209	(14,674)	(13,227)

2.2.3 The net cash flows incurred by subsidiaries for the year ended 31 December are as follows:

	ASAL		SACOP	
	2019	2018	2019	2018
	SR '000	SR '000	SR '000	SR '000
Operating	(33)	215	(25)	(12,382)
Investing	-	-	-	12,370
Financing	-	-	-	-
Net cash (outflow) inflow	(33)	215	(25)	(12)

2.2.4 Assets held for sale comprised of the property, plant and equipment of ASAL and SACOP.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the Kingdom of Saudi Arabia and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Saudi Riyals which is also the functional currency of the Company and all values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company directly or indirectly has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has, directly or indirectly, power over an investee, including:

- Any contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

3.3.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the 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.

Variable considerations

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 the 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 variable consideration is subsequently resolved.

Warranty obligations

The Group typically provides warranties for general repair of defects that are customary with business practices provided to customers. These assurance type warranties do not represent a separate performance obligation and are accounted for under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Refer to accounting policy note "Warranty provisions".

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 costs incurred to the end of the reporting period as a proportion of the total costs to be incurred. Estimates of revenues, costs or extent of progress towards 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.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3.3.2 EXPENSES

Expenses related to operations are allocated on a consistent basis to costs of revenue and selling, general and administrative expenses in accordance with consistent allocation factors determined as appropriate by the Group.

3.3.3 ZAKAT AND TAX

Zakat

The Company and its Saudi Arabian subsidiaries provide for zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). The provision is charged to the consolidated statement of profit or loss. Differences that may arise at the finalization of an assessment are accounted for when the assessment is finalized with GAZT.

Current foreign income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date, in the countries where the Group operates and generates taxable income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.3 ZAKAT AND TAX (continued)

Current foreign income tax (continued)

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences; the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date in the countries where the Group operates and is subject to income tax.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period, or recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.3 ZAKAT AND INCOME TAX (continued)

Sales and Value Added Tax

Revenues, expenses and assets are recognised net of the amount of sales and value added tax, except:

- Where the sales or value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales and value added tax included

The net amount of sales or value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.3.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

3.3.5 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.5 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (continued)

Financial assets (continued)

ii. *Impairment of financial assets*

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 asset. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset 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 an 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:

- 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.

For trade receivables 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 assets 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 asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.5 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (continued)

Financial assets (continued)

ii. *Impairment of financial assets (continued)*

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.

iii. *Derecognition of financial assets*

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 consolidated statement of financial position when the Group has discharged its obligation or the contract is cancelled or expires.

Financial liabilities

i. *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

ii. *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss.

This category generally applies to interest-bearing loans and borrowings.

iii. *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

iv. *Modification of financial liabilities*

When a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss is recognized in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

v. *Offsetting of financial instruments*

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.6 INVENTORIES

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

Raw materials:

- Purchase cost on a weighted average basis.

Finished goods and work in progress:

- Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

3.3.7 EQUITY ACCOUNTED INVESTMENTS

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations taken in determining whether significant influence or joint control exists, are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it is liable due to constructive or legal obligations on behalf of the other entity.

Unrealised gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates or joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. The Group determines at each reporting date whether there is any objective evidence that the investments in the associates or joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss as part of 'share of results of equity accounted investments' in the consolidated statement of profit or loss.

Upon loss of significant influence, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the investment upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Repairs and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

Land and buildings are measured at cost, less accumulated depreciation on buildings, and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings and land improvements - 3 to 35 years
- Plant, machinery and equipment - 4 to 25 years
- Furniture, fixtures and office equipment - 3 to 8 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

3.3.9 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs the Group incurs in connection with the borrowing of funds.

3.3.10 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The Group measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.10 BUSINESS COMBINATIONS AND GOODWILL (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

3.3.11 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets are not capitalised and expenditure is recognised in the consolidated statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is any indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefits. Amortisation is recorded in cost of revenue. During the period of development, the asset is tested for impairment annually.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets in which case the impairment is tested at the CGU level. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries, or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

3.3.13 PROVISIONS

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.13 PROVISIONS (continued)

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

3.3.14 EMPLOYEES' TERMINATION BENEFITS

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising actuarial gains and losses, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; or
- The date on which the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of revenue', 'selling, general and administrative expenses' in the consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- Net interest expense or income.

3.3.15 STATUTORY RESERVE

As required by the Saudi Arabian Regulations for Companies, the Company transfers 10% of its profit for the year to a statutory reserve until the reserve equals 30% of the share capital. The reserve is not available for distribution as dividends.

3.3.16 CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.17 FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as financial derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

At each reporting date, the Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.18 FOREIGN CURRENCIES

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date and their consolidated statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

3.3.19 SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

3.3.20 DISCONTINUED OPERATIONS

The Group classifies non-current assets of discontinued operations and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and Disposal Groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or Disposal Group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A Disposal Group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or It is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.21 LEASES

The determination of whether an arrangement is, or contains, a lease is decided at the inception date. An arrangement is, or contains, a lease if it grants the right to control a particular asset or assets for a period of time in exchange for compensation.

Company as a lessee

A- Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over its estimated useful life.

B- Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

C- Short-term leases and leases of low-value assets

Short-term leases are leases with a lease term of 12 months or less. Low value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the consolidated statement of financial position for the Group as a whole. Payments for short-term leases and leases of low value assets are recognised on a straight-line basis in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

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.

3.4.1 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 and leases of low-value assets. Short-term leases are leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Leases of low-value assets comprise small items (i.e. below SR 18,750) relating to property, plant and equipment.

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 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 land and buildings, and office equipment. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

3.4.1 IFRS 16 'Leases' (continued)

Transition (continued)

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.

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:

	<i>Accumulated losses</i>	<i>Property, plant and</i>	<i>Lease liabilities</i>
	SR '000	SR '000	SR '000
Balance at 1 January 2019	-	7,912	7,912

Lease liabilities included in the statement of financial position

	<i>At 1 January 2019</i>
	SR'000
Current	2,107
Non-current	5,297
	<u>7,404</u>

3.4.2 IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of this clarification does not have any material impact on the financial statements during the year.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Other disclosures relating to the Group's exposure to risk and uncertainties includes:

- | | |
|--|-----------------|
| - Capital management | Note 6 |
| - Financial instruments risk management and policies | Note 17 |
| - Sensitivity analysis disclosures | Notes 17 and 30 |

4.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Going concern basis of accounting

The 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 its trade payables and bank facilities as disclosed in notes 26 and 28.

The Group has incurred a net loss of SR 344.8 million for the year ended 31 December 2019 (2018: SR 231.2 million) and as at that date, current liabilities exceeded current assets by SR 467.9 million. In addition, the Group has defaulted on the repayment of its bank borrowings and is in breach of certain financial covenants related to bank facilities as disclosed in note 26. Moreover, as stated in note 40, subsequent to the year-end, an outbreak of a pandemic virus, experienced throughout the world, forced the Group to temporarily and partially shut down its production facilities in the Kingdom of Saudi Arabia.

On 4 October 2019, the Company's Board of Directors recommended to increase share capital by SR 300 million through a rights issue. Management has also hired a third party advisor to work on loan restructuring plan which is still under progress as at the reporting date.

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 consolidated financial statements.

4.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Uncertain zakat and tax positions

The Group's current zakat and tax payable of SR 146.0 million relates to management's assessment of the amount of zakat and tax payable on open zakat and tax positions where the liabilities remain to be agreed with relevant tax authorities. Uncertain zakat and tax items for which a provision of SR 22.2 million is made relate principally to the interpretation of zakat and tax legislation applicable to arrangements entered into by the Group. Due to the uncertainty associated with such zakat and tax items, it is possible that, on conclusion of open zakat and tax matters at a future date, the final outcome may differ significantly. Disclosures on status of zakat and tax assessments are made in note 12.

Impairment of property, plant and equipment

The results of the Cash Generating Units (CGUs) of AFIL, SADIP and BSL during year 2019 were significantly below management's forecast used in the last annual impairment test performed as at 31 December 2018. Accordingly, as at 30 June 2019, management appointed an independent consultant licenced by the Saudi Authority for Accredited Valuers (TAQEEM) to review their impairment models. The recoverable amount of these CGUs has been determined based on a value-in-use calculation. Management also estimated that as at 31 December 2019, there were no additional impairment indicators nor there were indicators of reversal in previously recorded impairment. Disclosures on the impairment of property, plant and equipment are made in note 24.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

4.2 Estimates and assumptions (continued)

Impairment of equity accounted investments

The determination of whether impairment indicators exist for equity accounted investments as at the reporting date and the estimation of the recoverable amount for these investments involve significant management judgement.

Estimated cost to complete

The Group uses the percentage-of-completion method ("POC") in accounting for its fixed-price contracts to perform contracting work. Use of POC requires the Group to estimate the total costs to complete a contract. If the total estimated costs were 10% higher than management's estimates, the amount of revenue recognised in the year ended 31 December 2019 would have decreased by SR 10.1 million.

Allowance for expected credit losses of trade receivables, contract assets, and non-current receivables

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.

The provision matrix is initially based on the Group's historical observed default rates and modified with forward-looking information.

The assessment of Loss Given Default (LGD) and 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. The information about the ECLs on the Group's trade receivables is disclosed in Notes 19 and 22.

THE SAUDI ARABIAN AMIANTIT COMPANY

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****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 31 December 2019 and 2018 and for the year then ended, 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 year ended 31 December 2019				
Sales to external customers	674,761	105,648	-	780,409
Inter-segment	31,807	-	(31,807)	-
Total revenue	706,568	105,648	(31,807)	780,409
Share in results of equity accounted investments	14,247	11,264	-	25,511
Finance costs	(89,169)	(11,041)	-	(100,210)
Depreciation, amortization and impairment	(171,979)	(1,339)	-	(173,318)
Zakat and income tax	(21,221)	(376)	-	(21,597)
Net loss	(277,210)	(67,607)	-	(344,817)
Equity accounted investments	317,223	90,222	-	407,445
Total assets	1,757,484	660,792	-	2,418,276
Total liabilities	(1,307,111)	(763,033)	-	(2,070,144)
Capital expenditures	(8,792)	(156)	-	(8,948)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****5. SEGMENT INFORMATION (continued)**

	Pipe manufacturing and technology	Water management	Eliminations	Total
	SR '000	SR '000	SR '000	SR '000
As at and for the year ended 31 December 2018				
Sales to external customers	772,033	175,561	-	947,594
Inter-segment	50,165	-	(50,165)	-
Total revenue	822,198	175,561	(50,165)	947,594
Share in results of equity accounted investments	(50,174)	8,834	-	(41,340)
Finance costs	(70,434)	(15,988)	-	(86,422)
Depreciation, amortization and impairment	(93,752)	(1,562)	-	(95,314)
Zakat and income tax	(22,064)	(2,781)	-	(24,845)
Net loss	(205,031)	(26,195)	-	(231,226)
Equity accounted investments	285,032	81,916	-	366,948
Total assets	2,170,906	698,102	-	2,869,008
Total liabilities	(1,444,702)	(724,131)	-	(2,168,833)
Capital expenditures	(4,254)	(754)	-	(5,008)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****5. SEGMENT INFORMATION (continued)**

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

	Saudi Arabia	Europe	Other Countries	Eliminations	Total
As at and for the year ended 31 December 2019	SR '000	SR '000	SR '000	SR '000	SR '000
Revenue from contracts with customers	663,601	105,653	42,962	(31,807)	780,409
Non-current assets:					
- Property, plant and equipment	230,533	4,306	12,025	-	246,864
- Other non-current assets	469,495	269,093	53,623	-	792,211
As at and for the year ended 31 December 2018					
Revenue from contracts with customers	754,176	175,561	68,022	(50,165)	947,594
Non-current assets:					
- Property, plant and equipment	385,524	5,520	11,744	-	402,788
- Other non-current assets	473,352	264,626	53,942	-	791,920

6. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes share capital and all other equity reserves attributable to the shareholders of the Company. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, change their share capital or adjust the level of their borrowings.

The Group monitors capital using a gearing ratio, which is total liabilities to shareholders' equity. The Group's target is to keep the gearing ratio below 200% to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit banks to immediately call loans and borrowings and change agreed upon rates. The details of breaches of the financial covenants of interest-bearing loans and borrowing in the current year are disclosed in note 26.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

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7. REVENUE FROM CONTRACTS WITH CUSTOMERS

7.1 DISAGGREGATED REVENUE INFORMATION

Segments	2019	2018
	SR '000	SR '000
Type of goods or service		
Sale of goods	604,640	721,354
Construction contracts	175,769	226,240
Total revenue from contracts with customers	780,409	947,594
Type of customer		
Government and quasi-government customers	105,062	97,443
Corporate customers	675,347	850,151
Total revenue from contracts with customers	780,409	947,594
Geographical markets		
Central region	100,660	110,834
Western region	50,081	40,669
Eastern region	227,137	263,617
European region	16,974	86,509
Exports and other foreign subsidiaries	385,557	445,965
Total revenue from contracts with customers	780,409	947,594

7.2 CONTRACT BALANCES

	31 December	31 December	1 January
	2019	2018	2018
	SR '000	SR '000	SR '000
		(Restated, note 39)	(Restated, note 39)
Trade receivables (note 19 and 22)	895,194	1,043,908	1,162,185
Contract assets (see note (a) below)	353,842	369,709	372,720
Contract liabilities (see note (b) below)	80,153	91,957	103,675

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 December 2019, the contract assets are carried net of an ECL allowance of SR 18.0 million (2018 : SR 0.5 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 11.0 million (2018: SR 16.4 million).

7.3 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.

The Group's performance obligation is satisfied over time and the Group does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

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	2019	2018
	SR'000	SR'000
Material consumed	420,319	422,032
Employee costs (note 16)	214,921	225,178
Depreciation and amortization	37,335	45,552
Repairs and maintenance	2,694	4,508
Telephone and electricity	16,118	17,802
Transportation cost	23,597	31,313
Impairment of property, plant and equipment	125,730	40,306
Others	86,208	64,793
	926,922	851,484

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	SR'000	SR'000
Employee costs (note 16)	30,558	40,608
Impairment of loans to equity accounted investments (note 25 and 32)	-	6,815
Impairment of receivables and contract assets (note 19 and 22)	4,133	19,101
Professional services	20,918	21,726
Travel	3,129	3,401
Information technology and communications	11,096	12,216
Depreciation and amortization	7,550	7,575
Repairs and maintenance	2,145	1,962
Marketing and sales promotions	2,706	6,710
Others	18,766	17,114
	101,001	137,228

10. OTHER INCOME (EXPENSES), NET

	2019	2018
	SR'000	SR'000
Foreign exchange differences	(7,192)	(15,164)
Gain on disposal of property, plant and equipment	1,868	1,590
Gain on sale of equity accounted investment, net (note 23)	4,578	-
Miscellaneous income	1,707	541
	961	(13,033)

11. FINANCE COSTS

	2019	2018
	SR'000	SR'000
Commission on Murabaha and Tawarruq finance	87,177	67,066
Interest on borrowings	10,333	15,686
Interest rate swap cost	41	1,044
Interest on lease liability	451	-
Unwinding of discount on employees' termination benefits (note 30)	2,208	2,626
	100,210	86,422

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****12. ZAKAT AND INCOME TAX****Components of zakat and income tax base:**

The Group is subject to zakat and income tax. Zakat is payable at 2.5% of the greater of the approximate zakat base and adjusted net income. Income tax is payable at the rates applicable to foreign subsidiaries. The significant components of the zakat base of each company under zakat regulations principally comprise of shareholders' equity, provisions, long-term borrowings and adjusted net income, less a deduction for the zakatable net book value of property, plant and equipment, investments and certain other items.

Zakat and income taxes charged to the consolidated statement of profit or loss for the year ended 31 December:

	2019	2018
	SR'000	SR'000
Current zakat and income tax charges		
- continuing operations	21,597	24,845
- discontinued operations (note 2.2)	561	1,216
	22,158	26,061

The movements in the zakat and income tax payable for the years ended 31 December are as follows:

	2019	2018
	SR'000	SR'000
1 January	128,928	105,263
Charge for the year	22,158	26,061
Payments	(5,110)	(2,396)
31 December	145,976	128,928

Status of certificates and assessments:

The Company and its Saudi Arabian subsidiaries file their zakat return on a consolidated basis.

The Company and the Saudi Arabian subsidiaries have received final or restricted zakat and income tax certificates for the years up to 2018. The Company has received final assessments from the General Authority of Zakat and Tax ("GAZT") up to 2009. The assessments for the years from 2010 to 2018 are yet to be raised by GAZT.

Difference between accounting profit and zakatable / taxable profit

The following items are included in accounting profit but not included in zakatable / taxable profit:

- Impairment provisions for receivables
- Write down of the cost of inventories to net realisable values
- Impairment of property, plant and equipment
- Charges related to employees' termination benefits

The following items are included in zakatable / taxable profit but not included in accounting profit:

- Receivables written off
- Inventories at net realisable value sold or written off
- Depreciation of impaired property, plant and equipment
- Payments towards employees' termination benefits

13. LOSS PER SHARE

Loss per share for the year ended 31 December 2019 has been computed by dividing the loss from continuing operations and net loss for the year by the weighted average number of 33,874,317 shares outstanding (31 December 2018: 33,874,317 shares). The Group does not have any dilutive instruments.

The number of shares outstanding as at 31 December is as follows:

	2019	2018
	000	000
Shares issued	34,452	115,500
Less: shares held by the employee share ownership plan (note 35)	(577)	(1,936)
	33,875	113,564

The weighted average number of shares outstanding during 2018 has been adjusted as a result of the reduction of share capital (note 34).

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14. DIVIDENDS

During 2019, no dividends were declared or paid (2018: the same).

15. DEPRECIATION, AMORTISATION, IMPAIRMENT AND FOREIGN EXCHANGE DIFFERENCES INCLUDED IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<u>2019</u>	<u>2018</u>
	SR'000	SR'000
Included in cost of revenue:		
Depreciation	36,773	46,790
Amortisation	562	643
Impairment of property, plant and equipment	125,730	40,306
Included in selling, general and administrative expenses:		
Depreciation	6,878	6,970
Amortisation	672	605
Impairment of property, plant and equipment	2,703	-
Included in other income / (expenses):		
Net foreign exchange differences	(7,192)	(15,164)

16. EMPLOYEE BENEFITS EXPENSES

	<u>2019</u>	<u>2018</u>
	SR'000	SR'000
Included in cost of revenue:		
Wages and salaries	209,998	219,553
Social security costs	2,126	2,460
Termination costs	2,797	3,165
Included in selling, general and administrative expenses:		
Wages and salaries	24,919	35,097
Social security costs	3,317	3,577
Termination costs	2,322	1,934
Total employee benefits expenses	<u><u>245,479</u></u>	<u><u>265,786</u></u>

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17. FINANCIAL INSTRUMENTS
17.1 Fair value measurements of financial instruments

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

31 December 2019						
	Carrying amount			Fair value		
	Fair value	Amortised cost	Total	Level 1	Level 2	Level 3
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Financial asset						
Trade receivables (current and non-current)	-	895,194	895,194	-	-	-
	-	895,194	895,194	-	-	-
Financial liabilities						
Borrowings	-	1,206,260	1,206,260	-	-	-
Trade payables	-	413,579	413,579	-	-	-
Derivative financial instruments	30	-	30	-	-	30
	30	1,619,839	1,619,869	-	-	30
31 December 2018 (restated - note 39)						
	Carrying amount			Fair value		
	Fair value	Amortised cost	Total	Level 1	Level 2	Level 3
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Financial assets						
Trade receivables (current and non-current)	-	1,043,908	1,043,908	-	-	-
Loans to equity accounted investments (note 33)	-	26,460	26,460	-	-	-
	-	1,070,368	1,070,368	-	-	-
Financial liabilities						
Short-term borrowings	-	1,184,970	1,184,970	-	-	-
Long-term borrowings	-	157,916	157,916	-	-	-
Trade payables	-	398,542	398,542	-	-	-
Derivative financial instruments	182	-	182	-	-	182
	182	1,741,428	1,741,610	-	-	182

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****17. FINANCIAL INSTRUMENTS (continued)****17.2 Risk Management of Financial Instruments**

The Group's activities expose it to credit risk, liquidity risk and market price risk.

17.2.1 Credit Risk:

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables, non-current receivables and receivables from related parties as follows.

	31 December 2019	31 December 2018
	SR '000	SR '000
Financial assets:		
Cash at bank and time deposits	89,819	93,280
Trade receivables - current	527,383	662,252
Trade receivables - non-current	367,811	381,656
Loans to equity accounted investments (note 33)	-	26,460
	985,013	1,163,648

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk on receivables and bank balances is limited by:

- Cash balances are held with banks with sound credit ratings.
- The receivables are shown net of allowances for impairment.

The Group manages credit risk with respect to receivables from customers by monitoring them in accordance with defined policies and procedures. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The five largest customers account for approximately 13% (2018: 31.4%) of outstanding trade receivables at 31 December 2019.

17.2.2 Liquidity Risk:

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2019			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR '000	SR '000	SR '000	SR '000
Financial Liabilities				
Borrowings	1,206,260	1,206,260	-	-
Trade payables	413,579	413,579	-	-
Other non-current liabilities	13,382	-	13,382	-
Interest rate swap	182	-	182	-
	1,633,403	1,619,839	13,564	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****17. FINANCIAL INSTRUMENTS (continued)****17.2 Risk Management of Financial Instruments (continued)****17.2.2 Liquidity Risk (continued):**

	31 December 2018			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR '000	SR '000	SR '000	SR '000
Financial liabilities				
Borrowings	1,342,886	1,184,970	157,916	-
Trade payables	398,542	398,542	-	-
Other non-current liabilities	13,329	-	13,329	-
Interest rate swap	182	-	182	-
	<u>1,754,939</u>	<u>1,583,512</u>	<u>171,427</u>	<u>-</u>

17.2.3 Market Risk:

Market price risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates, and will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives to manage market risks exceeding acceptable parameters. The Group seeks to apply hedge accounting to manage volatility in profit or loss.

17.2.4 Currency Risk:

Currency risk is the risk that the value of financial instruments may fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's reporting currency. The Group exposure to foreign currency risk is primarily limited to transactions in United State Dollars ("USD") and Euro ("EUR"). The Group's management believes that the exposure to currency risk associated with USD is limited as the Group's currency is pegged to USD. The fluctuation in exchange rates against Euro is monitored on a continuous basis. Quantitative data regarding the Group's exposure to currency risk arising from EUR is as follows:

	EUR	Equivalent SR
31 December 2019	'000'	'000'
Cash and cash equivalents	9,174	38,628
Trade receivables	28,143	118,499
Trade payables	(7,813)	(32,897)
Net Statement of Financial Position exposure	<u>29,504</u>	<u>124,230</u>
	EUR	Equivalent SR
31 December 2018	'000'	'000'
Cash and cash equivalents	7,555	32,427
Trade receivables	38,827	166,642
Trade payables	(6,119)	(26,263)
Net Statement of Financial Position exposure	<u>40,263</u>	<u>172,806</u>

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17. FINANCIAL INSTRUMENTS (continued)

17.2. Risk Management of Financial Instruments (continued)

17.2.4 Currency Risk (continued):

A strengthening/(weakening) of the EUR by 10% against all other currencies would have affected the measurement of financial instruments denominated in foreign currency and would have increased/(decreased) equity by the amounts shown below

	31 December 2019	31 December 2018
	SR '000	SR '000
Impact of 10% increase in EUR on equity	12,423	17,281
Impact of 10% decrease in EUR on equity	(12,423)	(17,281)

17.2.5 Interest Rate Risk

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. Variable rate financial liabilities as at the reporting date amounted to SR 1,206.3 million (31 December 2018: SR 1,342.9 million).

The following table demonstrates the sensitivity of profit to reasonably possible changes in interest rates, with all other variables held constant.

	Increase / decrease in basis points of interest rates	Effect on profit for the year
		SR '000
Year ended 31 December 2019	+100	(12,746)
	-100	12,746
Year ended 31 December 2018	+100	(14,643)
	-100	14,643

Management monitors the changes in interest rates and utilizes interest rate swaps to manage interest rate risk exceeding certain parameters (note 36).

18. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	SR'000	SR'000
Cash on hand	1,476	1,514
Cash at bank	60,335	68,526
Time deposits	28,008	23,240
	89,819	93,280

Time deposits are held by commercial banks and yield finance income at prevailing market rates.

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19. TRADE RECEIVABLES

	31 December 2019	31 December 2018	1 January 2018
	SR'000	SR'000	SR'000
		(Restated, note 39)	(Restated, note 39)
Trade receivables - third parties	624,676	762,253	781,660
Trade receivables - related parties	24,175	44,904	69,955
	648,851	807,157	851,615
Less: allowance for impairment-third parties	(104,287)	(123,193)	(84,365)
Less: allowance for impairment-related parties	(17,181)	(21,712)	(25,381)
	527,383	662,252	741,869

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

The movement in the allowance for expected credit losses is as follows:

	2019	2018
	SR'000	SR'000
1 January	144,905	109,746
Adoption of IFRS 9	-	20,074
Additions	-	18,918
Reversals	(19,015)	(3,722)
Write offs	(4,422)	-
Currency translation adjustments	-	(111)
31 December	121,468	144,905

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses as mentioned in note 4.2. The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables as disclosed below.

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

	Days past due					
	Not 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
31 December 2019						
Gross carrying amount at default	234,538	151,677	68,345	58,037	112,079	624,676
Expected credit loss	(6,540)	(11,404)	(13,176)	(24,446)	(48,721)	(104,287)
Net trade receivables	227,998	140,273	55,169	33,591	63,358	520,389
31 December 2018						
Gross carrying amount at default	103,175	213,463	113,940	249,969	81,706	762,253
Expected credit loss	(2,231)	(6,075)	(4,019)	(51,412)	(59,456)	(123,193)
Net trade receivables	100,944	207,388	109,921	198,557	22,250	639,060

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****20. PREPAYMENTS AND OTHER RECEIVABLES**

	31 December 2019	31 December 2018
	SR'000	SR'000
Advances to suppliers	14,613	14,202
Prepaid expenses	50,396	62,989
Others	1,505	3,721
	66,514	80,912

21. INVENTORIES

	31 December 2019	31 December 2018	1 January 2018
	SR'000	SR'000	SR'000
		(Restated, note 39)	(Restated, note 39)
Raw materials	81,352	117,856	148,752
Work in process	6,275	7,804	38,699
Supplies, not held for sale	47,078	52,008	95,784
Finished products	205,857	287,728	241,864
Goods in transit	1,081	1,282	1,041
	341,643	466,678	526,140

During 2019, SR 15.0 million (2018: SR 0.2 million) was recognized as an expense to write down cost of inventories to net realisable value. This is recognised in cost of revenue.

22. NON-CURRENT RECEIVABLES

The balance under non-current receivables comprise the following:

	31 December 2019	31 December 2018
	SR'000	SR'000
Trade receivables under legal collection	424,242	450,513
Retentions receivable	68,993	50,919
	493,235	501,432
Less: allowance for impairment	(125,424)	(119,776)
	367,811	381,656

22.1 Trade receivables under legal collection ("TRULC") are expected, due to length of the collection process, to be collected after one year from the reporting date. Virtually all the balance of TRULC is outstanding for more than two years. As at 31 December 2019, the balance of TRULC is carried net of an allowance for impairment of SR 121.2 million (31 December 2018: SR 115.8 million). The allowance for impairment is calculated based on the estimate of legal advisors and lawyers of the amount to be collected.

22.2 Retentions receivable are non-interest bearing and are generally collectable upon project completion. As at 31 December 2019, the balance of retentions receivable is carried net of an allowance for impairment of SR 4.2 million (31 December 2018: SR 4.0 million).

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22. NON-CURRENT RECEIVABLES (continued)

22.3 The balance of TRULC presented under non-current assets comprises the following:

	31 December 2019	31 December 2018
	SR'000	SR'000
Balances scheduled to be collected according to court orders	145,321	146,256
Balances where the Group received favourable court verdicts and settlement is still to be agreed with debtors	222,686	168,693
Balances still under legal proceedings	56,235	135,564
	424,242	450,513

The movement in the allowance for impairment for non-current receivables is as follows:

	2019	2018
	SR'000	SR'000
1 January	119,776	101,172
Adoption of IFRS 9	-	43,149
Additions	5,648	183
Reversals	-	(24,728)
31 December	125,424	119,776

23. EQUITY ACCOUNTED INVESTMENTS

	Note	31 December 2019	31 December 2018	1 January 2018
		SR'000	SR'000 (Restated, note 39)	SR'000 (Restated, note 39)
Interests in joint ventures				
Amiblu Holding GmbH ("Amiblu")	A	258,259	230,179	274,143
International Water Distribution Co. ("Tawzea")	B	81,157	71,909	63,825
Other joint ventures	C	-	-	16,044
Total interests in joint ventures		339,416	302,088	354,012
Investments in associates:				
Amiantit Qatar Pipe Co. Ltd. ("AQAP")	D	44,554	41,286	34,005
Other associates	E	23,475	23,574	23,778
Total investment in associates		68,029	64,860	57,783
Total equity accounted investments		407,445	366,948	411,795

A. Amiblu

Amiblu is a joint venture in which the Group has joint control and a 50% ownership interest. Amiblu is registered in Austria and is not publicly listed. Amiblu and its subsidiaries ("Amiblu Group") are engaged in pipe manufacturing and related technologies and their principal place of business is the European Union. Amiblu Group has a 20% strategic investment in an associated company based in the United States of America that is also engaged in pipe manufacturing.

The following table summarizes the financial information of Amiblu Group as included in its own consolidated financial statements, adjusted for fair value adjustment at acquisition. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Amiblu Group.

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	31 December 2019	31 December 2018
	SR'000	SR'000
Current assets, including cash and cash equivalents of SR 30.2 million (2018: SR 48.0 million)	321,648	363,925
Non-current assets	333,589	335,805
Current liabilities, including bank borrowings of SR 60.6 million (2018: 113.8 million)	(206,247)	(282,702)
Non current liabilities, including long term borrowings of SR 47.2 million (2018: SR 43.1 million)	(76,021)	(95,267)
Equity	372,969	321,761
Group's share in equity, 50%	186,485	160,881
Goodwill	71,774	69,298
Group's carrying amount of the investment	258,259	230,179

Summarised statement of profit or loss of Amiblu Group for the year ended 31 December:

	2019	2018
	SR'000	SR'000
Revenue	776,337	789,184
Finance costs	(4,686)	(7,052)
Income tax expense	(8,474)	(10,459)
Income (loss) for the year	10,710	(46,596)
Total comprehensive income (loss)	10,710	(46,596)
Group's share of total comprehensive income (loss), 50%	5,355	(23,297)

The movement in the interest in Amiblu is as follows:

	2019	2018
	SR'000	SR'000
1 January	230,179	274,143
Reclassification of loan to investment	26,387	-
Share in results	5,355	(23,297)
Currency translation adjustments	(3,662)	(20,667)
31 December	258,259	230,179

During 2019, the Group committed to invest an additional SR 12.5 million in Amiblu during 2020.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****23. EQUITY ACCOUNTED INVESTMENTS (continued)****B. Tawzea**

Tawzea is a joint venture in which the Group has joint control and a 50% ownership interest. Tawzea is registered in the Kingdom of Saudi Arabia and is not publicly listed. Tawzea is principally engaged in offering services related to construction, operation, and maintenance of public water & sewage services. The following table summarizes the financial information of Tawzea as included in its own financial statements, adjusted for fair value adjustment at acquisition. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Tawzea.

	31 December 2019	31 December 2018
	SR'000	SR'000
Current assets, including cash and cash equivalents of SR 19.9 million (31 December 2018: SR 15.7 million)	65,055	51,138
Non-current assets	205,771	215,290
Current liabilities, including bank borrowings of SR 28.1 million (31 December 2018: SR 26.1 million)	(92,844)	(87,676)
Non-current liabilities, including long term borrowings of SR 6.2 million (31 December 2018: SR 30.6 million)	(15,668)	(34,935)
Equity	162,314	143,817
Group's share in equity - 50% (2018: 50%)	81,157	71,909
Group's carrying amount of the investment	81,157	71,909

Summarised statement of profit or loss of Tawzea for the years ended 31 December 2019 and 2018:

	2019	2018
	SR'000	SR'000
Revenue	257,999	257,091
Depreciation and amortization	(13,686)	(13,118)
Finance costs	(2,724)	(2,949)
Profit for the year	19,690	15,551
Total comprehensive income	18,495	16,169
Group's share of total comprehensive income - 50% (2018: 50%)	9,248	8,084

The movement in the interest in Tawzea is as follows:

	2019	2018
	SR'000	SR'000
1 January	71,909	63,825
Share in results	9,845	7,776
Share of other comprehensive (loss) income	(597)	308
31 December	81,157	71,909

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****23. EQUITY ACCOUNTED INVESTMENTS (continued)****C. Other joint ventures**

The Group also has interests in a number of individually immaterial joint ventures. The movement in the interests in these joint ventures is as follows:

	2019	2018
	SR'000	SR'000
1 January	-	16,044
Share in results	-	(34,761)
Transferred from due from related party	-	19,070
Currency translation adjustments	-	(353)
31 December	-	-

During the year, the Company has sold 30% of its ownership in Subor for an amount of SR 9.1 million, the investment was fully impaired prior to the disposal, upon disposal, management has realized an amount of SR 4.6 million as gain on disposal of investment in equity accounted investment on the statement of profit or loss (note 10). The gain was recorded net of realized loss on foreign currency translation of SR 4.4 million.

D. AQAP

AQAP is an associated company in which the Group owns 40% of its shares. AQAP is registered and conducts its main operations in Qatar. AQAP is not publicly listed.

The following table summarises the financial information of AQAP as included in its own financial statements, adjusted for fair value adjustments at acquisition. The table also reconciles the summarised financial information to the carrying amount of the Group's investment in AQAP.

	31 December 2019	31 December 2018
	SR'000	SR'000 (Restated - note 39)
Current assets	122,047	157,314
Non-current assets	80,072	80,569
Current liabilities	(75,144)	(131,942)
Non-current liabilities	(21,090)	(13,715)
Non-controlling interest	5,501	10,989
Equity attributable to the Company	111,386	103,215
Group's share in equity - 40% (2018: 40%)	44,554	41,286

Summarised statement of profit or loss of AQAP for the years ended 31 December 2019 and 2018:

	2019	2018
	SR'000	SR'000 (Restated - note 39)
Revenue	185,245	219,910
Profit for the year	18,469	18,202
Total comprehensive income	18,469	18,202
Group's share of total results - 40% (2018: 40%)	7,389	7,281

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The movement in the investment in AQAP is as follows:

	<u>2019</u>	<u>2018</u>
	<u>SR'000</u>	<u>SR'000</u>
		(Restated - note 39)
1 January	41,286	34,005
Share in results	7,389	7,281
Dividends	(4,121)	-
31 December	<u>44,554</u>	<u>41,286</u>

E. Other associates

The Group also has investments in a number of individually immaterial associates. The movement in the investments in these associates is as follows.

	<u>2019</u>	<u>2018</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	23,574	23,778
Share in results	2,922	1,661
Share in other comprehensive income	25	-
Dividends	(2,826)	(1,711)
Currency translation adjustments	(220)	(154)
31 December	<u>23,475</u>	<u>23,574</u>

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24. PROPERTY, PLANT AND EQUIPMENT

	1 January	Additions	Disposals	Reclassific-	Foreign	31 December
	SR'000	SR'000	SR'000	ations	currency	SR'000
				SR'000	translation	
					adjustments	
					SR'000	SR'000
2019						
Cost						
Land	196,549	8,107	-	-	-	204,656
Buildings and land improvements	271,485	1,718	-	274	9	273,486
Plant, machinery and equipment	861,727	5,816	(577)	30,984	(90)	897,860
Furniture, fixtures and office equipment	55,031	1,354	(682)	55	(288)	55,470
Construction in progress	42,870	-	(140)	(31,313)	-	11,417
	1,427,662	16,995	(1,399)	-	(369)	1,442,889
Accumulated depreciation and impairment						
Land	(150,000)	(1,089)	-	-	-	(151,089)
Buildings and land improvements	(179,711)	(36,678)	-	(12)	(8)	(216,409)
Plant, machinery and equipment	(651,568)	(126,266)	122	(122)	70	(777,764)
Furniture, fixtures and office equipment	(43,595)	(3,445)	530	134	219	(46,157)
Construction in progress	-	(4,606)	-	-	-	(4,606)
	(1,024,874)	(172,084)	652	-	281	(1,196,025)
Net book value	402,788					246,864
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	(136)	(32,544)	7,442	(2,720)	861,727
Furniture, fixtures and office equipment	55,688	1,018	(912)	-	(763)	55,031
Construction in progress	50,916	-	(604)	(7,442)	-	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	500,445					402,788

- Construction work in progress at 31 December 2019 mainly represents advances to suppliers for purchase of machinery and equipment amounting to SR 6.8 million in addition to development projects of SR 4.6 million that are fully impaired.

- Additions during 2019 include the impact of first time adoption of IFRS 16 of SR 7.9 million (note 3.4)

24. PROPERTY, PLANT AND EQUIPMENT (continued)

The results of the Cash Generating Units (CGUs) of AFIL, SADIP and BSL for the six-month 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 during the six-month period ended 30 June 2019, 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 at 30 June 2019 were as follows:

CGUs	<i>Carrying amount</i>	<i>Recoverable amount</i>	<i>Impairment loss</i>
	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

For the period between 30 June 2019 and 31 December 2019, there were no indicators of additional impairment nor indicators of reversal in previously recorded impairment.

- On 20 February 2019 (corresponding to 15 Jumada II 1440H), the Group announced it will discontinue ASAL and SACOP CGUs and designated their assets as "held for sale". The recoverable amount of SACOP CGU of SR 0.5 million as at 31 December 2018 has been measured based on fair value less costs to sell. As a result, management has recognised an impairment charge of SR 3.4 million in 2018 against property, plant and equipment with a carrying amount of SR 3.9 million as at 31 December 2018. The impairment charge is recorded in loss from discontinued operations in the consolidated statement of profit or loss. Moreover, the recoverable amount of ASAL CGU of SR 3.3 million as at 31 December 2018 has been measured based on fair value less cost to sell. This valuation exceeds the net book value of ASAL property, plant and equipment of SR 2.3 million, hence no provision has been made on ASAL.
- In December 2018, the Group performed its annual impairment test for its CGUs. All CGUs had significant head-room except for SADIP CGU. The recoverable amount of SADIP CGU of SR 85.5 million as at 31 December 2018 has been determined based on a value in use calculation using cash flow projections from a budget approved by the board covering 2019. The pre-tax discount rate applied to cash flow projections is 8.5% and cash flows beyond 2019 are extrapolated using a 1.0% growth rate. It was concluded that the fair value less costs of disposal cannot be measured reliably. As a result of this analysis, management has recognised an impairment charge of SR 41.9 million in 2018 against property, plant and equipment with a carrying amount of SR 127.4 million as at 31 December 2018. The impairment charge is recorded within cost of sales in the consolidated statement of profit or loss.
- The recoverable amount of BSL CGU of SR 37.4 million as at 31 December 2018 (2017: SR 14.3 million) has been determined based on a value in use calculation using cash flow projections from a budget approved by the board covering 2019. The recoverable amount exceeds the carrying value of SR 6 million as at 31 December 2018 resulting in a headroom of SR 20.5 million. As a result of this analysis, management has reversed the impairment booked in 2017 amounting to SR 5 million with a corresponding impact in cost of sales in the consolidated statement of profit or loss. The pre-tax discount rate applied to cash flow projections is 10.5% and cash flows beyond 2019 are extrapolated using a 1.0% growth rate. It was concluded that the fair value less costs of disposal cannot be measured reliably.
- Certain property, plant and equipment of the Group with a net book value of SR 49.4 million (2018: 51.2 million) are constructed on land parcels leased under various lease agreements at annual rates from the Saudi Arabian government under renewable leases.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****24. PROPERTY, PLANT AND EQUIPMENT (continued)**

- 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 the parcel is being contested in the Saudi Arabian judicial system. The gross value of this parcel of land, before deducting any impairment allowance, as at 31 December 2019 is SR 150 million (2018: SR 150 million) and management of the Group has made an impairment allowance for the full value of the parcel at the acquisition date. The net book value of property, plant and equipment constructed over this parcel of land as at 31 December is as follows:

	31 December 2019	31 December 2018
	SR'000	SR'000
Buildings and land improvements	22,439	27,946
Plant, machinery and equipment	26,707	31,038
Furniture, fixtures and office equipment	216	312
	49,362	59,296

Management of the Group believes that the outcome of the litigation process will not impact the carrying amounts or useful lives of property, plant and equipment constructed on this parcel of land. Management also believes that the result of the litigation process will be in their favour. The impairment allowance will be reversed when the litigation process is finalized and the title deeds for the land are no longer on hold by the ministry of Justice.

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Other non-current assets represent assets that are immaterial individually and in aggregate. The details of other non-current assets are as follows:

	31 December 2019	31 December 2018
	SR'000	SR'000
Investment properties	8,250	8,250
Intangible assets	8,705	8,606
Loans to equity accounted investments (note 33)	-	26,460
	16,955	43,316

26. BORROWINGS**26.1 SHORT-TERM BORROWINGS**

Short-term borrowings comprise the following:

	31 December 2019	31 December 2018
	SR'000	SR'000
Short-term bank loans	863,155	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 maturity of short-term loans as they mature.

The carrying values of the short-term borrowings are denominated in the following currencies:

	31 December 2019	31 December 2018
	SR'000	SR'000
Saudi Riyals	809,565	866,367
US Dollars	53,590	63,359
	863,155	929,726

26.2 LONG-TERM BORROWINGS

Long term borrowings comprise the following:

	Note	31 December 2019	31 December 2018
		SR'000	SR'000
Commercial bank loans		343,105	413,160
Current portion shown under current liabilities	26.3	(343,105)	(255,244)
Non-current portion shown under non-current liabilities		-	157,916

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 original maturities of the loans outstanding at 31 December 2019 in aggregate, based on their respective repayment schedules, are repayable at dates from 2020 to 2022.

The carrying values of the long-term borrowings are denominated in the following currency:

	31 December 2019	31 December 2018
	SR'000	SR'000
Saudi Riyals	333,638	403,669
US dollars	9,467	9,491
	343,105	413,160

During year 2019, the Group has defaulted on certain loan instalments. Management is in the process of rescheduling these due payments and taking remedial actions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****26. BORROWINGS (continued)****26.3 BREACH 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>Requirement</u>
Total liabilities to tangible net worth	200% - 250%
Current ratio	100% - 125%
Minimum shareholders' equity	SR 950m

As a result of the above mentioned breach, the lenders have the right to accelerate repayment of future instalments. Accordingly, the entire balance of long term loans have been presented under current liabilities on the consolidated statement of financial position.

27. LEASES

The Group leases various assets including land and buildings, and office equipment. Information about leases for which the Group is a lessee is presented below:

27.1 Right-of-use assets recorded under property, plant and equipment

For the year ended 31 December 2019:	Land and buildings	Office equipment	Total
	SR '000	SR '000	SR '000
Balance at 1 January (note 3.4)	7,912	-	7,912
Additions during the year	-	1,093	1,093
	7,912	1,093	9,005
Depreciation charge for the year	(1,089)	(109)	(1,198)
Balance at 31 December	6,823	984	7,807

27.2 Lease liability

Maturity analysis - contractual undiscounted cashflows	31 December 2019
	SR '000
Less than one year	1,615
One to five years	4,389
More than five years	4,261
Total undiscounted liabilities as at 31 December 2019	10,265

Lease liability included in the consolidated statement of financial position as at 31 December

	2019
	SR '000
Current	1,136
Non-current	6,547
	7,683

27.3 Amounts recognised in profit or loss for the year ended 31 December:

	2019
	SR '000
Depreciation of right-of-use assets	1,198
Interest on lease liability	451
Rent for short-term leases	2,571
	4,220

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	31 December 2019	31 December 2018
	SR'000	SR'000
Payable to third parties	328,566	320,675
Payable to related parties (note 33)	4,219	3,450
	332,785	324,125

29. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2019	31 December 2018	1 January 2018
	SR'000	SR'000	SR'000
		(Restated, note 39)	(Restated, note 39)
Accrued salaries, wages and benefits	5,536	11,943	9,301
Accrued sales agency fees	10,813	11,255	9,929
Accrued finance costs	22,959	17,711	30,790
Other	41,486	33,508	23,402
	80,794	74,417	73,422

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30. EMPLOYEES' TERMINATION BENEFITS PROVISION

The movement in employees' termination benefits provision, a defined benefit plan, during the year is as follows:

	2019	2018
	SR '000	SR '000
1 January	67,691	66,609
Expense charged to profit or loss	7,327	7,725
Actuarial remeasurement charged to OCI	2,858	532
Payments	(8,354)	(7,175)
31 December	69,522	67,691

The expense charged to profit or loss comprises:

	2019	2018
	SR '000	SR '000
Current service cost	5,119	5,099
Interest cost	2,208	2,626
Cost recognized in profit or loss	7,327	7,725

Significant actuarial assumptions:

	As at 31 December	
	2019	2018
Discount factor used	3.90%	3.90%
Salary increase rate	5.40%	5.40%
Rates of employee turnover	Moderate	Moderate

Sensitivity analysis of key actuarial assumptions are as follows:

	31 December 2019		31 December 2018	
	%	SR '000	%	SR '000
Discount rate				
Increase	+ 0.50%	67,786	+ 0.50%	66,137
Decrease	- 0.50%	71,362	- 0.50%	69,332
Salary growth rate				
Increase	+ 0.50%	71,336	+ 0.50%	69,326
Decrease	- 0.50%	67,794	- 0.50%	66,128

Maturity analysis

Employee termination benefits are expected to be settled as follows:

	2019	2,018
	SR '000	SR '000
Within one year	13,034	14,537
Between 2 and 5 years	32,676	33,099
Between 6 and 10 years	33,458	34,926
	79,168	82,562

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	<u>2019</u>	<u>2018</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	6,216	8,375
Reversals	(1,441)	(1,874)
Utilizations	-	(229)
Foreign currency translation adjustments	(23)	(56)
31 December	<u>4,752</u>	<u>6,216</u>

32. PROVISION FOR ONEROUS CONTRACTS

The provision relates mainly to the losses expected to be incurred to complete a fixed price contract in Samawa, Iraq. The project is expected to be completed in 2023. The movement in the provision for onerous contracts is as follows:

	<u>2019</u>	<u>2018</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	119,102	122,428
Additions	33,601	2,033
Utilizations	(21,433)	-
Foreign currency translation adjustments	(2,615)	(5,359)
31 December	<u>128,655</u>	<u>119,102</u>

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33. RELATED PARTY DISCLOSURES

The following table provides the total amount of material transactions that have been entered into with related parties:

		Sales to related parties	Purchases from / payments made to related parties	Amounts due from related parties*	Amounts due to related parties*
		SR'000	SR'000	SR'000	SR'000
Associates					
Amiantit Qatar Pipe	2019	-	-	2,718	-
Company Limited	2018	-	-	9,041	-
East Gas	2019	-	-	-	-
	2018	-	-	520	-
Joint ventures					
Amiblu Holding GmbH	2019	-	-	39	-
	2018	-	-	3,502	-
Subor	2019	-	-	3,877	-
	2018	-	-	8,029	-
International Water	2019	-	-	-	-
Distribution Company	2018	-	-	2,100	-
Amitech Algeria	2019	-	-	360	-
	2018	-	-	-	-

* The amounts are classified as trade receivables and accounts payable, respectively.

		Interest received from/ (paid to) related parties	Amounts due from/(to) related parties
		SR'000	SR'000
Loans from / to related parties			
Associates			
East Gas	2019	-	(2,322)
	2018	-	-
Others	2019	-	(1,897)
	2018	-	(3,450)
Joint venture			
Amiblu Holding GmbH	2019	-	-
	2018	-	26,460
Compensation of key management personnel of the Group			
		2019	2018
		SR'000	SR'000
Short term employee benefits		5,772	5,553
Employees' Termination benefits		468	419
Total compensation for key management personnel		6,240	5,972

The amounts disclosed in the table are the amounts recognised as an expense during the year for the top five executives.

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	<u>2019</u>	<u>2018</u>
<i>Authorized, issued and fully paid</i>		
Number of ordinary shares with a nominal value of SR 10 per share	<u>34,451,700</u>	<u>115,500,000</u>
Share capital (SR'000)	<u>344,517</u>	<u>1,155,000</u>

The Company's shareholders in their Extraordinary General Assembly held on 8 September 2019 (corresponding to 9 Muharram 1441H) approved a share capital reduction from SR 1,155 million to SR 344.5 million by reducing the number of shares from 115.5 million shares to 34.5 million shares of SR 10 each to offset SR 810.5 million of the Company's accumulated losses.

35. EMPLOYEE SHARE OWNERSHIP PLAN AND RESERVE

The Company has implemented an Employee Share Ownership Plan ("ESOP"), which provides an award for service to certain levels of employees effective 1 January 2012. During 2012, the Company purchased 2.5 million of its own shares, through a financial institution, for the purpose of the ESOP which have been recorded under "Employee share ownership plan and reserve" in the consolidated statement of financial position. These employees, subject to their subscription to ESOP, after completing employment with the Group for a period of three years and maintaining a required level of performance, were awarded shares of the Company, at no cost, upon the vesting date during 2015. The total number of shares awarded in 2015 was 564,309 shares.

There was no movement in the ESOP and reserve during the years ended 31 December 2019 and 2018.

The ESOP and reserve represents the value of the remaining shares held by the trustee for future options to be offered to the employees of the Company.

As at 31 December 2019, 577 thousand shares are held by the Group for ESOP (2018: 1,936 thousand shares)

36. INTEREST RATE SWAP

As at 31 December 2019, the Group had an interest rate swap ("IRS") contract with a local commercial bank in relation to loans with variable profit rates. As at 31 December 2019, the nominal amount of the IRS contract was SR 12.9 million (31 December 2018: SR 116.2 million). The fair value of the IRS contract has declined as at 31 December 2019 to SR 0.030 million (31 December 2018: a decline of SR 0.182 million).

The Group accounts for the IRS contract as an effective cash flow hedge. Accordingly, the Group recorded the decline in fair value of the IRS contract in other comprehensive income and a corresponding non-current liability was recorded in the consolidated statement of financial position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2019****37. COMMITMENTS AND CONTINGENCIES****37.1 Commitments for capital expenditure:**

The capital expenditure contracted by the Group but not yet incurred at 31 December 2019 was approximately SR 2.7 million (31 December 2018: SR 3.9 million). The Group has also committed to invest an additional SR 12.5 million in Amiblu during 2020.

37.2 Contingencies

37.2.1 The Group owns a parcel of industrial land in Jeddah which it has fully impaired and 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.

37.2.2 As at 31 December 2019, the Group is involved in certain law-suits for an amount of SR 26.4 million by a number of vendors and customers against the Group. The Group management believes that no material loss will arise upon the ultimate resolution of these matters and accordingly, no provision has been recorded in the accompanying financial statements.

37.3 Guarantees:

The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to SR 108.2 million as at 31 December 2019 (31 December 2018: SR 164.7 million). The Group, collectively with other shareholders of equity accounted investments, is also contingently liable for corporate guarantees amounting to SR 543.0 million at 31 December 2019 (31 December 2018: SR 179.4 million) in relation to the borrowing facilities of related joint ventures and associated companies.

38. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations.
- Amendments to IAS 1 and IAS 8.
- IFRS 17 Insurance Contracts.

39. PRIOR YEARS ADJUSTMENTS**39.1 Prior years adjustments with an impact on equity:****39.1.1 Restatements reported by AQAP**

One of the Group's associates, namely AQAP, has adjusted their prior years figures with respect to the following:

- Accounting error on its calculation of the expected credit loss.
- Impact of acquisition of a non-controlling interest without change on control.

The impact of the above corrections on the Group's investment and the corresponding adjustments to the Group's accumulated losses as at 1 January and 31 December 2018 and the reported loss for the year ended 31 December 2018 is as follows:

	As at	
	31 December 2018	1 January 2018
	SR'000	SR'000
Investments in AQAP		
Previously reported	46,839	38,617
Group's share of the accumulated effect on investee retained earnings	(4,612)	(4,612)
Group's share of the impact on AQAP reported profit	(941)	-
Adjusted balance	41,286	34,005

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39. PRIOR YEARS ADJUSTMENTS (continued)

39.1 Prior years adjustments - with an impact on equity: (continued)

39.1.1 Restatements reported by AQAP (continued)

	For the year ended 31 December 2018
	SR'000
Share in result of AQAP	
Previously reported	8,222
Group's share of the impact on AQAP reported profit	(941)
Adjusted share in result	7,281
(A) Total impact on shareholders' equity	(5,553)
Net impact on statement of profit or loss	(941)

39.1.2 Reversal of provision for Amitech Astana

As at 1 January 2018, the Group had a provision against Amitech Astana CGU of SR 19.0 million. The provision was no longer needed back then as the CGU has been significantly depreciated since the time it was booked. Further, the provision was erroneously presented under "Accrued expenses and other liabilities" instead of netting it from property, plant and equipment.

The impact of this correction is as follows:

	As at	
	31 December 2018	1 January 2018
	SR'000	SR'000
Accrued expenses and other liabilities		
Previously reported	93,383	92,388
Reversal of provision	(18,966)	(18,966)
Adjusted balance	74,417	73,422
(B) Total impact on shareholders' equity	18,966	18,966
Net impact on shareholders equity (A) + (B)	13,413	14,354

39.2 Prior year adjustment with no impact on equity

39.2.1 Restatement reported by PWT in relation to trade receivables and contract assets:

PWT, a subsidiary of the Group, erroneously reported trade receivables of SR 174.5 million as at 31 December 2018 under contract assets (1 January 2018: SR 180.7 million).

39.2.2 Restatement for PWT in relation to contract assets and inventories:

PWT labels its contract assets as "work in process". The Group erroneously reported the contract assets of PWT amounting SR 209 million as at 31 December 2018 under "work in process inventories" (1 January 2018: SR 216.7 million)

39.2.3 Restatement reported by PWT in relation to contract assets and provision for onerous contracts:

PWT erroneously netted provision for onerous contracts of SR 119.1 million as at 31 December 2018 from contract assets (1 January 2018: SR 122.4 million)

40. SUBSEQUENT EVENT

Subsequent to the year-end, the World Health Organization confirmed an outbreak of pandemic virus, the Coronavirus or novel COVID-19. A pandemic is a disease that is spreading in multiple countries around the world at the same time. The situation as at the reporting date is relatively uncertain. In light of the ongoing global efforts to reduce the negative consequences of the virus, the potential impact on the Group's geographical and business sectors remains unknown.

41. DATE OF AUTHORIZATION

These consolidated financial statements were authorized for issue by the Group's Board of Directors on 5 Sha'aban 1441H corresponding to 29 March 2020G.