Alkhorayef for Water and Power Technologies Company (Owned by One Person)
(A Limited Liability Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(OWNED BY ONE PERSON)
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT
To the Owner of Alkhorayef for Water and Power Technologies Company (Owned by One Person)
(A Limited Liability Company)

Opinion
We have audited the financial statements of Alkhorayef for Water and Power Technologies Company (Owned by One Person) - (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's Articles of Association, 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.

Management is 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.

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INDEPENDENT AUDITOR'S REPORT
To the Owner of Alkhorayef for Water and Power Technologies Company (Owned by One Person)
(A Limited Liability Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- 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 management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

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

Riyadh: 13 Rajab 1441H
(8 March 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	*2019* *SR*	*2018* *SR*
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	7	**62,680,145**	49,155,517
Right-of-use assets	8	**4,168,542**	-
TOTAL NON-CURRENT ASSETS		**66,848,687**	49,155,517
CURRENT ASSETS			
Inventories	9	**26,955,266**	9,989,199
Prepayments and other assets	10	**35,138,903**	16,299,758
Contract asset	11	**112,716,201**	75,447,439
Trade and other receivables	12	**147,212,522**	205,686,417
Cash and bank balances	13	**17,059,045**	36,949,745
TOTAL CURRENT ASSETS		**339,081,937**	344,372,558
TOTAL ASSETS		**405,930,624**	393,528,075
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	14	**80,000,000**	80,000,000
Statutory reserve	15	**19,065,309**	9,892,572
Retained earnings		**116,807,696**	34,253,064
Re-measurement of employee defined benefit liabilities	16	**(598,711)**	(924,570)
TOTAL EQUITY		**215,274,294**	123,221,066
NON-CURRENT LIABILITIES			
Employee defined benefit liabilities	16	**32,268,879**	27,742,894
Lease liabilities	8	**3,902,371**	-
Term loans	17	**-**	13,333,332
TOTAL NON-CURRENT LIABILITIES		**36,171,250**	41,076,226
CURRENT LIABILITIES			
Trade payables		**58,442,389**	48,870,767
Term loans	17	**-**	26,666,668
Lease liabilities	8	**246,164**	-
Obligations under capital lease contracts	18	**-**	769,732
Due to related parties	20	**55,729,085**	117,039,232
Accruals and other liabilities	19	**40,067,442**	35,884,384
TOTAL CURRENT LIABILITIES		**154,485,080**	229,230,783
TOTAL LIABILITIES		**190,656,330**	270,307,009
TOTAL EQUITY AND LIABILITIES		**405,930,624**	393,528,075

The attached notes 1 to 33 form an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	*2019* *SR*	*2018* *SR*
Revenues	21	**423,228,466**	356,265,039
Cost of revenues	22	**(304,074,003)**	(280,334,043)
GROSS PROFIT		**119,154,463**	75,930,996
Selling and distribution expenses	23	**(1,446,409)**	(4,663,821)
Administrative expenses	24	**(23,538,831)**	(13,292,427)
OPERATING PROFIT		**94,169,223**	57,974,748
Finance costs	25	**(6,375,085)**	(5,530,080)
Other income	26	**4,439,903**	-
Foreign exchange loss, net		**(64,181)**	(1,347,453)
(Loss) gain on sale of property and equipment		**(442,491)**	50,504
NET PROFIT FOR THE YEAR		**91,727,369**	51,147,719

The attached notes 1 to 33 form an integral part of these financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	***2019 SR***	*2018 SR*
PROFIT FOR THE YEAR		**91,727,369**	51,147,719
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified subsequently to the statement of profit or loss in subsequent periods:			
Re-measurement gain (losses) on defined benefits liability	16	**325,859**	(6,141,176)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**325,859**	(6,141,176)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**92,053,228**	45,006,543

The attached notes 1 to 33 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Capital *SR*	*Statutory reserve* *SR*	*Retained earnings (accumulated loss)* *SR*	*Re-measurement of employee defined benefit liabilities* *SR*	*Total* *SR*
As at 1 January 2018	80,000,000	4,777,800	(11,779,883)	5,216,606	78,214,523
Profit for the year	-	-	51,147,719	-	51,147,719
Other comprehensive loss for the year	-	-	-	(6,141,176)	(6,141,176)
Total comprehensive income for the year	-	-	51,147,719	(6,141,176)	45,006,543
Transfer to statutory reserve	-	5,114,772	(5,114,772)	-	-
At 31 December 2018	80,000,000	9,892,572	34,253,064	(924,570)	123,221,066
Profit for the year	-	-	**91,727,369**	-	**91,727,369**
Other comprehensive income for the year	-	-	-	**325,859**	**325,859**
Total comprehensive income for the year	-	-	**91,727,369**	**325,859**	**92,053,228**
Transfer to statutory reserve	-	**9,172,737**	**(9,172,737)**	-	-
At 31 December 2019	**80,000,000**	**19,065,309**	**116,807,696**	**(598,711)**	**215,274,294**

The attached notes 1 to 33 form an integral part of these financial statements

ALKHORAYEF FOR WATER AND POWER TECHNOLOGIES COMPANY
(OWNED BY ONE PERSON)
(A LIMITED LIABILITY COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	***2019 SR***	*2018 SR*
OPERATING ACTIVITIES			
Profit for the year before zakat		**91,727,369**	51,147,719
Adjustments to reconcile profit before zakat to net cash flows:			
Provision for expected credit losses of trade receivables		**-**	1,869,340
Depreciation of property and equipment	7	**14,410,840**	11,646,906
Depreciation of right-of-use assets	8	**315,205**	-
Gain on sale of property and equipment		**442,491**	(50,504)
Charge for the year of employee defined benefits	16	**6,715,026**	4,374,472
Finance costs		**6,375,085**	5,530,080
		119,986,016	74,518,013
Working capital adjustments:			
Trade receivables, prepayments and others assets		**38,656,671**	(71,705,671)
Inventories		**(18,966,067)**	(2,380,562)
Accounts payable, accruals and other liabilities		**16,635,447**	(13,323,621)
Amounts due from/to related parties		**(60,772,755)**	55,004,198
Contract asset		**(37,268,762)**	(19,650,936)
Cash flows from operations		**58,270,550**	22,461,421
Employees' benefits plan paid	16	**(2,417,197)**	(1,703,533)
Finance cost		**(6,375,085)**	(5,105,080)
Net cash flows from operating activities		**49,478,268**	15,652,808
INVESTING ACTIVITIES			
Purchase of property and equipment		**(28,823,210)**	(24,798,324)
Proceeds from sale of property and equipment		**559,186**	346,372
Net cash flows used in investing activities		**(28,264,024)**	(24,451,952)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		**-**	40,000,000
Payment of obligations under capital lease contracts, net		**(769,732)**	(2,857,034)
Repayment of loans and borrowings		**(40,000,000)**	-
Payment of lease liability, net		**(335,212)**	-
Net cash flows (used in) from financing activities		**(41,104,944)**	37,142,966
Net (decrease) / increase in cash and bank balances		**(19,890,700)**	28,343,822
Cash and bank balances at 1 January		**36,949,745**	8,605,923
Cash and bank balances at 31 December		**17,059,045**	36,949,745
Significant non-cash transactions:			
Acquisition of a division from a related party	5	**11,132,731**	-
Recognition of right of use assets at 1 January in payment of lease liability	8	**4,483,747**	-
Reclassification from employees defined liabilities transferred to accounts payable and accruals	16	**554,015**	(274,953)

The attached notes 1 to 33 form an integral part of these financial statements

1 CORPORATE INFORMATION

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

The Company is 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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.

2.2 Summary of significant accounting policies

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

a) Business combinations (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

c) Current versus non-current classification (continued)

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.

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 contracting for waste water treatment plant, sewage station and drainage system, and operations and maintenance of water distribution network and sewage station. Revenue from contracts with customers 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 relating to a contract of service can be measured over the contractual period or as and when services are rendered to customers. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue from contract with customers (continued)

Specific revenue recognition criteria
Contract Revenue
The Company principally operates fixed price contracts that cover the contracting for waste water treatment plant, sewage station and drainage system, and operations and maintenance of water distribution network and sewage station. If the outcome of such a contract can be reliably measured, 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.

When the outcome of a contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognized contract to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the year in which they are incurred.

In applying the performance completed to date method, revenue recognized 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, except where this would not be representative of the stage of completion in which it measured by the completion of physical proportion of the contract work.

Contract revenue — Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they can be reliably measured.

Revenue from contracting for waste water treatment plant, sewage station and drainage system
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.

Revenue from operations and maintenance of water distribution network and sewage stations
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 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue from contract with customers (continued)

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

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

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

f) Taxes

Zakat
Zakat is calculated and provided for by Abdullah Ibrahim Alkhorayef Sons Company (the "Ultimate Parent Company") on a consolidated basis including its effectively wholly owned subsidiaries in accordance with Saudi Arabian fiscal regulations. This provision is reflected in the Ultimate Parent Company's consolidated financial statements. The Company's share of this provision is charged to its statement of profit or loss based on allocation by the Ultimate Parent Company.

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 sales 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.

g) Foreign currencies

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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 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	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.

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 amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

i) Leases (continued)

Lease liabilities (continued)
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 of low value (i.e., below SR 50,000). 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
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair valuethrough other comprehensive income (OCI), and fair value through profit or loss.

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 classified and 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 an 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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases 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.

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)

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in following categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (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.

<u>*Financial assets at amortised cost (debt instruments)*</u>
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

Subsequent measurement (continued)
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.

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

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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

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 and due to employees.

The Company's financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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.

Financial liabilities at amortised cost (loans and borrowings) (continued)
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.

iii) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

m) Impairment of non-financial assets (continued)
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 on hand.

o) Provisions

General
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

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

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

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

p) Employee benefits

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

Defined benefit plans
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 plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension liability recognized in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefit obligation (DBO) at the statement of financial position date. The defined benefit obligation is calculated annually by qualified actuaries using projected credit unit method. Re-measurement amounts, if any, are recognized and reported within equity under the statement of changes in equity with corresponding debit or credit to OCI that comprises of actuarial gains and losses on the defined benefits obligation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted and methods of computation followed are consistent with those of the previous financial year, except for items discussed below. Specifically, the Company applied IFRS 16 for the first time. The nature and effect of the changes in result of adoption of this new accounting standard is described below.

There were several new and amendments to standards and interpretations which are applicable for the first time in 2019, but either not relevant or do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. See note 4.

IFRS 16 Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified simplified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adopting IFRS 16 is, as follows:

Impact on the statement of financial position as at 1 January 2019 (increase/(decrease)) is as follows:

Assets	***SR***
Right-of-use-assets	4,483,747
Prepayments	(12,500)
Total Assets	**4,471,247**
Liabilities	
Lease liabilities	4,471,247
Total liabilities	**4,471,247**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 Leases (continued)

Impact on the statement of profit or loss as at 31 December 2019 (increase/(decrease)) is as follows:

	SR
Cost of sales	414,667
Administrative expenses	(315,205)
Operating profit	**99,462**
Finance costs	(85,288)
Profit for the year	**14,174**

Impact on the statement of cash flows as at 31 December 2019 (increase/(decrease)) is as follows:

	SR
Operating lease payments	414,667
Interest paid	(85,288)
Net cash flows from operating activities	**329,379**
Payment of principal portion of lease liabilities	(408,000)
Net cash flows used in financing activities	**(408,000)**

There is no material impact on other comprehensive income during the year.

Nature of the effect of adoption of IFRS 16

The Company has lease contracts for buildings. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 Leases (continued)

Leases previously accounted for as operating leases
The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Restoration costs for the leases were considered to be negligible, except where reasonable information was available to assess and include such costs in determining lease liabilities.

Based on the foregoing, as at 1 January 2019:
- Right-of-use assets of SR 4,483,747 were recognized and presented separately in the statement of financial position.
- Additional lease liabilities of SR 5,976,000 million were recognized and presented separately in the statement of financial position.
- Prepayments of SR 12,500 million related to previous operating leases were derecognized.

For the year ended 31 December 2019:
- Contract cost increased by SR 315,205 million because of the amortization of additional assets recognized (i.e., increase in right-of-use assets).
- Rent expense decreased by SR 414,667 million relating to previous operating leases.
- Finance costs increased by SR 85,288 million relating to the interest expense on additional lease liabilities recognized.

The new accounting policies for right-of-use assets and lease liabilities applied from the date of initial application IFRS 16 are stated in note 2.2. The key judgments applied by the management in application of IFRS 16 (right-of-use assets and lease liabilities) are stated in note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Annual Improvements 2015-2017 Cycle

• **IFRS 3 *Business Combinations***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

• **IFRS 11 *Joint Arrangements***

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

• **IAS 23 *Borrowing Costs***

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

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 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 Revenue from contracts with customers

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

Satisfaction of performance obligations for contracting, and operations and maintenance

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

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

3.1.3 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 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 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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. The provision matrix is initially based on the Company historical observed default rates. The company calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

3.2.4 Impairment of non-financial assets

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

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 Defined benefit plan

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The most sensitive parameters are discount rate and future salary increase. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in employment market. The mortality rate is based on publicly available mortality tables for the Country. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefit obligations are provides in note 16.

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.

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

Standards	**Description**	**Mandatory effective date**
IFRS 3	Definition of a Business (amendments)	1 January 2020
IAS 1 and IAS 8	Definition of Material (amendments)	1 January 2020
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS standards	1 January 2020
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	Not yet set
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

5 BUSINESS COMBINATIONS

On 1 October 2019, the Company acquired Water Works Division of Alkhorayef Commercial Company, an affiliate. 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***	*2018* *SR*
Trade receivables	**2,732,109**	-
Inventories, net	**8,830,021**	-
Property and equipment, net	**113,935**	-
Accruals	**(264,273)**	-
Employee defined benefit liabilities	**(279,061)**	-
Net assets acquired	**11,132,731**	-
Purchase consideration	**(11,132,731)**	-
Gain/(loss)	**-**	-

6 INVESTMENT IN JOINT ARRANGEMENTS

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

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

Entity name	*Location*	*Principal activities*	*Percentage ownership*	
			2019	*2018*
Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca	Kingdom of Saudi Arabia	Operations and maintenance	**49%**	49%
Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs	Kingdom of Saudi Arabia	Operations and maintenance	**49%**	49%

6.1 Summarised financial statements of the joint operations

2019	*Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca SR*	*Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs SR*	*Total SR*
Total current assets	**9,008,544**	**5,915,321**	**14,923,865**
Total current liabilities	**(6,566,685)**	**(4,087,541)**	**(10,654,226)**
Net assets	**2,441,859**	**1,827,780**	**4,269,639**
For the year ended 2019			
Revenue	**1,546,211**	**5,886,844**	**7,433,055**
Cost of revenue	**(2,236,325)**	**(5,201,465)**	**(7,437,790)**
General and administrative expenses	**(29,713)**	**(36,034)**	**(65,747)**
Other income	**103,756**	**-**	**103,756**
(Loss) / profit for the year	**(616,071)**	**649,345**	**33,274**

6 INVESTMENT IN JOINT ARRANGEMENTS (continued)

6.1 Summarised financial statements of the joint operations (continued)

2018	*Operation and Maintenance for Hadda and Arana Waste Water Treatment Plants in Mecca* *SR*	*Operation and Maintenance of Conveyance and Transportation of TSE to Riyadh Region and Suburbs* *SR*	*Total* *SR*
Total current assets	15,285,623	6,524,736	21,810,359
Total non-current assets	1,183	-	1,183
Total current liabilities	(12,228,876)	(5,346,301)	(17,575,177)
Net assets	3,057,930	1,178,435	4,236,365

For the year ended 2018

Revenue	22,852,231	6,155,932	29,008,163
Cost of revenue	(21,517,521)	(4,942,497)	(26,460,018)
General and administrative expenses	(577,307)	(35,000)	(612,307)
Profit for the year	757,403	1,178,435	1,935,838

7 PROPERTY AND EQUIPMENT

The estimated useful lives of assets for the calculation of depreciation are as follows:

Buildings	20 years	Furniture and fixtures	7 years
Heavy Machines	7 years	Motor Vehicles	5 years

	Buildings SR	*Heavy Machines SR*	*Furniture and fixtures SR*	*Motor vehicles SR*	*Total SR*
Cost					
At 31 December 2018	2,698,839	105,844,451	12,238,125	59,908,333	180,689,748
Additions	24,881	12,274,907	1,961,404	14,562,018	28,823,210
Disposals	(75,300)	(2,308,151)	(1,589,678)	(744,450)	(4,717,579)
Acquisition of a division (Note 5)	-	11,415	40,059	520,327	571,801
At 31 December 2019	2,648,420	115,822,622	12,649,910	74,246,228	205,367,180
Depreciation					
At 31 December 2018	1,727,529	81,767,583	7,817,197	40,221,922	131,534,231
Depreciation charge for	149,506	6,174,643	1,177,480	6,909,211	14,410,840
Disposals	(44,634)	(1,732,240)	(1,257,628)	(681,400)	(3,715,902)
Acquisition of a division (Note 5)	-	11,415	28,601	417,850	457,866
At 31 December 2019	1,832,401	86,221,401	7,765,650	46,867,583	142,687,035
Net book value					
At 31 December 2019	**816,019**	**29,601,221**	**4,884,260**	**27,378,645**	**62,680,145**
At 31 December 2018	971,310	24,076,868	4,420,928	19,686,411	49,155,517

The land in which the buildings are situated on, are registered under the name of the Alkhorayef Group Company, (the "Parent Company"), which is leased to the Company for 20 years (note 20).

Depreciation charge for the year was allocated as follows:

	2019 SR	*2018 SR*
Cost of sales (note 22)	**13,607,356**	11,171,983
Administrative expenses (note 24)	**803,484**	474,923
	14,410,840	11,646,906

8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company adopted IFRS 16 using the modified simplified retrospective method of adoption with the date of initial application of 1 January 2019. For details refer to note 2.3.

8.1 Right-of-use assets

	Land *SR*
Cost:	
Recognised on 1 January 2019	**4,483,747**
At the end of the year	**4,483,747**
Accumulated amortization:	
Charge for the year	**(315,205)**
At the end of the year	**(315,205)**
Net book value:	
As at 31 December 2019	**4,168,542**

8.2 Lease liabilities

	Land *SR*
As at 31 December 2019:	
Future minimum lease payments	**5,568,000**
Finance charges	**(1,419,465)**
Present value of minimum lease payments	**4,148,535**
As at 1 January 2019:	
Future minimum lease payments	**5,976,000**
Finance charges	**(1,504,753)**
Present value of minimum lease payments	**4,471,247**

As at 31 December 2019, the lease liabilities are presented in the statement of financial position as follows:

	2019 ***SR***	*2018* *SR*
Current portion	**246,164**	-
Non-current portion	**3,902,371**	-
	4,148,535	-

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

8.3 Minimum lease payments

The future minimum lease payments together with the present value of minimum lease payments are as follows:

	31 December 2019		*1 January 2019*	
	Minimum lease payments	***Present value of minimum lease payments***	*Minimum lease payments*	*Present value of minimum lease payments*
	SR	***SR***	*SR*	*SR*
Within one year	**408,000**	**246,164**	408,000	321,995
Two to five years	**5,160,000**	**3,902,371**	5,568,000	4,149,252
Total minimum lease payments	**5,568,000**	**4,148,535**	5,976,000	4,471,247
Less: finance charges	**(1,419,465)**	**-**	(1,504,753)	-
Present value of minimum lease payments	**4,148,535**	**4,148,535**	4,471,247	4,471,247

9 INVENTORIES

	2019	*2018*
	SR	*SR*
Finished goods	**31,188,272**	13,014,379
Less: Provision for slow moving inventories	**(4,233,006)**	(3,025,180)
	26,955,266	9,989,199

Below is the movement of provision for slow moving inventories:

	2019	*2018*
	SR	*SR*
At 1 January	**3,025,180**	3,025,180
Acquisition of a division (note 5)	**2,000,000**	-
Written off during the year	**(792,174)**	-
	4,233,006	3,025,180

10 PREPAYMENTS AND OTHER ASSETS

	2019	*2018*
	SR	*SR*
Prepaid expenses	**28,008,997**	9,693,885
Advances to suppliers	**5,395,660**	3,697,401
Other receivables	**1,734,246**	2,908,472
	35,138,903	16,299,758

11 CONTRACT ASSETS

	2019	*2018*
	SR	*SR*
Value of work performed	**423,228,466**	356,265,039
Progress billings	**(310,512,265)**	(280,817,600)
	112,716,201	75,447,439

Contract assets relates to the Company's right to receive consideration for work completed but not billed at the reporting date. All contract balances have an aging of three months or less.

12 TRADE AND OTHER RECEIVABLES

	2019	*2018*
	SR	*SR*
Trade receivables	**144,038,290**	202,093,072
Retention receivables	**7,700,533**	8,119,646
Less: provision for expected credit losses	**(4,526,301)**	(4,526,301)
	147,212,522	205,686,417

Movement of provisions for expected credit losses on trade receivables:

	2019	*2018*
	SR	*SR*
Opening balance	**4,526,301**	2,656,961
Charge for the year (Note 23)	**-**	1,869,340
	4,526,301	4,526,301

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The receivables include amounts totaling SR 127 million which is due from Government and quasi-Government institutions (31 December 2018: SR 199 million).

12 TRADE AND OTHER RECEIVABLES (continued)

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.

Set out below is the information about the credit risk exposure on trade receivables. See note 28.5 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.

	2019										
	Not past due	***0-90 days***	***91–180 days***	***181-270 days***	***271-360 days***	***361–450 days***	***451-540 days***	***541-630 days***	***631-720 days***	***Over 720 days***	***Total***
Expected credit loss rate	1.90%	2.21%	4.79%	8.05%	12.33%	0.54%	2.15%	12.36%	1.95%	0.66%	
	SR	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***	***SR***
Estimated total gross carrying amount at default	81,748,017	28,863,687	4,567,304	3,569,220	12,362,956	1,892,026	2,545,873	1,308,165	2,595,432	4,585,610	144,038,290
Expected credit loss	**1,549,572**	**638,689**	**218,894**	**287,284**	**1,524,333**	**10,214**	**54,689**	**161,656**	**50,578**	**30,392**	**4,526,301**

	2018										
	Not past due	*0-90 days*	*91–180 days*	*181-270 days*	*271-360 days*	*361–450 days*	*451-540 days*	*541-630 days*	*631-720 days*	*Over 720 days*	*Total*
Expected credit loss rate	0.69%	0.00%	0.20%	1.90%	2.27%	11.55%	12.07%	18.30%	78.70%	70.09%	
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Estimated total gross carrying amount at default	132,572,567	17,561,904	15,377,416	10,515,427	12,593,887	2,715,157	4,624,992	4,048,010	285,225	1,798,487	202,093,072
Expected credit loss	912,441	-	31,156	199,695	285,583	313,499	558,205	740,717	224,459	1,260,546	4,526,301

13 CASH AND BANK BALANCES

	2019	*2018*
	SR	*SR*
Bank balances	**17,057,460**	36,948,392
Cash in hand	**1,585**	1,353
	17,059,045	36,949,745

14 ISSUED CAPITAL

Capital is divided into 80,000 share (2018: 80,000 shares) of SR 1,000 each. Capital is 100% owned by Alkhorayef Group Company.

15 STATUTORY RESERVE

In accordance with Companies Law and the Company's articles of association, the Company transfers 10% of its net profit for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of its capital.

16 EMPLOYEE DEFINED BENEFIT LIABILITIES

16.1 General description

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

	2019	*2018*
	SR	*SR*
Net benefit expense		
Included in profit or loss		
Current service cost	**5,562,228**	3,695,374
Interest cost	**1,152,798**	679,097
	6,715,026	4,374,471
Included in other comprehensive income		
Remeasurement losses / (gains):		
Actuarial gain / loss due to:		
- financial assumptions	**(325,859)**	6,141,176
	(325,859)	6,141,176
Net benefit expense	**6,389,167**	10,515,647

Movement of re-measurement of employee defined benefit liabilities

At 1 January	**(924,570)**	5,216,606
Gains (losses) during the year	**325,859**	(6,141,176)
At 31 December	**(598,711)**	(924,570)

16 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

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

	2019 ***SR***	*2018* *SR*
At 1 January - present value of defined benefit obligation	**27,742,894**	19,205,733
Interest cost	**1,152,798**	679,097
Current service cost	**5,562,228**	3,695,374
Benefits paid	**(2,417,197)**	(1,703,533)
Remeasurement gains / (losses) in OCI	**(325,859)**	6,141,176
Amounts transferred to accrual as current liabilities	**554,015**	(274,953)
At 31 December - present value of defined obligation	**32,268,879**	27,742,894

16.3 Key assumptions and quantitative sensitivity analyses

The principal assumptions used in determining end of service benefit obligations for the Company's plan are shown below:

	2019 ***SR***	*2018* *SR*
Discount rate	**2.5%**	4.3%
Salary increase rate	**2.2%**	4.0%

16.4 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:

	2019 ***SR***	*2019* *SR*
Discount rate		
1 % increase	**30,205,171**	25,668,799
1% decrease	**35,235,394**	30,796,235
Salary increase rate		
1 % increase	**35,235,394**	30,910,386
1% decrease	**30,015,107**	25,506,549
Withdrawal rates		
10 % increase	**32,354,562**	27,891,786
10 % decrease	**32,743,455**	28,150,344
1 year mortality age set back	**32,540,681**	28,021,340
1 year mortality age set forward	**32,546,992**	28,014,368

16 EMPLOYEE DEFINED BENEFIT LIABILITIES (continued)

16.5 Sensitivity analysis

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.

17 LOANS AND BORROWINGS

	2019 ***SR***	*2018* *SR*
Term loan non-current portion	-	13,333,332
Term loan current portion	-	26,666,668
Total loans	-	40,000,000

The Company has obtained term loan from a local bank, which is repayable in instalments at varying interest rates in conformity with the applicable loan agreements. Such loans are secured by personal guarantees of the owner and carry commissions at normal commercial rates. The Company settled the total loan balance before its maturity.

18 OBLIGATIONS UNDER CAPITAL LEASE CONTRACTS

	31 December 2019 ***SR***	*31 December 2018* *SR*
Minimum annual rentals under capital lease contracts due in:		
- 2019	-	863,482
- 2020	-	-
Minimum lease payments under capital leases contracts	-	863,482
Less: estimated amounts representing future financial charges	-	(93,750)
Present value of minimum lease rental payments	-	769,732
Less: current portion	-	(769,732)
	-	-

19 ACCRUED AND OTHER LIABILITIES

	2019 ***SR***	*2018* *SR*
Accrued expenses	**18,445,567**	14,634,010
Contract liabilities (note 2.2e)	**16,249,276**	13,070,579
Provision for onerous contracts (see note "a" below)	**4,010,000**	2,188,731
Provision for penalties (see note "b" below)	**952,181**	3,155,292
Zakat payable (note 27)	**59,697**	148,576
Other liabilities	**350,721**	2,687,196
	40,067,442	35,884,384

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

	2019 ***SR***	*2018* *SR*
At 1 January	**2,188,731**	2,964,921
Transferred from accounts payable	**4,010,000**	-
Utilised during the year (note 22)	**(2,188,731)**	(776,190)
At 31 December	**4,010,000**	2,188,731

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

	2019 ***SR***	*2018* *SR*
At 1 January	**3,155,292**	5,982,231
Charge during the year (note 22)	**369,026**	3,290,968
Utilised during the year (note 22)	**(2,498,037)**	(217,170)
Transferred to accounts payable	**(74,100)**	(5,900,737)
At 31 December	**952,181**	3,155,292

20 RELATED PARTY TRANSACTIONS AND BALANCES

Name of company	*Related party*	*Nature of transaction*	*Amount of transactions* ***2019 SR***	*2018 SR*
Alkhorayef Group company	Owner	Financing	**158,346,744**	149,339,000
		Shares service cost (note 24)	**480,600**	480,600
		Land rental	**288,000**	288,000
Alkhorayef Commercial Company	Affiliates	Purchases	**1,937,156**	3,791,428
		Sales (note 21)	**169,380**	205,216
		Acquisition of a division (note 5)	**11,132,731**	-
Abdullah Ibrahim Alkhorayef Sons Company	Ultimate Parent	Land rental	**120,000**	150,000
Alkhorayef Company for Printing Solutions	Affiliates	Purchases	**232,640**	247,793
Alkhorayef Petroleum Company	Affiliates	Purchases	**381,110**	757,715
		Sales (note 21)	**18,590**	605,000
Key management personnel		Short-term benefits	**1,967,600**	1,767,960
		Post-employment benefits	**142,685**	114,353

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.

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

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

	2019 SR	*2018 SR*
Alkhorayef Group Company (Parent Company)	**55,729,085**	116,914,217
Alkhorayef Company for Printing Solutions	**-**	112,515
Abdullah Ibrahim Alkhorayef Sons Company, (Ultimate Parent Company)	**-**	12,500
	55,729,085	117,039,232

21 REVENUE

21.1 Disaggregated revenue information

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

	2019 *SR*	*2018* *SR*
Types of services		
Water (see note "a" below)	**215,732,217**	160,669,677
Waste Water (see note "b" below)	**131,431,437**	147,992,556
Integrated Water Solutions (see note "c" below)	**76,064,812**	47,602,806
	423,228,466	356,265,039

	2019 *SR*	*2018* *SR*
a) Categories of services (Water)		
Deep Water Wells and Treatment Plants	**102,716,654**	66,072,451
Water Network and Pumping Stations	**73,166,109**	59,952,514
Brakish Water RO Plant	**36,439,190**	32,143,441
Fire Water Network	**3,410,264**	2,501,271
	215,732,217	160,669,677

	2019 *SR*	*2018* *SR*
b) Categories of services (Waste Water)		
Waste Water Network and Lifting Stations	**72,263,146**	101,453,013
Waste Water Treatment Plant	**51,602,017**	39,293,919
Treated Sewage Effluent Network	**5,289,220**	6,448,590
Industrial Waste Water Treatment Plant	**2,277,054**	797,034
	131,431,437	147,992,556

	2019 *SR*	*2018* *SR*
c) Categories of services (Integrated Water Solutions)		
Storm Water Network and Lifting Stations	**34,659,595**	9,309,360
City Management	**30,672,367**	31,465,046
Asset Management	**3,913,333**	-
Laboratories	**3,094,651**	2,967,261
Leak Detection	**2,407,175**	2,402,735
Fabrication	**1,317,691**	1,458,404
	76,064,812	47,602,806

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.

21 REVENUE (continued)

21.1 Disaggregated revenue information (continued)

Timing of revenue recognition

	2019 ***SR***	*2018* *SR*
Revenue recognized over time	**423,228,466**	356,265,039

Revenue per type of customer:

	2019 SR				*2018 SR*			
	Water SR	***Waste Water SR***	***Integrated Water Solutions SR***	***Total SR***	*Water SR*	*Waste Water SR*	*Integrated Water Solutions SR*	*Total SR*
Revenue								
Government	**197,674,960**	**128,680,447**	**65,948,557**	**392,303,964**	153,366,266	132,428,889	46,144,403	331,939,558
Private customers	**18,057,257**	**2,750,990**	**9,928,285**	**30,736,532**	7,303,411	15,563,667	648,187	23,515,265
Related party (note 20)	**-**	**-**	**187,970**	**187,970**	-	-	810,216	810,216
	215,732,217	**131,431,437**	**76,064,812**	**423,228,466**	160,669,677	147,992,556	47,602,806	356,265,039

21.2 Contract balances

	2019	*2018*
	SR	*SR*
Trade receivables (note 12)	**144,038,290**	202,093,072
Contract assets (note 11)	**112,656,971**	75,447,439
Contract liabilities (note 19)	**(16,249,276)**	(13,070,579)
	240,445,985	264,469,932

21.3 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:

	2019	*2018*
	SR	*SR*
Remaining performance obligations	**909,332,216**	714,275,717

22 COST OF REVENUE

	2019	*2018*
	SR	*SR*
Salaries and wages	**148,029,525**	116,527,477
Materials consumed	**76,963,517**	81,704,057
Repair and maintenance	**29,114,258**	37,234,812
Depreciation (note 7 and 8)	**13,921,035**	11,171,983
Utilities	**12,306,891**	11,280,489
Rent	**7,194,956**	4,948,745
Professional fees	**4,463,156**	3,267,865
Insurance	**3,907,404**	3,480,009
Penalties without provision	**2,223,021**	1,137,900
(Utilised) / additional provision for penalties	**(2,129,011)**	3,290,968
Utilised provision for onerous contracts (note 19)	**(2,188,731)**	(776,190)
Travel	**2,177,742**	1,385,551
Others	**8,090,240**	5,680,377
	304,074,003	280,334,043

23 SELLING AND DISTRIBUTION EXPENSES

	2019	*2018*
	SR	*SR*
Tender fees	**898,250**	1,803,941
Advertisement expense	**192,162**	84,300
Business development expense	**190,310**	791,751
Salaries	**145,527**	-
Sales commission	**20,160**	114,489
Provision for expected credit losses	**-**	1,869,340
	1,446,409	4,663,821

24 ADMINISTRATIVE EXPENSES

	2019	*2018*
	SR	*SR*
Salaries and related costs	**16,697,019**	8,664,849
Professional fees	**1,613,807**	820,944
Bank charges	**1,574,617**	633,740
Depreciation (note 7 and 8)	**803,484**	474,925
Rent expense	**595,032**	571,825
Shared service costs (note 20)	**480,600**	480,600
Postage, telephone and telex expense	**459,554**	678,606
Subscription fees	**385,305**	230,273
Repair and maintenance expense	**221,854**	167,932
Utilities expense	**113,151**	103,519
Insurance expense	**66,778**	52,368
Other	**527,630**	412,846
	23,538,831	13,292,427

25 FINANCE COSTS

	2019	*2018*
	SR	*SR*
Finance costs from borrowings	**7,128,280**	4,682,623
Finance (income) / costs from Parent Company	**(838,483)**	847,457
Finance costs from leases	**85,288**	-
	6,375,085	5,530,080

26 OTHE INCOME

	2019	*2018*
	SR	*SR*
Incentives from government (see note below)	**4,389,063**	-
Others	**50,840**	-
	4,439,903	-

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

27 ZAKAT PAYABLE

During the year ended 31 December 2019, the Company's share in the zakat charge was SR Nil (31 December 2018: same).

The movement in the zakat provision for the year was as follows:

	2019	*2018*
	SR	*SR*
At the beginning of the year	**148,576**	173,172
Payments during the year	**(88,879)**	(24,596)
At the end of the year	**59,697**	148,576

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company principal liabilities comprise borrowing, amounts due to related parties, 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 and cash and cash in bank and due from related parties that arise directly from its operations.

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

28.1 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.

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

28.2 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.

28.3 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.

28.4 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.

28.5 Credit Risk

Credit risk is the risk that a financial loss may arise if counterparty is unable or unwilling to fulfill its contractual payment obligations. The maximum credit risk comprises the carrying amounts of the financial assets.

The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, five major customer represents 30% (2018:38%) of the gross outstanding account receivable. This exposed the Company to concentration of credit risk. As these customers are high profile and government entities, management believe that risk of default is minimal. The credit risk related to other financial assets approximate to their carrying value. However, management do not anticipate material impairments in the carrying balances.

An impairment analysis is performed at reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity if the cost of such activity is expected to be higher than the benefit of doing so. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The Company does not hold collateral as security. The letters of credit and other forms of security, if any, are considered integral part of trade receivables and considered in the calculation of impairment.

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

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's executive management on a regular basis, and may be updated throughout the year. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

28 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

28.6 Liquidity risk

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

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

31 December 2019	*Less than 1 year* *SR*	*More than 1 year* *SR*	*Total*
Trade payables	**42,644,285**	**-**	**42,644,285**
Lease liabilities	**408,000**	**5,160,000**	**5,568,000**
	43,052,285	**5,160,000**	**48,212,285**

31 December 2018	*Less than 1 year* *SR*	*More than 1 year* *SR*	*Total*
Trade payables	48,870,767	-	48,870,767
Term loans	27,625,001	13,562,499	41,187,500
Obligation under lease capital	769,732	-	769,732
	77,265,500	13,562,499	90,827,999

29 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 parent.

The primary objective of the Company's capital management is to maximise the equity value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to equity, return capital to equity or issue new shares.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

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

	2019 ***SR***	*2018* *SR*
Term loans	-	40,000,000
Trade and other payables	101,297,788	84,755,151
Less: cash and cash in bank	(17,059,045)	(36,949,745)
Net debt	84,238,743	87,805,406
Equity	215,274,294	123,221,066
Capital and net debt	299,513,037	211,026,472
Gearing ratio (%)	28%	42%

30 CONTINGENCIES

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

	2019	*2018*
	SR	*SR*
Letters of guarantee	**226,442,422**	178,471,108
Letters of credit	**12,284,044**	7,330,650
	238,726,466	185,801,758

31 EVENTS AFTER THE REPORTING PERIOD

No events have occurred subsequent to the reporting date and before the issuance of these financial statements which require adjustment or disclosure in these financial statements.

32 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized to issue by the Management on 13 Rajab 1441H (corresponding to 8 March 2020).

33 COMPARATIVE AMOUNTS

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