

**Alkhorayef for Water and Power
Technologies Company
(A Saudi Closed Joint Stock Company)
(Formerly A Limited Liability Company)**

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

31 DECEMBER 2020

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
31 DECEMBER 2020

Index	Page
Independent auditor's report	1 – 3
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in shareholder's equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 51



Ernst & Young & Co. (Certified Public Accountants) Registration No. 45/11/323
General Partnership C.R. No. 1010383821

Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

**Independent Auditor's Report
To the Shareholders of Alkhorayef for Water and Power Technologies Company
(A Saudi Closed Joint Stock Company)**

Opinion

We have audited the financial statements of Alkhorayef for Water and Power Technologies Company (A Saudi Closed Joint Stock Company) - (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

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 professional code of conduct and ethics 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and 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 relating 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 are responsible for overseeing the Company's financial reporting process.



Independent Auditor's Report

**To the Shareholders of Alkhorayef for Water and Power Technologies Company
(A Saudi Closed Joint Stock Company) (continued)**

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 the 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 judgment and maintain professional skepticism 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.
- 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, 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.



Building a better
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Independent Auditor's Report

To the Shareholders of Alkhorayef for Water and Power Technologies Company
(A Saudi Closed Joint Stock Company) (continued)

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

- 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.

for Ernst & Young

Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

Riyadh: 19 Rajab 1442H
(3 March 2021)



ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	<i>Note</i>	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	7	70,012,509	62,680,145
Right-of-use assets	8	4,720,787	4,168,542
TOTAL NON-CURRENT ASSETS		74,733,296	66,848,687
CURRENT ASSETS			
Inventories	9	30,731,932	26,955,266
Prepayments and other assets	10	45,385,545	35,138,903
Contract assets	11	147,336,918	112,716,201
Trade and other receivables	12	166,948,783	147,212,522
Cash and bank balances	13	81,052,216	17,059,045
TOTAL CURRENT ASSETS		471,455,394	339,081,937
TOTAL ASSETS		546,188,690	405,930,624
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	250,000,000	80,000,000
Statutory reserve	17	11,395,252	19,065,309
Retained earnings		32,557,264	116,807,696
Actuarial valuation reserve	18	78,110	(598,711)
TOTAL EQUITY		294,030,626	215,274,294
NON-CURRENT LIABILITIES			
Employee defined benefit liabilities	18	37,569,591	32,268,879
Lease liabilities	8	4,026,660	3,902,371
Term loans	19	42,142,857	-
TOTAL NON-CURRENT LIABILITIES		83,739,108	36,171,250
CURRENT LIABILITIES			
Trade payables, accruals and other liabilities	21	95,576,092	98,509,831
Current portion of term loans	19	59,285,714	-
Lease liabilities	8	608,921	246,164
Due to related parties	20	12,948,229	55,729,085
TOTAL CURRENT LIABILITIES		168,418,956	154,485,080
TOTAL LIABILITIES		252,158,064	190,656,330
TOTAL EQUITY AND LIABILITIES		546,188,690	405,930,624

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Note</i>	2020 SR	2019 SR
Revenues	22	520,833,429	423,228,466
Cost of revenues	23	(377,586,075)	(304,074,003)
GROSS PROFIT		143,247,354	119,154,463
Selling and distribution expenses	24	(1,872,788)	(1,446,409)
Administrative expenses	25	(24,565,012)	(23,538,831)
OPERATING PROFIT		116,809,554	94,169,223
Finance cost, net	26	(3,428,004)	(6,375,085)
Other income, net	27	570,966	3,933,231
PROFIT BEFORE ZAKAT		113,952,516	91,727,369
Zakat	28	-	-
NET PROFIT FOR THE YEAR		113,952,516	91,727,369
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to the statement of profit or loss in subsequent periods:			
Re-measurement gain on defined benefits liability	18	676,821	325,859
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		676,821	325,859
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		114,629,337	92,053,228
<i>Basic and diluted earnings per share:</i>			
Profit for the year attributable to ordinary equity holders	16	4.56	3.67

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Share Capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Actuarial valuation reserve SR</i>	<i>Total SR</i>
As at 1 January 2019	80,000,000	9,892,572	34,253,064	(924,570)	123,221,066
Profit for the year	-	-	91,727,369	-	91,727,369
Other comprehensive income for the year	-	-	-	325,859	325,859
Total comprehensive income for the year	-	-	91,727,369	325,859	92,053,228
Transfer to statutory reserve	-	9,172,737	(9,172,737)	-	-
At 31 December 2019	80,000,000	19,065,309	116,807,696	(598,711)	215,274,294
Capitalization of retained earnings and statutory reserve (note 14)	135,873,005	(19,065,309)	(116,807,696)	-	-
Conversion of amount due to shareholder (note 20)	34,126,995	-	-	-	34,126,995
Profit for the year	-	-	113,952,516	-	113,952,516
Other comprehensive income for the year	-	-	-	676,821	676,821
Total comprehensive income for the year	-	-	113,952,516	676,821	114,629,337
Transfer to Statutory reserve	-	11,395,252	(11,395,252)	-	-
Dividends (note 15)	-	-	(70,000,000)	-	(70,000,000)
At 31 December 2020	250,000,000	11,395,252	32,557,264	78,110	294,030,626

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 SR	2019 SR
OPERATING ACTIVITIES			
Profit for the year before zakat		113,952,516	91,727,369
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Reversal of provision for expected credit losses	11,12	(1,987,205)	-
Depreciation on property and equipment	7	17,462,727	14,410,840
Amortisation on right-of-use assets	8	578,417	315,205
Gain on sale of property and equipment		(111,147)	442,491
Charge for the year of employee defined benefits	18	7,339,886	6,715,026
Finance costs	26	3,428,004	6,375,085
		140,663,198	119,986,016
<i>Working capital adjustments:</i>			
Trade receivables, prepayments and other assets		(27,490,859)	38,656,671
Inventories		(3,776,666)	(18,966,067)
Accounts payable, accruals and other liabilities		(3,269,750)	16,635,447
Amounts due to related parties		1,040,448	768,600
Contract assets		(35,125,556)	(37,268,762)
Cash flows from operations		72,040,815	119,811,905
Employees' defined benefits paid	18	(1,362,353)	(2,417,197)
Finance cost paid		(3,091,993)	(6,375,085)
Net cash flows from operating activities		67,586,469	111,019,623
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(25,050,751)	(28,823,210)
Proceeds from sale of property and equipment		366,807	559,186
Net cash flows used in investing activities		(24,683,944)	(28,264,024)
FINANCING ACTIVITIES			
Net movement from financing of Parent Company		(59,694,309)	(61,541,355)
Proceeds from term loans	19	141,964,285	-
Payment of obligations under capital lease contracts, net		-	(769,732)
Repayment of term loans	19	(40,535,714)	(40,000,000)
Payment of dividend	15	(20,000,000)	-
Payment of principal portion of lease liability	8	(643,616)	(335,212)
Net cash flows from (used in) financing activities		21,090,646	(102,646,299)
Net increase (decrease) in cash and bank balances		63,993,171	(19,890,700)
Cash and bank balances at 1 January		17,059,045	36,949,745
Cash and bank balances at 31 December		81,052,216	17,059,045
Significant non-cash transactions:			
Settlement of dividend with current account of Parent Company	20,15	50,000,000	-
Increase in share capital	20	34,126,995	-
Acquisition of a division from a related party	20	-	11,132,731
Recognition of right of use assets and lease liability	8	1,130,662	4,483,747
Reclassification from employees defined liabilities transferred to accounts payable and accruals	18	-	554,015
Re-measurement of Actuarial valuation	18	676,821	325,859

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2020

1 CORPORATE INFORMATION

Alkhorayef for Water and Power Technologies Company (A Saudi Closed Joint Stock Company) (the “Company”), formerly Owned by one Person as a limited liability 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 owned 81% by Alkhorayef Group Company (the “Parent Company”) and 19% is owned by other shareholders.

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.

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

On 16 Jumada’I 1442H (corresponding to 31 December 2020), the Capital Market Authority announces the approval to offer 7,500,000 shares for public subscription representing (30%) of the Company's shares.

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

Branch Commercial Registration Number	Branch	Date of Registration
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 Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRSs as endorsed in KSA”).

The financial statements for the year ended 31 December 2020, are the first financial year after the conversion of the legal entity from a Limited Liability Company to a Saudi Closed Joint Stock Company. The Company has obtained approval from Ministry of Commerce and Industry (“MOCI”), that the Company can prepare the financial statements in the financial year in continuation of the previous legal entity provided its financial statements are prepared as usual ,as the conversion of the legal form of the Company did not result in a new accounting unit.

These financial statements have been prepared under the historical cost basis, except otherwise indicated. The financial statements are presented in Saudi Riyals, which is also the Company's functional currency and presentation currency.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Business combinations

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

b) 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) 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.

d) 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Fair value measurement (continued)

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 from contract with customers

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”). Revenue from Project Services contracts is recognised by reference to the stage of completion of the contract activity at year end (the performance completed to date method) and the revenue from Operations and Maintenance 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.

Contract revenue:

Revenue Recognition from Project Services contracts

The Company principally operates fixed price and unit price contracts that cover the contracting for water and wastewater treatment plants, water and wastewater networks. If the outcome of such contract can be reliably measured, then revenue associated with the contract is recognised by reference to the stage of completion of the contract activity at year end (the performance completed to date method).

The outcome of a contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

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

The monthly revenues are calculated according to the actual completion percentage method on the ground in relation to the project phases specified at the beginning of the contract and are recorded in the contract assets / unbilled revenue account. Invoices with this type of contracts are submitted in varying stages and are recorded as receivables from the client in the Company's accounts upon final approval by the client.

Revenue from Operations and Maintenance:

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 monthly revenue is calculated based on the monthly invoice submitted to the customer and is based on the actual measurement method for the operations and maintenance services provided, and is recorded as contract assets/ unbilled revenue until the final approval is made by the client, then it is recorded as receivables on the client in the Company's accounts.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Revenue from contract with customers (continued)

Specific revenue recognition criteria

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

Contract costs — Contract costs include 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 recognized as an expense immediately.

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

f) Zakat and Taxes

Zakat

Zakat is calculated and provided for by Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company") on a consolidated basis including its subsidiaries in accordance with Saudi Arabian fiscal regulations. This provision is reflected in the Ultimate Parent Company's consolidated financial statements. The zakat declaration is made on consolidated basis at the Ultimate Parent Company level. The Parent Company has pledged to the Capital Market Authority that any charges relating to the zakat will be borne by the Parent Company, therefore no zakat charges has been made in this financial statements.

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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Zakat and Taxes (continued)

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 recognized 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. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

• Buildings on leased land	20 years
• 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.

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 to make lease payments and right-of-use assets representing the right to use the underlying assets.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Leases (continued)

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. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. 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 consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments – initial recognition and subsequent measurement (continued)

i) Financial assets(continued)
Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in note 2.2e Revenue from contracts with customers.

In order for a financial asset to be measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchase or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e. the date that the Company commits to purchase or sell the asset.

The Company has implemented following classifications for its financial assets:

Financial statement line item	
Trade and other receivables	Amortised cost
Cash and bank balances	Amortised cost

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables, cash and cash equivalents and due from related parties.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments – initial recognition and subsequent measurement (continued)

i) *Financial assets (continued)*

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables, retention receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

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

The Company's financial liabilities include trade payables, due to related parties, dividend payable, loans and borrowings and due to employees.

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial instruments – initial recognition and subsequent measurement (continued)

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

iv) Offsetting of financial instruments

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

k) Inventories

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

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) 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.

m) Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks and in hand.

n) Provisions

General

Provisions are recognized 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 recognized 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 recognized 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).

Provision for penalties

The provision for penalties is included in construction contracts to dissuade the Company from completing the works later than the approved date. Provision for penalties is made for anticipated minor cost to be incurred by management due to delay in executing the contracted work and certain provisions for claims from the customers, the provision is made by contract basis, based on historical expectation and trends.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Provisions (continued)

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognized in accordance with the requirements for revenue recognition.

o) Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized 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.

Employees' Defined benefits

In addition to the above, employees' terminal benefits are provided for in accordance with the requirements of the Saudi Labor Law and the Company's policies. These employees' terminal benefits represent a defined benefit obligation. A defined benefit is a post-employment benefit other than a defined contribution plan. The net pension liability recognized in the statement of financial position in respect of defined benefit post-employment is the present value of the projected defined benefit obligation (DBO) at the statement of financial position date. The defined benefit obligation is calculated annually by qualified actuaries using projected credit unit method. Re-measurement amounts, if any, are recognized and reported within equity under the statement of changes in shareholder's equity with corresponding debit or credit to OCI that comprises of actuarial gains and losses on the defined benefits obligation.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from scheme amendments or curtailments are recognised immediately in the statement of profit or loss as past service costs.

p) Accounts payable and other liabilities

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

q) Statutory reserve

In accordance with the Company's by-laws and the requirements of Companies' Law, 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.

r) Earnings per share

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

s) Dividends

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Contingencies

Contingent liabilities are not recognized 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 recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

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

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

3.1.1 Significant judgment in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an 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 Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of office spaces due to the significance of these assets to its operations. These leases are reviewed after one year based on the Company's operational requirements and leased area is adjusted accordingly.

3.1.2 Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3.1.3 Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Satisfaction of performance obligations for contracting, and operations and maintenance

The Company is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognizing revenue. The Company has assessed that performance obligation relating to a contract for contracting and operations and maintenance can be reliably measured, by reference to the stage of completion of the contract activity at year end (the performance completed to date method), and the performance obligation relating to a contract of service can be reliably measured over the contractual period or as and when services are rendered to customers.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.1 Judgements (continued)

3.1.3 Revenue from contracts with customers (continued)

Variable consideration

Certain contracts with customers include provision that give rise to variable consideration. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Company had determined that in its contract with customers there is no element of variable consideration involved.

3.1.4 Going concern

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.

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 12.

3.2.4 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.2 Estimates and Assumptions (continued)

3.2.4 Impairment of non-financial assets (continued)

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is arrived based on available data from binding sales transactions at arm’s length, for similar assets. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

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 employee 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 employee benefit obligations are provided in note 18.

3.2.6 Investment in joint arrangements

The Company considers ‘Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca’ and ‘Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs’ (the “Investee Company”) as investment in joint arrangements even though it owns 49% of equity interest. The Company only exercises joint control over the investee company based on the fact that pervasive aspects of the Investee Company’s strategic financial and operating policies require unanimous approval of its partners.

3.2.7 Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

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.

Standards	Description	Mandatory effective date
IFRS 17	Insurance Contracts	1 January 2023
IFRS 1	First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter	1 January 2022
IFRS 9	Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
IAS 41	Agriculture: Taxation in fair value measurements	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 3	Business Combinations: Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts: Costs of Fulfilling a Contract	1 January 2022

5 BUSINESS COMBINATIONS

On 1 October 2019, the Company acquired Water Works Division of Alkhorayef Commercial Company, a related party. Water Works Division is a division of Alkhorayef Commercial Company engaged in retail of water related products and materials. The strategic management and associated processes were acquired with the property and, as such, the management considered this transaction as a business combination, rather than an asset acquisition.

The carrying value of assets and liabilities acquired by the Company is set out below:

	2019 SR
Trade receivables	2,732,109
Inventories, net	8,830,021
Property and equipment, net	113,935
Accruals	(264,273)
Employee defined benefit liabilities	(279,061)
Net assets acquired	11,132,731
Purchase consideration	(11,132,731)
Gain/(loss)	-

6 INVESTMENT IN JOINT ARRANGEMENTS

The Company participated in certain projects (undertaken through an unincorporated joint venture) whereby the Company and the other venturer 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

6 INVESTMENT IN JOINT ARRANGEMENTS (continued)

During 2015 and 2017, the Company participated in certain projects (undertaken through an unincorporated joint venture whereby the Company and the other venturer 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 execution and performance under the contract was expected to be completed during 2020. However, the venturers have resolved that the Joint arrangements will continue and accordingly the financial statements of the below presented Joint arrangements have been prepared, by the management of the entities, on a going concern basis.

The joint arrangement had no contingent liabilities or capital commitments as at 31 December 2020 and 31 December 2019.

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

<i>Entity name</i>	<i>Location</i>	<i>Principal activities</i>	<i>Percentage ownership</i>	
			<i>2020</i>	<i>2019</i>
Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%
Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%

6.1 Summarised financial statements of the joint operations

<i>2020</i>	<i>Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca SR</i>	<i>Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs SR</i>	<i>Total SR</i>
Total current assets	7,116,086	8,732,788	15,848,874
Total current liabilities	(4,728,858)	(6,444,300)	(11,173,158)
Net assets	2,387,228	2,288,488	4,675,716

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

6 INVESTMENT IN JOINT ARRANGEMENTS (continued)

6.1 Summarised financial statements of the joint operations (continued)

<i>For the year ended 2020</i>	<i>Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca SR</i>	<i>Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs SR</i>	<i>Total SR</i>
Revenue	-	492,544	492,544
Cost of revenue	-	8,734	8,734
General and administrative expenses	(54,629)	(40,570)	(95,199)
(Loss) / profit for the year	<u>(54,629)</u>	<u>460,708</u>	<u>406,079</u>

<i>019</i>	<i>Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca SR</i>	<i>Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs SR</i>	<i>Total SR</i>
Total current assets	9,008,544	5,915,321	14,923,865
Total current liabilities	(6,566,685)	(4,087,541)	(10,654,226)
Net assets	<u>2,441,859</u>	<u>1,827,780</u>	<u>4,269,639</u>

<i>For the year ended 2019</i>	<i>Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca SR</i>	<i>Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs SR</i>	<i>Total SR</i>
Revenue	1,546,211	5,886,844	7,433,055
Cost of revenue	(2,236,325)	(5,201,465)	(7,437,790)
General and administrative expenses	(29,713)	(36,034)	(65,747)
Other income	103,756	-	103,756
(Loss)/profit for the year	<u>(616,071)</u>	<u>649,345</u>	<u>33,274</u>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

7 PROPERTY AND EQUIPMENT

<i>For the year ended</i> <i>31 December 2020</i>	<i>Buildings</i> <i>SR</i>	<i>Heavy</i> <i>machines</i> <i>SR</i>	<i>Furniture and</i> <i>fixtures</i> <i>SR</i>	<i>Motor</i> <i>vehicles</i> <i>SR</i>	<i>Total</i> <i>SR</i>
Cost					
At the beginning of the year	2,648,420	115,822,622	12,649,910	74,246,228	205,367,180
Additions	59,700	16,056,468	762,296	8,172,287	25,050,751
Disposals	-	(496,664)	(338,806)	(513,000)	(1,348,470)
At the end of the year	<u>2,708,120</u>	<u>131,382,426</u>	<u>13,073,400</u>	<u>81,905,515</u>	<u>229,069,461</u>
Accumulated Depreciation					
At the beginning of the year	1,832,401	86,221,401	7,765,650	46,867,583	142,687,035
Depreciation charge for the year	124,942	7,412,261	1,194,944	8,730,580	17,462,727
Relating to disposals	-	(448,369)	(260,016)	(384,425)	(1,092,810)
At the end of the year	<u>1,957,343</u>	<u>93,185,293</u>	<u>8,700,578</u>	<u>55,213,738</u>	<u>159,056,952</u>
Net book value At 31 December 2020	<u>750,777</u>	<u>38,197,133</u>	<u>4,372,822</u>	<u>26,691,777</u>	<u>70,012,509</u>

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).

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

7 PROPERTY AND EQUIPMENT (continued)

<i>For the year ended 31 December 2019</i>	<i>Buildings SR</i>	<i>Heavy Machines SR</i>	<i>Furniture and fixtures SR</i>	<i>Motor vehicles SR</i>	<i>Total SR</i>
Cost					
At the beginning of the year	2,698,839	105,844,451	12,238,125	59,908,333	180,689,748
Additions	24,881	12,274,907	1,961,404	14,562,018	28,823,210
Relating to disposals	(75,300)	(2,308,151)	(1,589,678)	(744,450)	(4,717,579)
Acquisition of a division (Note 5)	-	11,415	40,059	520,327	571,801
At the end of the year	<u>2,648,420</u>	<u>115,822,622</u>	<u>12,649,910</u>	<u>74,246,228</u>	<u>205,367,180</u>
Accumulated Depreciation					
At the beginning of the year	1,727,529	81,767,583	7,817,197	40,221,922	131,534,231
Depreciation charge for the year	149,506	6,174,643	1,177,480	6,909,211	14,410,840
Relating to disposals	(44,634)	(1,732,240)	(1,257,628)	(681,400)	(3,715,902)
Acquisition of a division (Note 5)	-	11,415	28,601	417,850	457,866
At the end of the year	<u>1,832,401</u>	<u>86,221,401</u>	<u>7,765,650</u>	<u>46,867,583</u>	<u>142,687,035</u>
Net book value At 31 December 2019	<u>816,019</u>	<u>29,601,221</u>	<u>4,884,260</u>	<u>27,378,645</u>	<u>62,680,145</u>

Depreciation charge for the year was allocated as follows:

	2020 SR	2019 SR
Cost of revenues (note 23)	16,439,861	13,607,356
Administrative expenses (note 25)	1,022,866	803,484
	<u>17,462,727</u>	<u>14,410,840</u>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

8.1 Right-of-use assets

The Company has various land and building lease agreements for offices in various locations with total rent amounting to SR 288,000 (31 December 2019: SR 288,000) with Parent Company (note 20) and rent amounting to SR 120,000 (31 December 2019: SR 120,000) with Ultimate Parent Company (note 20). Based on management's assessment the rental lease agreements terms ranges from two years to 20 years with renewal and termination options. Renewal options of the land and buildings were not considered in 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>Buildings</i> SR	<i>Total</i>
Cost:			
As at 1 January 2019 *	4,483,747	-	4,483,747
Addition	-	-	-
At 31 December 2019	4,483,747	-	4,483,747
Addition	-	1,130,662	1,130,662
At 31 December 2020	4,483,747	1,130,662	5,614,409
Accumulated amortisation:			
As at 1 January 2019	-	-	-
Charge for the year	315,205	-	315,205
At 31 December 2019	315,205	-	315,205
Charge for the year	319,429	258,988	578,417
At 31 December 2020	634,634	258,988	893,622
Net book value:			
As at 31 December 2020	3,849,113	871,674	4,720,787
As at 31 December 2019	4,168,542	-	4,168,542

* As at 1 January 2019, the date of initial application, the Company has recognized right-of-use asset equal to the lease liability.

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

	<i>2020</i> SR	<i>2019</i> SR
Amortisation of right-of-use assets allocated to cost of revenue (note 23)	524,213	313,679
Amortisation of right-of-use assets allocated to administrative expenses (note 25)	54,204	1,526
Interest expense on lease liabilities (note 26)	174,263	85,288
Short-term leases recognised on straight-line basis as rent expense (note 23 and note 25)	8,098,932	7,789,988
	8,851,612	8,190,481

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

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

8.2 Lease liabilities

The Company had non-cash additions to right-of-use assets and lease liabilities of SR 1,130,662 in 2020 (SR 4,483,747 recognised in 2019).

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

	<i>Land</i> SR	<i>Buildings</i> SR	<i>Total</i>
Recognised at 1 January 2019	4,483,747	-	4,483,747
Accretion of interest (note 26)	85,288	-	85,288
Payments*	(420,500)	-	(420,500)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	4,148,535	-	4,148,535
Additions	-	1,130,662	1,130,662
Accretion of interest (note 26)	161,591	12,672	174,263
Payments (see note below)*	(408,000)	(409,879)	(817,879)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	3,902,126	733,455	4,635,581
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* Payment of lease liability includes repayment of principal portion of SR 643,616 (31 December 2019: SR 335,212) and payment of interest amounting SR 174,263 (31 December 2019: SR 85,288).

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

	<i>2020</i> SR	<i>2019</i> SR
Current portion	608,921	246,164
Non-current portion	4,026,660	3,902,371
	<hr/>	<hr/>
	4,635,581	4,148,535
	<hr/> <hr/>	<hr/> <hr/>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

9 INVENTORIES

	2020 SR	2019 SR
Spare parts	25,317,615	20,358,264
Finished goods	9,118,614	10,830,008
Less: provision for net realisable value	(3,704,297)	(4,233,006)
Net realisable value (NRV)	<u>30,731,932</u>	<u>26,955,266</u>

Included in the inventories, stock of SR 31,723,484 (31 December 2019: SR 17,268,678) is valued based at NRV.

Below is the movement of provision for net realizable value:

	2020 SR	2019 SR
At 1 January	4,233,006	3,025,180
Acquisition of a division (note 5)	-	2,000,000
Reversals during the year (note 23)	(327,342)	-
Written off during the year	(201,367)	(792,174)
At 31 December	<u>3,704,297</u>	<u>4,233,006</u>

10 PREPAYMENTS AND OTHER ASSETS

	2020 SR	2019 SR
Prepaid expenses (note below)	38,583,057	28,008,997
Advances to suppliers	3,109,349	5,395,660
Other receivables	3,693,139	1,734,246
	<u>45,385,545</u>	<u>35,138,903</u>

Prepaid expenses mainly represents iqama fees and insurance paid in advance.

11 CONTRACT ASSETS

	2020 SR	2019 SR
1 January	112,716,201	75,447,439
Value of work performed during the year	520,833,429	423,228,466
Progress billings made during the year	(485,707,873)	(385,959,704)
	<u>147,841,757</u>	<u>112,716,201</u>
Less: provision for expected credit losses	(504,839)	-
31 December	<u>147,336,918</u>	<u>112,716,201</u>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

11 CONTRACT ASSETS (continued)

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

Movement of provisions for expected credit losses on contract assets:

	2020 SR	2019 SR
1 January	-	-
Charge for the year (note 25)	504,839	-
31 December	504,839	-

Set out below is the amount of revenue recognised from:

	2020 SR	2019 SR
Performance obligations satisfied in previous years	423,167,934	343,865,631

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

	2020					Total
	0-90 days	91-180 days	181-270 days	271-360 days	361-450 days	
Expected credit loss rate	0.24%	0.62%	0.39%	0.65%	0.45%	SR
Estimated total gross carrying amount at default	100,584,665	19,891,746	9,864,877	10,071,078	7,429,391	147,841,757
Expected credit loss	242,681	124,007	38,744	65,692	33,715	504,839
	2019					
	0-90 days	91-180 days	181-270 days	271-360 days	361-450 days	Total
Expected credit loss rate	-	-	-	-	-	SR
Estimated total gross carrying amount at default	79,339,143	14,570,744	15,864,542	2,941,772	-	112,716,201
Expected credit loss	-	-	-	-	-	-

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

12 TRADE AND OTHER RECEIVABLES

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
Trade receivables	158,322,053	144,038,290
Retention receivables	10,660,987	7,700,533
	168,983,040	151,738,823
Less: provision for expected credit losses	(2,034,257)	(4,526,301)
	166,948,783	147,212,522

Movement of provisions for expected credit losses on trade receivables:

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
1 January	4,526,301	4,526,301
Reversal during for the year (note 25)	(2,492,044)	-
31 December	2,034,257	4,526,301

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 139.6 million which is due from Government and quasi-Government institutions (31 December 2019: SR 127 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.

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. Generally, trade receivables are written-off if past due for more than two year and are not subject to enforcement activity. 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

12 TRADE AND OTHER RECEIVABLES (continued)

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.

	2020										Total
	<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>	
Expected credit loss rate	0.67%	2.47%	3.47%	2.81%	1.68%	0.41%	0.05%	1.11%	0.05%	0.18%	SR
Estimated total gross carrying amount at default	81,845,506	25,930,880	8,547,684	6,479,483	15,996,872	17,722,940	293,611	1,146,676	3,591,924	7,427,464	168,983,040
Expected credit loss	544,638	640,261	296,875	182,374	269,310	72,882	147	12,756	1,796	13,218	2,034,257
	2019										Total
	<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>	
Expected credit loss rate	1.89%	2.15%	4.77%	7.84%	12.22%	0.51%	2.12%	11.24%	1.93%	0.28%	SR
Estimated total gross carrying amount at default	81,925,140	29,672,962	4,588,262	3,662,166	12,476,457	2,007,613	2,575,813	1,438,703	2,615,392	10,776,315	151,738,823
Expected credit loss	1,549,572	638,689	218,894	287,284	1,524,333	10,214	54,689	161,656	50,578	30,392	4,526,301

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

13 CASH AND BANK BALANCES

	<i>2020</i> SR	<i>2019</i> SR
Bank balances	81,048,747	17,057,460
Cash in hand	3,469	1,585
	81,052,216	17,059,045

The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

At 31 December 2020, the Company had available SR 159 million (2019: SR Nil) of undrawn committed borrowing facilities.

14 SHARE CAPITAL

As per the Owner's resolution dated 23 Rajab 1441H (corresponding to 18 March 2020), the 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 Owner's account to the account of increase in share capital. The legal formalities relating to such increase of the share capital were completed during June 2020.

As per the shareholders agreements and the 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 Owner decided to convert the legal form of the Company from a Limited Liability Company (Owned by One Person) to a Closed 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 Closed Joint Stock Company were also completed during June 2020.

Share capital is divided into 25,000,000 share of SR 10 each (31 December 2019: 80,000 shares of 1,000 each). Share capital is distributed as follows.

	<i>2020</i>			<i>2019</i>		
	<i>Number of shares</i>	<i>Share Capital SR</i>	<i>Share holding</i>	<i>Number of Shares</i>	<i>Share Capital SR</i>	<i>Share holding</i>
Alkhorayef Group Company	20,250,000	202,500,000	81%	80,000	80,000,000	100%
Individual shareholders	3,500,000	35,000,000	14%	-	-	-
Nama Alkhorayef Company	1,250,000	12,500,000	%	-	-	-
	25,000,000	250,000,000	100%	80,000	80,000,000	100%

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

15 DIVIDENDS

In the Extraordinary Annual General Meeting (EOGM) dated 14 Dhul-Qi'dah 1441H (corresponding to 5 July 2020), the Shareholders have delegated the Board of Directors to approve quarter and semi-annual interim dividends.

On 8 Dhul-Qi'dah 1441H (corresponding to 29 June 2020), the Board of Directors declared and approved interim cash dividends for the six months period ended 30 June 2020 amounting to SR 50 million (SR 2 per share), which has been recognised in these financial statements for the year ended 31 December 2020.

On 10 Safar 1442H (corresponding to 27 September 2020), the Company declared interim cash dividends for the nine months period ended 30 September 2020 amounting to SR 20 million (SR 0.8 per share), which has been recognised in these financial statements for the year ended 31 December 2020.

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.

	<i>2020</i>	<i>2019</i>
Profit for the year (SR)	113,952,516	91,727,369
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)	4.56	3.67

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

* The denominator for the purpose of calculation of basic and diluted earnings per share for the year ended 31 December 2020 and 31 December 2019 has been adjusted to reflect the effect of capitalization and share split which led to increase in number of shares with no additional consideration as if the capital increase occurred from the beginning of the prior period without a corresponding change in resources in accordance with the requirements of IAS 33 'Earnings per share'.

17 STATUTORY RESERVE

In accordance with the Company's By-Laws and the requirements of Companies' Law, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to 30% of its share capital. The statutory reserve is not available for distribution. During the year, the Company's share capital was increased from SR 80,000,000 to SR 250,000,000, which includes transfer from the retained earnings, statutory reserve and partial transfer from the amounts due to Owner's account (note 14).

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

18 EMPLOYEE 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.

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
<i>Net benefit expense included in profit or loss</i>		
Current service cost	6,527,388	5,562,228
Interest cost	812,498	1,152,798
	7,339,886	6,715,026
Included in other comprehensive income		
Remeasurement gains:		
Actuarial gain due to:		
- financial assumptions	(676,821)	(325,859)
Net benefit expense	6,663,065	6,389,167
Movement of Actuarial valuation reserve:		
At 1 January	(598,711)	(924,570)
Gains during the year	676,821	325,859
At 31 December	78,110	(598,711)

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

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
At 1 January - present value of defined benefit obligation	32,268,879	27,742,894
Interest cost	812,498	1,152,798
Current service cost	6,527,388	5,562,228
Benefits paid	(1,362,353)	(2,417,197)
Remeasurement gains in OCI	(676,821)	(325,859)
Amounts transferred to accrual as current liabilities	-	554,015
At 31 December - present value of defined obligation	37,569,591	32,268,879

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

18 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

18.3 Key assumptions and quantitative sensitivity analyses

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

	2020	2019
Discount rate	1.1%	2.5%
Salary increase rate	1.1%	2.2%
Withdrawal rate	9%	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:

	2020	2019
	SR	SR
Discount rate		
1 % increase	(2,829,089)	(2,063,708)
1% decrease	3,274,992	2,966,515
Salary increase rate		
1 % increase	3,444,957	2,966,515
1% decrease	(3,030,128)	(2,253,772)
Withdrawal rates		
10 % increase	(322,129)	85,683
10 % decrease	342,581	474,576
1 year mortality age set back	(7,020)	271,802
1 year mortality age set forward	7,046	278,113

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

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

	2020	2019
	SR	SR
Within the next 12 months (next annual reporting period)	4,427,488	3,909,979
Between 2 and 5 years	9,019,700	7,757,434
Between 5 and 10 years	12,966,112	13,312,920
Beyond 10 years	14,966,656	15,302,247
Total expected payments	41,379,956	40,282,580

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

19 TERM LOANS

	Maturity	2020 SR	2019 SR
Commercial loans	2021 – 2022	101,428,571	-
Less: Current portion		(59,285,714)	-
Non-current portion		42,142,857	-

The Company has obtained Murabaha loan facilities from commercial banks for a total amount of SR 101 million (31 December 2019: SR Nil). These facilities are maturing from 2021 to 2022. This loan is repayable in quarterly instalments amounting to SR 14 million and carries varying interest 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 personal guarantees of the shareholders and assignment acknowledgement of contract proceeds.

Below is the movement of the loans and borrowings:

	2020 SR	2019 SR
Balance as at 1 January	-	40,000,000
Loans obtained during the year	141,964,285	-
Payments made during the year	(40,535,714)	(40,000,000)
Balance as at 31 December	101,428,571	-

20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, directors and key management personnel of the Company, 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.

Name of company	Relation	Nature of transaction	Amount of transactions	
			2020 SR	2019 SR
Alkhorayef Group company	Parent Company	Financing	350,554,596	158,346,744
		Finance income	1,061,735	1,219,971
		Finance expense	(716,365)	(381,488)
		Finance income, net (note 26)	345,370	838,483
		Shared service cost (note 25)	600,300	480,600
		Land rental	288,000	288,000
		Increase in share capital	34,126,995	-
		Payment of dividend	20,000,000	-
		Settlement of dividend payable with Current account	50,000,000	-

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2020

20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Name of company	Relation	Nature of transaction	Amount of transactions	
			2020 SR	2019 SR
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent	Land rental	120,000	120,000
Alkhorayef Commercial Company	Affiliate	Purchases	3,450,371	1,937,156
		Sales (note 22)	146,730	169,380
		Acquisition of a division (note 5)	-	11,132,731
Alkhorayef Company for Printing Solutions	Affiliate	Purchases	130,353	232,640
Alkhorayef Petroleum Company	Affiliate	Purchases	376,238	381,110
		Sales (note 22)	9,900	18,590
Alkhorayef Industries Company	Affiliate	Sales (note 22)	6,600	-
Saudi Parts Center Company	Affiliate	Purchases	216,319	-
Castrol	Affiliate	Purchases	97,949	-
Board of Directors	-	Remuneration	630,000	-
Key management personnel*	-	Short-term benefits	3,062,089	1,967,600
		Post-employment benefits	352,446	142,685

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.

Funds in excess of the Company's requirements are placed with the Parent Company which also provides funds for day to day operations of the Company. However, effective from 17 July 2020, the Company is maintaining excess funds in their own bank accounts.

Amount due to the Parent Company, as shown in the table below, carries interest based on the average bank prevailing rates and are repayable by the Company upon demand from the Parent Company while amounts due to other related parties are interest free and payable upon demand from the lenders.

*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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
Alkhorayef Group Company (Parent Company)	12,796,081	55,729,085
Alkhorayef Commercial Company	133,070	-
Castrol	19,078	-
	<u>12,948,229</u>	<u>55,729,085</u>

21 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
Trade payables*	53,169,009	58,442,389
Accrued expenses**	24,350,532	18,240,943
Advance from customers	13,943,462	16,249,276
Provision for onerous contracts (see note "a" below)	2,023,092	4,010,000
Provision for penalties (see note "b" below)	865,987	952,181
Accrued finance charges	540,635	204,624
Withholding tax payable	9,247	59,697
Other liabilities	674,128	350,721
	<u>95,576,092</u>	<u>98,509,831</u>

* Trade payables are non-interest bearing and are normally settled within 12 months.

**Accrued and other liabilities are non-interest bearing and have an average term of six months.

a. 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:

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
At 1 January	4,010,000	2,188,731
Charge during the year	1,600,000	4,010,000
Utilised during the year (note 23)	(3,586,908)	(2,188,731)
	<u>2,023,092</u>	<u>4,010,000</u>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

21 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES (continued)

b. Provision for penalties is made for anticipated minor cost to be incurred by management in executing the contracted work and certain provisions for claims from the customers.

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
At 1 January	952,181	3,155,292
Charge during the year	193,250	369,026
Utilised during the year (note 23)	(279,444)	(2,498,037)
Transferred to accounts payable	-	(74,100)
	<hr/>	<hr/>
At 31 December	865,987	952,181
	<hr/> <hr/>	<hr/> <hr/>

Penalties are mainly attributed to auxiliary contractual requirements and to unforeseen subsurface conditions which result in damage to existing utilities, and it may be imposed by the client, several municipal or governmental entities as a result of work taken place in public and heavy traffic area in response to urgent maintenance requests that require immediate mobilization to preserve essential service and public safety. Penalty forecasting cannot be predicted due to variable frequency and unforeseen nature of such occurrences.

22 REVENUE

22.1 Disaggregated revenue information

Set out below is the disaggregation of the Company's revenue:

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
<i>Types of services</i>		
Water (see note "a" below)	254,067,013	215,732,217
Waste Water (see note "b" below)	178,094,753	131,431,437
Integrated Water Solutions (see note "c" below)	88,671,663	76,064,812
	<hr/>	<hr/>
	520,833,429	423,228,466
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	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
<i>a) Categories of services (Water)</i>		
Water Withdraw and Treatment	166,700,154	139,155,844
Water Networks	87,366,859	76,576,373
	<hr/>	<hr/>
	254,067,013	215,732,217
	<hr/> <hr/>	<hr/> <hr/>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

22 REVENUE (continued)

22.1 Disaggregated revenue information (continued)

	2020 SR	2019 SR
<i>b) Categories of services (Waste Water)</i>		
Wastewater Networks	105,917,448	77,552,366
Wastewater Treatment	72,177,305	53,879,071
	<u>178,094,753</u>	<u>131,431,437</u>
	2020 SR	2019 SR
<i>c) Categories of services (Integrated Water Solutions)</i>		
City Management	51,112,400	30,672,367
Storm Water Network and Lifting Stations	26,772,946	34,659,595
Water Management Services	10,786,317	10,732,850
	<u>88,671,663</u>	<u>76,064,812</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

	2020 SR	2019 SR
Revenue recognized over time	<u>520,833,429</u>	<u>423,228,466</u>

Revenue per type of customer:

<u>For the year ended 31 December 2020</u>	Water SR	Waste Water SR	Integrated Water Solutions SR	Total SR
Revenue				
Government	245,571,320	176,155,404	72,358,701	494,085,425
Private customers	8,495,693	1,939,349	16,149,732	26,584,774
Related party (note 20)	-	-	163,230	163,230
	<u>254,067,013</u>	<u>178,094,753</u>	<u>88,671,663</u>	<u>520,833,429</u>

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

22 REVENUE (continued)

22.1 Disaggregated revenue information (continued)

Revenue per type of customer: (continued)

<u>For the year ended 31 December 2019</u>	<i>Water SR</i>	<i>Waste Water SR</i>	<i>Integrated Water Solutions SR</i>	<i>Total SR</i>
Revenue				
Government	197,674,960	128,680,447	65,948,557	392,303,964
Private customers	18,057,257	2,750,990	9,928,285	30,736,532
Related party (note 20)	-	-	187,970	187,970
	<u>215,732,217</u>	<u>131,431,437</u>	<u>76,064,812</u>	<u>423,228,466</u>

Revenue from two major customers amounted to SR 456,824,707 (2019: SR 354,134,497), arising from the revenue generated through rendering of services.

22.2 Contract balances

	2020 SR	2019 SR
Trade receivables (note 12)	158,322,053	144,038,290
Contract assets (note 11)	147,841,757	112,716,201
Advance from customers (note 21)	(13,943,462)	(16,249,276)
	<u>292,220,348</u>	<u>240,505,215</u>

22.3 Performance obligations

Refer to note 2.2 for the specific revenue recognition policy of the Company.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2020 SR	2019 SR
Contract value*	2,057,970,641	1,598,063,316
Less: billing accepted by client	(951,735,439)	(688,731,100)
Remaining performance obligations	<u>1,106,235,202</u>	<u>909,332,216</u>

* Contract value of SR 2,057,970,641 includes SR 219,900,897 pertaining to projects undertaken subsequent to year end 31 December 2020.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

23 COST OF REVENUE

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Salaries and wages	202,164,517	148,029,525
Materials consumed	86,638,400	76,963,517
Repair and maintenance	32,657,981	29,114,258
Depreciation and amortisation (note 7 and 8)	16,964,074	13,921,035
Utilities	13,278,331	12,306,891
Rent	7,543,456	7,194,956
Professional fees	5,135,243	4,463,156
Insurance	4,479,825	3,907,404
Penalties (note below)	3,478,376	2,223,021
Travel	1,715,225	2,177,742
Utilised provision for onerous contracts (note 21)	(3,586,908)	(2,188,731)
Utilised provision for penalties (note 21)	(279,444)	(2,129,011)
Reversal of provision for inventory net realizable value (note 9)	(327,342)	-
Others	7,724,341	8,090,240
	377,586,075	304,074,003

24 SELLING AND DISTRIBUTION EXPENSES

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Tender fees	1,417,964	898,250
Business development expense	284,449	335,837
Advertisement expense	181,780	192,162
Others	(11,405)	20,160
	1,872,788	1,446,409

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

25 ADMINISTRATIVE EXPENSES

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Salaries and related costs	19,321,995	16,697,019
Professional fees	1,954,601	1,613,807
Depreciation and amortisation (note 7 and 8)	1,077,070	805,010
Bank charges	704,986	1,574,617
Director's remuneration (note 20)	630,000	-
Shared service costs (note 20)	600,300	480,600
Rent expense	555,476	595,032
Postage, telephone and telex expense	510,230	459,554
Subscription fees	476,871	385,305
Repair and maintenance expense	201,487	221,854
Utilities expense	90,663	113,151
Insurance expense	88,555	66,778
Provision for expected credit losses for contract assets (note 11)	504,839	-
Reversal of provision for expected credit losses for trade and other receivables (note 12)	(2,492,044)	-
Other	339,983	526,104
	24,565,012	23,538,831
	24,565,012	23,538,831

26 FINANCE COSTS, NET

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Finance costs from bank borrowings	3,599,111	7,128,280
Finance income from Parent Company (note 20 and note below)	(345,370)	(838,483)
Finance costs from leases	174,263	85,288
	3,428,004	6,375,085
	3,428,004	6,375,085

Funds in excess of the Company's requirements are placed with the Parent Company which also provides funds for day to day operations of the Company. However, effective from 17 July 2020, the Company is maintaining excess funds in their own bank accounts.

27 OTHER INCOME

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Incentives from government (note below)	433,171	4,389,063
Gain (loss) on sale of property and equipment	111,147	(442,491)
Foreign exchange gain (loss), net	26,648	(64,181)
Others	-	50,840
	570,966	3,933,231
	570,966	3,933,231

This amount represents incentives received by the Company from the government for maintaining the required nationals quota.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

28 ZAKAT

During the year ended 31 December 2020, the Company's share in the zakat charge was SR Nil (31 December 2019: same).

Zakat is calculated and provided for by Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company") on a consolidated basis including its subsidiaries in accordance with Saudi Arabian fiscal regulations. This provision is reflected in the Ultimate Parent Company's consolidated financial statements. The zakat declaration is made on consolidated basis at the Ultimate Parent Company level. The Parent Company has pledged to the Capital Market Authority that any charges relating to the zakat will be borne by the Parent Company, therefore no zakat charges has been made.

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 an 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 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

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.

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

	<i>2020</i>	<i>2019</i>
	<i>SR</i>	<i>SR</i>
Bank balances	81,048,747	17,057,460
Trade receivables	158,322,053	144,038,290
Other financial assets	10,660,987	7,700,533
	<u>250,031,787</u>	<u>168,796,283</u>

Bank balances

Credit risk on bank balances is limited as same are held with banks with sound credit ratings.

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 receivable 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 .There is no credit risk attached to advances to employees. 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.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2020

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:

	0-6 months SR	6-12 months SR	1-5 years SR	More than 5 years SR	Total
31 December 2020					
Trade payables	39,884,032	13,284,977	-	-	53,169,009
Lease liabilities	319,000	458,879	2,024,880	3,012,000	5,814,759
Term loans*	30,976,669	30,556,429	42,753,346	-	104,286,444
	71,179,701	44,300,285	44,778,226	3,012,000	163,270,212
31 December 2019					
Trade payables*	38,480,848	19,961,541	-	-	58,442,389
Lease liabilities	204,000	204,000	1,790,000	3,370,000	5,568,000
	38,684,848	20,165,541	1,790,000	3,370,000	64,010,389

*For the purpose of above disclosure, accrued finance charges are included within term financing.

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 value of other financial instruments has been assessed by management to be approximate to their carrying amounts due to frequent re-pricing and/or their short-term nature.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2020

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.

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
Term loans	101,428,571	-
Trade and other payables	95,576,092	98,509,831
Less: Cash and cash in bank	(81,052,216)	(17,059,045)
Net debt	115,952,447	81,450,786
Equity	294,030,626	215,274,294
Capital and net debt	409,983,073	296,725,080
Gearing ratio (%)	28%	27%

32 CONTINGENCIES

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

	<i>2020</i> <i>SR</i>	<i>2019</i> <i>SR</i>
Letters of guarantee	239,429,482	226,442,422
Letters of credit	16,940,490	12,284,044
	256,369,972	238,726,466

Out of the total contingencies, letter of guarantee amounting SR 190,181,403 and letter of credit amounting SR 16,940,490 is provided by the bankers of Abdullah Ibrahim Alkhorayef Sons Company (Ultimate Parent) on behalf of the Company.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
(FORMERLY A LIMITED LIABILITY COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 DECEMBER 2020

33 SIGNIFICANT EVENT

A novel strain of coronavirus (“COVID-19”) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (“WHO”). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company’s business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company’s customers and partners and other factors.

As far and as of the date of preparation of the financial statements for the year ended 31 December 2020, the Company’s operations have not incurred significant impact from the COVID-19 outbreak. The Company’s management will continue to evaluate the nature and extent of the impact of COVID-19 on the Company’s business and financial results.

34 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2020, on 17 Rajab 1442H (corresponding to 1 March 2021), the Company got their shares listed in Saudi Stock exchange (“Tadawul”).

35 COMPARATIVE AMOUNTS

The certain comparative figures have been rearranged and reclassified, wherever considered necessary for the purposes of comparison and better presentation.

36 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized to issue by the Board of Directors 19 Rajab 1442H (corresponding to 3 March 2021).