

**MOHAMMAD AL MOJIL GROUP COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2013**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**

**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**  
All amounts are expressed in millions of Saudi Riyals

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# Al Bassam

Certified Public Accountants & Consultants

P.O.Box 4636.  
Al-Khobar 31952  
Kingdom of Saudi Arabia

**Auditors' Report to the Shareholders of  
Mohammad Al Mojil Group Company (A Saudi Joint Stock Company)  
Dammam, Kingdom of Saudi Arabia**

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## Scope of Audit

We have audited the accompanying consolidated balance sheet of **Mohammad Al Mojil Group Company** ("the Company") and its subsidiary (collectively referred as "the Group"), as at **31 December 2013** and the related consolidated statement of income, the consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended and the notes 1 to 33 which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

## Basis for Disclaimer Opinion:

As described in Note 2 (e), the consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue to operate into the foreseeable future. The Company has incurred a loss for the year amounting to SR 126.5 million, and has accumulated losses as at 31 December 2013 amounted to SR 2,356.2 million, which is equivalent to 188.5% of the Company's capital. As a result the Company has total shareholders' deficit of SR 1,106.2 million as at 31 December, 2013. In addition the Company's shares have been suspended from trading on Saudi Stock Exchange (Tadawul).

The continuation of the Company's operations is dependent on the support of the creditors and the continuous discussions with its lending banks regarding the appropriate solutions to restructure the Company financially. The continuity of the Company is also dependent on its continuing ability to secure profitable business, dispose of assets held for sale and to maintain its focus on recovery of claims and receivables and on general cost reductions.

These conditions, along with other matters as set forth in Note 2 (e), indicate the existence of multiple material uncertainties that casts significant doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that may be necessary as a result of these uncertainties.

## Disclaimer of Opinion

Due to the possible material adjustment that might affect the consolidated financial statements as described in the basis of disclaimer opinion paragraph above relating to the significant doubt about the Company's ability to continue as a going concern, we do not express an opinion on the consolidated financial statements.

For and On behalf of:  
**AL BASSAM**  
Certified Public Accountants & Consultants

**Ibrahim Ahmed Al Bassam**  
Certified Public Accountant  
License No.337



In Al-Khobar 20 February 2014  
Corresponding 20 Rabi Al-Thani 1435 H

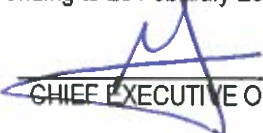
**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)****CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

	<u>Note</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	6	31.6	58.1
Accounts Receivable, net	7,28	181.2	238.0
Revenue recognized in excess of billings (Unbilled revenue)	9,28	843.3	478.6
Inventories, net	12	98.8	207.5
Assets classified as held for sale	13,15	178.8	313.7
Advances to suppliers, net		35.1	66.2
Prepayments and other current assets	14	57.1	46.7
<b>Total current assets</b>		<b>1,425.9</b>	<b>1,408.8</b>
<b>Non-current assets:</b>			
Retentions receivables	10,28	116.9	141.6
Investments in associate and unconsolidated subsidiaries		0.2	11.0
Property, plant and equipment	15	556.9	635.9
<b>Total non-current assets</b>		<b>674.0</b>	<b>788.5</b>
<b>TOTAL ASSETS</b>		<b>2,099.9</b>	<b>2,197.3</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Bank overdraft		42.3	37.9
Short-term Murabaha facilities	16	1,474.3	1,506.4
Current portion of long-term Murabaha facilities	17	240.7	252.1
Accounts payables		543.4	638.2
Advances from customers	28	198.9	70.1
Provision against contract costs	4	279.0	216.9
Accrued expenses and other current liabilities	18	169.3	207.6
Due to related parties	19	29.6	21.2
<b>Total current liabilities</b>		<b>2,977.5</b>	<b>2,950.4</b>
<b>Non-current liabilities:</b>			
Long-term Murabaha facilities	17	-	-
Subordinated loan	19	100.0	100.0
Employees' end of service benefits	20	128.6	126.6
<b>Total non-current liabilities</b>		<b>228.6</b>	<b>226.6</b>
<b>Total liabilities</b>		<b>3,206.1</b>	<b>3,177.0</b>
<b>Shareholders' equity</b>			
Share capital	23	1,250.0	1,250.0
Statutory reserve	24	-	-
Accumulated losses		(2,356.2)	(2,229.7)
<b>Total shareholders' equity</b>		<b>(1,106.2)</b>	<b>(979.7)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,099.9</b>	<b>2,197.3</b>

The consolidated financial statements appearing on pages (1) to (22) were approved by the Board of Directors on 20 Rabi Al Thani 1435H, corresponding to 20 February 2014 and have been signed on its behalf:

  
CHIEF FINANCIAL OFFICER  
CHIEF EXECUTIVE OFFICER  
BOARD DIRECTOR

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)****CONSOLIDATED STATEMENT OF INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Contract revenue		<b>1,431.3</b>	1,443.7
Cost of revenue		<b>(1,204.0)</b>	(1,456.6)
Provision against contract costs, net	4	<b>(174.9)</b>	(211.1)
Loss on Manifa Saipem project	5	<b>-</b>	(355.2)
Depreciation	15	<b>(102.1)</b>	(149.2)
<b>Gross loss</b>		<b>(49.7)</b>	(728.4)
General and administrative expenses	21	<b>(103.8)</b>	(118.1)
Impairment reversal/(loss) of accounts and retentions receivable and unbilled revenue	11	<b>71.0</b>	(308.2)
Other impairment losses		<b>0.1</b>	(135.1)
Write off of investments and goodwill		<b>(11.0)</b>	(6.6)
<b>Operating loss</b>		<b>(93.4)</b>	(1,296.4)
Share of losses of equity accounted investees		<b>-</b>	(2.8)
Murabaha facilities charges		<b>(44.5)</b>	(39.5)
Other income, net		<b>12.1</b>	11.7
<b>Operating loss before Zakat</b>		<b>(125.8)</b>	(1,327.0)
Zakat	22	<b>(0.7)</b>	(0.6)
<b>Net loss</b>		<b>(126.5)</b>	(1,327.6)
<b>Losses per share (LPS):</b>			
<b>From net loss for the year</b>	29	<b>(1.01)</b>	(10.62)

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CHIEF FINANCIAL OFFICER



CHIEF EXECUTIVE OFFICER



BOARD DIRECTOR

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**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)****CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

	31 December 2013	31 December 2012
<b>Cash Flows from Operating Activities:</b>		
Loss for the year before Zakat	(125.8)	(1,327.0)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Company's share of associate profits	-	2.8
Impairment (reversal)/loss of accounts, retentions receivable & unbilled revenue	(71.0)	308.2
Net movement in provision against contract costs	62.1	(54.0)
Depreciation	102.1	149.2
Impairment losses	(0.1)	135.1
Gain on sales of assets	(11.6)	(7.4)
Write off of investments and goodwill	11.0	6.6
End of service benefit provision	20.8	33.3
Murabaha facilities charges	44.5	39.5
<b>Changes in working capital:</b>		
Accounts, retention receivables and unbilled revenue	(214.9)	264.0
Inventories	108.7	(17.6)
Advances to suppliers	31.1	25.1
Prepayments and other current assets	(10.4)	(1.8)
Accounts payables	(94.8)	221.7
Advances from customers	128.8	(111.7)
Accrued expenses and other liabilities	(45.4)	(209.6)
Due to related parties, net	8.4	(7.3)
Murabaha facilities expenses paid	(36.6)	(37.9)
Zakat paid	(0.7)	(0.9)
End of service benefit paid	(18.8)	(21.6)
<b>Net Cash used in operating activities</b>	<b>(112.6)</b>	<b>(611.3)</b>
<b>Cash Flows from Investing Activities:</b>		
Acquisition of investments in associated company	(1.0)	-
Acquisition of property and equipment	(14.4)	(144.5)
Proceeds from sales of property, plant and equipment	140.6	50.4
<b>Net cash provided by / (used in) investing activities</b>	<b>125.2</b>	<b>(94.1)</b>
<b>Cash flows from financing activities</b>		
Bank overdraft	4.4	37.9
Subordinated loan	-	100.0
Proceeds from short-term Murabaha facilities	11,322.1	7,373.4
Proceeds from long-term Murabaha facilities	1,046.7	348.2
Repayments of short-term Murabaha facilities	(11,354.2)	(7,030.4)
Repayment of long-term Murabaha facilities	(1,058.1)	(301.4)
<b>Net cash (used in) / provided by financing activities</b>	<b>(39.1)</b>	<b>527.7</b>
Net movement in cash and cash equivalents	(26.5)	(177.7)
Cash and cash equivalents at beginning of the year	58.1	235.8
<b>Cash and cash equivalents at end of year</b>	<b>31.6</b>	<b>58.1</b>
<b>Non Cash Transactions:</b>		
Proceeds from sales of property, plant and equipment offset against Accounts payable	48.4	-
Proceeds from sales of property, plant and equipment treated as Prepayments	8.0	-
Accounts payable settled and offset against Accounts receivable	319.1	40.6
Accounts payable settled and offset against Due to related parties	0.6	0.1

The consolidated financial statements appearing on pages (1) to (22) were approved by the Board of Directors on 20 Rabi Al Thani 1435H, corresponding to 20 February 2014 and have been signed on its behalf:

  
CHIEF FINANCIAL OFFICER  
CHIEF EXECUTIVE OFFICER  
BOARD DIRECTOR

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)**


**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

	<b>Share Capital</b>	<b>Statutory Reserve</b>	<b>(Accumulated Losses)</b>	<b>Total</b>
1 January 2012 (Restated)	1,250.0	-	(902.1)	347.9
Net loss for 2012 (Restated)	-	-	(1,327.6)	(1,327.6)
31 December 2012 (Restated)	1,250.0	-	(2,229.7)	(979.7)
<b>Net loss for the year</b>	-	.	<b>(126.5)</b>	<b>(126.5)</b>
<b>31 December 2013</b>	<b>1,250.0</b>	<b>.</b>	<b>(2,356.2)</b>	<b>(1,106.2)</b>

The consolidated financial statements appearing on pages (1) to (22) were approved by the Board of Directors on 20 Rabi Al Thani 1435H, corresponding to 20 February 2014 and have been signed on its behalf:

  
\_\_\_\_\_  
CHIEF FINANCIAL OFFICER

  
\_\_\_\_\_  
CHIEF EXECUTIVE OFFICER

  
\_\_\_\_\_  
BOARD DIRECTOR

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Mohammad Al Mojil Group Company ("the Company") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia, Dammam under the commercial registration no. 2050003174 dated 3 Jamada II, 1394H (corresponding to 24 June, 1974).

The Company has two branches, a branch in Khafji registered under the commercial registration no. 2057003000 dated 3 Jumada II, 1428H (corresponding to 18 June, 2007) and a branch in Abu Dhabi, UAE under the commercial license number 1173047 dated 28 October 2009, engaged in various building projects, main roads and streets contracting and related works thereof, main sewerage networks contracting works, foundations filling and electromechanical works project contracting. The results of operations, assets and liabilities for these branches are included in the accompanying consolidated financial statements.

The Company, in accordance with its commercial registration, is engaged in general building contracting, including construction, demolition, renovation and repair, maintenance and operation, electrical and mechanical contracting, marine works, roads construction, water and sewerage works, fabrication works, painting and coating of buildings, and industrial works (oil pipes extension and cutting), excavation works and environment works, marine and oil pollution control and cleaning shores by using oil and gas technologies.

The Company has a 100% (direct and indirect) shareholding in Gulf Elite General Contracting Company ("the subsidiary"), a Saudi limited liability company registered in the Kingdom of Saudi Arabia, Dammam, under the commercial registration No. 2050047126 dated 8 Dhul Qa'dah 1425H (corresponding to 20 December 2004). The subsidiary is engaged in general contracting (maintenance, demolition, renovation and construction), maintenance, finishing and cleaning of residential, commercial, medical, educational and office buildings, maintenance and operation of industrial facilities, executing electrical and mechanical works, lighting and networks in addition to extensions, water, sewerage, and roads infrastructure works. The company and its subsidiary are hereinafter referred to as the "Group".

The subsidiary has contributed SR 124.3 million of the Group's revenue and a net profit of SR 3.6 million of the Group's net loss for the year ended 31 December 2013.

The Company has a 49% shareholding in National Holding & Al Mojil LLC ("NHM"), a limited liability company registered in Abu Dhabi on 28 June 2011 under commercial registration no. CN-1200444. NHM's principal activities include engineering, construction and electromechanical services within the oil and gas, petrochemical and other sectors. NHM has absorbed the activities previously carried on by the Company's Abu Dhabi branch. This investment is accounted for using the equity method.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**(b) Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting and the going concern concept.



**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

**2. BASIS OF PREPARATION (Continued)**

**(c) Functional and presentation currency**

The consolidated financial statements are presented in millions of Saudi Arabian Riyal, which is the functional currency of the Group.

**(d) Use of estimates and judgement**

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

Note 4 - Provision against contract costs

Note 26 - Commitments and contingent liabilities

Note 27 - Contingent assets

Note 28 - Disputed amounts

Note 31 - Financial instruments and risk management

**(e) Going concern**

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet the mandatory repayment terms of the banking facilities and all its other obligations in the normal course of business. The Company experienced a loss for the year ended 31 December 2012 amounting to SR 1,327.6 million and a further loss of SR 126.5 million for the year ended 31 December 2013. The Company's current liabilities exceeded its current assets by SR 1,551.6 million as of 31 December 2013 and additionally total liabilities exceed total assets by SR 1,106.2 million as at that date.

In compliance with Article 148 of the Companies' Regulations, which became applicable when accumulated losses exceeded 75% of the share capital, the Company held an Extraordinary General Assembly meeting on 5 November 2012 to consider whether the Company shall continue to operate or to be dissolved before the expiry of the term specified in its bylaws. The shareholders voted unanimously in favour of continuing the operation and also gave support to the recovery plan that was presented at the meeting.

The Company continues to operate with the cooperation of its lenders, staff, customers and suppliers. There is no assurance that this support will continue.

As stated in the recovery plan approved by the Extraordinary General Assembly, the Company is implementing an action plan to mitigate its risk profile arising from projects obtained in prior financial periods and to obtain new business which does not carry the same risk and financial exposure. While the Company has signed a number of these low risk agreements in 2013, it cannot guarantee that all risks from earlier contracts have been eliminated. In addition, the Company continues to take all appropriate actions under the recovery plan, including collection of overdue entitlements and outstanding claims and implementation of a programme to sell certain assets. However, there can be no certainty regarding the amounts that will be generated by these actions or the timing of their receipt.

The Company is engaged in ongoing discussions with its lenders regarding the most appropriate solution to the restructuring of the Company. The outcome of these discussions is yet to be determined.

These financial statements have been prepared on a going concern basis, on the assumption that the Company will continue to receive the support of its lenders, staff, customers and suppliers and in particular, that the negotiations with lenders on the financial restructuring will reach a satisfactory result which will allow the Company to continue to trade for the foreseeable future.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### **(a) Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and its subsidiary set forth in Note 1 above. Associates are accounted for using the equity method. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiary and those arising between the subsidiaries, if any, are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

#### **(b) Revenue recognition**

##### **Fixed price contracts**

The Company has entered into fixed price contracts in which the contractor agrees to a fixed contract price.

##### **Normal profitable contracts**

Revenue on long-term contracts, where the outcome can be estimated reliably, is recognized under the percentage of completion method by reference to the stage of completion of the contract activity. The percentage of completion is measured by calculating the proportion that costs incurred to date bear to the estimated total costs of a contract. The outcome of a construction 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;
- (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.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete. Uncertified revenue is recognized in the Income Statement by debiting the relevant unbilled revenue account.

##### **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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Revenue recognition (continued)**

**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:

- (i) Site labour costs (including site supervision);
- (ii) Costs of materials used in construction;
- (iii) Depreciation of equipment used on the contract;
- (iv) Costs of design and technical assistance that is directly related to the contract.

**Loss making projects**

When the current estimate of total contract costs and revenues indicate an expected loss during the life of the project, provision is made for the entire expected loss on the contract irrespective of the stage of completion. Such provision for loss is utilized over the life of project so that zero loss is recognized when physical work is completed in subsequent years.

**Uncertainty regarding outcome of contract**

When the outcome of a contract cannot be estimated reliably, the zero profit method is used, whereby:

- (i) Revenue is recognized only to the extent of contract costs incurred, the recovery of which is probable;
- (ii) Contract costs are recognized as an expense in the period in which they are incurred.

**Unbilled revenue**

Revenue recognized in excess of billings (unbilled revenue) included in current assets represents the costs incurred plus recognized profits (less recognized losses) that exceed certified progress billings as at the balance sheet date. These amounts are subsequently billed, and transferred to accounts receivable, when certified by the customer. Billings in excess of revenue earned included in current liabilities represent the progress billings that exceed costs incurred plus recognized profit (less recognized losses) to date.

**Unbilled revenue (Loss making projects)**

In the case of loss making projects, revenue is recognized equal to the level of costs incurred irrespective of the stage of physical completion of the project.

**Claims**

Claims are recognized when negotiations with the customer have reached an advanced stage such that it is probable that the customer will accept the claim and the claim amount can be measured reliably.

**Cost plus contracts**

The Company has entered into cost plus contracts in which the contractor is reimbursed for allowable or otherwise defined costs. Revenue is recognized on a contractual cost plus profit basis, calculated on the amount of resources used by the customer during the year.

**Rental and other income**

Rental income and income from other associated activities is recognized when services are rendered in conformity with the contract period and agreed upon services. Other income is recognized when earned.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Expenses**

All expenses, excluding cost of revenue and financial charges are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis.

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Company without any restrictions.

**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Appropriate provision is made for obsolete and slow moving inventories if required.

**(f) Investments in associate and unconsolidated subsidiary**

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investee) and are initially recognized at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Company's share of income and expenses and equity movement of the equity accounted investees from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate. The Company determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired, and if required, makes appropriate provision. All profits and losses resulting from trading between an associate and the Company or its subsidiary are recognised only to the extent of the unrelated investors' interests in the associate. The Company's share of profits or losses of the investee companies is credited or charged to the consolidated Statement of Income.

**MOHAMMAD AL MOJIL GROUP COMPANY (A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Goodwill**

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. The Company applies the acquisition method to account for business combinations. Costs of acquisition are expensed as incurred.

Goodwill is tested annually for impairment, or more frequently if appropriate, and is carried at cost net of accumulated impairment losses. Impairment losses on goodwill are not reversed once recorded

Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of the acquired investment is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion with their book values.

**(h) Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the qualified assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the consolidated statement of income when incurred.

Depreciation is charged to the income statement on a straight-line basis (except as noted) over the estimated useful lives of individual item of property and equipment.

The depreciation rates of the assets are as follows:

	<u>Percentage</u>
Building and fabrication plants	5% with a 10% residual value
Leasehold improvements	Over the lease period
Vessels	5% with a 10% residual value
Machinery, tools and equipment	6.7% - 33% with a 10% residual value
Scaffolding	20% reducing balance
Motor vehicles	20% with a 10% residual value
Office equipment	20%
Furniture and fixtures	20% - 33%

**(i) Impairment of assets**

Financial assets and property, plant and equipment are reviewed for impairment at each year end and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where financial assets and property, plant and equipment have been impaired and, due to subsequent changed circumstances, part or all of the impairment is considered to be no longer required, the excess is reversed in the current period.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated, unless in continuing use. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Non-current assets held for sale that cease to be classified as held for sale are valued at the carrying amount before the assets were classified as held for sale, adjusted for any depreciation, impairment or revaluation that would have been recognised had the asset not been classified as held for sale.

**(k) Foreign currency translation**

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income.

**(l) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with Saudi labour law, are accrued and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

**(m) Zakat**

The Company and its subsidiary are subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT").

**(n) Operating leases**

Payments under operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

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**4. PROVISION AGAINST CONTRACT COSTS**

The movement in provision against contract costs for the year ended 31 December is as follows:

	For the year ended	
	31 December 2013	31 December 2012
Opening Balance	216.9	270.9
Additions during the year	242.3	334.2
Reversed during the year	(67.4)	(123.1)
Less: Utilized during the year	(112.8)	(265.1)
Balance 31 December	279.0	216.9
Charged to Income Statement	174.9	211.1

During the year, the Company provided SR 242.3 million (2012: SR 334.2 million) against anticipated increases in the cost of projects. Due to actions taken to reduce the costs of completion of projects, including converting a certain lump sum contract into cost plus basis and securing an approval for certain change orders, an amount of SR 67.4 (2012: SR 123.1 million) was reversed, resulting in a net charge to the income statement of SR 174.9 million (2012: SR 211.1 million).

**5. MANIFA SAIPEM PROJECT LOSSES**

During July 2012, an independent review of Manifa Saipem Project identified significant risk with regards to this project. The company re-negotiated the contract with its client in order to prevent any future financial exposure to additional losses, by changing from a lump sum basis to a cost plus basis.

As part of the review and the change in contract scope, additional losses were identified totalling to SR 355.2 million, which were fully provided for in 2012.

**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 December comprise of the following:

	2013	2012
Cash in hand	2.2	4.1
Cash at bank on current accounts	29.4	54.0
	31.6	58.1

As a result of arrangements put in place with the Company's lenders in July 2012, access to funds is subject to approval by the lenders.

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**7. ACCOUNTS RECEIVABLES, NET**

Trade receivables at 31 December comprise the following:

	<u>2013</u>	<u>2012</u>
Contract receivables	292.5	405.3
Retention receivables - current portion (Note 10)	20.6	32.1
Less: Impairment of book value (Note 11)	(131.9)	(199.4)
	<u>181.2</u>	<u>238.0</u>

As of 31 December 2013, accounts receivable included gross overdue amounts related to projects completed in prior years of SR 213.1 million (2012: SR 246.0 million) less provisions of SR 124.7 million (2012: SR 192.1 million).

**8. MAJOR CLIENTS**

Revenue from five major clients amounted to SR 1.3 billion, which represents 88.3% of the company's revenue for the year ended 31 December 2013 (SR 1.2 billion, which represents 83.1% for the year ended 31 December 2012). In addition, the accounts and retentions receivable amount for these clients amounted to SR 148.8 million as at 31 December 2013 (SR 236.8 million as at 31 December 2012).

**9. REVENUE RECOGNIZED IN EXCESS OF BILLINGS**

	<u>2013</u>	<u>2012</u>
Costs incurred plus recognized profits to date	2,118.0	4,372.4
Less: Progress billings	(908.4)	(3,740.5)
Impairment of book value (Note 11)	(366.3)	(153.3)
	<u>843.3</u>	<u>478.6</u>

Revenue recognized in excess of billings (Unbilled Revenue) includes, in the case of loss making projects, revenue recognized equal to the level of costs incurred, but which is not yet billable. As of 31 December 2013, unbilled revenue included gross overdue amounts related to projects completed in prior years of SR 435.6 million (2012: SR 152.3 million) less provisions of SR 339.2 million (2012: SR 58.6 million).

**10. RETENTIONS RECEIVABLE**

	<u>2013</u>	<u>2012</u>
Retentions receivable	203.5	206.1
Less: Current portion (Note 7)	(20.6)	(32.1)
Impairment of book value (Note 11)	(66.0)	(32.4)
	<u>116.9</u>	<u>141.6</u>

As of 31 December 2013, retentions receivable (non-current portion) included gross overdue amounts related to projects completed in prior years of SR 59.2 million (2012: SR 58.9 million) less provisions of SR 55.3 million (2012: SR 21.0 million).



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**11. IMPAIRMENT OF ACCOUNTS AND RETENTIONS RECEIVABLE AND UNBILLED REVENUE**

The movement in amounts provided in respect of impairment of accounts and retentions receivable and unbilled revenue is as follows:

	<u>2013</u>	<u>2012</u>
Balance, 1 January	358.0	49.8
Net impairment (reversal)/charge during the year	(71.0)	308.2
Revenue recognised and impaired without impacting the income statement	231.8	-
Balance, 31 December	<u>518.8</u>	<u>358.0</u>
Accounts receivable (Note 7)	131.9	199.4
Revenue recognized in excess of billing (Note 9)	366.3	153.3
Retentions receivable (Note 10)	66.0	32.4
Included in advances to customers	(45.4)	(27.1)
	<u>518.8</u>	<u>358.0</u>

**12. INVENTORIES, NET**

Inventories at 31 December comprise the following:

	<u>2013</u>	<u>2012</u>
Raw materials and spare parts at warehouses	100.4	216.0
Marine vessels spare parts	2.3	7.3
Others	0.3	0.1
Less: Provision for obsolete materials	(4.2)	(15.9)
	<u>98.8</u>	<u>207.5</u>

**13. ASSETS CLASSIFIED AS HELD FOR SALE**

As part of the Company's restructuring plans, certain assets (disposal group) are classified as assets held for sale as at 31 December 2013 following the commitment of the Company's management, in September 2012, to a plan to sell part of the assets. Efforts to sell the disposal group have commenced, and a sale is expected during 2014. At 31 December 2013 the disposal group comprised net assets of SR 178.8 million (2012: SR 313.7 million) (See note 15).

**14. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets at 31 December comprise the following:

	<u>2013</u>	<u>2012</u>
Prepaid expenses	28.7	26.7
Employee receivables	15.6	13.6
Due from associated company	4.9	2.9
Others	7.9	3.5
	<u>57.1</u>	<u>46.7</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**15. PROPERTY, PLANT AND EQUIPMENT & ASSETS CLASSIFIED AS HELD FOR SALE**

	<u>Land</u>	<u>Buildings, &amp; leasehold improvements</u>	<u>Machinery, equipment &amp; tools</u>	<u>Vehicles</u>	<u>Office equipment</u>	<u>Furniture &amp; fixtures</u>	<u>Capital work in progress</u>	<u>Total Property, plant &amp; equipment</u>	<u>Assets classified as held for sale</u>
<b>Cost</b>									
At 1 January 2013	52.2	294.9	895.7	107.0	33.2	39.2	5.9	1,428.1	730.2
Additions	-	-	0.3	-	1.1	0.3	1.2	2.9	11.5
Disposals	(36.2)	(43.2)	(4.2)	(8.0)	(5.2)	(0.3)	-	(97.1)	(379.8)
Transfers	-	140.1	4.1	(4.1)	-	-	-	140.1	(140.1)
<b>Balance at 31 December 2013</b>	<b>16.0</b>	<b>391.8</b>	<b>895.9</b>	<b>94.9</b>	<b>29.1</b>	<b>39.2</b>	<b>7.1</b>	<b>1,474.0</b>	<b>221.8</b>
<b>Accumulated depreciation</b>									
At 1 January 2013	-	111.8	535.6	92.1	21.0	31.7	-	792.2	416.5
Charge for the year	-	18.6	63.8	1.4	5.2	3.7	-	92.7	9.4
Impairment losses	-	(14.6)	11.8	-	-	-	-	(2.8)	-
Disposals	-	(14.9)	-	(5.6)	(4.9)	(0.2)	-	(25.6)	(322.3)
Transfers	-	60.6	2.1	(2.1)	-	-	-	60.6	(60.6)
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>161.5</b>	<b>613.3</b>	<b>85.8</b>	<b>21.3</b>	<b>35.2</b>	<b>-</b>	<b>917.1</b>	<b>43.0</b>
<b>Net book value</b>									
<b>At 31 December 2013</b>	<b>16.0</b>	<b>230.3</b>	<b>282.6</b>	<b>9.1</b>	<b>7.8</b>	<b>4.0</b>	<b>7.1</b>	<b>556.9</b>	<b>178.8</b>
At 31 December 2012	52.2	183.1	360.1	14.9	12.2	7.5	5.9	635.9	313.7

Depreciation charges for the year total SR 102.1 million, being SR 92.7 million in respect of property, plant and equipment and SR 9.4 million in respect of assets classified as held for sale.

Certain buildings are constructed on land leased from the government of the Kingdom of Saudi Arabia.

During the year, buildings with a net book value of SR 79.5 million (cost of SR 140.1 million less accumulated depreciation of SR 60.6 million) were transferred to assets in use from assets classified as held for sale.

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**16. SHORT TERM MURABAHA FACILITIES**

The Company obtained new facilities of SR 196 million in July 2012 as part of a facility agreement with lenders. Total short-term Murabaha facilities amount to SR 1.5 billion (SR 1.5 billion as of 31 December 2012) and were granted by local commercial banks to finance the Company's working capital requirements. These facilities are secured against pledges of certain fixed assets and performance bonds, corporate guarantee from the Company and its subsidiary, the issuance of promissory notes, personal guarantees from the major shareholder and assignment of projects proceeds in favour of these banks. The outstanding balance is SR 1,474.3 million as at 31 December 2013 (SR 1,506.4 million as at 31 December 2012). The Murabaha facilities charges are calculated on the basis of SIBOR plus an agreed margin.

The movements shown in the Consolidated Statement of Cash Flows for short term Murabaha facilities reflect the periodic roll-over of these facilities.

**17. LONG-TERM MURABAHA FACILITIES**

The Company has entered into a long-term Murabaha facility agreement with a local commercial bank, for letters of credit and advance payments to the suppliers of shipping vessels, amounting to SR 180 million to finance the purchase of six vessels to support the Company's offshore projects and operations. As at 31 December 2013, the company had drawn down a total amount of SR 168.9 million (SR 168.9 million as at 31 December 2012) through a Murabaha sale agreement, which is repayable in 23 equal quarterly instalments, commencing on 31 March 2011, and the last instalment will be due on 30 September 2016. These facilities are secured by promissory notes and the assignment of the marine service project's proceeds in the favour of this bank. As at 31 December 2013, the outstanding balance amounted to SR 159.2 million (SR 160.1 million as at 31 December 2012).

During 2011, the Company entered into a long term Murabaha facility agreement with a local bank amounting to SR 42 million to finance the acquisition of the subsidiary detailed in note 1. This facility requires that the Company maintains certain financial ratios in addition to other financial covenants. The outstanding balance as at 31 December 2013 amounted to SR 37.8 million (SR 42.0 million as at 31 December 2012) and is repayable in 12 equal quarterly instalments commencing 31 March 2012 and the last instalment will be due on 31 December 2014.

During 2011, the Company has also entered into a long term Murabaha facility agreement with a local bank amounting to SR 50 million to finance one of its ongoing projects. These facilities are secured by the assignment of certain of the Company's ongoing projects in the favour of this bank. The outstanding balance as of 31 December 2013, amounted to SR 43.7 million (SR 50.0 million as at 31 December 2012) and is repayable in 15 equal monthly instalments commencing 31 January 2013 and the last instalment will be due on 31 March 2014.

The facilities mentioned above carry Murabaha facilities charges at SIBOR plus an agreed margin.

Due to the non-compliance with certain covenants in-relation to the above facilities, the long-term portion has been reclassified as current liabilities as at 31 December 2013.

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**18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities at 31 December comprise of the following:

	<u>2013</u>	<u>2012</u>
Accrued project purchases	76.8	120.6
Accrued project expenses	47.5	51.8
Zakat payable (note 22)	0.9	0.9
Accrued employees' vacation and air ticket expenses	29.0	27.1
Accrued Murabaha facilities charges	15.1	7.2
	<u>169.3</u>	<u>207.6</u>

**19. RELATED PARTIES TRANSACTIONS AND RESULTING BALANCES**

The significant transactions and the related amounts for the years ended 31 December 2013 and 2012 are:

<u>Name of entity</u>	<u>Relationship</u>
Al Mojil Investment Limited	Affiliate
Mohammad al Mojil and Partners Supply & Services Co.	Affiliate
Mohammad al Mojil and Partners Travel & Tourism Agency Co.	Affiliate
National Holdings & Al Mojil LLC	Associated company
Skill Development Institution for Training	Subsidiary

During the year the Company transacted with the following related parties. The terms of those billings and charges are undertaken at mutually agreed terms:

	<u>2013</u>	<u>2012</u>
Subordinated loan	-	100.0
Purchases of material and projects supplies	(10.0)	(19.4)
Purchases of air tickets	(8.0)	(21.2)
Training fees	-	(0.7)
Payments to suppliers	(0.7)	(0.1)
Sale of fixed assets	1.7	-

Amounts due from related parties as at 31 December are included in Prepayments and other current assets and comprise the following:

	<u>2013</u>	<u>2012</u>
National Holdings & Al Mojil LLC	4.9	2.9

Due to related parties as of 31 December comprise the following:

	<u>2013</u>	<u>2012</u>
Mohammad al Mojil and Partners Supply & Services Co.	27.4	18.0
Mohammad al Mojil and Partners Travel & Tourism Agency Co.	1.1	2.5
Al Mojil Investment Limited	0.4	-
Skill Development Institution for Training	0.7	0.7
Total due to related parties	<u>29.6</u>	<u>21.2</u>
Subordinated loan - Al Mojil Investment Limited *	<u>100.0</u>	<u>100.0</u>

\*The subordinated loan does not bear any finance charges, has no repayment terms and does not attract any security.

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**20. EMPLOYEES' END OF SERVICE BENEFITS**

	<u>2013</u>	<u>2012</u>
Balance as at 1 January	126.6	114.9
Additions during the year	20.8	33.3
Payments during the year	<u>(18.8)</u>	<u>(21.6)</u>
Balance as at 31 December	<u>128.6</u>	<u>126.6</u>

**21. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2013</u>	<u>2012</u>
Employee salaries and related benefits	52.5	64.3
Rent	5.1	1.9
Professional and consultancy fees	27.7	28.1
Information and communication costs	5.4	8.1
Business travel and transportation	4.1	7.9
Financial charges	7.1	6.5
Other	1.9	1.3
	<u>103.8</u>	<u>118.1</u>

**22. ZAKAT**

The principal elements of the zakat base are as follows:

	<u>2013</u>	<u>2012</u>
Share capital	1,250.0	1,250.0
Statutory reserve	-	-
Accumulated Losses (as previously stated)	(902.1)	(736.8)
Prior year adjustments	-	(165.3)
Loss before zakat	(1,327.0)	(1,202.6)
Employees end-of-service benefits	107.8	93.3
Property, plant and equipment	(735.7)	(936.1)
Spare parts	(4.3)	(11.1)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movement in zakat provision is as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of the year	0.9	1.2
Add: Charge for the year	0.7	0.6
Less: Payments during the year	<u>(0.7)</u>	<u>(0.9)</u>
Balance at the end of the year	<u>0.9</u>	<u>0.9</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**22. ZAKAT (Continued)**

**Status of assessments**

The Company has submitted its financial statements and zakat returns up to 2007 and for the period from 10 November 2007 up to 31 December 2012 to the DZIT and obtained the final zakat assessments up to 31 December 2006. The Company's zakat assessments for the years from 2007 up to 2012 have not yet been finalized and are still under review by the DZIT.

The Subsidiary has submitted and paid its zakat returns up to the year ended 31 December 2012 and has obtained the required zakat certificates and official receipts. The Subsidiary has received the final zakat assessment up to the year 2005. Zakat assessments for the years from 2006 up to 2012 have not yet been finalized and are still under review by the DZIT.

**23. SHARE CAPITAL**

The paid-up share capital of the company as of 31 December 2013 and 31 December 2012 amounted to SR 1.25 billion and is divided into 125 million shares of SR 10 each.

**24. STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia and the Company's articles of association, the Company has established a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

The Board of Directors in their meeting held on 17 December 2011, resolved to absorb part of the accumulated losses as of 31 December 2011 through the statutory reserve which amounted to SR 119.7 million as of 31 December 2010. This resolution has already been presented and approved in the general assembly.

**25. OPERATING LEASES**

The Company has various operating leases for factory premises, offices, warehouses, employee accommodation and fleet vehicles. Lease periods vary from initial period of one year renewable to ten years. Lease payments are either fixed or increase annually to reflect market rentals. Rental expenses under operating leases for the year ended 31 December 2013 amounted to SR 19.9 million (2012: SR 19.4 million).

At 31 December, the Company's obligations under ongoing operating leases are payable as follows:

	<u>2013</u>	<u>2012</u>
Within one year	9.4	7.9
Between two and five years	17.0	6.4
More than five years	18.8	3.7
	<u>45.2</u>	<u>18.0</u>

During 2013 the Company executed an agreement for the sale and lease-back of its head office premises, whereby it leases the premises for a period ending 10 October 2022. The sales proceeds comprised SR 30.0 million in cash and SR 8.0 million in prepaid rent.

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**26. COMMITMENTS AND CONTINGENT LIABILITIES**

At 31 December, the Company has the following contingencies:

	<u>2013</u>	<u>2012</u>
Letters of Credit	-	91.0
Letters of Guarantee	628.8	848.7

At 31 December 2013, the Company had future capital commitments amounting to SR nil million (31 December 2012: 5.8 million).

The Company recognises the possibility of significant legal proceedings, both in respect of its efforts to recover amounts due to it and also in respect of claims against it by third parties. Reasonable provision has been made in respect of amounts due to the Company which may not be ultimately recoverable and for all losses that may be incurred, however the impact of legal proceedings cannot be predicted. A bank has claimed late charges in respect of Murabaha facilities which the Company does not accept as valid and does not anticipate any liability to result.

**27. CONTINGENT ASSETS**

The Company has a number of claims and other legal actions, arising from contracts that have been completed or terminated, which it intends to vigorously pursue through legal actions, arbitration and other means, as appropriate, on a case by case basis. The estimated gross value of these claims and other legal actions is approximately SR 1.2 billion. The Company has been advised by its legal advisors that there is a high probability of success in these cases and by its specialist technical advisors that there is a high probability that, after allowing for recovery costs, back charges, counter claims and liquidated damages, a significant percentage of the gross amount will be recovered as a result of such actions over a period of years. However, an estimate of the financial effect of these probable net cash inflows as at the balance sheet date is not practicable.

**28. DISPUTED AMOUNTS**

Accounts and retentions receivable, unbilled revenue and advances from customers include disputed amounts in excess of SR 300 million in respect of work done under completed or terminated contracts, which were fully provisioned as at the balance sheet date, as they are subject to arbitration or other legal actions, the outcome of which is uncertain.

**29. LOSSES PER SHARE (LPS)**

Losses per share for the year have been computed by dividing the net (loss) for each year by the weighted-average number of ordinary shares outstanding during the years ended 31 December 2013 and 31 December 2012, totalling to 125 million shares.

**30. SEGMENT INFORMATION**

The company has one operational segment engaged in contracting activities and currently carries out its activities in the Kingdom of Saudi Arabia.

### **31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other accounts receivable, investments, short-term borrowings, accounts payable, other liabilities, and long-term debt.

#### **Credit risk**

Is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The accounts receivable and retentions receivable balance from five major clients amounted to almost SR 148.8 million, which represents 46.5 of total receivables as of 31 December 2013 (see note 8). Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

#### **Fair value and cash flow interest rate risks**

Are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Group are not significant.

#### **Currency risk**

Is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyal and United States dollar. Other transactions in foreign currencies are not material. Currency risk is managed on regular basis.

#### **Liquidity risk**

Is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the 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 to meet the Group's future commitments.

As a result of arrangements put in place with the Company's lenders in July 2012, access to funds is subject to approval by the lenders.

#### **Fair value**

Is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying consolidated financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale and trade securities at fair value through equity, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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FOR THE YEAR ENDED 31 DECEMBER 2013

All amounts are expressed in millions of Saudi Riyals

**32. COMPARATIVE FIGURES**

Certain reclassifications have been made to the prior year balances to be consistent with the current year presentations.

**33. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 20 Rabi Al Thani 1435H, corresponding to 19 February 2014.