

**ALKHORAYEF FOR WATER AND
POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023
together with the
Independent Auditor's Report**

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

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KPMG Professional Services

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Kingdom of Saudi Arabia
Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة روشن، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤
المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of Alkhorayef Water and Power Technologies Company

Opinion

We have audited the consolidated financial statements of **Alkhorayef Water and Power Technologies Company** ("the Company") and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 period. 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.

Independent auditor's report

To the Shareholders of Alkhorayef Water and Power Technologies Company (Continued)

Revenue recognition	
See notes (3.d) and (4.2.4) for the accounting policies related to the revenue recognition and note (23) for the related disclosure in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>During the year ended 31 December 2023, the Group recognized total revenues of SR 1,709 million (2022: SR 822 million).</p> <p>Revenue is a key measure to determine the performance of the group. Revenue recognition is considered a key audit matter, in view of the possible inherent risk that management may intentionally overstate revenue to achieve financial targets, either through premature revenue recognition or recording fictitious revenue that does not meet the recognition criteria under IFRS 15.</p> <p>Further, for certain contracts, determining the measure of progress and the corresponding percentage of completion requires management's judgement and estimation. Therefore, we have considered revenue recognition as a key audit matter.</p>	<p>Our audit procedures included, but not limited to, the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the revenue process and the key controls over revenue recognition. • Assessed the design and implementation and tested the operating effectiveness of the controls over the recognition of revenue, including anti-fraud controls. • Assessed the appropriateness of the accounting policies based on the requirements of IFRS 15. • On a sample basis, assessed the appropriateness of revenue recorded for the year by obtaining relevant supporting documents including invoices issued, terms and deliverables of the contractual agreements, correspondence with customers, as well as any external surveys of performance where relevant. • Performed cut-off procedures to determine whether revenue has been recognized in the correct accounting period. • Evaluated the reasonableness of any judgements made by management in estimating the measure of progress by performing subsequent period testing including checking billing, customer correspondence and any significant write-offs. • Assessed the adequacy of the relevant disclosures in the consolidated financial statements in accordance with the requirements of IFRS 15.

Independent auditor's report

To the Shareholders of Alkhorayef Water and Power Technologies Company (Continued)

Allowance for expected credit losses	
See notes (3.j) and (4.2.3) for the accounting policies related to the financial instruments and notes (12) and (13) for the related disclosures of the Contracts assets and Trade and other receivables in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2023 the Group's Trade and other receivables and Contract assets gross balances amounted to SR 445.3 million and SR 617.3 million respectively, against which allowances for expected credit losses (ECL) of SR 8.4 million and SR 6.2 million were recorded.</p> <p>The Group assesses at each reporting date whether its Trade and other receivables and Contract assets are impaired. The Group has applied a simplified expected credit loss model to determine the allowance for impairment. The ECL model involves the use of various assumptions, macro-economic factors and study of historical trends.</p> <p>We considered this as a key audit matter due to the judgements and estimations involved in determining the impairment loss allowance as per the requirements of IFRS 9.</p>	<p>Our audit procedures included, but not limited to, the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the accounting policies used based on the requirements of IFRS 9, our business understanding and industry practices. • Obtained an understanding of management's process and controls over the allowance for impairment of financial assets. • Assessed the design and implementation and tested the operating effectiveness of the controls over the allowance for impairment of financial assets. • Involved KPMG specialist to assess the appropriateness of key judgements and assumptions used in estimating the ECL allowance, and to develop an independent expectation of the ECL allowance based on the profile of the Group's Trade and other receivables, and Contract assets. • Verified the accuracy and completeness of the data used in the ECL model and tested its mathematical accuracy. • Evaluated the adequacy and appropriateness of the related disclosures in accordance with the requirements of the relevant accounting standards, including disclosures related to assumptions about the future, and other major sources of estimation uncertainty.



Independent auditor's report

To the Shareholders of Alkhorayef Water and Power Technologies Company (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's By-Laws 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.

Those charged with governance, the Board of Directors, are responsible for overseeing the Group's financial reporting process.

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

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

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

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



Independent auditor's report

To the Shareholders of Alkhorayef Water and Power Technologies Company (Continued)

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

- 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, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activity 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 those charged with governance 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 of **Alkhorayef Water and Power Technologies Company** ("the Company") and its subsidiary ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

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 period and are therefore the key audit matters. We describe these matters in our auditor's 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.

KPMG Professional Services



Fahad Mubark Al Dossari
License No: 469



Riyadh on: 14 Ramadan 1445H
Corresponding to: 24 March 2024

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

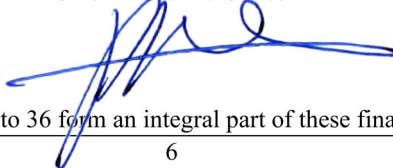
	<i>Note</i>	<i>2023</i> <i>SR</i>	<i>2022</i> <i>SR</i>
<u>ASSETS</u>			
Non-Current Assets			
Property and equipment	8	307,847,561	299,238,468
Right-of-use assets	9	4,954,455	5,415,512
Equity accounted investee	7	9,847,195	5,390,000
Capital advances		7,712,875	10,653,925
Total non-current assets		330,362,086	320,697,905
Current assets			
Inventories	10	129,003,480	56,653,734
Prepayments and other assets	11	125,449,144	82,082,623
Contract assets	12	611,125,936	426,040,163
Trade and other receivables	13	436,945,261	216,486,001
Cash and cash equivalents	14	69,143,003	84,630,225
Total current assets		1,371,666,824	865,892,746
Total assets		1,702,028,910	1,186,590,651
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	15	250,000,000	250,000,000
Statutory reserve	18	46,474,071	32,471,911
Retained earnings		235,766,628	109,747,190
Actuarial valuation reserve	19	5,349,930	5,362,277
Total equity		537,590,629	397,581,378
Non-current liabilities			
Employees' defined benefit liabilities	19	52,294,005	43,672,901
Advance from customer – long term portion	23.2	33,204,452	49,983,834
Non-current portion of lease liabilities	9.2	3,346,085	3,778,799
Non-current portion of term loans	20	114,950,726	105,513,500
Total non-current liabilities		203,795,268	202,949,034
Current liabilities			
Trade payables, accruals and other liabilities	22	437,762,663	143,398,682
Advance from customer – short term portion	23.2	76,706,829	31,698,991
Amounts due to related parties	21	1,824,199	1,589,543
Zakat payable	29	15,287,675	9,558,435
Current portion lease liabilities	9.2	1,460,000	1,511,717
Current portion of term loans	20	427,601,647	398,302,871
Total current liabilities		960,643,013	586,060,239
Total liabilities		1,164,438,281	789,009,273
Total equity and liabilities		1,702,028,910	1,186,590,651

These consolidated financial statements have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

Chairman of Board of Directors



Chief Executive Officer



Chief Financial Officer



The attached notes 1 to 36 form an integral part of these financial statements

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
For the year ended 31 December 2023

	<i>Note</i>	2023 SR	2022 SR
Revenue	23	1,709,270,448	822,032,855
Cost of revenue	24	(1,446,817,518)	(634,916,560)
Gross profit		262,452,930	187,116,295
Other income	28	8,196,762	3,965,582
Selling and distribution expenses	25	(691,303)	(1,442,785)
General and administrative expenses	26	(67,266,006)	(45,663,098)
Impairment loss on trade receivables and contract assets	12&13	(2,925,772)	(6,272,883)
Gain on sale of property and equipment		279,900	1,203,922
Other expense		(286,061)	(559,148)
Operating profit		199,760,450	138,347,885
Finance income	7	782,195	-
Finance cost	27	(39,568,702)	(19,198,077)
Share of loss from an equity accounted investee	7	(5,754,405)	(2,123,547)
Profit before zakat		155,219,538	117,026,261
Zakat	29	(15,197,940)	(9,585,084)
Net profit for the year		140,021,598	107,441,177
Other comprehensive income			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Re-measurement of defined benefits liability	19	(12,347)	8,633,832
Net other comprehensive (loss) / income		(12,347)	8,633,832
Total comprehensive income for the year		140,009,251	116,075,009
<i>Basic and diluted earnings per share:</i>			
Profit for the year attributable to ordinary equity holders	17	5.60	4.30

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Chairman of Board of Directors



Chief Executive Officer



Chief Financial Officer



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ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	<i>Share capital</i> <i>SR</i>	<i>Statutory</i> <i>reserve</i> <i>SR</i>	<i>Retained</i> <i>earnings</i> <i>SR</i>	<i>Actuarial</i> <i>valuation reserve</i> <i>SR</i>	<i>Total</i> <i>SR</i>
At 31 December 2021	250,000,000	21,727,793	88,050,131	(3,271,555)	356,506,369
Profit for the year	-	-	107,441,177	-	107,441,177
Other comprehensive income for the year	-	-	-	8,633,832	8,633,832
Total comprehensive income for the year	-	-	107,441,177	8,633,832	116,075,009
Transfer to statutory reserve	-	10,744,118	(10,744,118)	-	-
Dividends (note 16)	-	-	(75,000,000)	-	(75,000,000)
At 31 December 2022	250,000,000	32,471,911	109,747,190	5,362,277	397,581,378
Profit for the year	-	-	140,021,598	-	140,021,598
Other comprehensive loss for the year	-	-	-	(12,347)	(12,347)
Total comprehensive income for the year	-	-	140,021,598	(12,347)	140,009,251
Transfer to statutory reserve	-	14,002,160	(14,002,160)	-	-
At 31 December 2023	250,000,000	46,474,071	235,766,628	5,349,930	537,590,629

These consolidated financial statements have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

Chairman of Board of Directors



Chief Executive Officer



Chief Financial Officer



The attached notes 1 to 36 form an integral part of these financial statements.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

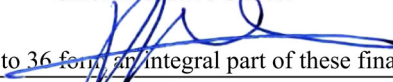
		2023	2022
	Note	SR	SR
OPERATING ACTIVITIES			
Profit for the year before zakat		155,219,538	117,026,261
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation of property and equipment	8	47,019,479	35,103,726
Depreciation of right-of-use assets	9	1,822,390	1,211,387
Gain on sale of property and equipment		(279,900)	(1,203,922)
Provision for employees' defined benefits	19	14,349,628	11,787,568
Provision for inventory write-down	26	314,803	-
Finance income	7	(782,195)	-
Finance costs – term loans	27	39,400,798	19,069,203
Finance costs – lease liabilities	27	167,904	128,874
Allowance for expected credit losses	12&13	2,925,772	6,272,883
Provision for onerous contracts	22	3,000,000	-
Other provisions	26	12,028,200	-
Share of loss from an equity accounted investee	7	5,754,405	(2,123,547)
Loss on termination of lease contracts		5,832	111,120
		280,946,654	187,383,553
<i>Working capital adjustments:</i>			
Inventories		(72,664,549)	(20,735,430)
Prepayments and other assets		(43,366,521)	(40,220,708)
Contract assets		(187,225,312)	(193,604,990)
Trade and other receivables		(221,245,493)	22,042,672
Advance from customer		28,228,456	80,180,634
Trade payables, accruals and other liabilities		271,570,747	25,898,029
Amounts due to related parties		234,656	1,589,543
Cash flows generated from operations		56,478,638	62,533,303
Employees' defined benefits paid	19	(5,740,871)	(3,434,376)
Finance cost paid		(37,390,169)	(19,069,203)
Zakat Paid	29	(9,468,700)	(8,138,362)
Net cash generated from operating activities		3,878,898	31,891,362
INVESTING ACTIVITIES			
Purchase of property and equipment	8	(56,768,758)	(188,400,130)
Proceeds from sale of property and equipment		1,420,086	2,682,037
Movement of capital advances		2,941,050	(6,935,151)
Investment in an equity accounted investee	7	-	245,000
Amount due from an equity accounted investee	7	(3,675,000)	(5,390,000)
Net cash used in investing activities		(56,082,622)	(197,798,244)
FINANCING ACTIVITIES			
Proceeds from term loans	20	528,605,803	1,167,056,997
Repayment of term loans	20	(489,869,801)	(882,033,023)
Dividends paid	16	-	(75,000,000)
Payment of principal portion of lease liability	9	(1,851,596)	(1,378,505)
Finance costs paid on lease liabilities		(167,904)	(128,874)
Net cash generated from financing activities		36,716,502	208,516,595
Change in cash and cash equivalents		(15,487,222)	42,609,713
Cash and bank balances at the beginning of the period		84,630,225	42,020,512
Cash and bank balances at the end of the period		69,143,003	84,630,225
Significant non-cash transactions:			
Recognition of right of use assets and lease liability	9	1,367,165	3,517,206

These consolidated financial statements have been authorised for issue by the Board of Directors on behalf of the Shareholders and signed on its behalf by:

Chairman of Board of Directors

Chief Executive Officer

Chief Financial Officer


The attached notes 1 to 36 form an integral part of these financial statements.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

1 CORPORATE INFORMATION

Alkhorayef for Water and Power Technologies Company (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration number 1010085982 dated 22 Safar 1412H (corresponding to 1 September 1991). The registered office is located at King Abdulaziz Road – Riyadh.

The Company is engaged in contracting for buildings, roads, industrial, mechanical, marine and electrical works, cleaning of buildings and cities, operation and maintenance of medical centers, hospitals, airports, and waste disposal, and environmental pollution control. Alkhorayef Group Company (AGC) is the Parent Company and Abdullah Ibrahim Alkhorayef sons (AIA) is the Ultimate Holding Company.

On 15 Shawwal 1441H (corresponding to 7 June 2020), the Company’s Board of Directors approved the plan for initial public offering of the Company by offering 30% of the Company’s shares for initial public offering by submitting an application and registering the securities to the Capital Market Authority and listing it through Saudi Stock Exchange (“Tadawul”).

On 16 Jumada Al Awal 1442H (corresponding to 31 December 2020), the Capital Market Authority announced the approval to offer 7,500,000 shares for public subscription representing (30%) of the Company’s shares. On 1 March 2022 the Company’s shares started the trading in Tadawul.

The Company has the following branches:

<i>Branch Commercial Registration Number</i>	<i>Branch</i>	<i>Date of registration</i>
1010468210	Riyadh	22 Jumada’I 1438H
1010615747	Riyadh	7 Rabi’II 1441H
2050125508	Dammam	2 Ramadan 1440H

On 12 Safar 1443H (corresponding to 12 September 2022), the Company established a new branch in Iraq which is not operational as at 31 December 2023.

In 2023, the Company established a wholly owned subsidiary with the following details:

<u>Company</u>	<u>Origin</u>	<u>Date of incorporation</u>	<u>Principal activity*</u>	<u>Capital</u>
The Fifth Package Development Company for Environmental Services	Saudi Arabia	9 October 2023	Water and waste collection and management, environmental pollution control.	SR 100,000

* The subsidiary has not yet commenced its operations.

These consolidated financial statements include the activities of the Company and its subsidiary (collectively referred to as the “Group”).

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years. The management is in process of assessing the impact of this new Law and will amend its By-laws for any changes to align the By-laws to the provisions of the Law. Consequently, the Company shall present the amended By-laws to the shareholders in their Annual General Assembly meeting for their ratification.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements (here and after referred to as “financial statements”) have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) that are endorsed in the Kingdom of Saudi Arabia (“KSA”) and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

2 BASIS OF PREPARATION (CONTINUED)

2.2 Historical cost convention

These financial statements have been prepared under the historical cost basis, except for obligation for the employees' end of services benefits that is measured at the present value of defined benefit obligation, which has been actuarially valued using the projected unit credit method.

2.3 Functional and presentation currency

The financial statements are presented in Saudi Riyals, which is also the Group's functional and presentation currency.

2.4 Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Group's financial statements continue to be prepared on the going concern basis.

2.5 Basis of consolidation

Subsidiary

The subsidiary is controlled by the Group. Control is achieved when the Group 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 Group controls an investee if, and only if, the Group 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 in the investee;
- The ability to use its power over the investee to affect its returns.

The Group 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 Group obtains control over the subsidiary and ceases when the Group 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 statement from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

Material accounting policies enumerated in note 3 have been applied consistently by all entities of the Group.

Interest in equity-accounted investees

The Group's interests in equity-accounted investees comprise interest in associates and a joint venture.

Associates are those entities in which the Group has a significant influence, but no control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and the joint venture are accounted for under the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

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2 BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

Loss of control

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in consolidated statement of profit or loss and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses and cash flows relating to transactions arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3 MATERIAL ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

In addition the Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. Although the amendments did not result in any changes to the accounting policy themselves, they impacted the accounting policy information disclosed in certain instances.

a) Investments in joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint operations

A joint operation is an arrangement whereby the parties that have joint control on the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held assets or incurred liabilities, revenues and expenses for its joint operations.

b) Current versus non-current classification

The Group presents assets and liabilities in the 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.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

c) Fair value measurement

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:

- a) In the principal market for the asset or liability, or
- b) 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 by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, 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 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.

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.

d) Revenue recognition

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers. The Group applies the five-step model as established under IFRS 15 in recognizing revenue arising from contracts with customers. This is detailed below:

Revenue from contracts with customers

Step 1: Identify the contract(s) with a customer:

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify the performance obligations in the contract:

A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

d) Revenue recognition (continued)

Revenue from contracts with customers (continued)

Step 4: Allocate the transaction price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- a) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.
- b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Specific recognition criteria

The Group is in the business of providing contracting services ("Project Services") and operations and maintenance services for water treatment plants and water networks, wastewater treatment plants and wastewater networks, as well as other water related infrastructure assets such as stormwater networks ("Operations and Maintenance" or "O&M").

Generally, the performance obligations in the Project services and O&M activities carried out by the Group are met over time, rather than at a point in time, since the customer simultaneously receives and consumes the benefits offered by the Group's performance as the service is provided. Additionally, the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

For the method of measuring the progress of performance of an obligation, Group has established certain criteria that are consistently applied in respect of similar performance obligations. The Group has chosen the output method as it is deemed to best depict the transfer of control of goods or services to the customer. The output method is based on the direct measurements of the value to the customer of goods or services transferred to date, relative to the remaining goods or services promised in the contract.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

d) Revenue recognition (continued)

Revenue Recognition from Project Services contracts

Project services contracts generally encompass the design, engineering, procurement, construction, testing, commissioning, upgrade and rehabilitation of water and wastewater assets. In contracts for the provision of different, highly interrelated goods or services required to produce a combined output, which often occurs in contracts for project services, the applicable output method is that of measurement of units produced (“surveys of performance” under “output methods”), in which the revenue recognized relates to the work units completed, based on the price assigned to each unit. In accordance with this method, the units produced under each contract are measured and the output for the month is recognized as revenue.

Principally during early stages of a contract, when the outcome of a contract may not be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is to be recoverable. Contract costs are recognised as expenses in the year in which they are incurred.

The monthly revenues are calculated according to the output in relation to the project phases specified at the beginning of the contract and are recorded in the contract assets / unbilled revenue account. Invoices are submitted on a monthly basis and are recorded as receivables from the customer in the Group's accounts upon final approval by the customer.

Revenue from Operations and Maintenance

The O&M services include all the activities related to operating, repairing, restoring and maintaining functional the water and wastewater infrastructure. These activities encompass functional checks, servicing, repairing or replacing of necessary parts and ancillary technical services intended to retain or restore a functional unit. The Group principally operates in fixed price and unit price contracts. Revenue is recognised on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the total goods or services promised under the contract (Contract Bill of Quantity “BoQ”).

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Variable consideration

If the consideration promised in a contract includes a variable amount, this amount is recognized only to the extent that it is highly probable that a significant reversal in the amount recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Significant financing component

The Group adjusts the promised amount of consideration for the time value of money if the contract contains a significant financing component.

Contract balances

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

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

Trade receivable - a receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Cost of revenue

Costs of revenue includes costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labor costs (including site supervision); costs of materials used; depreciation of equipment used on the contract; subcontractor costs; costs of design, and technical assistance that is directly related to the contract.

e) Zakat and Indirect Taxes

Zakat

The Group is subject to zakat in accordance with the regulations of Zakat, Tax and Customs Authority ("ZATCA"). Provision for zakat for the Group is charged to the statement of profit or loss and other comprehensive income.

Value added tax "VAT"

Expenses and assets are recognised net of the amount of value added tax, except:

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

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

Withholding tax

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. This liability is recorded when amounts are paid to the non-resident parties

f) Foreign currencies

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

g) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of profit or loss as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- | | |
|----------------------------|--|
| • Buildings on leased land | 20 years (lesser of lease term or useful life) |
| • Heavy machines | 7 years |
| • Furniture and fixtures | 7 years |
| • Motor Vehicles | 5 years |

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

g) Property and equipment (continued)

An item of property and equipment and any significant part initially recognised 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 statement of profit or loss when the asset is derecognised.

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

h) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities and corresponding right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortisation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of assets (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

i) 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 asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) *Financial instruments*

Financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities are initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price. 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All recognized financial assets are initially recognized at fair value and subsequently measured in their entirety at either amortized cost or fair value, depending on the classification. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- 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.

Debt instruments that meet the following conditions are subsequently measured at Fair Value Through Other Comprehensive Income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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.

By default, all other financial assets are subsequently measured at Fair Value Through Profit or Loss ("FVTPL").

Despite the above, the Group may make the following irrevocable election / designation at the initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met. The election is made on an investment-by investment basis; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Classification of financial assets (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) *Financial instruments (continued)*

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, amounts due from customers, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime Expected Credit Loss ("ECL") for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. 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.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment and estimating ECLs, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating.
- significant deterioration in external market indicators of credit risk for a particular financial instrument.
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations.
- an actual or expected significant deterioration in the operating results of the debtor.
- significant increases in credit risk on other financial instruments of the same debtor.
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (continued)

Significant increase in credit risk (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' in accordance with the globally understood definition.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) *Financial instruments (continued)*

Measurement of ECLs

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following bases:

- Nature of financial instruments
- Past-due status; and
- Nature, size and industry of debtors

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve (under OCI) is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve (under OCI) is not reclassified to profit or loss, but is transferred to retained earnings.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

j) *Financial instruments (continued)*

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not: 1) contingent consideration of an acquirer in a business combination, 2) derivative, 3) held-for-trading, or 4) designated as at FVTPL, are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's contractual obligations are discharged, cancelled or they expire. The Group also derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k) Inventories

Inventories are measured at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items. Cost is determined using the weighted average method.

Cost includes expenditure incurred in acquiring the inventories and costs incurred in bringing them to their existing location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal. Cost of finished goods and goods for resale is determined based on the purchase cost on a weighted average basis.

l) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an 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. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

l) Impairment of non-financial assets (continued)

The value in use is assessed by discounting the estimated future cash flows 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. The recoverable amount 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. When 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.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

m) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks, cash in hand and deposits with original maturity period of less than 90 days.

n) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of 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. When the Group expects some or all of a provision to be reimbursed, 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 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 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 finance cost.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

o) Employees' benefits

Short-term employees' benefits

Short-term employees' benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and air fare allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

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3 MATERIAL ACCOUNTING POLICIES (CONTINUED)

o) Employees' benefits (continued)

End-of-services benefits obligation

The Group primarily has end of service benefits which qualifies as defined benefit plans. The liability recognized in the consolidated statement of financial position is the Defined Benefit Obligation ("DBO") at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For instances where there is no deep market in such bonds, the market rates on government bonds are used. The discount rate is based on government bond yields in KSA.

The net interest cost is calculated by applying the discount rate to the net balance of the DBO. This cost is included in employees' salaries and other benefits expense in the consolidated statement of income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognized in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of income as past service costs.

Current and past service costs related to end-of-service benefits and unwinding of the liability at discount rates used are recognized immediately in the consolidated statement of income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

The actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Group's policy.

p) Accounts payable and other liabilities

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. These are initially recognised at fair value and subsequently remeasured at amortised cost.

q) Statutory reserve

In accordance with the Group's by-laws, the Group must set aside 10% of its income after zakat in each year until it has built up a reserve equal to 30% of its share capital. The reserve is not available for distribution.

r) Earnings per share

Earnings per share are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year.

s) Dividends

Final dividends are recognised as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

t) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable are recorded in the financial statement under accounts payable and accruals. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

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4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

4.1 Judgements

The following are the key areas that involved judgement from management.

4.1.1 Leases

In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. Management revises the lease term if there is a change in the non-cancellable period of a lease.

4.1.2 Determination of control, joint control and significant influence

Judgments are applied in the determination of whether control, joint control or significant influence is present with respect to investments in subsidiaries, joint arrangements or associates. For control, judgment is applied when determining if an entity is controlled by voting rights, potential voting rights or other rights granted through contractual arrangements and includes considering an entity's purpose and design.

For joint control, judgment is applied when assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties by taking decisions about relevant activities through unanimous consent of the parties sharing control. For joint control, judgment is also applied as to whether the joint arrangement is classified as a joint venture or joint operation taking into account specific facts and circumstances, such as the purpose and design of the arrangement, including with respect to its output, its relationship to the parties and its source of cash flows.

For significant influence, judgment is applied in its determination by assessing factors such as representation on the board of directors, participation in policy-making processes, material transactions with the entity, interchange of managerial personnel and provision of essential technical information.

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 financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumption and estimation uncertainties is included in the following areas:

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4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

4.2 Estimates and Assumptions (continued)

4.2.1 *Useful life of property and equipment*

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

4.2.2 *Impairment of inventories*

The Group recognises an allowance for inventory losses due to factors such as obsolescence, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the manufacturer, past trends and both existing and emerging market conditions.

4.2.3 *Provision for expected credit losses (ECLs) of trade receivables and contract assets*

The Group uses a provision matrix to calculate ECLs for trade receivables, retention receivables and contract assets. The provision matrix is initially based on the Group historical observed default rates. The Group calibrate the matrix to adjust the historical credit loss experience with forward-looking information. 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 condition may also may not be representative of customers actual default in future. The information about the ECLs on the Group trade receivables and contract assets is disclosed in note 12 and 13 respectively.

4.2.4 *Revenue recognition – measure of progress*

The Group uses the output method to recognise revenue over time as it is deemed to best depict the transfer of control of goods or services to the customer. The output method is based on the direct measurements of the value to the customer of goods or services transferred to date, relative to the remaining goods or services promised in the contract. For certain contracts, determining the output and the corresponding percentage of completion may require judgement and estimation due to the nature of the business where contracts run over a number of accounting periods.

4.2.5 *Employees' defined benefit*

The cost of the defined benefit liability and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate and future salary increase. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AAA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality.

Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in employment market. The mortality rate is based on publicly available mortality tables for the Country. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employees' benefit obligations are provides in note 19.

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5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and amended standards and interpretations that are effective in current year

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023.

- IFRS 17 Insurance Contracts, including amendments to Initial Application of IFRS 17
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimate – Amendments to IAS 8
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

Management has assessed that there is no significant impact on the financial statements as a result of applying the above amendments.

New and revised IFRS in issue but not yet effective and not early adopted

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

New and revised IFRSs	Effective for annual periods beginning on or after
Non-current Liabilities with Covenants – Amendments to IAS 1	
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Supplier Finance Arrangement – Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of Exchangeability – Amendments to IAS 21	1 January 2025

6 INVESTMENTS IN JOINT ARRANGEMENTS

During 2015 and 2017, the Group participated in certain projects (undertaken through an unincorporated joint arrangement) whereby the Group and the other venture partner assumed an economic activity subject to joint control. Such unincorporated joint arrangements, whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, are classified as joint operations. In the accompanying financial statements, the Group reports its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue including its share of the revenue from the sale of the output by the joint operation and its expenses, including its share of any expenses incurred jointly.

The joint arrangement had no contingent liabilities or capital commitments as at 31 December 2023 and 31 December 2022.

Below is the listing of the Group's joint arrangements:

<u>Entity name</u>	<u>Principal place of business</u>	<u>Principal activities</u>	<u>Percentage ownership interest</u>	
			<u>2023</u>	<u>2022</u>
Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca (Mecca UJV)	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%
Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs (Riyadh TSE)	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%

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6 INVESTMENTS IN JOINT ARRANGEMENTS (CONTINUED)

6.1 Summarised financial statements of the joint operations

	Mecca UJV		Riyadh TSE *	
	2023	2022	2023	2022
	SR	SR	SR	SR
Total current assets	5,394,229	5,394,229	-	504,501
Total non-current assets	-	-	-	-
Total current liabilities	(3,394,984)	(3,359,984)	-	(92,117)
Net assets	1,999,245	2,034,245	-	412,384
Group's share at 49%	979,630	996,780	-	202,068

* On 23 August 2023, the Group has received a partner resolution for Riyadh TSE indicating that the balances are settled.

	Mecca UJV		Riyadh TSE	
	2023	2022	2023	2022
	SR	SR	SR	SR
Revenue	-	-	-	-
Operating expenses	(35,000)	(245,990)	-	-
Loss for the year	(35,000)	(245,990)	-	-
Group's share at 49%	(17,150)	(120,535)	-	-

7 EQUITY ACCOUNTED INVESTEE

Investee name	Nature	Principal place of business	Principal activities	Percentage of ownership	
				2023	2022
Erwaa Water Company ("EWC")	Associate	Saudi Arabia	Operations and Maintenance	49%	49%
Innovative Water Transport Development Company	Joint venture	Saudi Arabia	Operations and Maintenance	50%	-

- 7.1 The Group entered into an agreement with Veolia Middle East Group to establish a limited liability company named Erwaa Water Company ("EWC"). Accordingly, EWC was established with a capital of SR 500,000 (500 shares of SR 1,000 each) on 3 Jumada Al-Alkhirah 1443H (corresponding to 6 January 2022).

The Group has paid SR 245,000 representing 49% of share capital to EWC. Group has determined that it has significant influence because it has meaningful (but not majority) representation on the board of the associate. The investment is accounted for using the equity method in these financial statements. EWC had no contingent liabilities or capital commitments as at 31 December 2023.

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7 EQUITY ACCOUNTED INVESTEE (CONTINUED)

Summarised financial statements of the associate:

	2023	2022
	<u>SR</u>	<u>SR</u>
Total current assets	48,331,696	31,588,707
Total non-current assets	3,823,945	4,269,214
Total current liabilities	(39,636,737)	(25,448,556)
Non-current liabilities	(28,096,372)	(14,243,135)
Net liability	<u>(15,577,468)</u>	<u>(3,833,770)</u>

Group's share of interest in associate at 49%	<u>(7,632,959)</u>	<u>(1,878,547)</u>
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	2023	2022
	<u>SR</u>	<u>SR</u>
Revenue	48,914,005	34,273,615
Loss for the period	<u>(11,743,683)</u>	<u>(4,333,768)</u>

Group's share of loss for the period at 49%	<u>(5,754,405)</u>	<u>(2,123,547)</u>
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Movement in investment in an associate:

	2023	2022
	<u>SR</u>	<u>SR</u>
Opening balance	(1,878,547)	-
Investment during the year	-	245,000
Share of loss for the period	<u>(5,754,405)</u>	<u>(2,123,547)</u>
Losses exceeding cost of investment	<u>(7,632,952)</u>	<u>(1,878,547)</u>
Closing balance	<u>-</u>	<u>-</u>

Share of loss for the period SR 5.75 million (31 December 2022: SR 2.12 million) has exceeded the carrying value of investment as at 31 December 2023 by SR 7.633 million (2022: SR 1.878 million). The Group has recognized additional losses as an obligation and has presented under the liabilities since the Group has a legal obligation to record additional losses in proportion of its ownership percentage in accordance with terms of the agreement. This amount is included as a obligation within current liabilities. The loss has mainly arisen due to startup expenditures. EWC is expected to generate profits over the life of the project.

During the year ended 31 December 2022, shareholders of EWC agreed to provide additional funding to EWC to support its working capital requirements in proportion of their ownership percentage. Accordingly, an agreement between the Company and EWC was signed, under which the Company agreed to provide a maximum loan amount of SR 22.1 million. The loan carries rate of SIBOR plus profit margin and has a maturity date of 4 May 2028. During the period ended 31 December 2023 the Company has provided additional funding of SR 3.68 million proportionate to its share in the EWC.

Movement in loan to associate:

	2023	2022
	<u>SR</u>	<u>SR</u>
Opening balance	5,390,000	-
Addition during the year	3,675,000	7,840,000
Interest income	782,195	-
Repayments	-	(2,450,000)
Closing balance (note 21)	<u>9,847,195</u>	<u>5,390,000</u>

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7 EQUITY ACCOUNTED INVESTEE (CONTINUED)

- 7.2 The Group entered into an agreement with Cobra Group to establish a limited liability company named Innovative Water Transport Development Company ("IWTD"). Accordingly, IWTD was established with unpaid capital of SR 100,000 (100 shares of SR 1,000 each) on 11 Rabi Al-Alkhirah 1445H (corresponding to 26 October 2023) with commercial registration number 4030529953. IWTD has not yet commenced its operations.

8 PROPERTY AND EQUIPMENT

<i>31 December 2023</i>	<i><u>Buildings</u></i> <i>SR</i>	<i><u>Heavy</u></i> <i><u>machines</u></i> <i>SR</i>	<i><u>Furniture</u></i> <i><u>and</u></i> <i><u>fixtures</u></i> <i>SR</i>	<i><u>Motor</u></i> <i><u>vehicles</u></i> <i>SR</i>	<i><u>Capital</u></i> <i><u>work in</u></i> <i><u>progress</u></i> <i>SR</i>	<i><u>Total</u></i> <i>SR</i>
<i>Cost:</i>						
At the beginning of the year	3,303,828	263,634,057	17,347,840	110,224,121	90,562,500	485,072,346
Additions	757,489	30,153,536	4,203,303	21,502,430	152,000	56,768,758
Disposals	(45,600)	(607,590)	(194,384)	(1,585,743)	-	(2,433,317)
At the end of the year	<u>4,015,717</u>	<u>293,180,003</u>	<u>21,356,759</u>	<u>130,140,808</u>	<u>90,714,500</u>	<u>539,407,787</u>
<i>Accumulated depreciation:</i>						
At the beginning of the year	1,853,429	112,187,594	10,183,613	61,609,242	-	185,833,878
Charge for the year	281,409	28,880,052	1,846,311	16,011,707	-	47,019,479
Disposals	(45,600)	(311,807)	(113,544)	(822,180)	-	(1,293,131)
At the end of the year	<u>2,089,238</u>	<u>140,755,839</u>	<u>11,916,380</u>	<u>76,798,769</u>	<u>-</u>	<u>231,560,226</u>
<i>Net book value</i>						
At 31 December 2023	<u>1,926,479</u>	<u>152,424,164</u>	<u>9,440,379</u>	<u>53,342,039</u>	<u>90,714,500</u>	<u>307,847,561</u>

- (a) The land in which the buildings are situated on, is in the name of Alkhorayef Group Company, (the "Parent Company") and Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company"), which is leased to the Group for 20 years (note 21).
- (b) Capital work in progress include cost incurred for the new head office building in Riyadh currently undergoing some structural work for its intended use.

<i>31 December 2022</i>	<i><u>Buildings</u></i> <i>SR</i>	<i><u>Heavy</u></i> <i><u>machines</u></i> <i>SR</i>	<i><u>Furniture</u></i> <i><u>and</u></i> <i><u>fixtures</u></i> <i>SR</i>	<i><u>Motor</u></i> <i><u>vehicles</u></i> <i>SR</i>	<i><u>Capital</u></i> <i><u>work in</u></i> <i><u>progress</u></i> <i>SR</i>	<i><u>Total</u></i> <i>SR</i>
<i>Cost:</i>						
At the beginning of the year	2,710,334	210,548,824	15,500,048	92,245,537	-	321,004,743
Additions	891,942	66,084,989	3,131,742	27,728,957	90,562,500	188,400,130
Disposals	(298,448)	(12,999,756)	(1,283,950)	(9,750,373)	-	(24,332,527)
At the end of the year	<u>3,303,828</u>	<u>263,634,057</u>	<u>17,347,840</u>	<u>110,224,121</u>	<u>90,562,500</u>	<u>485,072,346</u>
<i>Accumulated depreciation:</i>						
At the beginning of the year	2,034,554	103,164,749	9,807,238	58,578,024	-	173,584,565
Charge for the year	113,905	21,506,022	1,338,673	12,145,126	-	35,103,726
Disposals	(295,030)	(12,483,177)	(962,298)	(9,113,908)	-	(22,854,413)
At the end of the year	<u>1,853,429</u>	<u>112,187,594</u>	<u>10,183,613</u>	<u>61,609,242</u>	<u>-</u>	<u>185,833,878</u>
<i>Net book value</i>						
At 31 December 2022	<u>1,450,399</u>	<u>151,446,463</u>	<u>7,164,227</u>	<u>48,614,879</u>	<u>90,562,500</u>	<u>299,238,468</u>

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8 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charge for the year was allocated as follows:

	2023	2022
	<u>SR</u>	<u>SR</u>
Cost of revenues (note 24)	46,644,314	34,449,790
General and administrative expenses (note 26)	375,165	653,936
	<u>47,019,479</u>	<u>35,103,726</u>

9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

9.1 Right-of-use assets

The Group has various land and building under lease arrangements, at various locations with its Parent Company and the Ultimate Parent Company (refer note 21). Lease term for the above leases' ranges from 2 to 20 years with renewal and termination options. The Group considers option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Payments related to low value and short-term leases are recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets are being depreciated on a straight-line basis for a period of 2-20 years.

	<i>Leasehold land SR</i>	<i>Leased Buildings SR</i>	<i>Total</i>
Cost:			
As at 1 January 2022	3,829,782	770,086	4,599,868
Additions (note 9.2)	-	3,517,206	3,517,206
Termination	-	(181,907)	(181,907)
At 31 December 2022	3,829,782	4,105,385	7,935,167
Additions (note 9.2)	-	1,367,165	1,367,165
Termination	-	(5,832)	(5,832)
At 31 December 2023	<u>3,829,782</u>	<u>5,466,718</u>	<u>9,296,500</u>
Accumulated depreciation:			
As at 1 January 2022	808,603	499,665	1,308,268
Charge for the year	161,958	1,049,429	1,211,387
At 31 December 2022	970,561	1,549,094	2,519,655
Charge for the year	161,958	1,660,432	1,822,390
At 31 December 2023	<u>1,132,519</u>	<u>3,209,526</u>	<u>4,342,045</u>
Net book value:			
As at 31 December 2023	<u>2,697,263</u>	<u>2,257,192</u>	<u>4,954,455</u>
As at 31 December 2022	<u>2,859,221</u>	<u>2,556,291</u>	<u>5,415,512</u>

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9 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

9.2 Lease liabilities

The Group had entered into new lease contract which resulted in non-cash additions to right-of-use assets and lease liabilities of SR 1,367,165 in 2023 (2022: 3,517,206).

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>Leasehold land SR</i>	<i>Leased Buildings SR</i>	<i>Total</i>
Recognised at 1 January 2022	3,074,751	147,850	3,222,601
Additions	-	3,517,206	3,517,206
Termination	-	(70,786)	(70,786)
Accretion of interest (note 27)	126,042	2,833	128,875
Payments (*)	(288,000)	(1,219,380)	(1,507,380)
At 31 December 2022	2,912,793	2,377,723	5,290,516
Additions	-	1,367,165	1,367,165
Accretion of interest (note 27)	139,681	28,223	167,904
Payments (*)	(288,000)	(1,731,500)	(2,019,500)
At 31 December 2023	2,764,474	2,041,611	4,806,085

(*) Payment of lease liability includes repayment of principal portion of SR 1,851,596 (31 December 2022: SR 1,378,505) and payment of interest amounted to SR 167,904 (31 December 2022: SR 128,875).

As at 31 December, the lease liabilities are presented in the statement of financial position as follows:

	<i>2023 SR</i>	<i>2022 SR</i>
Current portion	1,460,000	1,511,717
Non-current portion	3,346,085	3,778,799
At 31 December	4,806,085	5,290,516

9.3 Amounts recognized in profit or loss

The following are the amounts recognised in the profit and loss:

	<i>2023 SR</i>	<i>2022 SR</i>
Depreciation allocated to cost of revenue (note 24)	1,784,446	1,170,897
Depreciation allocated to general and administrative expenses (note 26)	37,944	40,490
Interest expense on lease liabilities (note 27)	167,904	128,875
Short-term leases recognised on straight-line basis as rent expense (note 24 and note 26)	23,422,875	14,809,081
	25,413,169	16,149,343

9.4 Amounts recognized in statement of cash flow

Amount recognised in the statement of cash flow

	<i>2022 SR</i>	<i>2022 SR</i>
Total cash outflow for leases	2,019,500	1,507,380

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10 INVENTORIES

	2023	2022
	<u>SR</u>	<u>SR</u>
Spare parts	127,037,575	53,735,039
Finished goods	5,985,005	6,622,992
	133,022,580	60,358,031
Provision for inventory write-down	(4,019,100)	(3,704,297)
At 31 December	<u>129,003,480</u>	<u>56,653,734</u>

During the year ended 31 December 2023, management has created additional provision for the write-down of inventories amounting to SR 314,803 (31 December 2022: nil).

11 PREPAYMENTS AND OTHER ASSETS

	2023	2022
	<u>SR</u>	<u>SR</u>
Prepaid expenses *	62,682,749	44,831,314
Advances to suppliers	42,474,823	17,445,152
Employees' receivable	6,803,301	8,890,988
VAT receivables	3,426,272	-
Others	10,061,999	10,915,169
	<u>125,449,144</u>	<u>82,082,623</u>

* Prepaid expenses mainly represent iqama costs and insurance paid in advance.

12 CONTRACT ASSETS

	2023	2022
	<u>SR</u>	<u>SR</u>
At 1 January	426,040,163	236,382,937
Value of work performed during the year	1,709,270,448	822,032,855
Progress billings made during the year	(1,517,976,378)	(628,306,871)
	617,334,233	430,108,921
Less: provision for expected credit losses	(6,208,297)	(4,068,758)
At 31 December	<u>611,125,936</u>	<u>426,040,163</u>

12.1 Contract assets relates to the Group's right to receive consideration for work completed but not billed at the reporting date.

12.2 The contract assets balance as at 31 December 2023 includes unbilled revenue to a related party, Erwa Water Company, amounting to SR 12,549,502 (31 December 2022: nil) – (note 21).

12.3 Movement of provisions for expected credit losses on contract assets:

	2023	2022
	<u>SR</u>	<u>SR</u>
At 1 January	4,068,758	120,994
Charge for the year	2,139,539	3,947,764
At 31 December	<u>6,208,297</u>	<u>4,068,758</u>

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12 CONTRACT ASSETS (CONTINUED)

Set out below is the ageing of contract assets as at 31 December:

2023

	<u>0-90 days</u>	<u>91-180 days</u>	<u>181-270 days</u>	<u>271-360 days</u>	<u>361-450 days</u>	<u>451-540 days</u>	<u>541-630 days</u>	<u>631-720 days</u>	<u>Over 720 days</u>	<u>Total</u>
Expected credit loss rate	0.09%	0.30%	0.53%	0.88%	1.57%	4.16%	6.09%	8.11%	41.47%	
	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
Total gross carrying amount at default	482,570,711	60,180,088	30,326,076	17,078,715	11,249,595	3,741,060	104,100	272,500	11,811,388	617,334,233
Expected credit loss	456,341	182,846	160,701	150,213	176,068	155,551	6,335	22,112	4,898,130	6,208,297

2022

	<u>0-90 days</u>	<u>91-180 days</u>	<u>181-270 days</u>	<u>271-360 days</u>	<u>361-450 days</u>	<u>451-540 days</u>	<u>541-630 days</u>	<u>631-720 days</u>	<u>Over 720 days</u>	<u>Total</u>
Expected credit loss rate	0.19%	0.47%	0.89%	1.61%	2.12%	10.27%	12.06%	17.49%	82.48%	
	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
Total gross carrying amount at default	314,840,255	44,192,150	27,335,520	8,639,796	16,418,056	11,423,232	1,648,500	5,327,652	283,760	430,108,921
Expected credit loss	595,234	205,740	243,011	138,850	348,386	1,172,841	198,858	931,795	234,043	4,068,758

Set out below is the information about the credit risk exposure on contract assets:

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Contract assets government parties	616,850,763	429,557,945
Contract assets non-government parties	483,470	550,976
Less: allowance for expected credit losses	(6,208,297)	(4,068,758)
At 31 December	<u>611,125,936</u>	<u>426,040,163</u>

13 TRADE AND OTHER RECEIVABLES

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Trade receivables	428,247,898	214,725,792
Retention receivables	17,084,521	9,361,134
	<u>445,332,419</u>	<u>224,086,926</u>
Less: allowance for expected credit losses	(8,387,158)	(7,600,925)
At 31 December	<u>436,945,261</u>	<u>216,486,001</u>

Movement of provisions for expected credit losses on trade receivables and retentions:

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
At 1 January	7,600,925	5,275,806
Charge for the year	786,233	2,325,119
At 31 December	<u>8,387,158</u>	<u>7,600,925</u>

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13 TRADE AND OTHER RECEIVABLES (CONTINUED)

Terms and conditions of the above financial assets:

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The receivables include amounts totaling SR 427.1 million which is due from Government and quasi-Government institutions (31 December 2022: SR 213 million).

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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 maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed. The Group does not hold collateral as security.

Set out below is the information about the credit risk exposure on trade receivables. See note 30.5 on credit risk of trade receivables, which explains how the Group manages and measures credit risk quality receivables that are neither past due nor impaired.

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
Trade and retention receivables from government parties	444,216,778	219,265,890
Trade and retention receivables from non-government parties	1,115,641	4,821,036
Less: allowance for expected credit losses	(8,387,158)	(7,600,925)
At 31 December	<u>436,945,261</u>	<u>216,486,001</u>

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13 TRADE AND OTHER RECEIVABLES (CONTINUED)

Set out below is the aging of Trade Receivables as at 31 December:

2023

	<i>Not past due</i>	<i>0-90 days</i>	<i>91-180 days</i>	<i>181-270 days</i>	<i>271-360 days</i>	<i>361-450 days</i>	<i>451-540 days</i>	<i>541-630 days</i>	<i>631-720 days</i>	<i>Over 720 days</i>	<i>Total</i>
Expected credit loss rate	0.11% SR	0.46% SR	0.80% SR	1.69% SR	3.18% SR	4.60% SR	6.73% SR	6.94% SR	8.39% SR	41.20% SR	SR
Total gross carrying amount at default	335,366,605	71,035,466	9,719,133	4,602,822	865,469	1,734,531	625,230	2,020,941	2,203,675	17,158,547	445,332,419
Expected credit loss	364,024	324,698	77,464	77,938	27,518	79,748	42,096	140,216	184,935	7,068,521	8,387,158

2022

	<i>Not past due</i>	<i>0-90 days</i>	<i>91-180 days</i>	<i>181-270 days</i>	<i>271-360 days</i>	<i>361-450 days</i>	<i>451-540 days</i>	<i>541-630 days</i>	<i>631-720 days</i>	<i>Over 720 days</i>	<i>Total</i>
Expected credit loss rate	0.51% SR	1.22% SR	2.27% SR	1.34% SR	5.69% SR	9.49% SR	12.75% SR	17.7% SR	19.9% SR	21.09% SR	SR
Total gross carrying amount at default	135,830,815	18,180,649	19,974,295	4,018,799	12,909,252	13,343,018	44,855	-	-	19,785,243	224,086,926
Expected credit loss	691,589	222,474	452,742	53,879	734,873	1,266,749	5,721	-	-	4,172,898	7,600,925

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14 CASH AND CASH EQUIVALENTS

	2023	2022
	<u>SR</u>	<u>SR</u>
Cash at banks	69,123,116	84,629,475
Cash in hand	19,887	750
At 31 December	<u>69,143,003</u>	<u>84,630,225</u>

15 SHARE CAPITAL

As per Alkhorayef Group Company (the Former Owner) resolution dated 23 Rajab 1441H (corresponding to 18 March 2020), the Company's share capital increased from SR 80,000,000 to SR 250,000,000 through the transfer of SR 170,000,000 from the retained earnings, statutory reserve and partial transfer from the Amounts due to Former Owner's account to the account of increase in share capital.

As per the shareholders' agreements and the Former Owner's resolution dated 18 Ramadan 1441H (corresponding to 11 May 2020), Alkhorayef Group Company transferred 3,500,000 shares and 1,250,000 shares at SR 10 per share to individual shareholders and Nama Alkhorayef Company, respectively. In addition, the Former Owner decided to convert the legal form of the Company from a Limited Liability Company (Owned by One Person) to a Joint Stock Company. The increase in share capital came to effect from the beginning of June 2020 and the legal formalities to convert the Company to a Joint Stock Company were also completed during June 2020.

On 16 Jumada Al Awal 1442H (corresponding to 31 December 2020), the Capital Market Authority announced the approval to offer 7,500,000 shares for public subscription representing (30%) of the Company's shares. On 1 March 2022 the Company's shares started the trading in Tadawul.

On 23 July 2023 (corresponding to 5 Muharram 1445H), the Board of Directors of the Company recommended to the Extraordinary General Assembly to increase the Company's Share capital by granting bonus shares to the Company's shareholders by capitalizing 100,000,000 Saudi Riyals from retained earnings and granting one share for every two and a half shares owned. The proposal is still under approval as at 31 December 2023.

The authorized and paid-up share capital of the Group as at 31 December 2023 and 2022 was SAR 250 million divided into 25 million shares of SAR 10 each.

16 DIVIDENDS

On 20 March 2022, the Board of Directors approved to distribute cash dividends equal to 15% of the share capital amounting to SR 37,500,000 at SR 1.5 per share.

The ordinary general assembly meeting held on 24 May 2022 authorised the Board of Directors to approve interim dividends. On 2 November 2022, the Board of Directors approved to distribute interim cash dividends equal to 15% of the share capital amounting to SR 37,500,000 at SR 1.5 per share.

No dividends have been declared during the year ended 31 December 2023.

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17 EARNINGS PER SHARE

Basic earnings per share attributable to the shareholders is calculated based on the weighted average number of outstanding shares during the year.

Diluted earnings per share is calculated by adjusting basic earnings per share for the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential shares.

	<u>2023</u>	<u>2022</u>
Net profit for the year (SR) attributable to ordinary shareholders	140,021,598	107,441,177
Weighted number of shares used as the denominator in calculating basic and diluted earnings per share (note 15)	25,000,000	25,000,000
Basic and diluted earnings per share of profit for the year (SR)	5.60	4.30

There has been no item of dilution affecting the weighted average number of shares.

18 STATUTORY RESERVE

In accordance with the Companies' By-laws, the Group has established a statutory reserve by the appropriation of 10% of its net income until the reserve equals 30% of the balance of the share capital. The reserve is not available for dividend distribution.

19 EMPLOYEES' DEFINED BENEFIT LIABILITIES

19.1 General description

General description of the type of employees' defined benefits liabilities and accounting policy for recognising actuarial gains and losses is disclosed in note 4.2 to the financial statements.

	<u>2023</u> <u>SR</u>	<u>2022</u> <u>SR</u>
<i>Net benefit expense included in profit or loss:</i>		
Current service cost	12,595,122	10,773,897
Interest cost	1,754,506	1,013,671
	14,349,628	11,787,568
<i>Included in other comprehensive income</i>		
Actuarial loss / (gain)	12,347	(8,633,832)
Net benefit expense	14,361,975	3,153,736
<i>Movement of actuarial valuation reserve:</i>		
At 1 January	5,362,277	(3,271,555)
(Loss) / gain during the year	(12,347)	8,633,832
At 31 December	5,349,930	5,362,277

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19 EMPLOYEES' DEFINED BENEFIT LIABILITIES (CONTINUED)

19.2 Changes in the present value of the defined benefit obligation:

	2023	2022
	<u>SR</u>	<u>SR</u>
At 1 January - present value of defined benefit obligation	43,672,901	43,953,541
Interest cost	1,754,506	1,013,671
Current service cost	12,595,122	10,773,897
Benefits paid	(5,740,871)	(3,434,376)
Remeasurement losses / (gains) in OCI	12,347	(8,633,832)
At 31 December - present value of defined obligation	<u>52,294,005</u>	<u>43,672,901</u>

19.3 Key assumptions and quantitative sensitivity analyses

The principal assumptions used in determining defined benefit obligations for the Group are shown below:

	<u>2023</u>	<u>2022</u>
Discount rate	4.5%	4.3%
Salary increase rate	3.2%	2.5%
Withdrawal rate	14%	10%
Average mortality (Age)	60	60

19.4 Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions made in the calculation is as follows:

	31 December 2023		31 December 2022	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	49,715,160	55,156,224	40,921,048	47,148,588
Salary increase rate (1% movement)	55,431,672	49,418,751	47,406,905	40,363,958
Withdrawal rates (10% movement)	52,293,697	52,294,305	43,527,967	43,806,989
Mortality age (1 year movement)	51,881,165	52,720,125	43,678,938	43,666,817

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. It is based on a change in a significant assumption, keeping all other assumptions constant and may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following are the expected payments to the defined benefit liability in future years:

	2023	2022
	<u>SR</u>	<u>SR</u>
Within the next 12 months (next annual reporting period)	9,398,852	5,134,105
Between 2 and 5 years	22,983,549	15,905,497
Between 6 and 10 years	17,917,512	15,591,812
Beyond 10 years	14,319,631	26,429,883
Total expected payments	<u>64,619,544</u>	<u>63,061,297</u>

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20 TERM LOANS

	2023	2022
	<u>SR</u>	<u>SR</u>
Long-term loans	241,044,754	347,107,524
Short term loans	301,507,619	156,708,847
Total loans	<u>542,552,373</u>	<u>503,816,371</u>
Less non-current portion of long-term loan	(114,950,726)	(105,513,500)
Current loans	<u>427,601,647</u>	<u>398,302,871</u>

The Group has obtained Sharia Compliant Murabaha loan facilities from commercial banks for a total amount of SR 543 million (31 December 2022: SR 504 million). These facilities are maturing from 2024 to 2032. These loans carry varying Murabaha profit rates in conformity with the applicable loan agreements. These facilities bear profit margin at market rates, which are generally based on Saudi Inter Bank Offer Rate ("SIBOR") and are secured by assignment acknowledgement of contract proceeds.

Below is the movement of the loans and borrowings:

	2023	2022
	<u>SR</u>	<u>SR</u>
Balance at 1 January	503,816,371	218,792,397
Loans obtained during the year	528,605,803	1,167,056,997
Payments made during the year	(489,869,801)	(882,033,023)
Balance at 31 December	<u>542,552,373</u>	<u>503,816,371</u>

Finance cost on term loans and related payments for the year are disclosed in the statement of cash flows.

As at 31 December 2023, the Group was in compliance with all of its loan covenants. Below is a summary of the loan maturity details:

		2023	2022
	<i>Maturity</i>	<u>SR</u>	<u>SR</u>
Riyad Bank	2024	92,135,881	4,632,137
Al Rajhi Bank	2024	54,573,778	20,000,000
Banque Saudi Fransi	2024	20,440,145	29,276,952
Alinma Bank	2024	10,255,226	-
Saudi Awwal Bank	2024	8,891,959	1,180,175
Arab National Bank	2025	99,818,681	115,535,250
Saudi National Bank	2026	170,905,450	242,629,357
Saudi Investment Bank	2032	85,531,253	90,562,500
		<u>542,552,373</u>	<u>503,816,371</u>

At 31 December 2023, undrawn committed borrowing facilities amounted to SR 2,106 million (2022: SR 1,963 million).

21 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Group include shareholders, Board of Directors, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties.

The terms of the transactions with related parties are approved by the Group's management. The significant transactions with related parties during the year are within the Group's normal course of business and are summarized below:

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21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

			<i>Value of transactions</i>	
<u>Name of related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>2023 SR</u>	<u>2022 SR</u>
Alkhorayef Group Company	Parent Company	Shared service cost (note 26)	1,495,017	1,495,017
		Land rental	288,000	288,000
		Subscription costs	1,015,703	-
		Expenses paid on behalf	316,332	-
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent Company	Land rental	248,000	277,700
Alkhorayef Commercial Company	A subsidiary of the parent	Purchases	2,306,431	2,602,310
		Revenue	163,855	186,427
Alkhorayef Company for Printing Solutions	A subsidiary of the parent	Purchases	906,132	896,284
Alkhorayef Petroleum Company	A subsidiary of the parent	Purchases	258,200	315,606
Alkhorayef Industries Company	A subsidiary of the parent	Revenue	-	33,810
Saudi Parts Center Company	A subsidiary of the parent	Purchases	93,101	83,104
Alkhorayef Lubricants Company	A subsidiary of the parent	Purchases	1,343,960	1,085,049
Erwaa Water Company ("EWC")	Associate	Loan	3,675,000	7,840,000
		Finance income	782,195	-
		Revenue	12,549,502	-
Board of Directors		Remuneration	2,138,000	1,055,500
Key management personnel		Short-term benefits	12,629,846	11,024,598
		Post-employment benefits	1,550,704	1,026,488
21.1	Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables balance.			
21.2	Key management personnel of the Group comprise of key members of the management having authority and responsibility for planning, directing and controlling the activities of the Group. The amounts disclosed are the amounts recognized as an expense during the reporting period related to key management personnel.			
21.3	As at 31 December 2023, the balance due from EWC amounted to SR 9,847,195 (31 December 2022: SR 5,390,000). There are no other balances outstanding due from related parties as at 31 December 2023 and 31 December 2022.			

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21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The breakdown of amounts due to related parties are as follows:

	2023 <u>SR</u>	2022 <u>SR</u>
AlKhorayef Commercial Company	1,248,078	1,219,020
AlKhorayef Lubricants Company	352,015	127,972
AlKhorayef Printing Solution	206,441	204,744
Saudi Part Center SPC	17,665	37,807
At 31 December	<u>1,824,199</u>	<u>1,589,543</u>

22 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES

	2023 <u>SR</u>	2022 <u>SR</u>
Accrued expenses	306,191,775	74,311,075
Trade payables	96,864,538	49,031,065
Provision for penalties (note 26)	12,404,473	376,273
Obligation for loss from an equity accounted investee (note 7)	7,632,952	1,878,547
Provision for onerous contracts (note 22.1)	3,473,092	473,092
Dividends payable	473,137	473,146
VAT payable	-	12,884,264
Other	10,722,696	3,971,220
	<u>437,762,663</u>	<u>143,398,682</u>

- 22.1 Provision for onerous contracts is made for contracts under which unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Movement during the year is as follows:

	2023 <u>SR</u>	2022 <u>SR</u>
At 1 January	473,092	473,092
Charge during the year	3,000,000	-
At 31 December	<u>3,473,092</u>	<u>473,092</u>

23 REVENUE

23.1 Disaggregated revenue information

The Group operates across the full water value chain and offers Operation and Maintenance and Project services across three major business segments, the Water segment, Wastewater segment, and Integrated Water Solutions segment. Set out below is the disaggregation of the Group's revenue from contract with customers:

	2023 <u>SR</u>	2022 <u>SR</u>
<i>Revenue from contract with customer / Types of services</i>		
Water (note "a")	1,135,061,697	353,753,240
Integrated Water Solutions (note "b")	318,438,948	275,417,566
Waste Water (note "c")	255,769,803	192,862,049
	<u>1,709,270,448</u>	<u>822,032,855</u>

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23 REVENUE (CONTINUED)

23.1 Disaggregated revenue information (continued)

	2023	2022
	<u>SR</u>	<u>SR</u>
a) Categories of services (Water)		
Water Networks	923,584,496	148,815,989
Water Withdraw and Treatment	211,477,201	204,937,251
	<u>1,135,061,697</u>	<u>353,753,240</u>
	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
b) Categories of services (Integrated Water Solutions)		
Water Management Services	135,267,792	98,152,264
City Management	96,488,153	109,058,472
Storm Water Network and Lifting Stations	86,683,003	68,206,830
	<u>318,438,948</u>	<u>275,417,566</u>
	<u>2023</u>	<u>2022</u>
	<u>SR</u>	<u>SR</u>
c) Categories of services (Waste Water)		
Wastewater Networks	188,276,623	142,511,446
Wastewater Treatment	67,493,180	50,350,603
	<u>255,769,803</u>	<u>192,862,049</u>

Geographical markets

The Group operates exclusively in the Kingdom of Saudi Arabia and therefore no additional geographical market information is presented in these financial statements.

Timing of revenue recognition

	2023	2022
	<u>SR</u>	<u>SR</u>
Revenue recognised over time	<u>1,709,270,448</u>	<u>822,032,855</u>

Revenue per type of customer:

			<i>Integrated Water Solutions</i>	
<u>For the year ended 31 December 2023</u>	<u>Water</u>	<u>Waste Water</u>	<u>SR</u>	<u>Total</u>
	<u>SR</u>	<u>SR</u>		<u>SR</u>
Revenue				
Government parties	1,135,061,697	255,769,803	315,927,330	1,706,758,830
Private customers parties	-	-	2,511,618	2,511,618
	<u>1,135,061,697</u>	<u>255,769,803</u>	<u>318,438,948</u>	<u>1,709,270,448</u>
<u>For the year ended 31 December 2022</u>	<u>Water</u>	<u>Waste Water</u>	<u>Solutions</u>	<u>Total</u>
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Revenue				
Government	353,753,240	192,862,049	272,208,775	818,824,064
Private customers	-	-	3,208,791	3,208,791
	<u>353,753,240</u>	<u>192,862,049</u>	<u>275,417,566</u>	<u>822,032,855</u>

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23 REVENUE (CONTINUED)

23.1 Disaggregated revenue information (continued)

Revenue from two major customers amounted to SR 1,647,962,543 (2022: SR 679,295,349) which represents 96% of total revenue (2022: 83%).

23.2 Contract balances

	2023	2022
	<u>SR</u>	<u>SR</u>
Contract assets (note 12)	617,334,233	430,108,921
Trade receivables (note 13)	428,247,898	214,725,792
Advance from customers (Note 23.2a)	(109,911,281)	(81,682,825)
	<u>935,670,850</u>	<u>563,151,888</u>

23.2a Advance from customers represents cash received in advance for certain contracts. The advance will be set off against payment due for future invoices on these contracts. Classification between current and non-current is based on expected utilisation of these advances.

23.3 Performance obligations

The remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2023	2022
	<u>SR</u>	<u>SR</u>
Remaining performance obligation	<u>5,951,575,395</u>	<u>3,576,623,827</u>

Revenue from the remaining performance obligations is expected to be recognized over the contractual periods of the applicable contracts.

24 COST OF REVENUE

	2023	2022
	<u>SR</u>	<u>SR</u>
Materials	793,633,731	159,797,911
Employees' salaries and other benefits	444,945,705	334,101,862
Repair and maintenance	49,481,213	35,711,344
Depreciation on property and equipment and ROU assets (note 8 and 9)	48,428,760	35,620,687
Utilities	31,672,633	22,715,089
Rent	22,765,127	14,102,382
Insurance	9,311,558	7,565,302
Penalties	8,757,069	9,811,671
Travel	3,888,892	3,418,019
Professional fees	3,139,459	2,299,325
Others	30,793,371	9,772,968
	<u>1,446,817,518</u>	<u>634,916,560</u>

25 SELLING AND DISTRIBUTION EXPENSES

	2023	2022
	<u>SR</u>	<u>SR</u>
Tender fees	421,436	551,060
Business development expense	173,850	880,225
Advertisement expense	90,987	-
Others	5,030	11,500
	<u>691,303</u>	<u>1,442,785</u>

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26 GENERAL AND ADMINISTRATIVE EXPENSES

	2023 <u>SR</u>	2022 <u>SR</u>
Employees' salaries and other benefits	33,112,859	27,130,892
Penalty provision *	12,028,200	-
Professional fees	11,729,500	9,011,531
Board of Director's remuneration (note 21)	2,138,000	1,055,500
Shared service costs (note 21)	1,495,017	1,495,017
Subscription fees	1,460,046	1,212,259
Depreciation on property and equipment and ROU assets (note 8 and 9)	413,109	694,426
Write down of inventory	314,803	-
Utilities	189,207	152,216
Insurance	102,418	94,710
Others	4,282,847	4,816,547
	<u>67,266,006</u>	<u>45,663,098</u>

* The Group has recorded a provision for penalties received by a government authority (EJada). Management has disputed all penalties received and recorded a provision for penalties categorized as "Approved".

27 FINANCE COSTS

	2023 <u>SR</u>	2022 <u>SR</u>
Finance costs on bank borrowings	39,400,798	19,069,203
Finance costs on leases (note 9.2)	167,904	128,874
	<u>39,568,702</u>	<u>19,198,077</u>

28 OTHER INCOME

	2023 <u>SR</u>	2022 <u>SR</u>
Incentives from government *	8,142,354	3,965,582
Other	54,408	-
	<u>8,196,762</u>	<u>3,965,582</u>

* This amount represents incentives received by the Group from the government for maintaining the required Saudization requirements.

29 ZAKAT

During the year ended 31 December 2023, the Group's Zakat charge was SR 15,197,940 (31 December 2022: 9,585,084).

29.1 Movement in provision for Zakat during the year:

	2023 <u>SR</u>	2022 <u>SR</u>
Opening Balance	9,558,435	8,111,713
Provision for the year	15,197,940	9,585,084
Paid during the year	(9,468,700)	(8,138,362)
	<u>15,287,675</u>	<u>9,558,435</u>

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29 ZAKAT (CONTINUED)

29.2 The principal element of the zakat base are as follows:

	2023	2022
	<u>SR</u>	<u>SR</u>
Equity	398,188,150	356,734,516
Opening provisions and other adjustments	473,633,067	249,351,609
Book value of long-term assets	(447,552,464)	(369,042,941)
	424,268,753	237,043,184
Zakatable income	170,465,355	137,928,466
Zakat base	594,734,108	374,971,650
Zakat	15,197,940	9,558,435

29.3 Status of zakat assessment:

Zakat returns have been submitted based on the consolidated zakat base of the Alkhorayef Group up to the year ended 31 December 2020. Final assessments of the Alkhorayef Group have been agreed up to the year ended 31 December 2015. The Group has also pledged to the Capital Market Authority that the Parent Company will bear any additional zakat amounts that might relate to the years for 2020 and before. In May 2021 the Group has separately registered with Zakat Tax and Custom Authority (the "ZATCA") and has filed Zakat returns for the years up to 31 December 2022. The Group has obtained final assessment for years up to 31 December 2022 and no additional provision is required for any of the years assessed. The Group has not yet submitted its return for the year ended 31 December 2023.

The Group is submitting its VAT returns consistently on a monthly basis and has received the final assessment up to the year 31 December 2022.

30 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group principal liabilities comprise loans and borrowing, amounts due to related parties and trade and other payables. The main purpose of these financial liabilities is to finance the Group operations and to provide guarantees to support its operations. The Group principal financial assets include trade and other receivables, cash and cash in bank and contract assets that arise directly from its operations.

The Group's activities expose it to a variety of financial risks: market risk (including interest risk, currency risk and price risk), credit risk and liquidity risk. The Group overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance.

30.1 Market rate risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprise three types risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include borrowings.

30.2 Interest rate risk

Interest risk is exposure to various risks associated with the effect of fluctuation in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments.

30.3 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchanges rates. The Group's transactions are principally in Saudi Riyals.

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30 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

30.4 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Group does not have any financial instruments which are subject to other price risk.

30.5 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

Customer invoices are usually payable within 90 days as per standard terms. unbilled amounts are presented as contract assets.

The table below shows the Group's maximum exposure to credit risk for components of the statement of financial position.

	2023	2022
	<u>SR</u>	<u>SR</u>
Bank balances	69,123,116	84,629,475
Trade receivables	428,247,898	214,725,792
Contract assets	617,334,233	430,108,921
Other financial assets	17,084,521	9,361,134
	<u>1,131,789,768</u>	<u>738,825,322</u>

Bank balances

Credit risk on bank balances is limited as same are held with banks with credit ratings of BBB+ as per Fitch Ratings. Therefore, management has assessed that there is no need for impairment loss against the carrying value of cash at banks.

Trade receivables and contract assets

The Group's exposure to credit risk on trade receivables and contract assets is influenced mainly by the individual characteristics of each customer. The Group's major customers are government entities. The Group believes that the credit risk associated with these balances is very low as they are related to the Government of Saudi Arabia.

Set out in note 12 and 13 is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix.

Other financial assets

Other financial assets include retention receivables. Management believes that credit risk attached to other financial instruments is not significant and the Group expects to recover all such amounts fully at the stated carrying amounts.

Credit concentration

Except as disclosed above for trade receivables, no significant concentrations of credit risk were identified by the management as at the reporting date.

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30 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

30.6 Liquidity risk

Liquidity risk is the risk that enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

<u>31 December 2023</u>	<i>0-12 months</i> <i>SR</i>	<i>1-5 years</i> <i>SR</i>	<i>More than 5</i> <i>years</i> <i>SR</i>	<i>Total</i>	<i>Carrying</i> <i>Amount</i>
Trade payables	96,864,538	-	-	96,864,538	96,864,538
Due to related parties	1,824,199	-	-	1,824,199	1,824,199
Lease liabilities	1,460,000	2,087,500	2,025,500	5,573,000	4,806,085
Term loans	500,576,276	112,783,837	28,065,351	641,425,464	542,552,373
Total	600,725,013	114,871,337	30,090,851	745,687,201	646,047,195

31 December 2022

Trade payables	40,355,188	8,675,877	-	49,031,065	49,031,065
Due to related parties	1,589,543	-	-	1,589,543	1,589,543
Lease liabilities	1,789,503	2,964,102	1,448,896	6,202,501	5,290,516
Term loans	268,722,028	274,717,130	39,586,523	583,025,681	503,816,371
Total	312,456,262	286,357,109	41,035,419	639,848,790	559,727,495

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

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.

Fair values of financial and non-financial assets and liabilities are determined for measurement and/or disclosure purpose on the basis of accounting policies disclosed in the financial statements. As at the reporting date, carrying value of the Group's financial assets and liabilities were reasonably equal to their fair values.

32 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity of the shareholders.

The primary objective of the Group's capital management is to maximise the equity value. The Group manages its capital structure and makes adjustments in 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 payment to equity, return capital to equity or issue new shares.

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32 CAPITAL MANAGEMENT (CONTINUED)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	2023	2022
	<u>SR</u>	<u>SR</u>
Term loans	542,552,373	503,816,371
Trade and other payables including customer advances	547,673,944	225,081,507
Less: Cash and cash equivalents	(69,143,003)	(84,630,225)
Net debt	1,021,083,314	644,267,653
Equity	537,590,629	397,581,378
Capital and net debt	1,558,673,943	1,041,849,031
Gearing ratio (%)	66%	62%

33 OPERATING SEGMENTS

As the operations of the Group are conducted in the Kingdom of Saudi Arabia, accordingly, for management purposes, the Group is organized into business units based on its products and services and has three reportable segments.

Operating segments is determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of each of the segments.

The CODM uses underlying income as reviewed at monthly Executive Committee and Performance meetings as the key measure of the segments' results as it reflects the segments' performance for the period under evaluation. Revenue and segment profit is a consistent measure within the Group.

The identified key segments are water, waste water and integrated water solution. Information regarding the Group's reportable segments is presented below:

Based on nature of services:

2023	Water	Wastewater	Integrated Water Solution	Other unallocated	Total
Revenue	318,438,948	255,769,803	1,135,061,697	-	1,709,270,448
Cost of revenue	(284,482,855)	(225,132,744)	(937,201,919)	-	(1,446,817,518)
Profit for the year	33,956,093	30,637,059	197,859,778	(122,431,332)	140,021,598
Assets	376,763,439	204,713,635	828,227,855	292,323,981	1,702,028,910
Liabilities	-	-	-	1,164,438,281	1,164,438,281
2022	Water	Waste Water	Integrated Water Solution	Other unallocated	Total
Revenue	353,753,240	192,862,049	275,417,566	-	822,032,855
Cost of revenue	(256,698,989)	(161,845,583)	(216,371,987)	-	(634,916,559)
Profit for the year	97,054,251	31,016,466	59,045,579	(79,675,119)	107,441,177
2022					
Assets	404,314,227	229,568,587	281,754,246	270,953,591	1,186,590,651
Liabilities	-	-	-	789,009,273	789,009,273

Geographical segments:

All of the Group's operating assets and principal markets of activity are located in the Kingdom of Saudi Arabia.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

34 CONTINGENCIES

As of 31 December, the Group has the following contingencies:

	2023	2022
	<u>SR</u>	<u>SR</u>
Letters of guarantee	697,735,278	418,833,920
Letters of credit	<u>145,477,078</u>	<u>71,452,137</u>
	<u>843,212,356</u>	<u>490,286,057</u>

35 EVENTS AFTER THE REPORTING PERIOD

On 21 January 2024 (corresponding to 9 Rajab 1445H), the Company incorporated a new wholly owned entity (The Sixth Package Development Company for Environmental Services) with commercial registration number 1010974928 in the Kingdom of Saudi Arabia with share capital amounting to SR 100,000.

No other events have occurred since the statement of financial position date, which would require adjustments to, or disclosure in the financial statements.

36 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved and authorised to issue by the Board of Directors on 8 Ramadan 1445H (corresponding to 18 March 2024).