

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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(A SAUDI JOINT STOCK COMPANY)

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AUDITORS' REPORT

To the stockholders
Mohammad Al Mojil Group Company
(A Saudi joint stock company)
Dammam, Saudi Arabia

Scope of Audit

We have audited the consolidated balance sheet of Mohammad Al Mojil Group Company, (a Saudi joint stock company) as of December 31, 2011, and the related consolidated statements of operation and changes in stockholders' equity and cash flows for year then ended, and notes 1 to 30 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial consolidated 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 misstatement. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011, and the results of its consolidated operations and its consolidated cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Other matters

We draw attention to the following:

- 1- We refer to note 5, 6 and 7 to the accompanying consolidated financial statements in respect of the overdue receivables from project owners and the unbilled revenue amounting to SR 160.8 million which relates to completed projects. The Company's management believes that such amounts are recoverable and is currently working on the settlement of such amounts.

- 2- We refer to note 2 to the accompanying consolidated financial statements with respect to the fact that the Company's current liabilities exceeded its current assets. The Company is confident of its ability to continue as going concern and to be awarded new projects and to obtain the required financing and in the appropriate time to meet its obligations. Additionally, we refer to the expected claim that has been adjusted against provisional losses for projects, which was recorded based on a technical report by an external technical party, amounting to SR 150 million which the management expects to recover from a project owner, and is confident of its ability to file and recover such claim from the related project owner.
- 3- We refer to note 21 to the accompanying consolidated financial statements, whereby the company has absorbed part of their accumulated losses through its statutory reserve as per the Board of Directors' resolution.

Deloitte & Touche
Bakr Abulkhair & Co.

Nasser A. Al Sagga
License No. 322
30 Rabi' I, 1433
February 22, 2012

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

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2011
IN SAUDI RIYALS

	Note	2011 (note 1)	2010
ASSETS			
Current assets			
Cash and cash equivalents	4	235,754,495	46,066,457
Accounts receivable	5,8,17	403,120,870	547,212,317
Revenue recognized in excess of billings	6,8	882,762,708	918,723,558
Inventories	9	189,924,362	84,161,754
Advances to suppliers		91,307,519	31,145,983
Prepaid expenses and other assets	10	44,830,610	51,207,628
Total current assets		1,847,700,564	1,678,517,697
Non-current assets			
Investment in an affiliate and an unconsolidated subsidiary		13,014,200	-
Goodwill	1	6,600,000	-
Retentions receivable	7	149,920,435	170,302,326
Property and equipment	11	1,132,490,520	1,095,048,988
Total non-current assets		1,302,025,155	1,265,351,314
TOTAL ASSETS		3,149,725,719	2,943,869,011
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term murabaha facilities	13	1,163,397,143	490,000,000
Current portion of long-term murabaha facilities	19	42,011,699	-
Accounts payable		399,987,606	372,716,373
Advances from customers		181,795,772	109,141,078
Billings in excess of revenue earned	14	16,554,367	1,540,865
Provision against projects losses		110,969,978	-
Accrued expenses and other liabilities	15	415,174,948	273,786,220
Due to related parties, net	18	28,457,938	11,474,823
Total current liabilities		2,358,349,451	1,258,659,359
Non-current liabilities			
Long-term murabaha facilities	19	163,299,993	25,000,000
End-of-Service indemnities		114,883,857	93,859,161
Total non-current liabilities		278,183,850	118,859,161
Stockholders' equity			
Share capital	20	1,250,000,000	1,250,000,000
Statutory reserve	21	-	119,659,081
(Accumulated losses) retained earnings	2	(736,807,582)	196,691,410
Total stockholders' equity		513,192,418	1,566,350,491
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		3,149,725,719	2,943,869,011

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

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
IN SAUDI RIYALS

	Note	2011 (note 1)	2010
Contracts revenue	17	2,113,293,361	1,731,092,776
Cost of revenue		(2,330,168,218)	(1,372,080,217)
Provision against projects losses	24	(110,969,978)	-
Depreciation and amortization	11,12	(168,386,594)	(164,659,015)
Gross (loss) profit		(496,231,429)	194,353,544
General and administrative expenses	23	(101,047,752)	(110,255,961)
Operating (loss) income before impairments/write-off of claims receivable, retention receivable and unbilled revenue		(597,279,181)	84,097,583
Impairments/ write-off of claims receivable, retention receivable and unbilled revenue	8,24	(347,901,192)	(235,870,813)
		(945,180,373)	(151,773,230)
Murabaha facilities charges	13	(23,788,356)	(11,045,646)
Other income, net		10,674,663	1,627,500
Net loss before zakat		(958,294,066)	(161,191,376)
Zakat	16	(1,114,007)	(18,290,038)
NET LOSS		(959,408,073)	(179,481,414)
Loss per share:	27		
- From continuing main operations		(7,76)	(1.45)
- From net loss		(7,68)	(1.44)

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

STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
IN SAUDI RIYALS

	2011	2010
	(note 1)	
OPERATING ACTIVITIES		
Loss before zakat	(958,294,066)	(161,191,376)
Adjustments:		
Impairment/write-off of accounts, retentions and claims receivable and unbilled revenue	347,901,192	235,870,813
Provision against projects losses	110,969,978	-
Depreciation and amortization	168,386,594	164,659,015
Gain on sale/disposal of property and equipment	(41,593)	(62,513)
End-of-service indemnities	30,504,520	12,598,893
Murabaha facilities charges	23,788,356	11,045,646
Changes in operating assets and liabilities:		
Accounts and retentions receivable and revenue recognized in excess of billings	(27,648,096)	(55,353,095)
Inventories	(95,202,752)	(52,840,964)
Advances to suppliers	(56,263,889)	(10,874,888)
Prepaid expenses and other assets	11,506,043	(13,757,938)
Accounts payable and billings in excess of revenue earned	(21,606,305)	(83,191,131)
Advances from customers	63,018,290	(26,311,488)
Accrued expenses and other liabilities	122,415,941	107,614,502
Due to related parties, net	16,983,115	8,725,490
Cash (used in) from operations	(263,582,672)	136,930,966
Zakat paid	(16,180,681)	(20,382,561)
End-of-service indemnities paid	(12,557,838)	(9,998,917)
Murabaha facilities charges paid	(19,898,343)	(10,327,376)
Net cash (used in) from operating activities	(312,219,534)	96,222,112
INVESTING ACTIVITIES		
Investment in an affiliate and an unconsolidated subsidiary company	(13,014,200)	-
Purchase of property and equipment	(187,718,541)	(63,255,789)
Proceeds from sale of property and equipment	251,060	505,682
Net cash used in acquiring a subsidiary (note 1)	(41,102,698)	-
Net cash used in investing activities	(241,584,379)	(62,750,107)

The accompanying notes form an integral part of these consolidated financial statements

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

STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
IN SAUDI RIYALS

FINANCING ACTIVITIES

Proceeds from short-term murabaha facilities	2,664,164,872	1,690,000,000
Proceeds from long-term murabaha facilities	226,988,270	25,000,000
Repayment of short-term murabaha facilities	(2,006,437,595)	(1,650,000,000)
Repayment of long-term murabaha facilities	(47,473,596)	-
Dividends paid	(93,750,000)	(93,750,000)
Net cash from (used in) financing activities	743,491,951	(28,750,000)
Net change in cash and cash equivalents	189,688,038	4,722,005
Cash and cash equivalents, January 1	46,066,457	41,344,452
CASH AND CASH EQUIVALENTS, DECEMBER 31	235,754,495	46,066,457

Non cash transactions:

Statutory reserve transferred to absorb part of the accumulated losses (note 21)	119,659,081	-
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MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CONSOLIDATED CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
IN SAUDI RIYALS

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2010		1,250,000,000	119,659,081	469,922,824	1,839,581,905
Net Loss for 2010		-	-	(179,481,414)	(179,481,414)
Dividends	22	-	-	(93,750,000)	(93,750,000)
December 31, 2010		1,250,000,000	119,659,081	196,691,410	1,566,350,491
Net loss for 2011		-	-	(959,408,073)	(959,408,073)
Statutory reserve transferred to absorb part of the accumulated losses	21	-	(119,659,081)	119,659,081	-
Dividends	22	-	-	(93,750,000)	(93,750,000)
December 31, 2011		1,250,000,000	-	(736,807,582)	513,192,418

The accompanying notes 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 (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND 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 Jumada’ II, 1394 (June 24, 1974).

The Company has two branches, a branch in Khafji registered under the commercial registration No. 2057003000 dated 3 Jumada’ II, 1428 (June 18, 2007) and another branch in Abu Dhabi, UAE under the commercial license number 1173047 dated October 28, 2010, engaged in various building projects contracting, main roads and streets contracting and related works thereof, main sewerage networks contracting works, foundations drilling and electromechanical works project contracting. The results of operations, assets and liabilities of these branches are included in the accompanying consolidated financial statements.

During the third quarter of 2011, the company has established Saudi National Development Training Institute Company – under formation, a Saudi limited liability company, with a share capital amounting SR 1.5 million and owned 51% by the company.

During the second quarter of 2011, the company acquired 100% (direct and indirect shares) of the outstanding shares of Gulf Elite General Contracting Company (a Saudi limited liability company) (“the subsidiary” or “acquiree”) for which legal formalities were completed.

Name	Country of origin	Percentage of ownership	
		Direct	Indirect
Gulf Elite Contracting Company	Kingdom of Saudi Arabia	99	1

The total consideration amounting to SR 46 million was fully paid during the second quarter. Based on the share purchase agreement signed by the Company and former owners of the subsidiary, the acquisition of the subsidiary includes all assets, liabilities, results of operations, trade name and the present and future trademarks effective from January 1, 2011. Accordingly, the subsidiary’s results have been entirely included during the second quarter as the legal formalities in respect of this transfer of ownership were completed.

Based on the foregoing, the consolidated financial statements of the Company includes the business activities and the results of operations of the acquired company from January 1, 2011. The net assets of the acquired company amounting to SR 39.4 million have been recognized at fair value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND ACTIVITIES (Continued)

The fair value of the identifiable assets acquired and liabilities recognized at the date of acquisition were as follows:

	Fair value at the date of acquisition SR
Assets	
Cash and cash equivalents	4,897,302
Accounts and retentions receivable	81,452,960
Revenue recognized in excess of billings	38,365,948
Inventories	10,559,856
Prepaid expenses and other assets	9,026,672
Property and equipment	<u>18,319,052</u>
Total assets	<u>162,621,790</u>
Liabilities	
Short term facilities	16,466,884
Accounts payable	59,986,773
Billings in excess of revenue recognized	3,904,267
Advances from customers	9,636,404
Accrued expenses and other liabilities	30,149,448
End-of-services indemnities	<u>3,078,014</u>
Total liabilities	<u>123,221,790</u>
Net identifiable assets at fair value	39,400,000
Goodwill recognized on business acquisition	<u>6,600,000</u>
Total consideration paid in cash	<u>46,000,000</u>
Cash outflow on acquisition of subsidiary	
Consideration paid	46,000,000
Cash and cash equivalent balances acquired	<u>(4,897,302)</u>
Net cash outflow on acquisition of subsidiary	<u>41,102,698</u>

The subsidiary has contributed SR 169.6 million of the Group's revenue and SR 10.5 million of the Group's net income for the year ended December 31, 2011

The fair value adjustments to the identifiable assets and liabilities are as follows:

Land

Land has been fair valued on the basis of an open market valuation prepared by independent qualified and experienced property valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND ACTIVITIES (Continued)

Accrued expenses and other liabilities

The fair value has been determined according to the actual payments made subsequent to the business combination.

The Company, in accordance with its commercial registration, is engaged in general building contracting (construction, demolition, renovation, and repair), maintenance and operation, electrical and mechanical contracting, marine works, road 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 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 networking in addition to extensions, water, sewerage and road work.

The company and its subsidiary are hereinafter referred to as “the Group”

2. GOING CONCERN

The consolidated financial statements for the year ended December 31, 2011 have been prepared assuming that the Company is continuing as a going concern, which contemplates the realization of an increase in assets and the settlement of its liabilities in the normal course of business. The Company has incurred significant losses for the year ended December 31, 2011 amounting to SR 959.41 million (2010: SR 179.48 million), directly attributable to the increase in costs of materials, equipment and labor for certain ongoing projects as compared to the approved budgets, and additionally to the result of the final settlement of accounts and retentions receivable and revenue recognized in excess of billing “Unbilled revenue” related to certain completed projects. Also, the Company’s current liabilities exceeded its current assets by SR 510.65 million as of December 31, 2011.

The Company’s management is currently heavily concentrating their efforts to reduce the impact of these losses by appointing an international technical consultancy firm (“technical party”) to conduct an inspection of certain projects which contributed in 2011 losses and to underscore the legitimacy of the Company for claiming compensation against certain such losses in accordance with the contracts entered. In respect of one ongoing project, the Company has recorded losses less claims amounting to SR 150 million in which the Company expects to recover from an ongoing project’s owner in light of technical reviews and reports presented by the technical party. Certain other projects are also under review by the Company and the technical party.

These matters indicate that the Company’s ability to settle its liabilities as they become due and to continue in business is dependent on its ability to obtain sufficient financing and in the in the appropriate time and to be awarded profitable projects. The Company’s management is certain of the Company’s ability to obtain financing to settle its liabilities as well as its ability to be awarded new additional projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in compliance with the accounting standard issued in the Kingdom of Saudi Arabia by the Saudi Organization for Certified Public Accountants (SOCPA). The following is a summary of significant accounting policies applied by the Group:

Basis of presentation

The accompanying consolidated financial for the year ended December 31, 2011 includes the financial statements of the company and its subsidiary effective from the date of acquisition (January 1, 2011). The accompanying consolidated financial statements cover the financial period from January 1, 2011 up to December 31, 2011 while the comparative figures include the (“standalone”) financial statements of the company before acquiring the subsidiary for the year ended December 31, 2011.

Principle of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary controlled by the Company as of December 31, 2011. Control is achieved when the company has the power to govern the financial and operating policies of the acquiree so as to obtain benefits from its activities.

On acquisition, the asset and liabilities of the subsidiary are measured at their fair value at the date of acquisition. The results of the subsidiary acquired are included in the consolidated statement of operations from the effective date of the acquisition. All significant inter-company transaction and balances between the group companies have been eliminated on consolidation.

Business combination

Acquisitions of businesses are accounted for using the acquisition (purchase) method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the company (the acquirer) and liabilities incurred by the company to the former owners of the acquiree. Business combination related costs are generally recognized during the period in which it was incurred.

Goodwill is measured as the excess of the sum of the consideration transferred over the fair value of the net value of identifiable assets of the acquiree at the acquisition date. If the fair value of the net identifiable assets of the acquiree at the acquisition date exceeds consideration transferred, the excess is recognized immediately as a bargain purchase gain for the period of such business combination.

Accounting convention

The consolidated financial statements, expressed in Saudi Riyals, are prepared under the historical cost convention, using the accruals basis of accounting and going concern assumption.

Critical accounting judgments and key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, include cost to complete the contracts, percentage of work completed by the sub-contractors and allowance for doubtful receivables.

Considerable judgment by management is required in the estimation of cost to complete the contracts, percentage of work completed by the subcontractors as well as impairment of receivables. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and the actual results may differ from management estimates resulting in future changes in contracts revenue, accruals and allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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 stage of completion is measured by calculating the proportion that costs incurred to date bear to the estimated total costs of a contract.

When the current estimate of total contract costs and revenues indicate a loss, provision is made for the entire loss on the contract irrespective of the amount of work done. When the outcome of a contract cannot be estimated reliably, the zero profit method whereby revenue is recognized only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognized as an expense in the period in which they are incurred.

Revenue recognized in excess of billings included in the current assets represents the costs incurred plus recognized profits (less recognized losses) that exceed the progress billings as of the consolidated balance sheet date. These amounts of revenue are billed in the subsequent period. 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.

Claims are recognized when the negotiations with the customers 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.

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.

Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards. Allocations between general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and high liquid investments with original maturities of three months or less.

Inventories

Inventories comprise of spare parts and material supplies and are stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Appropriate provision is made for obsolete and slow moving inventories, if required.

Investment in associate and unconsolidated subsidiary

An associate is an entity in which the Company is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the associate. A subsidiary is an entity that is controlled by the Company by governing the financial and operating policies. Investments in associates are accounted for using the equity method of accounting in the accompanying consolidated financial statements under which the investment is stated initially at cost and adjusted thereafter for the post acquisition change in the Company's share of net assets of the investee according to the latest available financial statements. When fair values are not readily determinable, carrying amounts are considered to approximate fair values. Investments in associates and unconsolidated subsidiary included in the consolidated financial statements which are dormant or under formation or where the information is not available are stated at cost. The carrying amounts of such investments are reduced to recognize any impairment in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is recognized at the date of acquisition of a business in the consolidated balance sheet at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in the consolidated statement of operations. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation, except land and capital work-in-progress which are stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided on the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life and the remaining term of the lease. The estimated rates of depreciation of the principal classes of property and equipment are as follows:

Buildings and fabrication plants	5%	with a 10% salvage value
Leasehold improvements	The shorter of the lease period and the estimated useful life	
Vessels	5%	with a 10% salvage value
Machinery, equipment and tools	6.7% – 33%	with a 10% salvage value
Vehicles	20%	with a 10% salvage value
Office equipment	20%	
Furniture and fixtures	20% – 33%	

Impairment

The Company periodically reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately in the statement of operations. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of operations.

Deferred charges

Deferred charges represent deferred dry-docking costs of vessels and are amortized over a period of 5 years from the date of completion of the dry-docking.

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of operations.

End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

Zakat

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis. The zakat charge is computed on the zakat base. Any difference between the estimate and the actual is recorded when the final assessment is approved, at which time the provision is cleared.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

4. CASH AND CASH EQUIVALENTS

	2011	2010
	SR	SR
Cash on hand	4,530,405	3,446,600
Bank balances	231,224,090	42,619,857
	235,754,495	46,066,457

5. ACCOUNTS RECEIVABLE

	2011	2010
	SR	SR
Contracts receivable	424,964,086	529,011,947
Retentions receivable - current portion (note 7)	17,494,959	18,200,370
Less: impairment of book value (note 8)	(39,338,175)	-
	403,120,870	547,212,317

As of December 31, 2011, contracts receivable included overdue amounts of SR 120 million related to projects completed in prior years. The management is confident that there is no need for provisions for these amounts at the current time until the final settlements have been signed with the owners of those projects.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

6. REVENUE RECOGNIZED IN EXCESS OF BILLINGS

	2011	2010
	SR	SR
Costs incurred plus recognized profits to date	7,585,087,457	6,084,615,008
Less: progress billings	(6,404,292,907)	(5,083,020,637)
Impairment of carrying value (note 8)	(298,031,842)	(82,870,813)
	882,762,708	918,723,558

As of December 31, 2011, the balance above includes an unbilled balance of SR 27.1 million related to unbilled revenues from a project completed in prior years. The management is confident that it can bill and collect these amounts as it is currently working on a settlement with the owner of the related project.

7. RETENTIONS RECEIVABLE

	2011	2010
	SR	SR
Retentions receivable	177,946,569	188,502,696
Less: current portion (note 4)	(17,494,959)	(18,200,370)
Impairment of carrying value (note 8)	(10,531,175)	-
Non-current portion	149,920,435	170,302,326

As of December 31, 2011, retentions receivable – noncurrent portion, included overdue amounts of SR 13.7 million related to a project completed in prior years. The management is confident that there is no need for provisions for these amounts at the current time until the final settlements have been signed with the owners of those projects.

8. IMPAIRMENTS/WRITE OFF OF ACCOUNTS, RETENTIONS AND CLAIMS RECEIVABLE AND REVENUE IN EXCESS OF BILLING

The Company had recognized claims receivable amounting to SR 630.7 million in the contracts revenue for prior periods out of an aggregate amount of claims receivable of SR 1,020 million presented to the owners of certain ongoing projects as of December 31, 2009. During the year ended December 31, 2009, part of these claims amounting to SR 323.2 million was settled in favor of the Company. Additionally, the Company's management had impaired (written-off) uncollected claims receivable amounting to SR 154.5 million and included these in the statement of income for the year ended December 31, 2009. Based on the current status of negotiations and final settlements with the projects' owners, the Company during the fourth quarter of 2010 has reviewed the relevant realizable value of its claims receivable and the related revenue recognized in excess of billings ("unbilled revenue") as of December 31, 2010, amounting to SR 153 million and SR 82.9 million, respectively. This has resulted in a board resolution to recognize an impairment of the carrying value of these claims receivable and unbilled revenue by an aggregate amount of SR 235.9 million which was included in the statement of income for the year ended December 31, 2010.

During the fourth quarter of 2011 and based on the visions of the Company's management and on the status of final negotiations and settlements with certain completed projects' owners, has reviewed the realizable value of accounts receivable, revenue recognized in excess billings ("Unbilled revenue") and retentions receivable amounting to SR 39.3 million (note 5), SR 298.1 million (note 6) and SR 10.5 million (note 7) respectively. This has resulted in a board resolution to recognize an impairment of the carrying value such balances in aggregate of SR 347.9 million and included in the consolidated statement of operations for the year ended December 31, 2011.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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9. INVENTORIES

	2011	2010
	SR	SR
Raw materials and spare parts at warehouses	182,239,949	76,411,293
Marine vessels spare parts	7,516,032	7,576,454
Others	168,381	174,007
	189,924,362	84,161,754

10. PREPAID EXPENSES AND OTHER ASSETS

	2011	2010
	SR	SR
Prepaid expenses	22,277,161	35,767,315
Employee receivables	15,982,565	14,759,518
Due from affiliates	5,762,585	-
Due from Human Recourse Development Fund for hiring and training employees	124,980	589,472
Others	683,319	91,323
	44,830,610	51,207,628

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

11. PROPERTY AND EQUIPMENT

	Land	Buildings , fabrication plants & leasehold improvements	Vessels	Machinery, equipment & tools	Vehicles	Office equipment	Furniture & fixtures	Capital work- in-progress	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
Cost									
January 1, 2011- the Company	87,446,508	411,251,818	253,621,007	911,724,591	108,289,542	29,309,337	39,462,128	22,168,409	1,863,273,340
January 1, 2011- the Subsidiary (note 1)	3,701,927	1,988,358	-	20,284,072	5,563,009	967,109	933,273	-	33,437,748
Additions	-	4,940,458	-	65,010,130	11,312,091	3,849,781	2,506,376	100,099,705	187,718,541
Transfers	-	4,101,000	17,516,845	-	-	-	(4,101,000)	(17,516,845)	-
Disposals	-	-	-	(580)	(416,099)	(3,400)	-	-	(420,079)
December 31, 2011	91,148,435	422,281,634	271,137,852	997,018,213	124,748,543	34,122,827	38,800,777	104,751,269	2,084,009,550
Accumulated depreciation									
January 1, 2011- the Company	-	108,048,591	124,742,685	430,807,525	72,224,733	11,847,326	20,553,492	-	768,224,352
January 1, 2011- the Subsidiary (note 1)	-	1,005,487	-	9,545,391	3,833,544	388,583	345,691	-	15,118,696
Charge for year	-	23,077,249	21,136,575	96,362,136	16,115,438	5,874,301	5,820,895	-	168,386,594
Transfers	-	(328,642)	-	-	-	-	328,642	-	-
Disposals	-	-	-	(197)	(209,487)	(928)	-	-	(210,612)
December 31, 2011	-	131,802,685	145,879,260	536,714,855	91,964,228	18,109,282	27,048,720	-	951,519,030
Net book value									
December 31, 2011	91,148,435	290,478,949	125,258,592	460,303,358	32,784,315	16,013,545	11,752,057	104,751,269	1,132,490,520
December 31, 2010	87,446,508	303,203,227	128,878,322	480,917,066	36,064,809	17,462,011	18,908,636	22,168,409	1,095,048,988

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As of December 31, 2011, capital work-in-progress includes advances paid amounted to SR 104.8 million (SR 22.2 million in 2010) towards the purchase of seven new vessels costing SR 113.6 million (SR 73.9 million in 2010) to support the Company's operations and offshore projects. Marine vessels are used for the Company's activities related to offshore projects.. As of December 31, 2011, the finance charges that has been capitalized during 2011 amounted to SR 2 million (2010: nil)

Certain property and equipment are constructed on leased land from the Government of Kingdom of Saudi Arabian at a nominal rent.

12. DEFERED CHARGES

Deferred charges which represent periodic dry-docking as of December 31 are comprised of the following:

	2011	2010
	SR	SR
Cost		
January 1,	6,089,933	6,089,933
December 31,	6,089,933	6,089,933
Accumulated amortization		
January 1,	(6,089,933)	(5,531,228)
Charge for the year	-	(558,705)
December 31,	(6,089,933)	(6,089,933)
Net book value	-	-

13. SHORT TERM MURABAHA FACILITIES

As of December 31, 2011 the Company had short-term Murabaha facilities amounting to SR 1.78 billion (2010 - SR 1.14 billion) from local commercial banks to finance the Company's working capital requirements. These facilities are secured by promissory notes and assignment of certain projects' proceeds in the favor of these banks. The outstanding balance of the short-term Murabaha facilities mentioned above is SR 1.16 million as of December 31, 2011 (2010 - SR 490 million). The Murabaha facilities charges are calculated on the basis of SIBOR plus an agreed margin.

14. BILLINGS IN EXCESS OF REVENUE EARNED

	2011	2010
	SR	SR
Progress billings	206,452,108	146,145,168
Less: costs incurred plus recognized profits to date	(189,897,741)	(144,604,303)
	16,554,367	1,540,865

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
	SR	SR
Accrued project purchases	338,511,348	170,641,165
Accrued project expenses	37,681,788	55,903,089
Zakat payable (note 16)	1,214,413	15,242,477
Accrued employees' vacation and air ticket expenses	31,961,902	30,218,318
Accrued Murabaha facilities charges	5,805,497	1,781,171
	415,174,948	273,786,220

16. ZAKAT

a) The principal elements of the zakat base are as follows:

	2011	2010
	SR	SR
Share capital	1,250,000,000	1,250,000,000
Statutory reserve	119,659,081	119,659,081
Retained earnings	102,941,410	376,172,824
Loss before zakat	(958,294,066)	(161,191,376)
End-of-service indemnities	111,076,334	93,859,161
Property and equipment	(1,117,303,590)	(1,095,048,988)
Spare parts	(172,009,646)	(76,411,293)

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

b) The movement in zakat provision is as follows:

	2011	2010
	SR	SR
January 1	15,242,477	17,335,000
January 1 – the Subsidiary (note 1)	1,038,610	-
Provision for year	1,114,007	18,290,038
Payments during year	(16,180,681)	(20,382,561)
December 31	1,214,413	15,242,477

c) Zakat position

The Company has submitted its financial statements and zakat returns up to 2007 and for the period from November 10, 2007 up to December 31, 2010 to the DZIT and obtained the final zakat assessments up-to December 31, 2006. The Company's zakat assessments for the years from 2007 up to 2010 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 December 31, 2011 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 2010 have not yet been finalized and are still under review by the DZIT.

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17. TRANSACTIONS WITH MAJOR CUSTOMERS

Revenue from five major customers amounted to approximately SR 1.3 billion, which represents 63% of the Company's revenue for the year ended December 31, 2011 (2010 - SR 1.2 billion which represented 69% of revenue). As of December 31, 2011, contracts and retentions receivable balances for those customers amounted to approximately SR 221 million (2010 - SR 226.1 million).

18. RELATED PARTIES TRANSACTIONS

During the year, the Company transacted with the following related parties. The terms of those billings and charges are similar to ordinary trade receivables and payables:

Name	Relationship
Mohammad Al Mojil and Partners Supply & Services Co.	Affiliate
Mohammad Al-Mojil and Partners Travel & Tourism Agency Co.	Affiliate

The significant transactions and the related amounts for the year ended December 31 are as follows:

	2011	2010
	SR	SR
Purchases of material and projects supplies	44,585,560	25,330,358
Purchases of air tickets	21,296,963	44,274,555

Due to related parties net, as of December 31, are comprised of the following:

	2011	2010
	SR	SR
Mohammad Al Mojil and Partners Supply & Services Co.	27,925,627	10,757,334
Mohammad Al Mojil and Partners Travel & Tourism Agency Co.	532,311	717,489
	28,457,938	11,474,823

19. LONG TERM MURABAHA FACILITIES

The Company has entered into a long-term Murabaha facility agreement with a local commercial bank for letters of credit, advance payments to the suppliers of the new vessels in the amount of SR 180 million to finance purchasing of six vessels in order to support the Company's offshore projects and operations. During 2011, the Company obtained SR 134.99 million (2010: SR 25 million) through Murabaha sale agreement, which is repayable in 23 equal quarterly installments, commencing March 31, 2011 and the last installment will be due on September 30, 2016. These facilities are secured by promissory notes and assignment of marine service project's proceeds in the favor of this bank. As of December 31, 2011, the outstanding balance amounted to SR 113.31 million (2010 – SR 25 million).

During 2011, the Company has entered into a long term murabaha facility agreement with a local bank in the amount of SR 42 million to finance the acquisition of the subsidiary (note 1). This facility requires that the company maintain certain financial ratios in addition to other financial restrictions. The outstanding balance as of December 31, 2011 amounted to SR 42 million (2010: nil) and is repayable in 12 equal quarterly installments commencing March 31, 2012 and the last installment will be due on December 30, 2014.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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During 2011, the Company has also entered into a long term murabaha facility agreement with a local bank in the amount of SR 50 million to finance one of its ongoing projects. These facilities are secured by assignment of some of the company's projects in the favor of this bank. The outstanding balance as of December 31, 2011 amounted to SR 50 million (2010: nil) and is repayable in 5 equal quarterly installments commencing March 31, 2013 and the last installment will be due on March 31, 2014.

The facilities mentioned above carry Murabaha facilities charges at SIBOR plus an agreed margin. The maturity profile of the these loans, as per the Murabaha facility agreements, as of December 31, 2011 are as follows:

	<u>SR</u>
2012	42,011,699
2013	77,638,063
2014	47,638,063
2015	23,638,063
2016	14,385,804
	<u>205,311,692</u>

20. SHARE CAPITAL

The paid-up share capital of the Company as of December 31, 2011, amounting to SR 1.25 billion, is divided into 125 million shares of SR 10 each.

21. STATUTORY RESERVE

In accordance with 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. No reserve has been made for the year ended December 31, 2011 due to the losses incurred by the Company during the year. 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 December 31, 2011 through the statutory reserve which amounted to SR 119.7 million as of December 31, 2010. This resolution will be presented to the general assembly.

22. DIVIDENDS

The Company's Board of Directors in their meeting held on 7 Jumada I, 1432 (April 11, 2011) recommended to distribute cash dividends to the stockholders of SR 93.75 million from the retained earnings of 2010, the equivalent of 75 Halallas per each outstanding share at December 31, 2010 (SR 93.75 million, the equivalent of 75 Halallas per each outstanding share at December 31, 2009). The General Assembly, in their meeting held on 30 May, 2011, approved the Board of Directors' recommendation.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

23. GENERAL & ADMINSTRATIVE EXPENSES

	2011	2010
	SR	SR
Salaries and benefits	66,903,325	78,876,022
Rent	10,871,441	10,356,334
Professional and consultancy fees	6,894,264	3,964,375
Communications	3,445,162	2,210,605
Maintenance and support of automated system expenses	4,088,657	3,252,790
Transportation and business travel	2,185,862	3,128,199
Repairs and maintenance	1,474,221	3,608,302
Stationary and printing	947,116	1,185,405
Utilities	704,311	799,413
Insurance	36,806	61,364
Others	3,496,587	2,813,152
	101,047,752	110,255,961

24. INTERIM RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2011

Gross loss for the three months ended December 31, 2011 amounted to SR 666.78 million (gross profit of SR 53.2 million in 2010).

The loss for the period mentioned above prior to the impairment/write off of accounts, retentions, and claims receivable and unbilled revenues amounted to SR 697.35 million (operating income amounted to SR 22.15 million in 2010).

The loss per share from continuing main operations, for the period mentioned above, was SR 8.33 (2010: SR 1.73) while the loss per share from net losses for the period was SR 8.28 (2010: SR 1.72). loss per share for the period mentioned above is calculated in accordance with the calculation of the loss per share mentioned in (note 27).

These losses were primarily attributed to an increase in direct costs in excess of approved budgets for certain ongoing projects mentioned in (note 2).

The company also recognized an impairment/write off of accounts, retentions, and claims receivable and unbilled revenues mentioned in (note 8).

25. OPERATING LEASE ARRANGEMENTS

	2011	2010
	SR	SR
Payments under operating leases recognized as an expense during the year	5,129,463	3,179,760

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2011	2010
	SR	SR
2012	5,445,584	4,347,184
2013	3,452,178	3,964,183
2014	827,979	1,100,580
2015	822,768	829,067
Later than five years	3,825,307	4,662,352
Net minimum lease payments	14,373,816	14,903,366

Operating lease payments represent rentals payable by the Company for certain leased land. Leases are negotiated for an average term ranging between two to twenty years and rentals are fixed over the lease period.

26. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, the Company had the following commitments and contingent liabilities:

	2011	2010
	SR	SR
Letters of credit	201,506,537	44,217,338
Letters of guarantee	1,250,541,950	1,183,736,257

At December 31, 2011, the Company had future capital commitments amounting to SR 39 million (2010 - SR 30.5 million). These capital expenditures are related to the purchase of machinery and equipment to support the Company's operations and projects.

27. LOSS PER SHARE

Loss per share (LPS) from net loss for is calculated by dividing net loss for the year by the weighted average number of shares. LPS from continuing main operations is calculated by dividing operating loss, less Murabaha facilities charges, impairment/write off of accounts, retentions, and claims receivable and unbilled revenues and zakat, by the weighted average number of shares. LPS from continuing other operations, which primarily comprised of other income, amounted to SR 0.85 for the year ended December 31, 2011 (2010 - SR 0.013). The loss per share above is calculated on the basis of weighted average number of outstanding shares amounting to 125 million shares as of December 31, 2011 and 2010.

28. SEGMENTAL INFORMATION

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

29. FAIR VALUES

The fair values of the Company's financial assets and liabilities approximate their carrying amounts.

30. ADOPTION OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30 Rabi' I 1433 (22 February 2012).