



THE SAUDI ARABIAN AMIAANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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BAKER TILLY

MKM & CO. Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE SAUDI ARABIAN AMIANTIT COMPANY

(A SAUDI JOINT STOCK COMPANY)

Opinion

We have audited the consolidated financial statements of The Saudi Arabian Amiantit Company (the "Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 Opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other 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 opinion.

Emphasis of Matters

We draw attention to the following matters:

- Note 16 to the consolidated financial statements which indicates that these consolidated financial statements put the Group in breach of some of the financial covenants stated in the credit facility agreements with commercial banks. Management of the Group believes that the breach will not affect the maturity profile of its debt or the availability of credit.
- Note 4 to the consolidated financial statements which describes the uncertainty related to the estimation of impairment loss on trade receivables, contract assets and non-current receivables.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF THE SAUDI ARABIAN AMIANTIT COMPANY

Key Audit Matters (continued)

The Key Audit Matter

Going concern assumption

The Group has recognized a net loss of SR 230.3 million for the year ended 31 December 2018 and as at that date, current liabilities exceeded current assets by SR 270.7 million. In addition, the Group is in breach of certain financial covenants related to credit facilities. These conditions could indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern.

We considered this as a key audit matter because, if for any reason the Group is unable to continue as a going concern, using the going concern assumption for the preparation of the consolidated financial statements will not be appropriate.

Note 4 to the consolidated financial statements provides information on the use of the going concern assumption.

Impairment of trade receivables, contract assets and non-current receivables

The balance of trade receivables, contract assets and non-current receivables as at 31 December 2018 amounted to SR 487.7 million, SR 216.1 million and SR 381.7 million, respectively. The collectability of trade receivables, contract assets and non-current receivables is a key element of the Group's working capital management which is managed on an ongoing basis.

We considered this as a key audit matter because the assessment of the impairment of trade receivables, contract assets and non-current receivables requires significant management judgment which in turn could significantly impact the consolidated financial statements.

How the matter was addressed in our audit

We performed the following procedures to assess whether it is appropriate or not for management to prepare the Group's consolidated financial statements using the going concern assumption:

- we ensured management performed an assessment of the Group's ability to continue as a going concern that covers the twelve-month period following the reporting date. The assessment was in the form of a twelve-month cash forecast;
- we obtained an understanding of, and evaluated:
 - the process management followed to prepare the forecast;
 - the assumptions on which the assessment is based; and
 - management's plans for future action.
- we obtained written representations from management regarding their future plans; and
- we assessed the adequacy of related disclosures in the consolidated financial statements;

The audit procedures we performed to assess the reasonableness of the impairment of trade receivables, contract assets and non-current receivables included, amongst others:

- understanding and evaluating the Group's processes relating to the monitoring of trade receivables and the review of customers' credit risk and testing the design and operational effectiveness of related controls;
- ascertaining the accuracy of receivables ageing reports;



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INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF THE SAUDI ARABIAN AMIANTIT COMPANY

Key Audit Matters (continued)

The Key Audit Matter

Impairment of trade receivables, contract assets and non-current receivables (continued)

Further, the Group is adopting IFRS 9 for the first time this year. The implementation of the new impairment requirements under this standard could have a significant impact on the balances of trade receivables, contract assets and non-current receivables as at 1 January 2018 and 31 December 2018.

Note 4 to the consolidated financial statements provides information on significant accounting estimates, note 7 provides information on credit risk exposure, note 9 provides information on trade receivables and related impairment, note 12 provides information on non-current receivables and related impairment and note 25 provides information on contract assets and related impairment.

Impairment of equity accounted investments

The balance of equity accounted investments as at 31 December 2018 amounted to SR 372.5 million and share in results of equity accounted investments for the year then ended was a loss of SR 40.4 million.

We considered the impairment of equity accounted investments as a key audit matter because of the significance of related balances and its subjectivity to significant management estimation.

Note 13 to the consolidated financial statements provides detailed disclosures on equity accounted investments.

How the matter was addressed in our audit

- evaluating methodology and assumptions used by management to determine expected credit losses in accordance with IFRS 9;
- we have sent Group audit instructions to the auditors of significant components and highlighted impairment of trade receivables and contract assets as a key risk;
- we reviewed key documents prepared by the auditors of significant components upon finalization of their audit; and
- we assessed the adequacy of the Group's disclosures on trade receivables, contract assets and non-current receivables and related risks.

We performed the following procedures to assess the sufficiency of impairment allowance for equity accounted investments:

- we have sent Group audit instructions to the auditors of significant equity accounted investments and highlighted impairment of property, plant and equipment and goodwill as a key audit risk;
- we reviewed key documents prepared by the auditors of significant equity accounted investments;
- we inquired from the management of the Group and / or the management of the significant equity accounted investment whether there were any indications of impairment in the Group's investment; and
- we assessed the adequacy of the Group's disclosures on this matter.



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MKM & CO. Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF THE SAUDI ARABIAN AMLANTIT COMPANY

Key Audit Matters (continued)

The Key Audit Matter

Impairment of property, plant and equipment

As at 31 December 2018, the net book value of property, plant and equipment amounted to SR 402.8 million. During 2018, 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 annual test of impairment in December 2018 and recognized an impairment loss of SR 41.9 million for one CGU and reversed an impairment loss of SR 5 million recorded last year on another CGU.

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 14 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.

Other Information Included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our audit 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.

When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

The Group's 2018 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

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 adopted in the Kingdom of Saudi Arabia and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants, the 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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)

- 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.

BAKER TILLY MKM & CO.
Certified Public Accountants

Ayad Obeyan Alseraihi
License No. 405

Al-Khobar 23 Rajab 1440H
30 March 2019



THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 SR '000	2017 SR '000 (Note 2)
Continuing operations:			
Revenue from contracts with customers	25	947,594	792,344
Cost of revenue		<u>(851,484)</u>	<u>(667,845)</u>
Gross profit		96,110	124,499
Selling, general and administrative expenses	26	<u>(137,228)</u>	<u>(129,772)</u>
Operating loss		(41,118)	(5,273)
Other (expenses) income, net	27	(13,033)	4,259
Share of results of equity accounted investments	13	(40,399)	923
Finance costs	28	<u>(86,422)</u>	<u>(102,518)</u>
Loss before zakat and foreign income tax		(180,972)	(102,609)
Zakat	18	(21,888)	(23,349)
Foreign income tax	18	<u>(2,957)</u>	<u>478</u>
Loss from continuing operations		(205,817)	(125,480)
Discontinued operations:			
(Loss) profit after zakat and tax from discontinued operations	2	<u>(24,468)</u>	<u>33,934</u>
LOSS FOR THE YEAR		(230,285)	(91,546)
Attributable to:			
Shareholders of the Company		(232,594)	(89,923)
Non-controlling interests		<u>2,309</u>	<u>(1,623)</u>
		(230,285)	(91,546)
Loss per share	31		
Loss per share for the year attributed to the shareholders of the Company:			
Basic (SR)		<u>(2.05)</u>	<u>(0.79)</u>
Diluted (SR)		<u>(2.05)</u>	<u>(0.79)</u>
Loss per share from continuing operations			
Loss per share for the year from continuing operations attributed to the shareholders of the Company:			
Basic (SR)		<u>(1.81)</u>	<u>(1.10)</u>
Diluted (SR)		<u>(1.81)</u>	<u>(1.10)</u>
Weighted average number of shares outstanding:			
Basic ('000 shares)		<u>113,564</u>	<u>113,564</u>
Diluted ('000 shares)		<u>113,564</u>	<u>113,564</u>



Dr. Khalil A. Kurdi
Board Authorised Representative



Dr. Solaiman A. Al-Twajjri
Chief Executive Officer



Dr. Ammr K. Kurdi
Chief Financial 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 2018

	<u>Note</u>	<u>2018</u> <u>SR '000</u>	<u>2017</u> <u>SR '000</u>
Loss for the year		(230,285)	(91,546)
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		(17,060)	82,398
Change in the fair value of interest rate swap		1,324	637
		(15,736)	83,035
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent years:</i>			
Remeasurement loss on defined benefit plans	19	(532)	(767)
Other comprehensive income (loss) from associate	13	349	(843)
Other comprehensive (loss) income		(15,919)	81,425
Total comprehensive loss for the year		(246,204)	(10,121)
Attributable to:			
Shareholders of the Company		(247,653)	(7,575)
Non-controlling interests		1,449	(2,546)
		(246,204)	(10,121)



Dr. Khalil A. Kurdi
Board Authorised Representative



Dr. Solaiman A. Al-Twaijri
Chief Executive Officer





Dr. Ammr K. Kurdi
Chief Financial 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 2018

	Note	31 December 2018 SR '000	31 December 2017 SR '000
ASSETS			
Current assets			
Cash and cash equivalents	8	93,280	119,552
Trade receivables	9	487,719	581,243
Contract assets	25	216,124	214,276
Prepayments and other receivables	10	78,412	82,303
Inventories	11	675,694	742,856
Assets held for sale	2	1,469	-
		<u>1,552,698</u>	<u>1,740,230</u>
Non-current assets			
Non-current receivables	12	381,656	463,465
Equity accounted investments	13	372,542	416,407
Property, plant and equipment	14	402,788	500,445
Other non-current assets	15	45,816	58,359
		<u>1,202,802</u>	<u>1,438,676</u>
TOTAL ASSETS		<u>2,755,500</u>	<u>3,178,906</u>
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	16	929,726	1,062,785
Current maturity of long-term borrowings	16	255,244	202,443
Accounts payable		324,125	203,385
Accrued expenses and other liabilities	17	122,326	116,617
Contract liabilities	25	63,014	79,446
Zakat and foreign taxes payable	18	128,928	105,263
		<u>1,823,363</u>	<u>1,769,939</u>
Non-current liabilities			
Long-term borrowings	16	157,916	320,409
Employees' termination benefits	19	67,691	66,609
Warranty provisions	20	6,216	8,375
Other non-current liabilities		13,511	15,544
		<u>245,334</u>	<u>410,937</u>
Total liabilities		<u>2,068,697</u>	<u>2,180,876</u>
Equity			
Share capital	22	1,155,000	1,155,000
Statutory reserve		189,472	189,472
Accumulated losses		(514,367)	(217,941)
Employee share ownership plan and reserve	23	(31,914)	(31,914)
Change in fair value of interest rate swap	24	(182)	(1,506)
Foreign currency translation reserve		(142,432)	(126,232)
Equity attributable to the shareholders of the Company		<u>655,577</u>	<u>966,879</u>
Non-controlling interests		31,226	31,151
Total equity		<u>686,803</u>	<u>998,030</u>
TOTAL LIABILITIES AND EQUITY		<u>2,755,500</u>	<u>3,178,906</u>


Dr. Khalil A. Kurdi
Board Authorised Representative


Dr. Solaiman A. Al-Twaijri
Chief Executive Officer


Dr. Amm K. Kurdi
Chief Financial 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 2018

Attributable to the shareholders of the Company

	Share capital	Statutory reserve	Accumulated losses	Employee share ownership plan and reserve	Change in fair value of interest rate swap	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
Note	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
For the year ended 31 December 2018:									
As at 1 January 2018	1,155,000	189,472	(217,941)	(31,914)	(1,506)	(126,232)	966,879	31,151	998,030
Adoption of IFRS 9	-	-	(64,446)	-	-	-	(64,446)	1,223	(63,223)
Adjusted balance as at 1 January 2018	1,155,000	189,472	(282,387)	(31,914)	(1,506)	(126,232)	902,433	32,374	934,807
(Loss) income for the year	-	-	(232,594)	-	-	-	(232,594)	2,309	(230,285)
Other comprehensive loss	-	-	(183)	-	1,324	(16,200)	(15,059)	(860)	(15,919)
Total comprehensive (loss) income	-	-	(232,777)	-	1,324	(16,200)	(247,653)	1,449	(246,204)
Transaction with non-controlling interests	-	-	797	-	-	-	797	(2,597)	(1,800)
As at 31 December 2018	1,155,000	189,472	(514,367)	(31,914)	(182)	(142,432)	655,577	31,226	686,803
For the year ended 31 December 2017:									
As at 1 January 2017	1,155,000	189,472	(126,720)	(31,914)	(2,143)	(209,241)	974,454	35,964	1,010,418
Loss for the year	-	-	(89,923)	-	-	-	(89,923)	(1,623)	(91,546)
Other comprehensive income (loss)	-	-	(1,298)	-	637	83,009	82,348	(923)	81,425
Total comprehensive loss	-	-	(91,221)	-	637	83,009	(7,575)	(2,546)	(10,121)
Transaction with non-controlling interests	-	-	-	-	-	-	-	(2,267)	(2,267)
As at 31 December 2017	1,155,000	189,472	(217,941)	(31,914)	(1,506)	(126,232)	966,879	31,151	998,030


Dr. Khalil A. Kurdi
Board Authorised Representative


Dr. Solaiman A. Al-Twaijri
Chief Executive Officer


Dr. Ammr K. Kurdi
Chief Financial Officer

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THE SAUDI ARABIAN AMIANTIT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 SR '000	2017 SR '000
OPERATING ACTIVITIES			
Loss for the year		(230,285)	(91,546)
Adjustments for non-cash items:			
Depreciation, amortization and impairment	29	95,314	62,969
Share of results of equity accounted investments		40,399	(923)
Zakat and foreign income tax charges	18	26,061	23,141
Employees' termination benefits, net	19	(2,076)	(4,891)
Reversal of warranty provision	20	(1,874)	(11,275)
Realization of currency translation loss	2	12,259	-
Gain on disposal of the Disposal Group	2.1	-	(63,596)
Finance costs incurred	28	86,422	108,859
Gain on disposal of property, plant and equipment	27	(1,590)	(72)
		<u>24,630</u>	<u>22,666</u>
Changes in working capital:			
Trade receivables (current and non-current) and contract assets		103,527	101,821
Prepayments and other receivables		219	3,161
Inventories		56,171	78,630
Accounts payable		122,884	62,993
Accrued expenses, contract liabilities and other liabilities		(6,857)	(9,244)
		<u>300,574</u>	<u>260,027</u>
Zakat and foreign income tax paid	18	(2,396)	(12,341)
Net cash generated from operating activities		<u>298,178</u>	<u>247,686</u>
INVESTING ACTIVITIES			
Cash proceeds from disposal of the Disposal Group	2.2	-	4,421
Acquisition of non-controlling interests in a subsidiary	2.1	(1,800)	-
Cash proceeds from disposal of property, plant and equipment		1,590	747
Dividends received from equity accounted investments	13	1,711	2,878
Purchase of property, plant and equipment	14	(5,008)	(21,454)
Net change in other non-current assets		7,808	12,437
Net cash generated from (used in) investing activities		<u>4,301</u>	<u>(971)</u>
FINANCING ACTIVITIES			
Movement in short-term borrowings		(133,059)	(73,335)
Net movement in long-term borrowings		(108,371)	(64,143)
Finance costs paid		(83,796)	(96,370)
Net change in other non-current liabilities		(670)	2,351
Net cash used in financing activities		<u>(325,896)</u>	<u>(231,497)</u>
Net change in cash and cash equivalents		(23,417)	15,218
Cash and cash equivalents at the beginning of the year		119,552	116,064
Cash and cash equivalents transferred with the Disposal Group	2.1	-	(21,191)
Foreign currency translation effect on cash and cash equivalents		(2,855)	9,461
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>93,280</u></u>	<u><u>119,552</u></u>
Non-cash transactions:			
Acquisition of 50% share in a joint venture in return for the Disposal Group	2.1	-	230,425
Due from related party transferred to equity accounted investment	13	19,070	-
Remeasurement loss on defined benefit plan		(183)	(1,610)
Impact of IFRS 9-adoption	3.4	63,223	-

Dr. Khalil A. Kurdi

Board Authorised Representative

Dr. Solaiman A. Al-Twaijri

Chief Executive Officer

Dr. Amr K. Kurdi

Chief Financial 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 2018****1. CORPORATE INFORMATION**

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

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

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

Subsidiary	Principal activities	Country of incorporation	Effective ownership percentage as at	
			31 December 2018	31 December 2017
			%	%
Factory of Amiantit Fiberglass Industries Limited (AFIL)	A	Saudi Arabia	100	100
Factory of Saudi Arabian Ductile Iron Pipe Company Limited	A	Saudi Arabia	100	100
International Infrastructure Management and Operations Company Limited (AMIWATER)	B	Saudi Arabia	100	100
Infrastructure Engineering Contracting Company (ISEC)	C	Saudi Arabia	100	100
Factory of Amiantit Rubber Industries limited (ARIL) (note 2)	A	Saudi Arabia	100	80
Ameron Saudi Arabia Limited (ASAL)	A,E	Saudi Arabia	100	100
Bondstrand Limited (BSL)	A	Saudi Arabia	60	60
Saudi Arabia Concrete Products Limited (SACOP)	A,E	Saudi Arabia	100	100
Fiberglass Pipes and Ductile Iron Pipes Factory Company Ltd (FPC)	A	Saudi Arabia	100	100
Flowtite Technology Bahrain W.L.L	D	Bahrain	100	100
PWT Wasser - und Abwassertechnik GmbH (PWT)	C	Germany	100	100
Amitech Astana LLC	A	Kazakhstan	51	51

A- Pipe manufacturing

B- Water management

C- Contracting

D- Research and development

E- Discontinued operations (note 2.3)

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****2. CHANGES IN THE REPORTING ENTITY (continued)****2.2 Amiantit - Hobas merger in Europe**

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

The Disposal Group comprises of the following entities:

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

On 28 August 2017, the operations of the Disposal Group were deconsolidated and were presented as discontinued operations. The business of the Disposal Group represented part of the Group's European operating segment (geographical segment) until 28 August 2017.

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

	For the period from 1 January 2017 to 28 August 2017
	SR '000
Revenue	257,850
Expenses	(264,189)
Operating loss	(6,339)
Finance costs	(561)
Other expenses, net	(1,355)
Loss before tax	(8,255)
Tax	(119)
Loss for the period from ordinary activities	(8,374)
Gain on disposal of the Disposal Group	63,596
Profit after tax for the period from discontinued operations	55,222
Earnings per share from discontinued operations:	
Basic (SR)	0.49
Diluted (SR)	0.49

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****2. CHANGES IN THE REPORTING ENTITY (continued)****2.2 Amiantit - Hobas merger in Europe (continued)**

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

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

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

	For the period from 1 January 2017 to 28 August 2017 SR '000
Operating	10,901
Investing	(8,782)
Financing	(23,633)
Net cash outflow	(21,514)

As a result of the acquisition of a 50% share in Amiblu and the disposal of the Disposal Group, the Group recognized a gain on the deal in the amount of SR 63.6 million and reported the gain under profit from discontinued operations.

2.3 Discontinued Operations

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

The discontinued operations comprise the following entities:

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****2. CHANGES IN THE REPORTING ENTITY (continued)****2.3 Discontinued Operations (continued)****2.3.1 Discontinued Operations of SACOP**

The results of SACOP for the year are presented below:

	2018	2017
	SR '000	SR '000
Revenue	6,980	2,983
Expenses	(15,693)	(15,350)
Operating loss	(8,713)	(12,367)
Finance costs	(3,704)	(3,945)
Other income, net	6,339	762
Loss before tax	(6,078)	(15,550)
Zakat	(40)	-
Loss for the year from discontinued operations	(6,118)	(15,550)

Loss per share from discontinued operations:

Basic (SR)	(0.05)	(0.14)
Diluted (SR)	(0.05)	(0.14)

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

	As at 31 December 2018
	SR '000
Assets	
Bank balances and cash	27
Trade receivables	32,601
Prepayments and other receivables	8
Inventories	3,736
Property plant and equipment	500
	36,872
Liabilities	
Accounts payable (payable to Saudi Arabian Amiantit Company SR 47.2 million)	48,052
Accrued expenses and other liabilities	1,033
Zakat and income tax payable	1,014
	50,099
Carrying amount of net assets directly related to the Discontinued Operation	(13,227)

The net cash flows incurred by SACOP are as follows:

	2018	2017
	SR '000	SR '000
Operating	(12,382)	(3)
Investing	12,370	(88)
Financing	-	-
Net cash outflow	(12)	(91)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****2. CHANGES IN THE REPORTING ENTITY (continued)****2.3 Discontinued Operations (continued)****2.3.2 Discontinued Operations of ASAL**

The results of ASAL for the year are presented below:

	2018	2017
	SR '000	SR '000
Revenue	5,294	25,265
Expenses	(16,567)	(29,780)
Operating loss	(11,273)	(4,515)
Finance costs	(872)	(2,396)
Other (expense) income, net	(5,029)	1,443
Loss before tax	(17,174)	(5,468)
Zakat	(1,176)	(270)
Loss for the year from discontinued operations	(18,350)	(5,738)

Loss per share from discontinued operations:

Basic (SR)	(0.16)	(0.05)
Diluted (SR)	(0.16)	(0.05)

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

	As at 31 December 2018
	SR '000
Assets	
Bank balances and cash	336
Trade receivables	1,972
Prepayments and other receivables	1,819
Inventories	40,042
Property plant and equipment	969
	45,138
Liabilities	
Accounts payable (payable to Saudi Arabian Amiantit Company SR 16.1 million)	18,911
Accrued expenses and other liabilities	1,757
Zakat payable	6,707
Employees' termination benefits	1,554
	28,929
Carrying amount of net assets directly related to the Discontinued Operation	16,209

The net cash flows incurred by ASAL are as follows:

	2018	2017
	SR '000	SR '000
Operating	215	(501)
Investing	-	451
Financing	-	-
Net cash inflow (outflow)	215	(50)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2018 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 2018.

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.5 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii. *Impairment of financial assets (continued)*

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.

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 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 statement of 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 the consolidated statement of 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. *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 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

3.3.7 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.

Initial cost of raw materials includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income. 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.

3.3.8 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.8 EQUITY ACCOUNTED INVESTMENTS (continued)

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. 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.

3.3.9 PROPERTY, PLANT AND EQUIPMENT

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.

3.3.10 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.11 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.

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.

3.3.12 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.12 INTANGIBLE ASSETS (continued)

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.

3.3.13 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.13 IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

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.

3.3.14 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.

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.

3.3.15 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.15 EMPLOYEES' TERMINATION BENEFITS (continued)

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
- Net interest

3.3.16 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.

3.3.17 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.

3.3.18 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.18 FAIR VALUE MEASUREMENT (continued)

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.

3.3.19 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.20 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.

3.3.21 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)

3.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Group has applied IFRS 15 and IFRS 9 for the first time. The nature and effect of changes as a result of adoption of these new accounting standards are described below.

IFRS 15 'Revenue from Contracts with customers'

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

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

The Group was already recognising the revenue on the same basis as envisaged by IFRS 15. Consequently, there are no material reportable changes due to its adoption of IFRS 15. The Group has reclassified SR 214.3 million of contract assets that were previously presented as part of trade receivables as at 31 December 2017.

IFRS 9 'Financial Instruments'

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

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

	31 December 2017 SR '000'	IFRS 9 Impact SR '000'	1 January 2018 SR '000'
<u>Assets</u>			
Trade receivables (current and non-current)	1,044,708	(63,223)	981,485
<u>Equity</u>			
Accumulated losses	(217,941)	(64,446)	(282,387)
Non-controlling interests	31,151	1,223	32,374

The Group is utilizing the exemption not to restate comparative information with respect to impairment requirements.

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.

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

- | | |
|--|-------------------|
| - Capital management | Note 6 |
| - Financial instruments risk management and policies | Note 7 |
| - Sensitivity analysis disclosures | Notes 4, 7 and 19 |

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 note 16.

The Group has recognized a net loss of SR 230.3 million for the year ended 31 December 2018 (2017: SR 91.5 million) and as at that date, current liabilities exceeded current assets by SR 270.7 million (2017: 29.7 million). In addition, the Group is in breach of certain financial covenants related to bank facilities as disclosed in note 16.

Furthermore, bank facilities are subject to renewal every year. The lenders are expected to undertake a review, which will include, inter alia, an assessment of:

- The financial performance of the Group against budget
- The progress of planned capital restructuring

Management believes that the repayment of the trade payables and bank facilities will occur as required and is confident that its cash flows from operating activities, in addition to existing unutilized credit facilities, will be sufficient to meet the repayment requirements as they fall due during 2019.

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 128.9 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 26.1 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.

Impairment of non-financial assets

The Group's cash generating units (CGUs) have significant headroom except for SADIP (2017: BSL). The assessment of the recoverable amount of property, plant and equipment is most sensitive to the achievement of the 2019 budget. Budgets comprise forecasts of revenue, staff costs and overheads based on current and anticipated market conditions that have been considered and approved by the Board. While the Group is able to manage most of the costs of CGUs, the revenue projections are inherently uncertain due to unstable market conditions. Revenue of CGUs is most sensitive to government spending.

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

4.2 Estimates and assumptions (continued)

Impairment of non-financial assets (continued)

A 10% decline in the recoverable amount of SADIP's CGU would result in an additional impairment charge of SR 8.55 million. Other CGUs would not be impacted by such a decline.

Revenue recognition

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 2018 would have decreased by SR 34.6 million (2017: SR 21 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 (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Notes 9 and 12.

THE SAUDI ARABIAN AMIANTIT COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****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 2018 and 2017 and for the year then ended, summarized by the above business segments, is 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 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 of results of equity accounted investments	(49,233)	8,834	-	(40,399)
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	(204,090)	(26,195)	-	(230,285)
Equity accounted investments	290,626	81,916	-	372,542
Total assets	2,057,398	698,102	-	2,755,500
Total liabilities	(1,344,566)	(724,131)	-	(2,068,697)
Capital expenditures	(4,254)	(754)	-	(5,008)

THE SAUDI ARABIAN AMIANTIT COMPANY

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****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 2017				
Sales to external customers	634,138	158,206	-	792,344
Inter-segment	85,952	-	(85,952)	-
Total revenue	720,090	158,206	(85,952)	792,344
Share of results of equity accounted investments	(10,519)	11,442	-	923
Finance costs	(91,140)	(11,378)	-	(102,518)
Depreciation, amortization and impairment	(61,080)	(1,889)	-	(62,969)
Zakat and income tax	(21,543)	(1,328)	-	(22,871)
Net loss	(28,134)	(63,412)	-	(91,546)
Equity accounted investments	342,377	74,030	-	416,407
Total assets	2,187,988	990,918	-	3,178,906
Total liabilities	(1,150,389)	(1,030,487)	-	(2,180,876)
Capital expenditures	(21,454)	-	-	(21,454)

THE SAUDI ARABIAN AMIANTIT COMPANY

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****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 2018 and 2017 and for the years then ended, summarized by geographic area, as follows:

	Saudi Arabia	Europe	Other Countries	Eliminations	Total
As at and for the year ended 31 December 2018	SR '000	SR '000	SR '000	SR '000	SR '000
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	475,893	264,626	59,495	-	800,014
As at and for the year ended 31 December 2017					
Revenue from contracts with customers	700,664	158,206	19,426	(85,952)	792,344
Non-current assets:					
- Property, plant and equipment	483,446	6,491	10,508	-	500,445
- Other non-current assets	541,029	328,592	68,610	-	938,231

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.

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 period are disclosed in note 16.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

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7 FINANCIAL INSTRUMENTS
7.1 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 2018						
	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)	-	869,375	869,375	-	-	-
Contract assets	-	216,124	216,124	-	-	-
	-	1,085,499	1,085,499	-	-	-
Financial liabilities						
Short-term borrowings	-	929,726	929,726	-	-	-
Long-term borrowings	-	413,160	413,160	-	-	-
Trade and other payables	-	417,508	417,508	-	-	-
Derivative financial instruments	182	-	182	-	-	182
	182	1,760,394	1,760,576	-	-	182
31 December 2017						
	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)	-	1,044,708	1,044,708	-	-	-
Contract assets	-	214,276	214,276	-	-	-
	-	1,258,984	1,258,984	-	-	-
Financial liabilities						
Short-term borrowings	-	1,062,785	1,062,785	-	-	-
Long-term borrowings	-	522,852	522,852	-	-	-
Trade and other payables	-	295,773	295,773	-	-	-
Derivative financial instruments	1,506	-	1,506	-	-	1,506
	1,506	1,881,410	1,882,916	-	-	1,506

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****7 FINANCIAL INSTRUMENTS (continued)****7.2 Risk Management of Financial Instruments**

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

7.2.1 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 2018	31 December 2017
	SR '000	SR '000
Cash at bank and time deposits	91,766	118,371
Trade receivables - current	487,719	581,243
Trade receivables - non-current	381,656	463,465
Loans to equity accounted investments	26,460	40,419
	987,601	1,203,498

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 receivables balances are monitored with the result that the Group's exposure to bad debts is not significant. The five largest customers account for approximately 31.4% (2017: 21.3%) of outstanding trade receivables at 31 December 2018.

The information about credit risk exposure is presented in note 9.

7.2.2 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 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 and other payables	417,508	417,508	-	-
Other non-current liabilities	13,329	-	13,329	-
Interest rate swap	182	-	182	-
	1,773,905	1,602,478	171,427	-

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	31 December 2017			
	Carrying	Less than 1	1 year to 5	More than 5
	amount	year	years	years
	SR '000	SR '000	SR '000	SR '000
Financial liabilities				
Borrowings	1,585,637	1,265,228	320,409	-
Trade and other payables	295,773	295,773	-	-
Other non-current liabilities	14,038	-	14,038	-
Interest rate swap	1,506	-	1,506	-
	<u>1,896,954</u>	<u>1,561,001</u>	<u>335,953</u>	<u>-</u>

7.2.3 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.

7.2.4 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 2018	'000'	'000'
Cash and cash equivalents	7,555	32,427
Trade receivables and contract assets	38,827	166,642
Trade payables	(6,119)	(26,263)
Net Statement of Financial Position exposure	<u>40,263</u>	<u>172,806</u>
31 December 2017	EUR	Equivalent SR
	'000'	'000'
Cash and cash equivalents	9,370	42,156
Trade receivables and contract assets	40,162	180,701
Trade payables	(5,781)	(26,009)
Net Statement of Financial Position exposure	<u>43,751</u>	<u>196,848</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****7. FINANCIAL INSTRUMENTS (continued)****7.2. Risk Management of Financial Instruments (continued)****7.2.4 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 2018	31 December 2017
	SR '000	SR '000
Impact of 10% increase in EUR on equity	17,281	19,685
Impact of 10% decrease in EUR on equity	(17,281)	(19,685)

7.2.5 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 1,343 million (31 December 2017: SR 1,586 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
31 December 2018	+100	(14,545)
	-100	14,545
31 December 2017	+100	(14,727)
	-100	14,727

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

8. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
	SR'000	SR'000
Cash on hand	1,514	1,181
Cash at bank	68,526	89,870
Time deposits	23,240	28,501
	93,280	119,552

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

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9. TRADE RECEIVABLES

	31 December 2018	31 December 2017
	SR'000	SR'000
Trade receivables - third parties	587,720	621,034
Trade receivables - related parties	44,904	69,955
	632,624	690,989
Less: allowance for impairment	(144,905)	(109,746)
	487,719	581,243

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

The movement in the allowance for impairment is as follows:

	2018	2017
	SR'000	SR'000
1 January	109,746	123,359
Adoption of IFRS 9	20,074	-
Additions	18,918	1,032
Deconsolidation	-	(8,635)
Reversals/ write offs	(3,722)	(7,470)
Currency translation adjustments	(111)	1,460
31 December	144,905	109,746

The above allowance includes allowance for impairment related to trade receivables from related parties of SR 21.7 million (2017: SR 25 million).

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 2018						
Gross carrying amount at default	96,544	205,627	80,010	123,833	81,706	587,720
Expected credit loss	(2,231)	(6,075)	(4,019)	(51,412)	(59,456)	(123,193)
Net trade receivables	94,313	199,552	75,991	72,421	22,250	464,527

As mentioned in note 3.4, the Group has taken an exemption not to restate comparative information for prior periods with respect to impairment requirements. Hence ECL, as at 31 December 2017 were recognized on 1 January 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****10. PREPAYMENTS AND OTHER RECEIVABLES**

	31 December 2018	31 December 2017
	SR'000	SR'000
Advances to suppliers	14,202	8,605
Prepaid expenses	62,989	68,061
Others	1,221	5,637
	78,412	82,303

11. INVENTORIES

	31 December 2018	31 December 2017
	SR'000	SR'000
Raw materials	117,856	148,752
Work in process	216,820	255,415
Supplies, not held for sale	52,008	95,784
Finished products	287,728	241,864
Goods in transit	1,282	1,041
	675,694	742,856

During 2018, SR 0.2 million (2017: SR 6.8 million) was recognized as an expense to write down cost of inventories to net realisable value. This is recognised in cost of revenue.

12. NON-CURRENT RECEIVABLES

The balance under non-current receivables comprise the following:

	31 December 2018	31 December 2017
	SR'000	SR'000
Trade receivables under legal collection	450,513	467,235
Retentions receivable	50,919	97,402
	501,432	564,637
Less: allowance for impairment	(119,776)	(101,172)
	381,656	463,465

- 12.1 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 2018, the balance of TRULC is carried net of an allowance for impairment of SR 115.8 million (31 December 2017: SR 97.1 million). The allowance for impairment is calculated based on the estimate of legal advisors and lawyers of the amount to be collected.
- 12.2 Retentions receivable are non-interest bearing and are generally collectable upon project completion. As at 31 December 2018, the balance of retentions receivable is carried net of an allowance for impairment of SR 4 million (31 December 2017: SR 4 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****12. NON-CURRENT RECEIVABLES (continued)**

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

	31 December 2018	31 December 2017
	SR'000	SR'000
Balances scheduled to be collected according to court orders	137,956	150,229
Balances where the Group received favourable court verdicts and settlement is still to be agreed with debtors	309,860	307,287
Balances still under legal proceedings	2,697	9,719
	450,513	467,235

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

	2018	2017
	SR'000	SR'000
1 January	101,172	103,553
Adoption of IFRS 9	43,149	-
Additions	183	3,492
Reversals/ write offs	(24,728)	(5,873)
31 December	119,776	101,172

13. EQUITY ACCOUNTED INVESTMENTS

	Note	31 December 2018	31 December 2017
		SR'000	SR'000
Interests in joint ventures			
Amiblu Holding GmbH ("Amiblu")	A	230,179	274,143
International Water Distribution Co. ("Tawzea")	B	71,950	63,825
Other joint ventures	C	-	16,044
Total interests in joint ventures		302,129	354,012
Investments in associates:			
Amiantit Qatar Pipe Co. Ltd. ("AQAP")	D	46,839	38,617
Other associates	E	23,574	23,778
Total investment in associates		70,413	62,395
Total equity accounted investments		372,542	416,407

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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****13. EQUITY ACCOUNTED INVESTMENTS (continued)****A. Amiblu (continued)**

	31 December 2018	31 December 2017
	SR'000	SR'000
Current assets, including cash and cash equivalents of SR 48.0 million (2017: SR 33.0 million)	363,925	413,562
Non-current assets	335,805	409,153
Current liabilities, including bank borrowings of SR 113.8 million (2017: 140.9 million)	(282,702)	(350,159)
Non current liabilities, including long term borrowings of SR 43.1 million (2017: SR 29.0 million)	(95,267)	(70,161)
Equity	321,761	402,395
Group's share in equity, 50%	160,881	201,198
Goodwill	69,298	72,945
Group's carrying amount of the investment	230,179	274,143

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

	For the year ended 31 December 2018	Period from 29 August 2017 to 31 December 2017
	SR'000	SR'000
Revenue	789,184	541,300
Finance costs	(7,052)	(4,805)
Income tax expense	(10,459)	1,818
Loss for the year / period	(46,596)	(30,688)
Total comprehensive loss	(46,596)	(30,688)
Group's share of total comprehensive loss, 50%	(23,297)	(15,344)

The movement in the interest in Amiblu is as follows:

	2018	2017
	SR'000	SR'000
1 January / 29 August	274,143	289,600
Share in results	(23,297)	(15,344)
Currency translation adjustments	(20,667)	(113)
31 December	230,179	274,143

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****13. 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 2018	31 December 2017
	SR'000	SR'000
Current assets, including cash and cash equivalents of SR 15.7 million (31 December 2017: SR 10.1 million)	51,220	44,799
Non-current assets	215,290	224,080
Current liabilities, including bank borrowings of SR 26.1 million (31 December 2017: SR 22.5 million)	(87,676)	(80,460)
Non-current liabilities, including long term borrowings of SR 30.6 million (31 December 2017: SR 56.8 million)	(34,935)	(60,768)
Equity	143,899	127,651
Group's share in equity - 50% (2017: 50%)	71,950	63,825
Group's carrying amount of the investment	71,950	63,825

Summarised statement of profit or loss of Tawzea for the years ended 31 December 2018 and 2017:

	2018	2017
	SR'000	SR'000
Revenue	257,091	268,906
Depreciation and amortization	(13,118)	(12,903)
Finance costs	(2,949)	(4,951)
Profit for the year	15,551	18,178
Total comprehensive income	16,249	16,492
Group's share of total comprehensive income - 50% (2017: 50%)	8,125	8,246

The movement in the interest in Tawzea is as follows:

	2018	2017
	SR'000	SR'000
1 January	62,982	55,579
Share in results	8,125	8,246
Share of other comprehensive income (loss)	349	(843)
31 December	71,456	62,982

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****13. 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:

	2018	2017
	SR'000	SR'000
1 January	16,044	21,676
Share in results	(34,761)	(4,947)
Transferred from due from related party	19,070	-
Currency translation adjustments	(353)	(685)
31 December	-	16,044

Summarized financial information of these joint ventures, based on their most recent available financial information is as follows:

Name	Country of incorporation	Assets SR'000	Liabilities SR'000	Revenues SR'000	Net income (loss) SR'000	Group's ownership interest %
2018:						
Subor	Turkey	209,372	210,351	76,759	(11,860)	50%
Amitech Morocco	Morocco	94,010	63,408	42,199	(27,058)	50%
2017:						
Subor	Turkey	302,672	289,907	371,785	6,394	50%
Amitech Morocco	Morocco	125,309	105,987	40,407	(16,288)	50%

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 2018	31 December 2017
	SR'000	SR'000
Current assets	165,211	144,583
Non-current assets	87,146	99,335
Current liabilities	(125,829)	(132,163)
Non-current liabilities	(9,431)	(15,212)
Equity	117,097	96,543
Group's share in equity - 40% (2017: 40%)	46,839	38,617

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2018****13. EQUITY ACCOUNTED INVESTMENTS (continued)****D. AQAP (Continue)**

Summarised statement of profit or loss of AQAP for the years ended 31 December 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>SR'000</u>	<u>SR'000</u>
Revenue	219,910	151,045
Profit for the year	20,556	15,406
Total comprehensive income	20,556	15,406
Group's share of total comprehensive income - 40% (2017: 40%)	8,222	6,163

The movement in the investment in AQAP is as follows:

	<u>2018</u>	<u>2017</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	38,617	32,454
Share in results	8,222	6,163
31 December	46,839	38,617

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>2018</u>	<u>2017</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	23,778	17,034
Additions	-	3,302
Share in results	1,661	5,962
Dividends	(1,711)	(2,878)
Currency translation adjustments	(154)	358
31 December	23,574	23,778

Summarized financial information of these associates, based on their most recent available financial information is as follows:

Name	<u>Country of incorporation</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net income</u>	<u>Group's ownership interest</u>
		<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>%</u>
2018:						
East Gas	KSA	91,434	15,502	68,221	9,892	13%
Amensouss	Morocco	247,380	180,913	21,673	7,053	15%
2017:						
East Gas	KSA	94,289	18,922	49,520	7,760	13%
Amensouss	Morocco	185,291	119,663	27,599	7,461	15%

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FOR THE YEAR ENDED 31 DECEMBER 2018
14. PROPERTY, PLANT AND EQUIPMENT

	1 January	Additions	Reclassific-	Foreign	
	SR'000	/ (transfer)	ation/	currency	31 December
	SR'000	SR'000	disposals	translation	SR'000
			SR'000	adjustments	
				SR'000	SR'000
<u>2018</u>					
Cost					
Land	196,549	-	-	-	196,549
Buildings and land improvements	299,924	4,126	(31,722)	(843)	271,485
Plant, machinery and equipment	889,685	7,306	(32,544)	(2,720)	861,727
Furniture, fixtures and office equipment	55,688	1,018	(912)	(763)	55,031
Construction in progress	50,916	(7,442)	(604)		42,870
	1,492,762	5,008	(65,782)	(4,326)	1,427,662
Accumulated depreciation and impairment					
Land	(150,000)	-	-	-	(150,000)
Buildings and land improvements	(191,621)	(13,233)	24,467	676	(179,711)
Plant, machinery and equipment	(608,921)	(77,550)	32,544	2,359	(651,568)
Furniture, fixtures and office equipment	(41,775)	(3,283)	912	551	(43,595)
	(992,317)	(94,066)	57,923	3,586	(1,024,874)
Net book value	500,445				402,788
<u>2017</u>					
Cost					
Land	209,351	-	(14,068)	1,266	196,549
Buildings and land improvements	401,423	4,251	(110,190)	4,440	299,924
Plant, machinery and equipment	1,223,263	5,548	(345,676)	6,550	889,685
Furniture, fixtures and office equipment	88,673	753	(37,100)	3,362	55,688
Construction in progress	66,263	10,902	(26,356)	107	50,916
	1,988,973	21,454	(533,390)	15,725	1,492,762
Accumulated depreciation and impairment					
Land	(150,000)	-	-	-	(150,000)
Buildings and land improvements	(236,939)	(12,472)	59,867	(2,077)	(191,621)
Plant, machinery and equipment	(879,475)	(47,983)	328,086	(9,549)	(608,921)
Furniture, fixtures and office equipment	(63,515)	(1,813)	26,797	(3,244)	(41,775)
	(1,329,929)	(62,268)	414,750	(14,870)	(992,317)
Net book value	659,044				500,445

- Construction work in progress at 31 December 2018 mainly represents advances to suppliers for purchase of machinery and equipment.

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- The Group performed its annual impairment test in December 2018 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.
- 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.
- Certain property, plant and equipment of the Group with a net book value of SR 51.2 million (2017: 59.5 million) are constructed on land parcels leased under various operating lease agreements at nominal annual rates from the Saudi Arabian government under renewable operating leases.
- The Group owns two parcels of industrial land in Dammam since 1971. The book value of the two parcels in the Group's accounting records is SR 1.4 million in 2018 (2017: SR 1.4 million). The fair value of these two parcels of land based on independent valuations made in 2016 was SR 323.4 million. This has not been reflected in the carrying amount of land.
- 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 provision, as at 31 December 2018 is SR 150 million (2017: SR 150 million) and management of the Group has made an impairment provision 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:

	2018	2017
	SR'000	SR'000
Buildings and land improvements	27,946	30,277
Plant, machinery and equipment	31,038	36,604
Furniture, fixtures and office equipment	312	394
	59,296	67,275

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.

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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 2018	31 December 2017
	SR'000	SR'000
Investment properties	10,750	8,250
Intangible assets	8,606	9,690
Loans to equity accounted investments (note 21)	26,460	40,419
	45,816	58,359

16. BORROWINGS**16.1 SHORT-TERM BORROWINGS**

Short-term borrowings comprise the following:

	31 December 2018	31 December 2017
	SR'000	SR'000
Short-term bank loans	929,726	1,062,785

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 2018	31 December 2017
	SR'000	SR'000
Saudi Riyals	866,367	916,164
US Dollars	63,359	146,621
	929,726	1,062,785

16.2 LONG-TERM BORROWINGS

Long term borrowings comprise the following:

	31 December 2018	31 December 2017
	SR'000	SR'000
Commercial bank loans	413,160	522,852
Current portion shown under current liabilities	(255,244)	(202,443)
Non-current portion shown under non-current liabilities	157,916	320,409

Commercial bank loans:

The Group has obtained loan facilities from various commercial banks. These loans generally bear financial charges based on inter-bank offered rates plus a fixed margin. The aggregate maturities of the loans outstanding at 31 December 2018, based on their respective repayment schedules, are repayable at dates from 2019 to 2021.

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

	31 December 2018	31 December 2017
	SR'000	SR'000
Saudi Riyals	403,669	512,875
US dollars	9,491	9,977
	413,160	522,852

The maturity profile of long-term borrowings is as follows:

	31 December 2018	31 December 2017
	SR'000	SR'000
Years ending 31 December:		
2018	-	202,443
2019	255,244	184,659
2020	154,089	130,527
2021	3,827	5,223
	413,160	522,852

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

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

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2018	31 December 2017
	SR'000	SR'000
Accrued salaries, wages and benefits	11,943	9,301
Advances from customers	28,943	24,229
Accrued sales agency fees	11,255	9,929
Accrued finance costs	17,711	30,790
Other accrued expenses and other payables	52,474	42,368
	122,326	116,617

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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 at the beginning of year, 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:

	<u>2018</u>	<u>2017</u>
	<u>SR'000</u>	<u>SR'000</u>
Current zakat and income tax charges		
- continuing operations	24,845	29,513
- discontinued operations (note 2.3)	1,216	270
Adjustments in respect of zakat and income tax of previous years	-	(6,642)
	<u>26,061</u>	<u>23,141</u>

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

	<u>2018</u>	<u>2017</u>
	<u>SR'000</u>	<u>SR'000</u>
1 January	105,263	94,463
Charge for the year	26,061	23,141
Payments	(2,396)	(12,341)
31 December	<u>128,928</u>	<u>105,263</u>

Status of certificates and assessments:

The Company and the Saudi Arabian subsidiaries have received final or restricted zakat and income tax certificates for the years up to 2014. 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 2014 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 provisions for 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' terminal benefits

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

	2018	2017
	SR '000	SR '000
1 January	66,609	67,019
Expense charged to profit or loss	7,725	11,397
Actuarial remeasurement charged to OCI	532	767
Payments	(7,175)	(12,574)
31 December	67,691	66,609

The expense charged to profit or loss comprises:

	2018	2017
	SR '000	SR '000
Current service cost	5,099	8,287
Interest cost	2,626	3,110
Cost recognized in profit or loss	7,725	11,397

Significant actuarial assumptions:

	As at 31 December	
	2018	2017
Discount factor used	3.90%	4.60%
Salary increase rate	5.40%	4.70%
Rates of employee turnover	Moderate	Moderate

Sensitivity analysis of key actuarial assumptions are as follows:

	31 December 2018		31 December 2017	
	%	SR '000	%	SR '000
Discount rate				
Increase	+ 0.50%	66,137	+ 0.50%	64,724
Decrease	- 0.50%	69,332	- 0.50%	68,602
Salary growth rate				
Increase	+ 0.50%	69,326	+ 0.50%	68,575
Decrease	- 0.50%	66,128	- 0.50%	64,733

20. WARRANTY PROVISIONS

	2018	2017
	SR'000	SR'000
1 January	8,375	19,419
Reversals	(1,874)	(6,000)
Utilizations and adjustments	(229)	(5,275)
Foreign currency translation adjustments	(56)	231
31 December	6,216	8,375

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21. RELATED PARTY DISCLOSURES

Note 1 provides information about the Group's structure, including details of the subsidiaries and the Company. 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 Fiberglass Egypt	2018	-	-	-	-
Company	2017	-	-	220	-
Amiantit Qatar Pipe	2018	-	-	9,041	-
Company Limited	2017	11,244	-	14,801	-
Amensouss	2018	-	-	-	-
	2017	2,358	-	2,387	-
East Gas	2018	-	-	520	-
	2017	-	-	-	-
Joint ventures					
Amiblu Holding GmbH	2018	-	-	3,502	-
	2017	897	-	4,014	-
Amitech Morocco	2018	-	-	-	-
	2017	4	-	15,226	-
Subor	2018	-	-	8,029	-
	2017	-	(6,056)	7,926	-
International Water	2018	-	-	2,100	-
Distribution Company	2017	-	-	-	-

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

		Interest received by/ (paid to) related parties	Amounts due from/(to) related parties
		SR'000	SR'000
Loans from / to related parties			
Associates			
Amitech Morocco	2018	-	-
	2017	250	10,138
Others	2018	-	(3,450)
	2017	(75)	(7,105)
Joint venture			
Amiblu Holding GmbH	2018	-	26,460
	2017	144	30,282
Compensation of key management personnel of the Group			
		2018	2017
		SR'000	SR'000
Short term employee benefits		5,972	5,806
Employees' Termination benefits		6,723	8,250
Total compensation for key management personnel		12,695	14,056

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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22. SHARE CAPITAL

The authorized share capital of the Company comprised 115.5 million ordinary shares stated at SR 10 per share. All shares are issued and fully paid. (31 December 2017: 115.5 million ordinary shares stated at SR 10 per share).

23. 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 "Employees shares program 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 2018 and 2017.

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. Management is currently in the process of formalizing the future option plans.

The remaining shares not awarded through the first plan as described above, and amounting to 1.9 million shares with a cost of SR 16.0 million will be assigned to a new ESOP, which is expected to be scheduled to span over the years 2019 and onwards with related options maturing in 2019. The necessary approvals are under submission at related competent authorities.

24. INTEREST RATE SWAP

As at 31 December 2018, 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 2018, the nominal amount of the IRS contract was SR 116.2 million (31 December 2017: SR 137.9 million). The fair value of the IRS contract has declined as at 31 December 2018 to SR 0.182 million (31 December 2017: a decline of SR 1.5 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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<u>Segments</u>	<u>2018</u>	<u>2017</u>
	<u>SR '000</u>	<u>SR '000</u>
Type of goods or service		
Sale of goods	721,354	569,258
Construction contracts	226,240	223,086
Total revenue from contracts with customers	947,594	792,344
Type of customer		
Government and quasi-government customers	97,443	64,823
Corporate customers	850,151	727,521
Total revenue from contracts with customers	947,594	792,344
Geographical markets		
Central region	110,834	116,467
Western region	40,669	51,326
Eastern region	263,617	236,324
European region	86,509	44,858
Exports and other foreign subsidiaries	445,965	343,369
Total revenue from contracts with customers	947,594	792,344

25.2 CONTRACT BALANCES

	<u>31 December</u>	<u>31 December</u>
	<u>2018</u>	<u>2017</u>
	<u>SR '000</u>	<u>SR '000</u>
Trade receivables (note 9 and 12)	869,375	1,044,708
Contract assets (see note (a) below)	216,124	214,276
Contract liabilities (see note (b) below)	63,014	79,446

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 2018, the contract assets are carried net of an ECL impact of 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 2018 amounted to SR 16.4 million (2017: 3.4 million).

25.3 PERFORMANCE OBLIGATIONS**a) Sale of goods:**

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

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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.

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	SR'000	SR'000
Employee benefits	40,608	44,307
Impairment of loans to equity accounted investments (note 15 and 21)	6,815	-
Impairment of receivables (note 9 and 12)	19,101	4,524
Professional services	21,726	25,616
Travelling	3,401	3,404
Information technology and communications	12,216	11,875
Depreciation and amortization	7,575	8,392
Repairs and maintenance	1,962	2,168
Marketing and sales promotions	6,710	5,056
Others	17,114	24,430
	<u>137,228</u>	<u>129,772</u>

27. OTHER (EXPENSES) INCOME, NET

	2018	2017
	SR'000	SR'000
Foreign exchange differences	(15,164)	(7,874)
Reversal of impairment of trade receivables	-	4,412
Gain on disposal of property, plant and equipment	1,590	72
Miscellaneous income	541	7,649
	<u>(13,033)</u>	<u>4,259</u>

28. FINANCE COSTS

	2018	2017
	SR'000	SR'000
Commission on Murabaha and Tawarruq finance	67,066	84,926
Interest on borrowings	15,686	11,370
Interest rate swap differences	1,044	3,112
Unwinding of discount on employees' terminal benefits (note 19)	2,626	3,110
	<u>86,422</u>	<u>102,518</u>

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

	2018	2017
	SR'000	SR'000
Included in cost of revenue:		
Depreciation	46,790	48,932
Amortisation	643	663
Impairment	40,306	4,982

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	<u>2018</u>	<u>2017</u>
	SR'000	SR'000
Included in selling, general and administrative expenses:		
Depreciation	6,970	8,354
Amortisation	605	38
Included in other income / (expenses):		
Net foreign exchange differences	(15,164)	(7,874)

30. EMPLOYEE BENEFITS EXPENSES

	<u>2018</u>	<u>2017</u>
	SR'000	SR'000
Included in cost of revenue:		
Wages and salaries	219,553	190,870
Social security costs	2,460	2,306
Termination costs	3,165	5,456
Included in selling, general and administrative expenses:		
Wages and salaries	35,097	38,126
Social security costs	3,577	3,350
Termination costs	1,934	2,831
Total employee benefits expenses	<u><u>265,786</u></u>	<u><u>242,939</u></u>

31. LOSS PER SHARE

Loss per share for the years ended 31 December 2018 and 2017 has been computed by dividing the loss from continuing operations and net loss for each year by the weighted average number of 113,564,309 shares outstanding during both years. The Group does not have any dilutive instruments.

32. DIVIDENDS

During 2018, no dividends were declared or paid (2017: no dividends were declared or paid).

33. COMMITMENTS AND CONTINGENCIES**Operating lease commitments**

The Group has entered into annual lease contracts on certain industrial lands.

Future minimum rentals payable under non-cancellable operating leases as at 31 December were as follows:

	<u>2018</u>	<u>2017</u>
	SR'000	SR'000
Within one year	2,571	2,571

Commitments for capital expenditure:

The capital expenditure contracted by the Group but not yet incurred at 31 December 2018 was approximately SR 3.9 million (31 December 2017: SR 1.8 million).

Contingencies

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.

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33. COMMITMENTS AND CONTINGENCIES (continued)

Guarantees:

The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to SR 164.7 million as at 31 December 2018 (31 December 2017: SR 220.2 million). The Group, collectively with other shareholders of equity accounted investments, is also contingently liable for corporate guarantees amounting to SR 179.4 million at 31 December 2018 (31 December 2017: SR 180.1 million) in relation to the borrowing facilities of related joint ventures and associated companies.

34. 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.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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 standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is still in the process of assessing the potential effect of IFRS 16 on its financial statements.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

35. DATE OF AUTHORIZATION

These consolidated financial statements were authorized for issue by the Group's Board of Directors on 22 Rajab 1440H corresponding to 29 March 2019G.