

**ALKHORAYEF FOR WATER AND  
POWER TECHNOLOGIES COMPANY  
(A Saudi Joint Stock Company)  
FINANCIAL STATEMENTS  
For the year ended 31 December 2022  
together with the  
Independent Auditor's Report**

**ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY**  
**(A Saudi Joint Stock Company)**

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**FINANCIAL STATEMENTS together with the**  
**INDEPENDENT AUDITOR'S REPORT**  
**For the year ended 31 DECEMBER 2022**

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## KPMG Professional Services

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P. O. Box 92876  
Riyadh 11663  
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Commercial Registration No. 1010425494

Headquarters in Riyadh

## كي بي إم جي للاستشارات المهنية

واجهة الرياض، 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 financial statements of **Alkhorayef Water and Power Technologies Company** ("the Company"), which comprise the statement of financial position as at 31 December 2022, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 Financial Statements section of our report. We are independent of the Company 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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)

Key audit matters (continued)	
Revenue recognition	
See Note 2(e), 3.2.4 and 22 to the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>During the year ended 31 December 2022, the company recognised total revenue of SR 822 million (2020: SR 569 million).</p> <p>The Company generates revenue primarily from long-term contracts, for which revenue is recognized over time using the output method in accordance with the relevant IFRS. Output method is based on the 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 contract (percentage of completion).</p> <p>Revenue is a key measure to determine the performance of the company. Revenue recognition is considered a key audit matter, in view of the possible inherent risk that management may intentionally overstate revenue in order to achieve financials targets, either through premature revenue recognition or recording fictitious revenue that does not meet the recognition criteria under the relevant IFRS.</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 in this area included the following:</p> <ul style="list-style-type: none"> <li>– Obtained an understanding of the process and key controls over revenue recognition.</li> <li>– Assessed the appropriateness of the accounting policies based on the requirements of the relevant IFRS.</li> <li>– Assessed the design and implementation, and tested the operating effectiveness of the Company's controls, including anti-fraud controls, over the recognition of revenue.</li> <li>– For a sample of contracts, we assessed the appropriateness of revenue recognised for the year end by obtaining relevant supporting documents including invoices issued, terms and deliverables of the contractual agreements, correspondence with customer as well as any external surveys of performance where relevant.</li> <li>– Evaluated the reasonableness of any judgements made by management in estimating the measure of progress by performing subsequent period testing including checking for invoices, customer correspondence and any significant write-offs.</li> <li>– Performed a selection of site visits and made inquiries with the contract and project management teams to obtain an understanding of the contract deliverables and physically observe and verify the work performed.</li> <li>– Considered the adequacy of disclosures in the financial statement as per the applicable financial reporting framework.</li> </ul>

# Independent auditor's report

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

Key audit matters (continued)	
Impairment allowance in respect of trade and other receivables and contract assets	
See Notes 2(k), 3.2.3, 11 and 12 to the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2022 the Company's trade and other receivables, and contract assets gross balance amounted to SR 224.1 million and SR 430.1 million respectively, against which a corresponding allowance for impairment of SR 7.6 million and SR 4.1 million was recorded.</p> <p>The Company assesses at each reporting date whether its trade and other receivables and contract assets are credit impaired. The Company has applied a simplified expected credit loss (ECL) 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 the application and calculation of ELC model in determining impairment loss allowance as per the requirements of the relevant IFRS.</p>	<p>Our audit procedures in this area included the following:</p> <ul style="list-style-type: none"> <li>– Evaluated the appropriateness of the accounting policies based on IFRS requirements, our business understanding and industry practice.</li> <li>– Obtained an understanding of management's process and controls implemented over the allowance for impairment .</li> <li>– Involved KPMG specialist to assess appropriateness of key judgements in estimating the ECL provision; and to develop an independent expectation of the ECL provision based on the profile of the Company's trade and other receivables, and contract assets.</li> <li>– Evaluate the completeness and accuracy of the aging report used for the ECL model.</li> <li>– Checked that all relevant financial assets are considered for ECL provisioning.</li> <li>– Checked subsequent collection of trade and other receivables and subsequent billing of contract assets.</li> <li>– Evaluated the completeness, accuracy and relevance of disclosures required by relevant IFRS, including disclosures about assumptions about the future, and other major sources of estimation uncertainty.</li> </ul>
Other Matter	

The financial statements of the Company as at and for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 March 2022.



# 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 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 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 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.



## Independent auditor's report

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

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

- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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").

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 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: Sha'ban 29, 1444H  
Corresponding to: 21 March 2023



**ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY**  
**(A Saudi Joint Stock Company)**

**STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2022**

	Note	2022 SR	2021 SR
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property and equipment	7	299,238,468	147,420,178
Right-of-use assets	8	5,415,512	3,291,600
Equity accounted investee	6	5,390,000	-
Capital advances		10,653,925	3,718,774
<b>Total non-current assets</b>		<b>320,697,905</b>	<b>154,430,552</b>
<b>Current assets</b>			
Inventories	9	56,653,734	35,918,304
Prepayments and other assets	10	82,082,623	41,861,915
Contract assets	11	426,040,163	236,382,937
Trade and other receivables	12	216,486,001	240,853,792
Cash and cash equivalents	13	84,630,225	42,020,512
<b>Total current assets</b>		<b>865,892,746</b>	<b>597,037,460</b>
<b>Total assets</b>		<b>1,186,590,651</b>	<b>751,468,012</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	250,000,000	250,000,000
Statutory reserve	17	32,471,911	21,727,793
Retained earnings		109,747,190	88,050,131
Actuarial valuation reserve	18	5,362,277	(3,271,555)
<b>Total equity</b>		<b>397,581,378</b>	<b>356,506,369</b>
<b>Non-current liabilities</b>			
Employees' defined benefit liabilities	18	43,672,901	43,953,541
Non-current portion of lease liabilities	8.2	3,778,799	2,962,793
Advance from customer – long term portion	22.2	49,983,834	-
Non-current portion of term loans	19	105,513,500	60,128,357
<b>Total non-current liabilities</b>		<b>202,949,034</b>	<b>107,044,691</b>
<b>Current liabilities</b>			
Trade payables, accruals and other liabilities	21	143,398,682	119,379,200
Current portion of term loans	19	398,302,871	158,664,040
Current portion lease liabilities	8.2	1,511,717	259,808
Advance from customer – short term portion	22.2	31,698,991	1,502,191
Amounts due to related parties	20	1,589,543	-
Zakat payable	28	9,558,435	8,111,713
<b>Total current liabilities</b>		<b>586,060,239</b>	<b>287,916,952</b>
<b>Total liabilities</b>		<b>789,009,273</b>	<b>394,961,643</b>
<b>Total equity and liabilities</b>		<b>1,186,590,651</b>	<b>751,468,012</b>

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)**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2022**

	Note	2022 SR	2021 SR
Revenue	22	<b>822,032,855</b>	569,038,542
Cost of revenue	23	<b>(634,916,560)</b>	(417,579,777)
<b>Gross profit</b>		<b>187,116,295</b>	151,458,765
Selling and distribution expenses	24	<b>(1,442,785)</b>	(1,655,462)
General and administrative expenses	25	<b>(45,663,098)</b>	(34,359,611)
Impairment loss on trade receivables including contract assets	11&12	<b>(6,272,883)</b>	(2,857,704)
Gain on sale of property and equipment		<b>1,203,922</b>	1,013,916
<b>Operating profit</b>		<b>134,941,451</b>	113,599,904
Finance cost	26	<b>(19,198,077)</b>	(3,762,100)
Other income, net	27	<b>3,406,434</b>	1,599,317
Share of loss from an equity accounted investee	6	<b>(2,123,547)</b>	-
<b>Profit before zakat</b>		<b>117,026,261</b>	111,437,121
Zakat	28	<b>(9,585,084)</b>	(8,111,713)
<b>Net profit for the year</b>		<b>107,441,177</b>	103,325,408
<b>Other comprehensive income</b>			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Re-measurement gain / (loss) on defined benefits liability	18	<b>8,633,832</b>	(3,349,665)
<b>Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>8,633,832</b>	(3,349,665)
<b>Total comprehensive income for the year</b>		<b>116,075,009</b>	99,975,743
<i>Basic and diluted earnings per share:</i>			
Profit for the year attributable to ordinary equity holders	16	<b>4.30</b>	4.13

  
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)**

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2022**

	<i>Share capital</i> SR	<i>Statutory reserve</i> SR	<i>Retained earnings</i> SR	<i>Actuarial valuation reserve</i> SR	<i>Total</i> SR
At 31 December 2020	250,000,000	11,395,252	32,557,264	78,110	294,030,626
Profit for the year	-	-	103,325,408	-	103,325,408
Other comprehensive loss for the year	-	-	-	(3,349,665)	(3,349,665)
Total comprehensive income for the year	-	-	103,325,408	(3,349,665)	99,975,743
Transfer to statutory reserve	-	10,332,541	(10,332,541)	-	-
Dividends (note 15)	-	-	(37,500,000)	-	(37,500,000)
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 loss for the year	-	-	-	8,633,832	8,633,832
Total comprehensive income for the year	-	-	-	8,633,832	8,633,832
Transfer to statutory reserve	-	10,744,118	(10,744,118)	-	-
Dividends (note 15)	-	-	(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

  
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)**

**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2022**

	Note	2022 SR	2021 SR
<b>OPERATING ACTIVITIES</b>			
Profit for the year		107,441,177	103,325,408
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation on property and equipment	7	35,103,726	21,205,059
Amortisation on right-of-use assets	8	1,211,387	1,429,187
Gain on sale of property and equipment		(1,203,922)	(1,013,916)
Provision for employees' defined benefits	18	11,787,568	7,339,886
Finance costs	26	19,198,077	3,762,100
Provision for expected credit losses	11&12	6,272,883	2,857,704
Reversal for provision for onerous contracts		-	(1,550,000)
Share of loss from an equity accounted investee	6	(2,123,547)	-
Provision for Zakat	28	9,585,084	8,111,713
Settlement of finance lease contract		111,120	-
		<b>187,383,553</b>	<b>145,467,141</b>
<i>Working capital adjustments:</i>			
Trade receivables, prepayments and other assets		(18,178,036)	(76,126,072)
Inventories		(20,735,430)	(5,186,372)
Advance from customer		80,180,634	1,502,191
Accounts payable, accruals and other liabilities		25,898,029	24,137,478
Amounts due to related parties		1,589,543	(1,881,019)
Contract assets		(193,604,990)	(88,662,174)
<b>Cash flows generated from / (used in) operations</b>		<b>62,533,303</b>	<b>(748,827)</b>
Employees' defined benefits paid	18	(3,434,376)	(4,305,600)
Finance cost paid	26	(19,069,203)	(3,762,100)
Zakat Paid	28	(8,138,362)	-
<b>Cash flows generated from / (used in) operating activities</b>		<b>31,891,362</b>	<b>(8,816,527)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	7	(188,400,130)	(96,742,817)
Proceeds from sale of property and equipment		2,682,037	2,862,780
Movement in capital advances		(6,935,151)	(3,718,774)
Disposal of right of use assets	8	-	(1,025,083)
Investment in an equity accounted investee	6	245,000	-
Amount due from an equity accounted investee		(5,390,000)	-
<b>Net cash flows used in investing activities</b>		<b>(197,798,244)</b>	<b>(98,623,894)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from term loans	19	1,167,056,997	346,376,540
Repayment of term loans	19	(882,033,023)	(229,012,714)
Dividends paid	15	(75,000,000)	(37,500,000)
Payment of principal portion of lease liability	8	(1,378,505)	(387,897)
Finance costs paid on lease liabilities		(128,874)	-
Change in related party balances	20	-	(11,067,212)
<b>Net cash flows generated from financing activities</b>		<b>208,516,595</b>	<b>68,408,717</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>42,609,713</b>	<b>(39,031,704)</b>
Cash and cash equivalents balances at 1 January		42,020,512	81,052,216
<b>Cash and cash equivalents at 31 December</b>		<b>84,630,225</b>	<b>42,020,512</b>
<b>Significant non-cash transactions:</b>			
Share of loss from an equity accounted investee		(1,878,547)	-
Recognition of right of use assets and lease liability	8	3,517,206	-

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)**

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**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2022**

**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 2021 the Company’s shares started the trading in Tadawul.

On 12 Safar 1443H (corresponding to 12 September 2021), the Company established a new branch in Iraq which is not operational as at 31 December 2022.

The financial statements cover the activities of the Company mentioned above and its branches mentioned below:

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) 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 “IFRSs as endorsed in KSA”).

These financial statements have been prepared under the historical cost basis, except for obligation in respect of employees’ end of services benefits that is measured at present value of defined benefit obligation, which has been actuarially valued using projected unit credit method. The financial statements are presented in Saudi Riyals, which is also the Company’s functional currency and presentation currency.

The Company’s management has made an assessment of the Company’s ability to continue as a going concern and is satisfied that the Company 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 Company’s ability to continue as a going concern. Therefore, the Company’s financial statements continue to be prepared on the going concern basis.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 Company 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 Company 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 Company classifies all other liabilities as non-current.

**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 Company.

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.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Fair value measurement (continued)**

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 Company 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 Company 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.

**(e) Revenue recognition**

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers. The Company 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:

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 Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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

For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company 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 Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- a) The Company's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date.
- b) The Company'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 Company's performance as the Company performs.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) Revenue recognition (continued)**

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 Company 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 Company 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 Company and the revenue and costs, if applicable, can be measured reliably.

***Specific recognition criteria***

The Company 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 Company are met over time, rather than at a point in time, since the customer simultaneously receives and consumes the benefits offered by the Company's performance as the service is provided.

For the method of measuring the progress of performance of an obligation, Company has established certain criteria that are consistently applied in respect of similar performance obligations. The Company 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.

***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 client in the Company's accounts upon final approval by the client.

***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 Company 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 Company 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Revenue recognition (continued)**

***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 Company 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 Company 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 Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company 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 Company performs under the contract.

*Trade receivable* - a receivable represents the Company'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).

***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; costs of design, and technical assistance that is directly related to the contract.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Provisions for estimated losses on uncompleted contracts are recognised in the year in which they are determined and are classified under current liabilities as provisions.

**f) Zakat and Indirect Taxes**

***Zakat***

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

**ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f) Zakat and Taxes (continued)**

***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 Company 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

**g) Foreign currencies**

The Company's financial statements are presented in Saudi Riyals (SR), which is also the Company's functional currency and all values are rounded to the nearest SR except when otherwise indicated.

***Transactions and balances***

Transactions in foreign currencies are initially recorded by the Company 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.

**h) 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 Company 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 (shorter of lease term or useful life) |
| • Heavy machines           | 7 years   |
| • Furniture and fixtures   | 7 years   |
| • Motor Vehicles           | 5 years   |

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Leases**

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

***Right-of-use assets***

The Company 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 Company 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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company 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 Company 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 Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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.

**k) 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Financial instruments (continued)**

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 Company 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 Company may make the following irrevocable election / designation at the initial recognition of a financial asset:

- the Company 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 Company 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.

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.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) *Financial instruments (continued)***

*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 Company 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.

*Offsetting*

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company 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 Company 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 Company'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.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) *Financial instruments (continued)***

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 Company'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 Company 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 Company 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 Company'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.

*Impairment of financial assets*

The Company 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 Company 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 Company'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 Company 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 Company 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).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Financial instruments (continued)**

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company 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 Company 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 Company 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 Company 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 Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company 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 Company 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 Company 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 Company considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Financial instruments (continued)**

Definition of default

The Company 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 Company, in full (without taking into account any collateral held by the Company).

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 Company 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 Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

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 Company'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 Company in accordance with the contract and all the cash flows that the Company 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***k) Financial instruments (continued)***

If the Company 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 Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Company 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company 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.

*Classification as debt or equity*

Debt and equity instruments issued by the Company 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 Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company'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 Company'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, 1) derivative, 2) held-for-trading, or 3) 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) *Financial instruments (continued)***

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 Company derecognizes financial liabilities when, and only when, the Company's contractual obligations are discharged, cancelled or they expire. The Company 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.

**l) **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.

**m) **Impairment of non-financial assets****

The Company 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 Company 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. 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.

**n) **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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o) Provisions**

***General***

Provisions are recognised when the Company 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 Company 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 current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

***Onerous contracts***

If the Company 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 Company 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 Company 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).

**p) 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 Company 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.

***End-of-services benefits obligation***

The Company 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**q) Employees' benefits**

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 Company's policy.

**r) 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.

**s) Statutory reserve**

In accordance with the Company's by-laws, the Company 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.

**t) 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.

**u) 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.

**v) 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.

### **3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company'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.

Other disclosure relating to the Company's exposure to risks and uncertainties include:

- ▶ Capital management
- ▶ Financial instruments risk management objectives and policies
- ▶ Sensitivity analysis disclosures

#### **3.1 Judgements**

The preparation of financial statements in conformity with approved accounting standards required management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

##### **3.1.1 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.

#### **3.2 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 Company 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 Company. Such changes are reflected in the assumptions when they occur. Information about the assumption and estimation uncertainties is included in the following areas:

##### **3.2.1 Useful life of property and equipment**

The Company'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.

##### **3.2.2 Impairment of inventories**

The Company 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.

##### **3.2.3 Provision for expected credit losses (ECLs) of trade receivables**

The Company uses a provision matrix to calculate ECLs for trade receivables, retention receivables and contract assets. The provision matrix is initially based on the Company historical observed default rates. The Company 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 Company'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 Company trade receivables is disclose in note 11 and 12.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 December 2022**

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.2 Estimates and Assumptions (continued)**

**3.2.4 Revenue recognition – measure of progress**

The Company 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.

**3.2.5 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 provided in note 18.

**4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022.

- Onerous contract – Cost of fulfilling a contract – Amendments to IAS 37
- Annual Improvements to IFRSs 2018–2020
- Property, plant and equipment: Proceeds before intended use – Amendment to IAS 16
- Reference to conceptual framework – Amendments to IFRS 3

***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 Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

Based on the Company's assessment, the below standards are not expected to have potential impacts on the reported numbers and disclosures.

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 January 2024
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely.
Amendments to IFRS 17 Insurance Contracts	1 January 2023
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024

**5 INVESTMENTS IN JOINT ARRANGEMENTS**

During 2015 and 2017, the Company participated in certain projects (undertaken through an unincorporated joint arrangement) whereby the Company 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 Company 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 2022 and 31 December 2021.

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

<i>Entity name</i>	<i>Principal place of business</i>	<i>Principal activities</i>	<i>Percentage ownership interest</i>	
			<b>2022</b>	<b>2021</b>
Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca (Mecca UJV)	Kingdom of Saudi Arabia	Operations and maintenance	<b>49%</b>	49%
Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs (Riyadh TSE)	Kingdom of Saudi Arabia	Operations and maintenance	<b>49%</b>	49%

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 December 2022**

**5 INVESTMENTS IN JOINT ARRANGEMENTS (continued)**

**5.1 Summarised financial statements of the joint operations**

	<i>Mecca UJV</i>		<i>Riyadh TSE</i>	
	2022 SR	2021 SR	2022 SR	2021 SR
Total current assets	5,394,229	6,220,806	504,501	516,698
Total non-current assets	-	-	-	-
Total current liabilities	(3,359,984)	(3,940,571)	(92,117)	(104,314)
Net assets	2,034,245	2,280,235	412,384	412,384
Company's share at 49%	996,780	1,117,315	202,068	202,068

	<i>Mecca UJV</i>		<i>Riyadh TSE</i>	
	2022 SR	2021 SR	2022 SR	2021 SR
Revenue	-	-	-	103,676
Operating expenses	(245,990)	(106,997)	-	(179,779)
Loss for the year	(245,990)	(106,997)	-	(76,103)
Company's share at 49%	(120,535)	(52,429)	-	(37,290)

**6. EQUITY ACCOUNTED INVESTEE**

The Company entered into an agreement with Veolia Middle East Company 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 Company has paid SR 245,000 representing 49% of share capital to EWC. Company 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 2022.

<u>Associate name</u>			<u>Principal place of business</u>	<u>Principal activities</u>	<u>Percentage of ownership</u>	
					<u>2022</u>	<u>2021</u>
Erwaa	Water	Company	Kingdom of Saudi Arabia	Operations and Maintenance	49%	-
("EWC")						

**6.1 Summarised financial statements of the associate**

	2022 SR	2021 SR
Total current assets	31,588,707	-
Total non-current assets	4,269,214	-
Total current liabilities	(25,448,556)	-
Non-current liabilities	(14,243,135)	-
Net liability	(3,833,770)	-
Company's share of interest in associate at 49%	(1,878,547)	-

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 December 2022**

**6. EQUITY ACCOUNTED INVESTEE (continued)**

**6.1 Summarised financial statements of the associate (continued)**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Revenue	<b>34,273,615</b>	-
Loss for the period	<b>(4,333,768)</b>	-
	<u><u>                    </u></u>	<u><u>                    </u></u>
Company's share of loss for the period at 49%	<b>(2,123,547)</b>	-
	<u><u>                    </u></u>	<u><u>                    </u></u>

**6.2 Movement in investment in an associate:**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Opening balance	-	-
Investment during the year	<b>245,000</b>	-
Share of loss for the period (note 6.1)	<b>(2,123,547)</b>	-
	<u>                    </u>	<u>                    </u>
Losses exceeding cost of investment (note 6.3)	<b>(1,878,547)</b>	-
Closing balance	-	-
	<u><u>                    </u></u>	<u><u>                    </u></u>

**6.3** Share of loss for the period SR 2.12 million has exceeded the carrying value of investment as at 31 December 2022 by SR 1.878 million. The Company has recognized additional losses as an obligation and has presented under the liabilities since the Company 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.

**6.4** 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 an interest rate of SAIBOR plus 1.8% and has a maturity date of 4 May 2028.

**Movement in loan to associate:**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Opening balance	-	-
Addition during the year	<b>7,840,000</b>	-
Repayments	<b>(2,450,000)</b>	-
	<u>                    </u>	<u>                    </u>
Closing balance	<b>5,390,000</b>	-
	<u><u>                    </u></u>	<u><u>                    </u></u>

**ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**7 PROPERTY AND EQUIPMENT**

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

- (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 Company for 20 years (note 20).
- (b) Capital work in progress include cost incurred for the purchase of new head office building in Riyadh currently undergoing some structural work for its intended use.

<i>31 December 2021</i>	<i>Buildings</i> <i>SR</i>	<i>Heavy</i> <i>Machines</i> <i>SR</i>	<i>Furniture</i> <i>and fixtures</i> <i>SR</i>	<i>Motor</i> <i>vehicles</i> <i>SR</i>	<i>Total</i> <i>SR</i>
<b>Cost:</b>					
At the beginning of the year	2,708,120	131,382,426	13,073,400	81,905,515	229,069,461
Additions	99,000	80,569,927	2,529,211	17,263,453	100,461,591
Disposals	(96,786)	(1,403,529)	(102,563)	(6,923,431)	(8,526,309)
At the end of the year	<b>2,710,334</b>	<b>210,548,824</b>	<b>15,500,048</b>	<b>92,245,537</b>	<b>321,004,743</b>
<b>Accumulated depreciation:</b>					
At the beginning of the year	1,957,343	93,185,293	8,700,578	55,213,738	159,056,952
Charge for the year	120,361	10,811,876	1,208,638	9,064,184	21,205,059
Disposals	(43,150)	(832,420)	(101,978)	(5,699,898)	(6,677,446)
At the end of the year	<b>2,034,554</b>	<b>103,164,749</b>	<b>9,807,238</b>	<b>58,578,024</b>	<b>173,584,565</b>
<b>Net book value</b>					
<b>At 31 December 2021</b>	<b>675,780</b>	<b>107,384,075</b>	<b>5,692,810</b>	<b>33,667,513</b>	<b>147,420,178</b>

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**7 PROPERTY AND EQUIPMENT (continued)**

Depreciation charge for the year was allocated as follows:

	2022 SR	2021 SR
Cost of revenues (note 23)	34,449,790	20,502,870
General and administrative expenses (note 25)	653,936	702,189
	<u>35,103,726</u>	<u>21,205,059</u>

**8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

**8.1 Right-of-use assets**

The Company has various land and building under lease arrangement at various locations with its Parent Company and the Ultimate Parent Company (refer note 20). Lease term for the above leases' ranges from 2 to 20 years with renewal and termination options. Company 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. The impact on potential lease payment had the company exercise any such option is estimated not be material to the financial statements. 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</i> SR	<i>Leased Buildings</i> SR	<i>Total</i>
<b>Cost:</b>			
As at 1 January 2021	4,483,747	1,130,662	5,614,409
Disposals	(653,965)	(360,576)	(1,014,541)
At 31 December 2021	3,829,782	770,086	4,599,868
Additions (note 8.2)	-	3,517,206	3,517,206
Disposals	-	(181,907)	(181,907)
<b>At 31 December 2022</b>	<b>3,829,782</b>	<b>4,105,385</b>	<b>7,935,167</b>
<b>Accumulated depreciation:</b>			
As at 1 January 2021	634,634	258,988	893,622
Charge for the year	173,969	240,677	414,646
At 31 December 2021	808,603	499,665	1,308,268
Charge for the year	161,958	1,049,429	1,211,387
<b>At 31 December 2022</b>	<b>970,561</b>	<b>1,549,094</b>	<b>2,519,655</b>
<b>Net book value:</b>			
<b>As at 31 December 2022</b>	<b>2,859,221</b>	<b>2,556,291</b>	<b>5,415,512</b>
As at 31 December 2021	3,021,179	270,421	3,291,600

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**8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)**

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

	2022 SR	2021 SR
Depreciation of right-of-use assets allocated to cost of revenue (note 23)	1,170,897	374,155
Depreciation of right-of-use assets allocated to administrative expenses (note 25)	40,490	40,491
Interest expense on lease liabilities (note 26)	128,874	129,982
Short-term leases recognised on straight-line basis as rent expense (note 23 and note 25)	14,809,081	8,649,745
	<b>16,149,342</b>	<b>9,194,372</b>

Amount recognised in the statement of cash flow

	2021 SR	2021 SR
Total cash outflow for leases	<b>1,507,380</b>	<b>517,879</b>

**8.2 Lease liabilities**

The Company had entered into new lease contract which resulted in non-cash additions to right-of-use assets and lease liabilities of SR 3,517,206 in 2022 (2021: nil).

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

	<i>Leasehold land</i> SR	<i>Leased Buildings</i> SR	<i>Total</i>
Recognised at 1 January 2021	3,902,126	733,455	4,635,581
Disposals	(664,111)	(360,972)	(1,025,083)
Accretion of interest (note 26)	124,736	5,246	129,982
Payments (*)	(288,000)	(229,879)	(517,879)
At 31 December 2021	3,074,751	147,850	3,222,601
Additions	-	3,517,206	3,517,206
Disposals	-	(70,786)	(70,786)
Accretion of interest (note 26)	126,042	2,833	128,875
Payments (*)	(288,000)	(1,219,380)	(1,507,380)
<b>At 31 December 2022</b>	<b>2,912,793</b>	<b>2,377,723</b>	<b>5,290,516</b>

(\*) Payment of lease liability includes repayment of principal portion of SR 1,378,505 (31 December 2021: SR 387,897) and payment of interest amounted to SR 128,874 (31 December 2021: SR 129,982).

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

	2022 SR	2021 SR
Current portion	1,511,717	259,808
Non-current portion	3,778,799	2,962,793
At 31 December	<b>5,290,516</b>	<b>3,222,601</b>

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**9 INVENTORIES**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Spare parts	<b>52,031,941</b>	31,034,839
Finished goods	<b>4,621,793</b>	4,883,465
	<b>56,653,734</b>	<b>35,918,304</b>
At 31 December	<b>56,653,734</b>	<b>35,918,304</b>

Inventories have been reduced by SR 3.7 million (2021: SR nil) as a result of write-down to net realizable value. The write-down was recognized as an expense during the year.

**10 PREPAYMENTS AND OTHER ASSETS**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Prepaid expenses (note below)	<b>44,831,314</b>	30,743,716
Advances to suppliers	<b>17,445,152</b>	3,585,459
Employees' receivable	<b>8,890,988</b>	4,688,355
Others	<b>10,915,169</b>	2,844,385
	<b>82,082,623</b>	<b>41,861,915</b>

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

**11 CONTRACT ASSETS**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
At 1 January	<b>236,382,937</b>	147,336,918
Value of work performed during the year	<b>822,032,855</b>	569,038,542
Progress billings made during the year	<b>(628,306,871)</b>	(479,871,529)
	<b>430,108,921</b>	236,503,931
Less: provision for expected credit losses	<b>(4,068,758)</b>	(120,994)
At 31 December	<b>426,040,163</b>	<b>236,382,937</b>

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

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

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
At 1 January	<b>120,994</b>	504,839
Charge for the year	<b>3,947,764</b>	-
Reversals during the year	<b>-</b>	(383,845)
At 31 December	<b>4,068,758</b>	<b>120,994</b>

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**11 CONTRACT ASSETS (continued)**

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

**2022**

	<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	0.19% SR	0.47% SR	0.89% SR	1.61% SR	2.12% SR	10.27% SR	12.06% SR	17.49% SR	82.48% SR	SR
Estimated 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

**2021**

	<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>541-630 days</i>	<i>631-720 days</i>	<i>Over 720 days</i>	<i>Total</i>
Expected credit loss rate	0.001% SR	0.001% SR	0.001% SR	0.02% SR	6.29% SR	- SR	- SR	- SR	SR
Estimated total gross carrying amount at default	181,193,590	26,348,837	14,163,671	12,933,533	1,864,300	-	-	-	236,503,931
Expected credit loss	1,073	157	84	2,452	117,228	-	-	-	120,994

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

	<b>2022 SR</b>	<b>2021 SR</b>
Contract assets government	429,557,945	234,410,131
Contract assets non-government	550,976	2,093,800
Less: provision for expected credit losses	(4,068,758)	(120,994)
At 31 December	<b>426,040,163</b>	<b>236,382,937</b>

**12 TRADE AND OTHER RECEIVABLES**

	<b>2022 SR</b>	<b>2021 SR</b>
Trade receivables	214,725,792	239,741,173
Retention receivables	9,361,134	6,388,425
	<b>224,086,926</b>	<b>246,129,598</b>
Less: provision for expected credit losses	(7,600,925)	(5,275,806)
At 31 December	<b>216,486,001</b>	<b>240,853,792</b>

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**12 TRADE AND OTHER RECEIVABLES (continued)**

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

	2022 SR	2021 SR
At 1 January	5,275,806	2,034,257
Charge for the year	2,325,119	3,241,549
At 31 December	<u>7,600,925</u>	<u>5,275,806</u>

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 213.0 million which is due from Government and quasi-Government institutions (31 December 2021: SR 221.9 million).

The Company 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.

Terms and conditions of the above financial assets:

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 Company does not hold collateral as security.

Set out below is the information about the credit risk exposure on trade receivables. See note 29.5 on credit risk on trade receivables, which explains how the Company manages and measures credit risk quality receivables that are neither past due nor impaired.

	2022 SR	2021 SR
Trade receivables government	219,265,890	221,940,635
Trade receivables non-government	4,821,036	24,188,963
Less: provision for expected credit losses	<u>(7,600,925)</u>	<u>(5,275,806)</u>
At 31 December	<u>216,486,001</u>	<u>240,853,792</u>

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**12 TRADE AND OTHER RECEIVABLES (continued)**

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

**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%	1.22%	2.27%	1.34%	5.69%	9.49%	12.75%	17.7%	19.9%	21.09%	
		SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
Estimated 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

**2021**

		<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		0.01%	0.01%	0.02%	2.56%	3.92%	8.00%	11.35%	7.49%	24.80%	8.59%	
		SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
Estimated total gross carrying amount at default		132,865,011	38,396,269	13,749,499	13,897,716	5,943,364	4,585,566	4,788,624	5,852,412	6,675,788	19,375,349	246,129,598
Expected credit loss		12,225	3,987	2,206	355,770	233,003	366,897	543,531	438,615	1,655,279	1,664,293	5,275,806

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**13 CASH AND CASH EQUIVALENTS**

	<b>2022</b>	<b>2021</b>
	<b>SR</b>	<b>SR</b>
Bank balances	<b>84,629,475</b>	41,961,338
Cash in hand	<b>750</b>	59,174
At 31 December	<b>84,630,225</b>	42,020,512

**14 SHARE CAPITAL**

As per Alkhorayef Group Company's (the Former Owner) resolution dated 23 Rajab 1441H (corresponding to 18 March 2020), the Former Owner increased the Company's share capital 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 also 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 2021 the Company's shares started the trading in Tadawal.

The authorized and paid-up share capital of the Company as at 31 December 2022 and 2021 was SAR 250 million divided into 25 million shares of SAR 10 each.

**15 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.

The extra ordinary general assembly meeting held on 19 May 2021 authorised the Board of Directors to approve interim dividends. On 30 June 2021, the Board of Directors has approved to distribute interim cash dividends equal to 15% of the capital amounted to SR 37,500,000 of SR 1.5 per share.

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**16 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.

	2022	2021
Net profit for the year (SR) attributable to ordinary shareholders	107,441,177	103,325,408
Weighted number of shares used as the denominator in calculating basic and diluted earnings per share (note 14)	25,000,000	25,000,000
Basic and diluted earnings per share of profit for the year (SR)	4.30	4.13

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

**17 STATUTORY RESERVE**

In accordance with the Companies' By-laws, the Company 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.

**18 EMPLOYEES' DEFINED BENEFIT LIABILITIES**

**18.1 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 2.2 to the financial statements.

	2022 SR	2021 SR
<i>Net benefit expense included in profit or loss:</i>		
Current service cost	10,773,897	6,527,388
Interest cost	1,013,671	812,498
	<u>11,787,568</u>	<u>7,339,886</u>
Included in other comprehensive income		
Re-measurement (gain) / loss on defined benefits liability:		
Actuarial (gain) / loss due to:		
- financial assumptions	(8,633,832)	3,349,665
	<u>3,153,736</u>	<u>10,689,551</u>
Net movement in liability		
Movement of actuarial valuation reserve:		
At 1 January	(3,271,555)	78,110
Gain / (loss) during the year	8,633,832	(3,349,665)
	<u>5,362,277</u>	<u>(3,271,555)</u>
At 31 December		

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**18 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)**

**18.2 Changes in the present value of the defined benefit obligation:**

	2022 SR	2021 SR
At 1 January - present value of defined benefit obligation	43,953,541	37,569,591
Interest cost	1,013,671	812,498
Current service cost	10,773,897	6,527,387
Benefits paid	(3,434,376)	(4,305,600)
Remeasurement (gains) / losses in OCI	(8,633,832)	3,349,665
At 31 December - present value of defined obligation	43,672,901	43,953,541

**18.3 Key assumptions and quantitative sensitivity analyses**

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

	2022	2021
Discount rate	4.3%	2.4%
Salary increase rate	2.5%	2.4%
Withdrawal rate	10%	9%
Average mortality (Age)	60	60

**18.4 Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2022 SR	2021 SR
<b>Discount rate</b>		
1 % increase	(3,032,493)	(3,374,293)
1% decrease	3,475,687	3,909,976
<b>Salary increase rate</b>		
1 % increase	3,734,004	4,102,192
1% decrease	(3,308,943)	(3,603,704)
<b>Withdrawal rates</b>		
10 % increase	(144,934)	(420,931)
10 % decrease	134,088	447,346
1 year mortality age set back	6,037	(9,038)
1 year mortality age set forward	(6,084)	9,068

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.

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**18 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)**

**18.4 Sensitivity analysis (continued)**

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

	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Within the next 12 months (next annual reporting period)	<b>5,134,105</b>	4,472,342
Between 2 and 5 years	<b>15,905,497</b>	15,315,932
Between 5 and 10 years	<b>15,591,812</b>	16,574,221
Beyond 10 years	<b>26,429,883</b>	22,574,614
Total expected payments	<b>63,061,297</b>	58,937,109

**19 TERM LOANS**

	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Short term loans	<b>156,708,847</b>	100,122,540
Current portion of long-term loans	<b>241,594,024</b>	58,541,500
Loans current liability	<b>398,302,871</b>	158,664,040
Non-current portion	<b>105,513,500</b>	60,128,357

The Company has obtained Sharia Compliant Murabaha loan facilities from commercial banks for a total amount of SR 504 million (31 December 2021: SR 218 million). These facilities are maturing from 2023 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:***

	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Balance at 1 January	<b>218,792,397</b>	101,428,571
Loans obtained during the year	<b>1,167,056,997</b>	346,376,540
Payments made during the year	<b>(882,033,023)</b>	(229,012,714)
Balance at 31 December	<b>503,816,371</b>	218,792,397

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

As at 31 December 2021, the Company was not in compliance with one of the loan covenants. However, during the year ended 31 December 2021, management received a waiver of covenant from the bank that the loan will not be called due to breach of the covenant. During the year ended 31 December 2022, the Company renewed the loan agreement where the specific covenant was removed.

	<b>Maturity</b>	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Saudi National Bank	<b>2023-2026</b>	<b>242,629,357</b>	215,322,475
Banque Saudi Fransi	<b>2023-2024</b>	<b>29,276,952</b>	3,469,922
Arab National Bank	<b>2023-2025</b>	<b>115,535,250</b>	-
Al Rajhi Bank	<b>2023-2024</b>	<b>20,000,000</b>	-
Riyad Bank	<b>2023-2023</b>	<b>4,632,137</b>	-
The Saudi British Bank	<b>2023-2023</b>	<b>1,180,175</b>	-
Saudi Investment Bank	<b>2023-2032</b>	<b>90,562,500</b>	-

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**19 TERM LOANS (continued)**

At 31 December 2022, undrawn committed borrowing facilities amounted to SR 1,963 million (2021: SR 995 million) of.

**20 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Company include shareholders, Board of Directors, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

<i>Name of related party</i>	<i>Relationship</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>	
			<b>2022</b>	<b>2021</b>
			<b>SR</b>	<b>SR</b>
Alkhorayef Group Company	Parent Company	Shared service cost (note 25)	<b>1,495,017</b>	720,000
		Land rental	<b>288,000</b>	288,000
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent Company	Land rental	<b>277,700</b>	50,450
Alkhorayef Commercial Company	A subsidiary to the parent	Purchases	<b>2,602,310</b>	1,744,173
		Sales (note 22)	<b>186,427</b>	107,656
Alkhorayef Company for Printing Solutions	A subsidiary to the parent	Purchases	<b>896,284</b>	309,716
Alkhorayef Petroleum Company	A subsidiary to the parent	Purchases	<b>315,606</b>	230,790
Alkhorayef Industries Company	A subsidiary to the parent	Sales (note 22)	<b>33,810</b>	11,040
Saudi Parts Center Company	A subsidiary to the parent	Purchases	<b>83,104</b>	146,758
AlKhorayef Lubricants Company	A subsidiary to the parent	Purchases	<b>1,085,049</b>	85,107
Board of Directors		Remuneration	<b>1,055,500</b>	1,278,000
Key management personnel		Short-term benefits	<b>11,024,598</b>	9,715,736
		Post-employment benefits	<b>1,026,488</b>	329,692

20.1 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.

20.2 Key management personnel of the Company comprise of key members of the management having authority and responsibility for planning, directing and controlling the activities of the Company. The amounts disclosed are the amounts recognised as an expense during the reporting period related to key management personnel.

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**31 December 2022**

**20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

	2022 SR	2021 SR
AlKhorayef Printing Solution	204,744	-
Saudi Part Center SPC	37,807	-
AlKhorayef Commercial Company	1,219,020	-
AlKhorayef Lubricants Company	127,972	-
	<u>1,589,543</u>	<u>-</u>
At 31 December	<u>1,589,543</u>	<u>-</u>

In addition to above, refer to note 6 for balances with EWC, which is an associate to the Company

**21 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES**

	2022 SR	2021 SR
Trade payables	83,544,850	77,260,924
Accrued expenses	39,797,290	31,445,281
VAT payable	12,884,264	8,721,234
Provision for onerous contracts (note 21.1)	473,092	473,092
Dividends payable	473,146	71,302
Obligation for loss from an equity accounted investee (note 6)	1,878,547	-
Other	4,347,493	1,407,367
	<u>143,398,682</u>	<u>119,379,200</u>

21.1 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:

	2022 SR	2021 SR
At 1 January	473,092	2,023,092
Charge during the year	-	-
Reversals during the year (note 23)	-	(1,550,000)
	<u>473,092</u>	<u>473,092</u>
At 31 December	<u>473,092</u>	<u>473,092</u>

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**31 December 2022**

**22 REVENUES**

**22.1 Disaggregated revenue information**

The Company 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 Company's revenue from contract with customers:

	2022 SR	2021 SR
<b>Revenue from contract with customer / Types of services</b>		
Water (see note "a" below)	353,753,240	274,285,795
Waste Water (see note "b" below)	192,862,049	176,758,172
Integrated Water Solutions (see note "c" below)	275,417,566	117,994,575
	<u>822,032,855</u>	<u>569,038,542</u>
	2022 SR	2021 SR
<b>a) Categories of services (Water)</b>		
Water Withdraw and Treatment	204,937,251	191,669,741
Water Networks	148,815,989	82,616,054
	<u>353,753,240</u>	<u>274,285,795</u>
	2022 SR	2021 SR
<b>b) Categories of services (Waste Water)</b>		
Wastewater Networks	142,511,446	111,964,719
Wastewater Treatment	50,350,603	64,793,453
	<u>192,862,049</u>	<u>176,758,172</u>
	2022 SR	2021 SR
<b>c) Categories of services (Integrated Water Solutions)</b>		
City Management	109,058,472	63,395,761
Water Management Services	98,152,264	37,114,268
Storm Water Network and Lifting Stations	68,206,830	17,484,546
	<u>275,417,566</u>	<u>117,994,575</u>

**Geographical markets**

The Company 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**

	2022 SR	2021 SR
Revenue recognised over time	<u>822,032,855</u>	<u>569,038,542</u>

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**31 December 2022**

**22 REVENUES (continued)**

**22.1 Disaggregated revenue information (continued)**

*Revenue per type of customer:*

<u><i>For the year ended 31 December 2022</i></u>	<i>Water</i> <i>SR</i>	<i>Waste Water</i> <i>SR</i>	<i>Integrated Water</i> <i>Solutions</i> <i>SR</i>	<i>Total</i> <i>SR</i>
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>

<u><i>For the year ended 31 December 2021</i></u>	<i>Water</i> <i>SR</i>	<i>Waste Water</i> <i>SR</i>	<i>Integrated Water</i> <i>Solutions</i> <i>SR</i>	<i>Total</i> <i>SR</i>
Revenue				
Government	273,179,312	176,710,172	109,554,138	559,443,622
Private customers	1,106,483	48,000	8,440,437	9,594,920
	<u>274,285,795</u>	<u>176,758,172</u>	<u>117,994,575</u>	<u>569,038,542</u>

Revenue from two major customers amounted to SR 679,295,349 (2021: SR 456,824,707), arising from the revenue generated through rendering of services.

**22.2 Contract balances**

	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Trade receivables (note 12)	214,725,792	239,741,173
Contract assets (note 11)	430,108,921	236,503,931
Advance from customers (Note 22.2a)	(81,682,825)	(1,502,191)
	<u>563,151,888</u>	<u>474,742,913</u>

22.2a 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.

**22.3 Performance obligations**

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

	<b>2022</b> <b>SR</b>	<b>2021</b> <b>SR</b>
Remaining performance obligation	<u>3,576,623,827</u>	<u>1,640,833,284</u>

Revenue from the remaining performance obligations is expected to be recognized over the next 5 year period.

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**23 COST OF REVENUE**

	2022 SR	2021 SR
Employees' salaries and other benefits	334,101,862	233,767,545
Materials consumed	159,797,911	89,241,923
Repair and maintenance	35,711,344	29,050,516
Depreciation and amortisation (note 7 and 8)	35,620,687	20,877,025
Utilities	22,715,089	15,150,032
Rent	14,102,382	7,916,425
Insurance	7,565,302	5,111,781
Travel	3,418,019	3,188,355
Penalties	9,811,671	1,895,834
Professional fees	2,299,325	1,348,307
Others	9,772,968	10,032,034
	<u>634,916,560</u>	<u>417,579,777</u>

**24 SELLING AND DISTRIBUTION EXPENSES**

	2022 SR	2021 SR
Business development expense	880,225	820,373
Tender fees	551,060	812,975
Advertisement expense	-	6,900
Others	11,500	15,214
	<u>1,442,785</u>	<u>1,655,462</u>

**25 GENERAL AND ADMINISTRATIVE EXPENSES**

	2022 SR	2021 SR
Employees' salaries and other benefits	27,130,892	19,963,763
Professional fees	9,011,531	7,101,704
Board of Director's remuneration (note 20)	1,055,500	1,278,000
Shared service costs (note 20)	1,495,017	720,000
Subscription fees	1,212,259	955,429
Depreciation and amortisation (note 7 and 8)	694,426	742,680
Rent expense	706,699	733,320
Bank charges	736,060	969,310
Postage, telephone and telex	654,085	516,004
Repair and maintenance	265,948	527,420
Utilities	152,216	118,601
Insurance	94,710	116,051
Other	2,453,755	617,329
	<u>45,663,098</u>	<u>34,359,611</u>

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**31 December 2022**

**26 FINANCE COSTS**

	2022 SR	2021 SR
Finance costs from bank borrowings	19,069,203	3,632,118
Finance costs from leases (note 8.2)	128,874	129,982
	<u>19,198,077</u>	<u>3,762,100</u>

**27 OTHER INCOME**

	2022 SR	2021 SR
Incentives from government (note below)	3,965,582	1,344,004
Foreign exchange (loss) / gain, net	(556,659)	244,773
Other	(2,489)	10,540
	<u>3,406,434</u>	<u>1,599,317</u>

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

**28 ZAKAT**

During the year ended 31 December 2022, the Company's Zakat charge was SR 9,585,084 (31 December 2021: 8,111,713).

**28.1 Movement in provision for Zakat during the year:**

	2022 SR	2021 SR
Opening Balance	8,111,713	-
Provision for the year	9,585,084	-
Paid during the year	(8,138,362)	-
	<u>9,558,435</u>	<u>8,111,713</u>

**28.2 The principal element of the zakat base are as follows:**

	2022 SR	2021 SR
Equity	356,734,516	261,473,362
Opening provisions and other adjustments	249,351,609	118,542,161
Book value of long-term assets	(369,042,941)	(183,451,205)
	<u>237,043,184</u>	<u>196,564,318</u>
Zakatable income	137,928,466	121,796,249
	<u>374,971,650</u>	<u>318,360,567</u>
Zakat base		
	<u>9,558,435</u>	<u>8,111,713</u>

**28 ZAKAT (continued)**

**28.3 Status of zakat assessment:**

Zakat returns have been submitted based on the consolidated zakat base of the group up to the year ended 31 December 2020. Final assessments of the group have been agreed up to the year ended 31 December 2015. The Company 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 Company has separately registered with Zakat Tax and Custom Authority and accordingly filed Zakat return for the year ended 31 December 2021. No assessment has been received for the year ended 31 December 2021.

**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company 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 Company operations and to provide guarantees to support its operations. The Company principal financial assets include trade and other receivables, cash and cash in bank and due from related parties that arise directly from its operations.

The Company'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 Company 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 Company's financial performance.

**29.1 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.

**29.2 Interest rate risk**

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

**29.3 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 Company's transactions are principally in Saudi Riyals.

**29.4 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 Company does not have any financial instruments which are subject to other price risk.

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**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.5 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 Company 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. Un-invoiced amounts are presented as contract assets.

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

	2022 SR	2021 SR
Cash and cash equivalents	84,629,475	41,961,338
Trade receivables	214,725,792	239,741,173
Contract assets	430,108,921	236,503,931
Other financial assets	9,361,134	6,388,425
	<u>738,825,322</u>	<u>524,594,867</u>

*Bank balances*

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

*Trade receivables*

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

Set out in note 12 is the information about the credit risk exposure on the Company's trade receivables 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 Company 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.

**29.6 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.

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**29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**29.6 Liquidity risk (continued)**

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

<b>31 December 2022</b>	<i>0-6 months</i> SR	<i>6-12 months</i> SR	<i>1-5 years</i> SR	<i>More than 5</i> <i>years</i> SR	<i>Total</i>	<i>Carrying</i> <i>amount</i>
Trade payables	72,818,293	2,050,680	8,675,877	-	83,544,850	83,544,850
Due to related parties	-	1,589,543	-	-	1,589,543	1,589,543
Lease liabilities	891,843	897,660	2,964,102	1,448,896	6,202,501	5,290,516
Term loans	212,479,038	56,242,990	274,717,130	39,586,523	583,025,681	503,816,371
	<b>286,189,174</b>	<b>60,780,873</b>	<b>286,357,109</b>	<b>41,035,419</b>	<b>674,362,575</b>	<b>594,241,280</b>

*31 December 2021*

Trade payables	58,672,657	18,588,267	-	-	77,260,924	77,260,924
Lease liabilities	326,687	288,545	1,781,788	1,784,246	4,181,266	3,222,601
Term loans	135,231,611	23,432,429	60,128,357	-	218,792,397	218,792,397
	<b>194,230,955</b>	<b>42,309,241</b>	<b>61,910,145</b>	<b>1,784,246</b>	<b>300,234,587</b>	<b>299,275,922</b>

**30 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 Company.

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 Company's financial assets and liabilities were reasonably equal to their fair values.

**31 CAPITAL MANAGEMENT**

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

The primary objective of the Company's capital management is to maximise the equity value. The Company 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 Company may adjust the dividend payment to equity, return capital to equity or issue new shares.

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

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**31 CAPITAL MANAGEMENT (continued)**

	2022 SR	2021 SR
Term loans	503,816,371	218,792,397
Trade and other payables including customer advances	225,081,507	120,881,391
Less: Cash and cash equivalents	(84,630,225)	(42,020,512)
<b>Net debt</b>	<b>644,267,653</b>	<b>297,653,276</b>
Equity	397,581,378	356,506,369
<b>Capital and net debt</b>	<b>1,041,849,030</b>	<b>654,159,645</b>
Gearing ratio (%)	62%	46%

**32 OPERATING SEGMENTS**

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

Operating segments is determined based on the Company'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 Company.

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

**Based on nature of services:**

Based on nature of services

2022	Water	Wastewater	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	97,054,252	31,016,466	56,922,031	(77,551,572)	107,441,177	
Assets	404,314,227	229,568,587	281,754,246	270,953,591	1,186,590,651	
Liabilities	-	-	-	789,009,273	789,009,273	
2021	Water	Waste Water	Integrated Water Solution	Other unallocated	Total	
Revenue	274,285,795	176,758,172	117,994,575	-	569,038,542	
Cost of revenue	(194,877,242)	(126,968,524)	(95,734,011)	-	(417,579,777)	
Profit for the year	79,408,553	49,789,648	22,260,564	(48,133,357)	103,325,408	
2021	Assets	268,543,521	209,020,529	193,902,341	80,001,621	751,468,012
Liabilities	-	-	-	394,961,643	394,961,643	

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31 December 2022**

**32 OPERATING SEGMENTS (continued)**

**Geographical segments:**

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

**33 CONTINGENCIES**

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

	2022 SR	2021 SR
Letters of guarantee	418,833,920	292,266,695
Letters of credit	71,452,137	53,379,806
	<u>490,286,057</u>	<u>345,646,501</u>

**34 CHANGES IN PRIOR PERIOD**

- a) Advance to suppliers against property and equipment, amounting to SR 3,718,774 were inadvertently classified under prepayment and other assets under current assets in prior period. This has been now appropriately classified as non-current capital advances in the prior period financial statements.
- b) Impairment loss on trade receivables including contract assets amounting to SR 2,857,704 was classified under general and administrative expenses in the prior period financial statements. This has been now appropriately presented as a separate note line in statement of profit or loss.

The above have been corrected by restating each of the affected financial statement line items in the statement of financial position for the prior period. The following tables summarise the impacts on the Group's consolidated financial statements.

Statement of financial position	Note	31 December 2021 previously reported	Reclassification	31 December 2021 after reclassification
<b>Non-Current assets</b>				
Capital Advances	7	-	3,718,774	3,718,774
<b>Current assets</b>				
Prepayment and Other Assets	10	45,580,689	(3,718,774)	41,861,915
		For the year ended 31 December 2021 previously reported	Reclassification	For the year ended 31 December 2021 after reclassification
<b>Statement of profit or loss</b>				
General and administrative expenses	25	37,217,315	(2,857,704)	34,359,611
Impairment loss on trade receivables including contract assets		-	2,857,704	2,857,704

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 December 2022**

**35      EVENTS AFTER THE REPORTING PERIOD**

In the opinion of management, no significant subsequent events have occurred subsequently since 31 December 2022 that would have a material impact on the financial position or financial performance of the Company.

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 from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the new Companies 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.

**36      APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved and authorised to issue by the Board of Directors Sha'ban 28, 1444H (corresponding to 20 March 2023).