

Alkhorayef for Water and Power Technologies Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

Alkhorayef For Water and Power Technologies Company
(A Saudi Joint Stock Company)
(Formerly A Limited Liability Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2021

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Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI ARABIAN JOINT STOCK COMPANY)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alkhorayef for Water and Power Technologies Company (the "Company"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in 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 2021, 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 Chartered and Professional 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI ARABIAN JOINT STOCK COMPANY) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Company recognises contract revenue by using the percentage of completion method. The percentage of completion is determined on the basis of the direct measurements of the value to the customer of the goods or services transferred to date relative to the total goods or services promised under contract.</p> <p>The revenue recognition on construction contract is considered to be a matter of significance as significant judgement is exercised in determining the percentage of completion, the extent of transferred goods and services, the estimated total contract revenue, as well as the recoverability of the contract projects. Revenue recognition for construction contracts, due to the contracting nature of the business, involves significant judgments. This includes the calculation of percentage of completion which affects the quantum of revenue to be recognised. In estimating the revenue to be recognised, the management considers past experience and certification by customers and independent third parties, where applicable.</p> <p>We considered this as a key audit matter as the value of transferred good and services involve management's estimate and includes certain judgements as contracts may run over a number of accounting periods.</p> <p>The construction contract revenue recognised in the profit or loss are disclosed in note 22 to the financial statements respectively.</p> <p>Refer to the summary of significant accounting policies to the financial statements (note 2.2 - e) and relevant revenue disclosure (note 22)</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of internal control activities over revenue recognition and tested key controls. • Assessed, on a sample basis, revenue contracts are accounted for in accordance with IFRS 15 • Obtained schedule of revenue contracts for the year ended 31 December 2021 and agreed with general ledger. • For selected sample of revenue contracts, we have re-calculated revenue based on percentage of completion, and compared it with calculation performed by management • Assessed management's estimates and assumptions in relation to onerous contracts. • Tested accounts receivables by requesting confirmations from the Company's key customers and by reconciling invoices approved by customers against the accounts receivable balances at the year end. • Assessed the adequacy of the relevant disclosures included in the financial statement.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI ARABIAN JOINT STOCK COMPANY) (continued)

Other information included in The Company's 2021 Annual Report

Other information consists of the information included in the Company's 2021 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Company's 2021 annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's 2021 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Chartered and Professional Accountants and the provisions of Companies' Law and the Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI ARABIAN JOINT STOCK COMPANY) (continued)**

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

- 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.
- 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.

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

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

for Ernst & Young Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. (422)

Riyadh: 17 Sha'ban 1443H
(20 March 2022)



ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 SR	2020 SR
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	7	147,420,178	70,012,509
Right-of-use assets	8	3,291,600	4,720,787
TOTAL NON-CURRENT ASSETS		150,711,778	74,733,296
CURRENT ASSETS			
Inventories	9	35,918,304	30,731,932
Prepayments and other assets	10	45,580,689	46,601,175
Contract assets	11	236,382,937	147,336,918
Trade and other receivables	12	240,853,792	166,948,783
Cash and bank balances	13	42,020,512	81,052,216
TOTAL CURRENT ASSETS		600,756,234	472,671,024
TOTAL ASSETS		751,468,012	547,404,320
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	250,000,000	250,000,000
Statutory reserve	17	21,727,793	11,395,252
Retained earnings		88,050,131	32,557,264
Actuarial valuation reserve	18	(3,271,555)	78,110
TOTAL EQUITY		356,506,369	294,030,626
NON-CURRENT LIABILITIES			
Employees' defined benefit liabilities	18	43,953,541	37,569,591
Non-current portion of lease liabilities	8	2,962,793	4,026,660
Non-current portion of term loans	19	60,128,357	42,142,857
TOTAL NON-CURRENT LIABILITIES		107,044,691	83,739,108
CURRENT LIABILITIES			
Trade payables, accruals and other liabilities	21	120,881,391	96,791,722
Current portion of term loans	19	158,664,040	59,285,714
Current portion lease liabilities	8	259,808	608,921
Amounts due to related parties	20	-	12,948,229
Zakat payable	28	8,111,713	-
TOTAL CURRENT LIABILITIES		287,916,952	169,634,586
TOTAL LIABILITIES		394,961,643	253,373,694
TOTAL EQUITY AND LIABILITIES		751,468,012	547,404,320

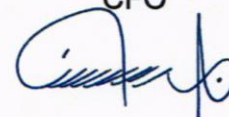
CEO



Chairman



CFO



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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Note	2021 SR	2020 SR
Revenues	22	569,038,542	520,833,429
Cost of revenues	23	(417,579,777)	(377,586,075)
GROSS PROFIT		151,458,765	143,247,354
Selling and distribution expenses	24	(1,655,462)	(1,872,788)
General and administrative expenses	25	(37,217,315)	(24,565,012)
OPERATING PROFIT		112,585,988	116,809,554
Gain on sales of property and equipment		1,013,916	111,147
Finance cost	26	(3,762,100)	(3,428,004)
Other income, net	27	1,599,317	459,819
PROFIT BEFORE ZAKAT		111,437,121	113,952,516
Zakat	28	(8,111,713)	-
NET PROFIT FOR THE YEAR		103,325,408	113,952,516
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss) gain on defined benefits liability	18	(3,349,665)	676,821
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		(3,349,665)	676,821
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		99,975,743	114,629,337
<i>Basic and diluted earnings per share:</i>			
Profit for the year attributable to ordinary equity holders	16	4.13	4.56

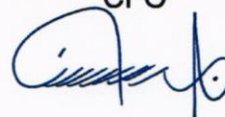
CEO



Chairman



CFO



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ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital SR	Statutory reserve SR	Retained earnings SR	Actuarial valuation reserve SR	Total SR
As at 1 January 2020	80,000,000	19,065,309	116,807,696	(598,711)	215,274,294
Capitalisation 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
Profit for the year	-	-	103,325,408	-	103,325,408
Other comprehensive loss for the year	-	-	-	(3,349,665)	(3,349,665)
Total comprehensive income for the year	-	-	103,325,408	(3,349,665)	99,975,743
Transfer to statutory reserve	-	10,332,541	(10,332,541)	-	-
Dividends (note 15)	-	-	(37,500,000)	-	(37,500,000)
At 31 December 2021	250,000,000	21,727,793	88,050,131	(3,271,555)	356,506,369

CEO



Chairman



CFO



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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 SR	2020 SR
OPERATING ACTIVITIES			
Profit for the year before zakat		111,437,121	113,952,516
<i>Adjustments to reconcile profit before zakat to net cash flows:</i>			
Depreciation on property and equipment	7	21,205,059	17,462,727
Amortisation on right-of-use assets	8	1,429,187	578,417
Gain on sale of property and equipment		(1,013,916)	(111,147)
Provision for employees' defined benefits	18	7,339,886	7,339,886
Finance costs	26	3,762,100	3,428,004
Provision (reversal) for expected credit losses	11&12	2,857,704	(1,987,205)
Reversal for provision for onerous contracts		(1,550,000)	(3,586,908)
		<u>145,467,141</u>	<u>137,076,290</u>
<i>Working capital adjustments:</i>			
Trade receivables, prepayments and other assets		(76,126,072)	(27,490,859)
Inventories		(5,186,372)	(3,776,666)
Accounts payable, accruals and other liabilities		25,639,669	317,158
Amounts due to related parties		(1,881,019)	1,040,448
Contract assets		(88,662,174)	(35,125,556)
Cash flows (used in) from operations		<u>(748,827)</u>	<u>72,040,815</u>
Employees' defined benefits paid	18	(4,305,600)	(1,362,353)
Finance cost paid		(3,762,100)	(3,091,993)
Net cash flows (used in) from operating activities		<u>(8,816,527)</u>	<u>67,586,469</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(100,461,591)	(25,050,751)
Proceeds from sale of property and equipment		2,862,780	366,807
Disposal of right of use assets	8	(1,025,083)	-
Net cash flows used in investing activities		<u>(98,623,894)</u>	<u>(24,683,944)</u>
FINANCING ACTIVITIES			
Proceeds from term loans	19	346,376,540	141,964,285
Repayment of term loans	19	(229,012,714)	(40,535,714)
Dividends paid	15	(37,500,000)	(20,000,000)
Payment of principal portion of lease liability	8	(387,897)	(643,616)
Change in related parties balances	20	(11,067,212)	(59,694,309)
Net cash flows from financing activities		<u>68,408,717</u>	<u>21,090,646</u>
(Decrease) increase in cash and bank balances		<u>(39,031,704)</u>	<u>63,993,171</u>
Cash and bank balances at 1 January		<u>81,052,216</u>	<u>17,059,045</u>
Cash and bank balances at 31 December		<u><u>42,020,512</u></u>	<u><u>81,052,216</u></u>
Significant non-cash transactions:			
Re-measurement of Actuarial valuation	18	(3,349,665)	676,821
Settlement of dividend with current account of Parent Company	20&15	-	50,000,000
Increase in share capital	20	-	34,126,995
Recognition of right of use assets and lease liability	8	-	1,130,662

CEO

Chairman

CFO

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

1 CORPORATE INFORMATION

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

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

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

On 16 Jumada Al Awal 1442H (corresponding to 31 December 2020), the Capital Market Authority announced the approval to offer 7,500,000 shares for public subscription representing (30%) of the Company’s shares. On 1 March 2021 the Company’s shares started the trading in Tadawal.

On 12 Safar 1443H (corresponding to 12 September 2021), the Company has established new branch in Iraq. Operations of this branch is estimated to start in the last quarter of 2022.

Subsequent to year end, management established new joint venture with third party, which will commence its activities during 2022.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost basis, except 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 recognised to the extent of contract costs incurred that it is to be recoverable. Contract costs are recognised as expenses in the year in which they are incurred.

The monthly revenues are calculated according to the 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 JOINT STOCK 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 recognised as an expense immediately.

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

f) Zakat and Indirect Taxes

Zakat

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

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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

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 recognised in the statement of profit or loss.

h) Property and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 amortised 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.

j) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k) 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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	Classification
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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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 reorganisation 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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.

l) Inventories

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

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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

n) Cash and bank balances

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

o) Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Onerous contracts

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

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

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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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 recognised in accordance with the requirements for revenue recognition.

p) Employees' benefits

Short-term employees' benefits

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

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 recognised 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 recognised and reported within equity under the statement of changes in 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.

q) Accounts payable and other liabilities

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

r) 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.

s) 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.

t) 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Contingencies

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 recognising 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 11 and 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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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 employees turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate and future salary increase. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AAA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in employment market. The mortality rate is based on publicly available mortality tables for the Country. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employees' benefit obligations are provided in note 18.

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 JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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.

<i>Standards</i>	<i>Description</i>	<i>Mandatory effective date</i>
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 IAS 8	Definition of accounting estimates	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
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023

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)
Employees' defined benefit liabilities	(279,061)
Net assets acquired	11,132,731
Purchase consideration	(11,132,731)
Gain (loss)	-

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

6 INVESTMENT IN JOINT ARRANGEMENTS

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 2021 and 31 December 2020.

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

Entity name	Location	Principal activities	Percentage ownership	
			2021	2020
Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca (Mecca UJV)	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%
Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs (Riyadh TSE)	Kingdom of Saudi Arabia	Operations and maintenance	49%	49%

6.1 Summarised financial statements of the joint operations

	Mecca UJV		Riyadh TSE	
	2021 SR	2020 SR	2021 SR	2020 SR
Total current assets	6,220,806	7,116,082	516,698	8,732,788
Total non-current assets	-	4	-	-
Total current liabilities	(3,940,571)	(4,728,856)	(104,314)	(6,444,300)
Net assets	2,280,235	2,387,230	412,384	2,288,488
Company's share at 49%	1,117,315	1,169,743	202,068	1,121,359

	Mecca UJV		Riyadh TSE	
	2021 SR	2020 SR	2021 SR	2020 SR
Revenue	-	-	103,676	492,544
Cost of revenue	(54,451)	-	(103,902)	8,734
General and administrative expenses	(52,546)	(54,629)	(75,877)	(40,570)
Gain (Loss) for the year	(106,997)	(54,629)	(76,103)	460,708
Company's share at 49%	(52,429)	(26,768)	(37,290)	225,747

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

31 December 2021

7 PROPERTY AND EQUIPMENT

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

<i>31 December 2020</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>
<i>Cost:</i>					
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)
	<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>
At the end of the year	2,708,120	131,382,426	13,073,400	81,905,515	229,069,461
<i>Accumulated depreciation:</i>					
At the beginning of the year	1,832,401	86,221,401	7,765,650	46,867,583	142,687,035
Charge for the year	124,942	7,412,261	1,194,944	8,730,580	17,462,727
Disposals	-	(448,369)	(260,016)	(384,425)	(1,092,810)
	<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>
At the end of the year	1,957,343	93,185,293	8,700,578	55,213,738	159,056,952
<i>Net book value</i>					
<i>At 31 December 2020</i>	<u>750,777</u>	<u>38,197,133</u>	<u>4,372,822</u>	<u>26,691,777</u>	<u>70,012,509</u>

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

31 December 2021

7 PROPERTY AND EQUIPMENT (continued)

Depreciation charge for the year was allocated as follows:

	2021 SR	2020 SR
Cost of revenues (note 23)	20,502,870	16,439,861
Administrative expenses (note 25)	702,189	1,022,866
	21,205,059	17,462,727

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 amounted to SR 288,000 (31 December 2020: SR 288,000) with the Parent Company (note 20) and rent amounted to SR 50,450 (31 December 2020: SR 120,000) with the Ultimate Parent Company (note 20). Based on management's assessment the rental lease agreements terms ranges from 2 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.

	Leasehold land SR	Buildings SR	Total
Cost:			
As at 1 January 2020	4,483,747	-	4,483,747
Additions	-	1,130,662	1,130,662
At 31 December 2020	4,483,747	1,130,662	5,614,409
Disposals	(653,965)	(360,576)	(1,014,541)
At 31 December 2021	3,829,782	770,086	4,599,868
Accumulated amortisation:			
As at 1 January 2020	315,205	-	315,205
Charge for the year	319,429	258,988	578,417
At 31 December 2020	634,634	258,988	893,622
Charge for the year	173,969	240,677	414,646
At 31 December 2021	808,603	499,665	1,308,268
Net book value:			
As at 31 December 2021	3,021,179	270,421	3,291,600
As at 31 December 2020	3,849,113	871,674	4,720,787

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

	2021 SR	2020 SR
Amortisation of right-of-use assets allocated to cost of revenue (note 23)	374,155	524,213
Amortisation of right-of-use assets allocated to administrative expenses (note 25)	40,491	54,204
Interest expense on lease liabilities (note 26)	129,982	174,263
Short-term leases recognised on straight-line basis as rent expense (note 23 and note 25)	8,649,745	8,098,932
	9,194,372	8,851,612

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

31 December 2021

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 nil in 2021 (SR 1,130,662 recognised in 2020).

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

	<i>Leasehold land</i> SR	<i>Buildings</i> SR	<i>Total</i>
Recognised at 1 January 2020	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 (*)	(408,000)	(409,879)	(817,879)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	3,902,126	733,455	4,635,581
Disposals	(664,111)	(360,972)	(1,025,083)
Accretion of interest (note 26)	124,736	5,246	129,982
Payments (*)	(288,000)	(229,879)	(517,879)
	<hr/>	<hr/>	<hr/>
At 31 December 2021	3,074,751	147,850	3,222,601

(*) Payment of lease liability includes repayment of principal portion of SR 387,897 (31 December 2020: SR 643,616) and payment of interest amounted to SR 129,982 (31 December 2020: SR 174,263).

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

	2021 SR	2020 SR
Current portion	259,808	608,921
Non-current portion	2,962,793	4,026,660
	<hr/>	<hr/>
	3,222,601	4,635,581

9 INVENTORIES

	2021 SR	2020 SR
Spare parts	31,034,839	23,401,609
Finished goods	4,883,465	7,330,323
	<hr/>	<hr/>
	35,918,304	30,731,932

Included in the inventories, stock of SR 19,667,572 (31 December 2020: SR 31,723,484) is valued based at NRV. Amounts charged to cost of revenue is SR nil (2020: reversal of SR 528,709).

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

31 December 2021

10 PREPAYMENTS AND OTHER ASSETS

	2021 SR	2020 SR
Prepaid expenses (note below)	30,743,716	38,583,057
Advances to suppliers	7,304,233	3,109,349
Employees' receivable	4,688,355	1,215,630
Others	2,844,385	3,693,139
	45,580,689	46,601,175

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

11 CONTRACT ASSETS

	2021 SR	2020 SR
At 1 January	147,336,918	112,716,201
Value of work performed during the year	569,038,542	520,833,429
Progress billings made during the year	(479,871,529)	(485,707,873)
	236,503,931	147,841,757
Less: provision for expected credit losses	(120,994)	(504,839)
At 31 December	236,382,937	147,336,918

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

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

	2021 SR	2020 SR
At 1 January	504,839	-
Charge for the year	-	504,839
Reversals during the year	(383,845)	-
At 31 December	120,994	504,839

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

2021

	0-90 days	91-180 days	181-270 days	271-360 days	361-450 days	Total
Expected credit loss rate	0.00%	0.00%	0.00%	1.08%	12.96%	
	SR	SR	SR	SR	SR	SR
Estimated total gross carrying amount at default	181,193,590	26,348,837	14,163,671	12,933,533	1,864,300	236,503,931
Expected credit loss	1,073	157	84	2,452	117,228	120,994

2020

	0-90 days	91-180 days	181-270 days	271-360 days	361-450 days	Total
Expected credit loss rate	0.24%	0.62%	0.39%	0.65%	0.45%	
	SR	SR	SR	SR	SR	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

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

31 December 2021

11 CONTRACT ASSETS (continued)

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

	2021 SR	2020 SR
Contract assets government	234,410,131	140,416,612
Contract assets non-government	2,093,800	7,425,145
Less: provision for expected credit losses	(120,994)	(504,839)
At 31 December	236,382,937	147,336,918

12 TRADE AND OTHER RECEIVABLES

	2021 SR	2020 SR
Trade receivables	239,741,173	158,322,053
Retention receivables	6,388,425	10,660,987
	246,129,598	168,983,040
Less: provision for expected credit losses	(5,275,806)	(2,034,257)
	240,853,792	166,948,783

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

	2021 SR	2020 SR
At 1 January	2,034,257	4,526,301
Charge for the year (note 25)	3,241,549	-
Reversal during the year (note 25)	-	(2,492,044)
At 31 December	5,275,806	2,034,257

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 221.9 million which is due from Government and quasi-Government institutions (31 December 2020: SR 139.6 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. 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
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

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.

	2021 SR	2020 SR
Trade receivables government	221,940,635	147,307,446
Trade receivables non-government	24,188,963	21,675,594
Less: provision for expected credit losses	(5,275,806)	(2,034,257)
At 31 December	<u>240,853,792</u>	<u>166,948,783</u>

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

31 December 2021

12 TRADE AND OTHER RECEIVABLES (continued)

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

2021

		<i>Not past due</i>	<i>0-90 days</i>	<i>91-180 days</i>	<i>181-270 days</i>	<i>271-360 days</i>	<i>361-450 days</i>	<i>451-540 days</i>	<i>541-630 days</i>	<i>631-720 days</i>	<i>Over 720 days</i>	<i>Total</i>
Expected credit loss rate		0.01%	0.01%	0.02%	2.56%	3.92%	8.00%	11.35%	7.49%	24.80%	8.59%	
		SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR
Estimated total gross carrying amount at default		132,865,011	38,396,269	13,749,499	13,897,716	5,943,364	4,585,566	4,788,624	5,852,412	6,675,788	19,375,349	246,129,598
Expected credit loss		12,225	3,987	2,206	355,770	233,003	366,897	543,531	438,615	1,655,279	1,664,293	5,275,806

2020

		<i>Not past due</i>	<i>0-90 days</i>	<i>91-180 days</i>	<i>181-270 days</i>	<i>271-360 days</i>	<i>361-450 days</i>	<i>451-540 days</i>	<i>541-630 days</i>	<i>631-720 days</i>	<i>Over 720 days</i>	<i>Total</i>
Expected credit loss rate		0.67%	2.47%	3.47%	2.81%	1.68%	0.41%	0.05%	1.11%	0.05%	0.18%	
		SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	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

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

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31 December 2021

13 CASH AND BANK BALANCES

	2021 SR	2020 SR
Bank balances	41,961,338	81,048,747
Cash in hand	59,174	3,469
	42,020,512	81,052,216

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 2021, the Company had available SR 995 million (2020: SR 159 million) of undrawn committed borrowing facilities.

14 SHARE CAPITAL

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

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

On 16 Jumada Al Awal 1442H (corresponding to 31 December 2020), the Capital Market Authority announced the approval to offer 7,500,000 shares for public subscription representing (30%) of the Company's shares. On 1 March 2021 the Company's shares started the trading in Tadawal.

15 DIVIDENDS

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

On 29 June 2020, the Board of Directors has approved to distribute interim cash dividends equal to 20% of the capital amounted to SR 50,000,000 of SR 2 per share.

On 27 September 2020, the Board of Directors has approved to distribute interim cash dividends equal to 8% of the capital amounted to SR 20,000,000 of SR 0.8 per share.

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY (A SAUDI JOINT STOCK COMPANY)

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31 December 2021

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.

	2021	2020
Profit for the year (SR)	103,325,408	113,952,516
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)	4.13	4.56

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

17 STATUTORY RESERVE

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

18 EMPLOYEES' DEFINED BENEFIT LIABILITIES

18.1 General description

General description of the type of employees' defined benefits liabilities and accounting policy for recognising actuarial gains and losses is disclosed in note 2.2 to the financial statements.

	2021 SR	2020 SR
<i>Net benefit expense included in profit or loss:</i>		
Current service cost	6,527,388	6,527,388
Interest cost	812,498	812,498
	7,339,886	7,339,886
Included in other comprehensive income		
Re-measurement (gain) loss on defined benefits liability:		
Actuarial loss (gain) due to:		
- financial assumptions	3,349,665	(676,821)
Net benefit expense	10,689,551	6,663,065
Movement of actuarial valuation reserve:		
At 1 January	78,110	(598,711)
Loss (gain) during the year	(3,349,665)	676,821
At 31 December	(3,271,555)	78,110

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31 December 2021

18 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

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

	2021 SR	2020 SR
At 1 January - present value of defined benefit obligation	37,569,591	32,268,879
Interest cost	812,498	812,498
Current service cost	6,527,387	6,527,388
Benefits paid	(4,305,600)	(1,362,353)
Remeasurement losses (gains) in OCI	3,349,665	(676,821)
	<hr/>	<hr/>
At 31 December - present value of defined obligation	43,953,541	37,569,591
	<hr/>	<hr/>

18.3 Key assumptions and quantitative sensitivity analyses

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

	2021	2020
Discount rate	2.4%	1.1%
Salary increase rate	2.4%	1.1%
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:

	2021 SR	2020 SR
Discount rate		
1 % increase	(3,374,293)	(2,829,089)
1% decrease	3,909,976	3,274,992
Salary increase rate		
1 % increase	4,102,192	3,444,957
1% decrease	(3,603,704)	(3,030,128)
Withdrawal rates		
10 % increase	(420,931)	(322,129)
10 % decrease	447,346	342,581
1 year mortality age set back	(9,038)	(7,020)
1 year mortality age set forward	9,068	7,046

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

18 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

18.4 Sensitivity analysis (continued)

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

	2021 SR	2020 SR
Within the next 12 months (next annual reporting period)	4,472,342	4,427,488
Between 2 and 5 years	15,315,932	9,019,700
Between 5 and 10 years	16,574,221	12,966,112
Beyond 10 years	22,574,614	14,966,656
Total expected payments	58,937,109	41,379,956

19 TERM LOANS

	<i>Maturity</i>	2021 SR	2020 SR
Commercial loans	2022 – 2025	218,792,397	101,428,571
Less: Current portion		(158,664,040)	(59,285,714)
Non-current portion		60,128,357	42,142,857

The Company has obtained Sharia Compliant Murabaha loan facilities from commercial banks for a total amount of SR 218 million (31 December 2020: SR 101 million). These facilities are maturing from 2022 to 2025. These loans carry varying Murabaha profit rates in conformity with the applicable loan agreements. These facilities bear profit margin at market rates, which are generally based on Saudi Inter Bank Offer Rate (“SIBOR”) and are secured by assignment acknowledgement of contract proceeds.

Below is the movement of the loans and borrowings:

	2021 SR	2020 SR
Balance as at 1 January	101,428,571	-
Loans obtained during the year	346,376,540	141,964,285
Payments made during the year	(229,012,714)	(40,535,714)
Balance as at 31 December	218,792,397	101,428,571

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

	<i>Maturity</i>	2021 SR	2020 SR
Saudi National Bank	2022-2025	215,322,475	101,428,571
Banque Saudi Fransi	2022	3,469,922	-

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31 December 2021

20 RELATED PARTY TRANSACTIONS AND BALANCES

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

Name of related party	Relationship	Nature of transaction	Amount of transactions	
			2021 SR	2020 SR
Alkhorayef Group Company	Parent Company	Financing	-	350,554,596
		Finance income	-	1,061,735
		Finance expense	-	(716,365)
		Finance income, net (note 26)	-	345,370
		Shared service cost (note 25)	720,000	600,300
		Land rental	288,000	288,000
		Increase in share capital	-	34,126,995
		Payment of dividend	-	20,000,000
		Settlement of dividend payable with amount due to Parent Company	-	50,000,000
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent Company	Land rental	50,450	120,000
Alkhorayef Commercial Company	A subsidiary to the parent	Purchases	1,744,173	3,450,371
		Sales (note 22)	107,656	146,730
Alkhorayef Company for Printing Solutions	A subsidiary to the parent	Purchases	309,716	130,353
Alkhorayef Petroleum Company	A subsidiary to the parent	Purchases	230,790	376,238
		Sales (note 22)	-	9,900
Alkhorayef Industries Company	A subsidiary to the parent	Sales (note 22)	11,040	6,600
Saudi Parts Center Company	A subsidiary to the parent	Purchases	146,758	216,319
Castrol	A subsidiary to the parent	Purchases	85,107	97,949
Board of Directors		Remuneration	1,278,000	630,000
Key management personnel (*)		Short-term benefits	9,715,736	8,073,696
		Post-employment benefits	329,692	648,083

20.1 Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables balance.

20.2 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.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

20 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2021 SR	2020 SR
Alkhorayef Group Company (Parent Company)	-	12,796,081
Alkhorayef Commercial Company	-	133,070
Castrol	-	19,078
	<u>-</u>	<u>12,948,229</u>

21 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES

	2021 SR	2020 SR
Trade payables (*)	77,260,924	53,169,009
Accrued expenses (**)	31,445,281	25,566,162
VAT payable	8,721,234	-
Advance from customers	1,502,191	13,943,462
Provision for onerous contracts (see note "21.1" below)	473,092	2,023,092
Provision for penalties (see note "21.2" below)	376,272	865,987
Dividends payable	71,302	-
Accrued finance charges	-	540,635
Withholding tax payable	-	9,247
Other	1,031,095	674,128
	<u>120,881,391</u>	<u>96,791,722</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.

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

	2021 SR	2020 SR
At 1 January	2,023,092	4,010,000
Charge during the year	-	1,600,000
Reversals during the year (note 23)	(1,550,000)	(3,586,908)
At 31 December	<u>473,092</u>	<u>2,023,092</u>

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21 TRADE PAYABLES, ACCRUALS AND OTHER LIABILITIES (continued)

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

	2021 SR	2020 SR
At 1 January	865,987	952,181
Charge during the year	183,022	193,250
Utilised during the year (note 23)	(672,737)	(279,444)
At 31 December	376,272	865,987

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 mobilisation to preserve essential service and public safety. Penalty forecasting cannot be predicted due to variable frequency and unforeseen nature of such occurrences.

22 REVENUES

22.1 Disaggregated revenue information

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

	2021 SR	2020 SR
<i>Types of services</i>		
Water (see note "a" below)	274,285,795	254,067,013
Waste Water (see note "b" below)	176,758,172	178,094,753
Integrated Water Solutions (see note "c" below)	117,994,575	88,671,663
	569,038,542	520,833,429
	2021 SR	2020 SR
<i>a) Categories of services (Water)</i>		
Water Withdraw and Treatment	191,669,741	166,700,154
Water Networks	82,616,054	87,366,859
	274,285,795	254,067,013

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

22 REVENUES (continued)

22.1 Disaggregated revenue information (continued)

	2021 SR	2020 SR
b) Categories of services (Waste Water)		
Wastewater Networks	111,964,719	105,917,448
Wastewater Treatment	64,793,453	72,177,305
	176,758,172	178,094,753
	2021 SR	2020 SR
c) Categories of services (Integrated Water Solutions)		
City Management	63,395,761	51,112,400
Water Management Services	37,114,268	10,786,317
Storm Water Network and Lifting Stations	17,484,546	26,772,946
	117,994,575	88,671,663

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

	2021 SR	2020 SR
Revenue recognised over time	569,038,542	520,833,429

Revenue per type of customer:

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

22 REVENUES (continued)

22.1 Disaggregated revenue information (continued)

Revenue per type of customer: (continued)

<i>For the year ended 31 December 2020</i>	<i>Water SR</i>	<i>Waste Water SR</i>	<i>Integrated Water Solutions SR</i>	<i>Total SR</i>
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>

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

	<i>2021 SR</i>	<i>2020 SR</i>
Trade receivables (note 12)	239,741,173	158,322,053
Contract assets (note 11)	236,503,931	147,841,757
Advance from customers (note 21)	(1,502,191)	(13,943,462)
	<u>474,742,913</u>	<u>292,220,348</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:

	<i>2021 SR</i>	<i>2020 SR</i>
Contract value	2,673,022,126	2,057,970,641
Less: billing accepted by client	(1,032,188,842)	(951,735,439)
Remaining performance obligation	<u>1,640,833,284</u>	<u>1,106,235,202</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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23 COST OF REVENUES

	2021 SR	2020 SR
Employees' salaries and other benefits	233,767,545	202,164,517
Materials consumed	89,241,923	86,638,400
Repair and maintenance	29,050,516	32,657,981
Depreciation and amortisation (note 7 and 8)	20,877,025	16,964,074
Utilities	15,150,032	13,278,331
Rent	7,916,425	7,543,456
Insurance	5,111,781	4,479,825
Travel	3,188,355	1,715,225
Penalties	1,895,834	3,478,376
Professional fees	1,348,307	5,135,243
Reversal of provision for onerous contracts (note 21)	(1,550,000)	(3,586,908)
Utilised provision for penalties (note 21)	(672,737)	(279,444)
Reversal of provision for inventory net realisable value (note 9)	-	(327,342)
Others	12,254,771	7,724,341
	417,579,777	377,586,075

24 SELLING AND DISTRIBUTION EXPENSES

	2021 SR	2020 SR
Business development expense	820,373	284,449
Tender fees	812,975	1,417,964
Advertisement expense	6,900	181,780
Others	15,214	(11,405)
	1,655,462	1,872,788

25 GENERAL AND ADMINISTRATIVE EXPENSES

	2021 SR	2020 SR
Employees' salaries and other benefits	19,963,763	19,321,995
Professional fees	7,101,704	1,954,601
Charge(reversal) of expected credit losses for receivables (note 12 and 11)	2,857,704	(2,492,044)
Board of Director's remuneration (note 20)	1,278,000	630,000
Bank charges	969,310	704,986
Subscription fees	955,429	476,871
Depreciation and amortisation (note 7 and 8)	742,680	1,077,070
Rent expense	733,320	555,476
Shared service costs (note 20)	720,000	600,300
Repair and maintenance	527,420	201,487
Postage, telephone and telex	516,004	510,230
Utilities	118,601	90,663
Insurance	116,051	88,555
Other	617,329	844,822
	37,217,315	24,565,012

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31 December 2021

26 FINANCE COSTS, net

	2021 SR	2020 SR
Finance costs from bank borrowings	3,632,118	3,599,111
Finance income from Parent Company (note 20)	-	(345,370)
Finance costs from leases	129,982	174,263
	3,762,100	3,428,004

27 OTHER INCOME

	2021 SR	2020 SR
Incentives from government (note below)	1,344,004	433,171
Foreign exchange gain, net	244,773	26,648
Other	10,540	-
	1,599,317	459,819

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

28 ZAKAT

During the year ended 31 December 2021, the Company's zakat charge was SR 8,111,713 (31 December 2020: Nil).

28.1 Movement in provision for zakat during the year:

	2021 SR	2020 SR
Provision provided during the year	8,111,713	-

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

	2021 SR	2020 SR
Equity	261,473,362	-
Opening provisions and other adjustments	118,542,161	-
Book value of long-term assets	(183,451,205)	-
	196,564,318	-
Zakatable income	121,796,249	-
	318,360,567	-
Zakat base	318,360,567	-
Zakat	8,111,713	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

28 ZAKAT (continued)

28.3 Status of zakat assessment:

Zakat returns have been submitted based on the consolidated zakat base of the group up to the year ended 31 December 2020. Final assessments of the group have been agreed up to the year ended 31 December 2015. The Company has also pledged to the Capital Market Authority that the Parent Company will bear any additional zakat amounts that might relate to the years for 2020 and before for which no final assessments have been issued.

29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

29.1 Market rate risk

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

29.2 Interest rate risk

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

29.3 Foreign currency risk

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

29.4 Price risk

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

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29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

29.5 Credit risk

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

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

	2021 SR	2020 SR
Bank balances	41,961,338	81,048,747
Trade receivables	239,741,173	158,322,053
Other financial assets	6,388,425	10,660,987
	288,090,936	250,031,787

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.

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29 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

29.6 Liquidity risk (continued)

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

<i>31 December 2021</i>	<i>0-6 months SR</i>	<i>6-12 months SR</i>	<i>1-5 years SR</i>	<i>More than 5 years SR</i>	<i>Total</i>
Trade payables	58,672,657	18,588,267	-	-	77,260,924
Lease liabilities	266,068	228,180	1,288,353	1,440,000	3,222,601
Term loans	135,231,611	23,432,429	60,128,357	-	218,792,397
	194,170,336	42,248,876	61,416,710	1,440,000	299,275,922

31 December 2020

Trade payables	39,884,032	13,284,977	-	-	53,169,009
Lease liabilities	254,310	365,822	1,614,254	2,401,195	4,635,581
Term loans	30,127,783	29,719,058	41,581,730	-	101,428,571
	70,266,125	43,369,857	43,195,984	2,401,195	159,233,161

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 and are classified under level 2 of the fair value hierarchy.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2021

31 CAPITAL MANAGEMENT (continued)

The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	2021 SR	2020 SR
Term loans	218,792,397	101,428,571
Trade and other payables	120,881,391	96,791,722
Less: Cash and cash in bank	(42,020,512)	(81,052,216)
Net debt	297,653,276	117,168,077
Equity	356,506,369	294,030,626
Capital and net debt	654,159,645	411,198,703
Gearing ratio (%)	46%	28%

32 CONTINGENCIES

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

	2021 SR	2020 SR
Letters of guarantee	292,266,695	239,429,482
Letters of credit	53,379,806	16,940,490
	345,646,501	256,369,972

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 2021, 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

In the opinion of management, no significant subsequent events have occurred subsequent since 31 December 2021 that would have a material impact on the financial position or financial performance of the Company..

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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35 COMPARATIVE FIGURES

Certain comparative information has been reclassified to align with current year presentation.

36 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised to issue by the Board of Directors 17 Sha'ban 1443H (corresponding to 20 March 2022).