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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2012
WITH
INDEPENDENT AUDITORS' REVIEW REPORT

MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012
Expressed in Millions of Saudi Riyals

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REVIEW REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Shareholders
Mohammad Al Mojil Group Company
(A Saudi Joint Stock Company)
Dammam, Kingdom of Saudi Arabia

Scope of review:

We have reviewed the accompanying consolidated interim balance sheet of **Mohammad Al Mojil Group Company** ("the Company") and its subsidiary (collectively referred as "the Group") as at 30 September 2012, the related consolidated interim statements of income for the 3 months and 9 months period then ended, the related consolidated interim statement of cash flows and consolidated interim changes in shareholders equity for the nine month period ended 30 September 2012 and the condensed notes 1 to 23 which form an integral part of these condensed consolidated interim financial statements. These condensed consolidated interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken a whole. Accordingly, we do not express such an opinion.

Basis of Qualified Conclusion paragraph:

In accordance with Article 148 of the Companies Regulations the Company have called for an Extraordinary General Meeting on 5th November to consider whether the Company shall continue to operate or to be dissolved before the expiry of the term specified in its bylaws. In addition the management will present to the Extraordinary General Assembly the recovery plans for both the operations and capital of the Company. These recovery plans form the basis on which Management has prepared these financial statements on a going concern basis.

The Company require a 75% approval from the shareholders attending the meeting for the proporsed plans.

Should the Company not receive the required shareholder approval on 5th November this may result in the dissolution of the Company. This would render Management's recovery plans obsolete and it would therefore not be appropriate to prepare these financial statements on a going concern basis.

Qualified Conclusion:

Based on our review, except for the effect of the outcome of the vote described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Emphasis of matter

Without further qualifying our opinion, we draw attention to Note 2 (e) to the financial statements which refers to the Company's accumulated losses at 30 September 2012 amounted to SR1,563.6 million, which exceeds 75% of the Company's capital. In addition, the current liabilities exceed its current assets by SR 924.7 million. As a result the Company has a total stockholders' deficit of SR313.6 million as at 30 September 2012.

However, these conditions, along with other matters as set forth in Note 2 (e), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No: 352

KPMG Al Fozan & Al Sadhan
Certified Public Accountants
C.R. 323

Al Khobar, October 30, 2012
Corresponding to: 14 Dhu Al- Hijjah 1433H

MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED INTERIM BALANCE SHEET (Unaudited)
As at September 30, 2012
Expressed in Millions of Saudi Riyals

	Note	**As at September 30, 2012**	As at December 31, 2011 Restated	As at September 30, 2011
ASSETS				
Current assets:				
Cash and cash equivalents	6	**161.5**	235.8	64.4
Accounts Receivable, net		**362.7**	403.1	554
Revenues recognized in excess of billings (Unbilled revenues)		**677.7**	882.8	1,473
Inventories		**220.2**	189.9	128.8
Assets classified as held for sale	8	**427.9**	-	-
Advances to suppliers		**60.4**	91.3	81.6
Prepayments and other current assets		**46.1**	44.8	77.1
Total current assets		**1,956.5**	1,847.7	2,378.9
Non-current assets:				
Retentions receivables		**140**	149.9	139
Investments in associate and unconsolidated subsidiaries		**11**	13	10.8
Goodwill		-	6.6	6.6
Property, plant and equipment		**683.4**	1,132.5	1,094.1
Total Non-current Assets		**834.4**	1,302	1,250.5
TOTAL ASSETS		**2,790.9**	3,149.7	3,629.4
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank overdraft		**51.4**	-	-
Short-term Murabaha facilities	10	**1,480.8**	1,163.3	1,005.1
Current portion of long-term Murabaha facilities	12	**253.4**	42	29.4
Accounts payables		**613.8**	400	368.5
Advances from customers		**104.8**	181.8	149
Billings in excess of revenues earned		-	16.6	8
Provision against the anticipated increase in projects costs	4	**115.1**	261	-
Accrued expenses and other current liabilities		**237.4**	415.1	286.7
Due to related parties, net	11	**24.5**	28.5	33.3
Total current liabilities		**2,881.2**	2,508.3	1,880
Non-current liabilities:				
Long-term Murabaha facilities	12	-	163.3	90.2
Subordinated loan		**99.6**	-	-
Employees' end of service benefits		**123.7**	114.9	111.3
Total non-current liabilities		**223.3**	278.2	201.5
Total liabilities		**3,104.5**	2,786.5	2,081.5
Shareholders' equity				
Share capital	14	**1,250**	1,250	1,250
Statutory reserve	15	-	-	119.7
(Accumulated losses)/ retained earnings		**(1,563.6)**	(886.8)	178.2
Total shareholders' equity		**(313.6)**	363.2	1,547.9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,790.9**	3,149.7	3,629.4

The condensed consolidated interim financial statements appearing on pages (1) to (19) were approved by the Board of Directors on October 30, 2012 and have been signed on its behalf:

GENERAL MANAGER FINANCE CEO BOARD DIRECTOR

The accompanying notes (1) through (23) form an integral part of these condensed consolidated interim financial statements.

MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED INTERIM STATEMENT OF INCOME (Unaudited)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2012
Expressed in Millions of Saudi Riyals

	Note	For the three month period ended		For the nine month period ended	
		September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Contracts revenue		**391.8**	497.3	**1,266.1**	1,357.6
Cost of revenues		**(375.2)**	(468)	**(1,197.1)**	(1,202.6)
Provision against the anticipated increase in projects costs, net.	4	**44**	-	**(21.3)**	-
Profit /(Loss) on Manifa Saipem project	5	-	53.3	**(355.2)**	141.6
Depreciation and amortization		**(37)**	(41.9)	**(119.7)**	(126.1)
Gross (loss) profit		**23.6**	40.7	**(427.2)**	170.5
General and administrative expenses	13	**(24.2)**	(22.5)	**(89.2)**	(70.5)
Impairment losses of machinery	8	**(14.9)**	-	**(14.9)**	-
Impairment of accounts and retentions receivable and unbilled revenue	7.2	**(3.9)**	-	**(125.7)**	-
Operating (loss) profit		**(19.4)**	18.2	**(657)**	100
Share of losses of equity accounted investees		-	-	**(2.8)**	-
Murabaha facilities charges		**(10)**	(5.4)	**(27.5)**	(16.6)
Other income (expenses), net		**(4.4)**	2	**10.5**	3.9
Operating (loss) profit before Zakat		**(33.8)**	14.8	**(676.8)**	87.3
Zakat		-	(3.9)	-	(12.1)
Net (loss) profit		**(33.8)**	10.9	**(676.8)**	75.2
(Losses)/earnings per share (LPS)/EPS:					
From net (loss)/profit for the period	18	**(0.27)**	0.09	**(5.4)**	0.6

The condensed consolidated interim financial statements appearing on pages (1) to (19) were approved by the Board of Directors on October 30, 2012 and have been signed on its behalf:

GENERAL MANAGER FINANCE | CEO | BOARD DIRECTOR

The accompanying notes (1) through (23) form an integral part of these condensed consolidated interim financial statements.

MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Unaudited)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012
Expressed in Millions of Saudi Riyals

	September 30, 2012	December 31, 2011 Restated	September 30, 2011
Cash Flows from Operating Activities:			
(Loss) /profit for the period/year before Zakat	**(676.8)**	(1,108.3)	87.3
Adjustments to reconcile net loss to net cash used in operating activities:			
Company's share of associate losses	**2.8**	-	-
Impairment of accounts & retentions receivable and unbilled revenue	**125.7**	348	-
Net movement in provision against anticipated increase in cost of projects	**(145.9)**	260.8	-
Depreciation and amortization	**119.7**	168.4	126.1
Impairment Loss of machinery	**14.9**	-	-
Gain on sales of property and equipments	**(6.8)**	-	-
End of service benefit provision	**25.6**	30.5	23.5
Murabaha facilities charges	**27.5**	23.8	16.6
Changes in working capital:			
Accounts, retention receivables and revenues recognized in excess of billings	**100.6**	(27.6)	(409.9)
Inventories	**(47.7)**	(95.2)	(34.1)
Advances to suppliers	**23.5**	(56.3)	(46.6)
Prepayments and other current assets	**(4.3)**	11.5	(20.7)
Accounts payables and billings in excess of revenues earned	**248.1**	(21.6)	(55.8)
Advances from customers	**(76.5)**	63	30.3
Accrued expenses and other liabilities	**(184.9)**	122.5	(23.2)
Due to related parties, net	**(4)**	17	21.8
Murabaha facilities expenses paid	**(11.9)**	(19.9)	(12.4)
Zakat paid	-	(16.2)	(16.2)
End of service benefit paid	**(12.6)**	(12.6)	(9.1)
Net Cash used in operating activities	**(483)**	(312.2)	(322.4)
Cash Flows from Investing Activities:			
Acquisition of investments in associate and unconsolidated subsidies	-	(13)	(10.8)
Acquisition of property and equipment	**(151.6)**	(187.8)	(107)
Proceeds from sales of property and equipment	**49.1**	0.3	0.2
Net cash used to acquire a subsidiary (note 1)	-	(41.1)	(41.1)
Net cash (used in) investing activities	**(102.5)**	(241.6)	(158.7)
Cash flows from financing activities			
Bank overdraft	**51.4**	-	-
Subordinated loan	**99.6**	-	-
Proceeds from short-term Murabaha facilities	**3,972.5**	2,664.2	1,720.1
Proceeds from long-term Murabaha facilities	**348.2**	227	97
Repayments of short-term Murabaha facilities	**(3,655)**	(2,006.4)	(1,221.5)
Repayment of long-term Murabaha facilities	**(300.1)**	(47.5)	(2.4)
Dividends paid	-	(93.8)	(93.8)
Net cash provided by financing activities	**516.6**	743.5	499.4
Net movement in cash and cash equivalents	**(68.9)**	189.7	18.3
Cash and cash equivalents at beginning of the period/year	**235.8**	46.1	46.1
Cash and cash equivalents classified as assets held for sale	**(5.4)**	-	-
Cash and cash equivalents at end of period / year	**161.5**	235.8	64.4

The condensed consolidated interim financial statements appearing on pages (1) to (19) were approved by the Board of Directors on October 30, 2012 and have been signed on its behalf:

GENERAL MANAGER FINANCE | CEO | BOARD DIRECTOR

The accompanying notes (1) through (23) form an integral part of these condensed consolidated interim financial statements.

MOHAMMAD AL MOJIL GROUP COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012
Expressed in Millions of Saudi Riyals

	Share Capital	**Statutory Reserve**	**(Accumulated losses)/retained earnings**	**Total**
January 1, 2011	1,250	119.7	196.7	1,566.4
Net loss for 2011 – as previously reported	-	-	(959.4)	(959.4)
Prior year adjustments (Note 7.1)	-	-	(150)	(150)
Statutory reserve transferred to absorb part of the accumulated losses	-	(119.7)	119.7	-
Dividends paid (Note 16)	-	-	(93.8)	(93.8)
December 31, 2011 (Restated)	1,250	-	(886.8)	363.2
Net loss for the period	-	-	**(676.8)**	**(676.8)**
September 30, 2012	**1,250**	-	**(1,563.6)**	**(313.6)**

The condensed consolidated interim financial statements appearing on pages (1) to (19) were approved by the Board of Directors on October 30, 2012 and have been signed on its behalf:

GENERAL MANAGER FINANCE　　　　CEO　　　　BOARD DIRECTOR

The accompanying notes (1) through (23) form an integral part of these condensed consolidated interim financial statements.

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 registrations No. 2050003174 dated 3 Jamada II, 1394H (corresponding to 24 September, 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 another newly formed branch in Abu Dhabi, UAE under the commercial license number 1173047 dated October 28, 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 condensed consolidated interim financial statements.

During the third quarter of 2011, the company has established the Saudi National Development Training Institute Company – under formation, a Saudi limited liability company, with a share capital amounting to SR. 1.5 millions 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") for which legal formalities were completed.

The total consideration amounted to SR46 million and was fully paid during the second quarter of 2011. Based on the share purchase agreement signed by the Company and the 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 January 1, 2011. Accordingly, the subsidiary's results have been entirely included during the second quarter as legal formalities in respect to transfer of ownership were completed with no significant effect on the first quarter. The net assets of the acquired subsidiary amounted to SR 39.4 million and have been recognized at fair value.

The subsidiary has contributed SR134.1 million of the group's revenues and with a net loss of SR14.1 million of the group's net loss for the nine months period ended September 30, 2012.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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 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 roads works. The company and its subsidiary are hereinafter referred to as "the Group".

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(c) Functional and presentation currency

The condensed consolidated interim 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 condensed consolidated interim 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts, are recognized in the financial statements.

2. BASIS OF PREPARATION (Continued)

(e) Going concern

The condensed consolidated interim 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 has experienced a loss for the 3 month period ended September 30, 2012 amounting to SR 33.8 million, this includes an impairment charge of SR 14.9 million. The Company's current liabilities exceeded its current assets by SR 924.7 million as of September 30, 2012 and additionally total liabilities exceed total assets by SR 313.6 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 obtained relevant regulatory approvals to hold an Extraordinary General Assembly meeting on November 5, 2012 to consider whether the Company shall continue to operate or to be dissolved before the expiry of the term specified in its bylaws. In addition to that, the Company will present to the General Assembly the recovery plans for both the operations and capital of MMG. Management are expecting, but cannot be certain, to receive support from the shareholders to the recovery plan that is being presented at the meeting.

During the period from August 25, 2012 to October 15, 2012, the Company's lenders suspended access to bank accounts holding the Company's collected receivables. The Company has satisfied the conditions requested by the lenders, which included an additional pledge of certain assets, additional personal guarantee from the major shareholder totalling SR100 million to support any funding shortfall and the presentation of financial forecasts until the end of 2014. The presentation of these forecasts indicate that the long term bank debt will not be settled until after 2014. The banks have therefore allowed access to the suspended accounts and now the operational accounts have been re-instated. The cash balance available to the company as at October 16, 2012 was SR 190 million.

The Company continues to operate as a going concern with the cooperation of its lenders, customers and suppliers. The Company expects to meet its future liquidity requirements from its internal resources with cash flows generated from operations as the Company is at an advanced stage of discussion with banks, customers and suppliers. In relation to suppliers an agreement has been reached whereby current supplies will be settled but current outstanding amounts will be settled at a future date. Suppliers have continued to support the company throughout the period. This improvement is due to the actions taken under the restructuring initiatives of the board of directors and the new executive management in the last few months. Specifically the Company has benefited from the strong relationship and continual support that it has received from its primary customers and suppliers which has lessened pressure on liquidity. Additionally, the executive management has been able to achieve significant reduction in the operational cash requirements of the Company and is in the process of signing an agreement with three of its major customers, which specifies that the customers would settle contractual amounts on behalf of the Company to further support the Company to complete its contracts. There is no assurance that this support will continue but management are confident that lenders, customers and suppliers will continue to respond positively to the remedial actions they have taken or will take in the future.

2. BASIS OF PREPARATION (Continued)

(e) Going concern (Continued)

In addition to operational performance, the Company is taking and will continue to take all appropriate actions under the broader restructuring plan including the recovery of the Company's overdue entitlements and claims and sale of certain assets. The Company has received offers to acquire certain assets held for sale with a profit over their net carrying amount. However, there can be no guarantee on the timing and quantum of these remedial actions.
The business strategy of the management under supervision of the board of directors is to mitigate the risk profile of the Company and win new contracts which have controlled or no exposure to future losses unlike those the Company has experienced over the past two years.

These conditions indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. However, management continues to believe that the Company can continue as a going concern and has executed a programme of actions to enhance the immediate trading outlook. Accordingly these interim condensed financial statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

These condensed consolidated interim financial statements include the interim 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 subsidiary are eliminated in preparing these consolidated interim financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

(b) 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 percentage 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (Continued)

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

(c) Expenses

All expenses, excluding cost of revenue and financial charges expenses are classified as general & administrative expenses. Allocations of common expenses between cost of revenue and general & 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 decision. 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's share of profits or losses of the investee companies is credited or charged to the consolidated interim Statement of Income.

(g) Goodwill

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment 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 equipments

Property, plant and equipments 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 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 interim statement of income when incurred.

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

Expressed in Millions of Saudi Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipments (Continued)

The estimated depreciation rates of the assets are as follow:

	Percentage
Building and fabrication plants	5% with a 10% salvage value
Leasehold improvements	Over the lease period
Vessels	5% with a 10% salvage value
Machinery, tools and equipment	6.7% - 33% with a 10% salvage value
Motor vehicles	20% with a 10% salvage 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.

(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 remeasurement 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. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(k) Deferred Charges

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

Expressed in Millions of Saudi Riyals

(l) **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 consolidated interim 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 interim statement of income.

(m) **Employees' end of service benefits**
Employees' end of service benefits, calculated in accordance with Saudi labour law, are accrued and charged to the consolidated interim 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 consolidated interim balance sheet date.

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

(o) **Operating leases**
Payments under operating leases are recognized in the 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.

4. PROVISION AGAINST ANTICIPATED INCREASE IN COST OF PROJECTS

The movement in Provision against the anticipated increase in projects costs for the three and nine months period ended September 30 is as follows:

	For the nine month period ended		For the three month period ended	
	September 30, 2012	**September 30, 2011**	September 30, 2012	**September 30, 2011**
Opening Balance for the period	**261**	-	**169.4**	-
Additions during the period	**140.4**	-	**6.7**	-
Reversed during the period	**(119.1)**	-	**(50.7)**	-
Add: Net effect	**21.3**	-	**(44)**	-
Less: Utilized during the period	**(167.2)**	-	**(10.3)**	-
Balance as at September 30,	**115.1**	-	**115.1**	-

During the period, the Company provided SR 140.4 million against the anticipated increase in the cost of 6 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, the amount of SR 119.1 was therefore reversed.

During the period ended June 30, 2012 an amount of SR58.9 million, relating to the reversal of a contract provision, was classified in the Income Statement against 'Cost of revenue', rather than against 'Provision against the anticipated increase in projects costs'. In the 9 month period ended 30 September, 2012 this classification has been amended. There is no impact on Gross loss/profit or the Balance sheet.

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5. MANIFA SAIPEM PROJECT'S LOSSES

During July 2012, the independent review of Manifa Saipem Project identified significant risk with regards to the said project. The company has 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.

However, as part of the review and the change in contract scope, additional losses have been identified totalling to SR 355.2 million, which have been fully provided for as at 30 September 2012.

6. CASH AND CASH EQUIVALENTS

An amount of SR 146.2 million is included in the cash and cash equivalents but not available for use as at September 30, 2012 (September 30, 2011: nil). This amount was made available for use on 15 October 2012 (see note 22).

7. PRIOR YEARS/ PERIOD ADJUSTMENTS

In the 3 month period ended 30 June 2012, management identified the following:

7.1 Project claims – SR 150 million

This amount was recognised as a reduction to the contracted estimated costs to complete as at December 31, 2011, and hence reduced the estimated contract losses at that date by SR 150 million. The amount represents what management expected to be able to claim under the contract, after a review by an external third party. However, management are now of the view that this amount should not have been recognised in the estimated costs to completion, as claim negotiations were not reached an advanced stage such that it is probable that the customer will accept the claim and the claim amount can be measured reliably to justify recovery of the amount. This is a requirement of the accounting standards and company's accounting policy.

The loss previously recorded for the year ended December 31, 2011, was SR 959.4. The adjustment, as described above, would have increased the loss to SR 1,109.4 million. Accordingly, (LPS) previously calculated was SR (7.6) per share would have increased to SR (8.8) per share.

Provision against the anticipated increase in projects costs would have increased by SR 150 million to SR 261 million (previously SR 111 million) and accordingly total liabilities and shareholders' equity would also have reduced by this amount. The accumulated losses previously recorded for the year ended December 31, 2011, was SR 736.8 million and have now increased to SR 886.8 million. The effect of the restatement on those financial statements is summarised below :

	Effect on December 31, 2011
(Increase) in Provision expense against the anticipated increase in project costs	(150)
(Increase) in Net loss	(150)
(Increase) in Provision against the anticipated increase in project costs	(150)
(Decrease) in equity	(150)

7. PRIOR YEARS/ PERIOD ADJUSTMENTS (Continued)

7.2 Account receivables and unbilled revenue – SR 121.8 million

This amount was recognised as at December 31, 2011, and March 31, 2012. As previously reported at June 30, 2012, management are of the view that an error was made as at March 31, 2012, because insufficient evidence existed to justify the recoverability of the balance. Therefore this amount has been de-recognised as at March 31, 2012.

8. 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 September 30, 2012 following the commitment of the Group'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 by March 2013. At September 30, 2012 the disposal group comprised net assets of SR 427.9 million

An impairment loss of SR. 14.9 million on the re-measurement of the potential disposals of property, plant and equipment, to the lower of its carrying amount and its fair value less cost of sales, has been recognized in the consolidated interim Statement of Income.

9. MAJOR CLIENTS

Revenues from five major clients amounted to almost SR 1.05 billion, which represents 82.3% from the company's revenue of the period ended September 30, 2012 (circa SR 1.2 billion, which represents 65.8% for the period ended September 30, 2011). In addition, the contract receivable balance and the retention receivables amount for these clients amounted to almost SR 308.7 million as of September 30, 2012 (circa SR 158.5 million as at September 30, 2011).

10. SHORT TERM MURABAHA FACILITIES

The Company acquired in the past short-term Murabaha facilities amounting to SR 1.95 billion (SR 1.74 billion as of September 30, 2011) granted from local commercial banks to finance the Company's working capital requirements. These facilities are secured against pledge 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 1.48 billion as of September 30, 2012 (SR 1 billion as at September 30, 2011). The Murabaha facilities charges are calculated on the basis of SIBOR plus an agreed margin.

The Company faced restrictions on its operational bank accounts effective August 25, 2012, until 15 October 2012 (see note 22).

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11. RELATED PARTIES TRANSACTIONS AND RESULTING BALANCES

Related party transactions mainly represent purchases of raw materials and services which are undertaken at mutually agreed terms and approved by management from the following entities:

Name of entity	Relationship
Mohammad al Mojil and partners supply & services Co.	Affiliate
Mohammad al Mojil and partners Travel & tourism agency Co.	Affiliate
Saudi National Development Training Institute Company	Subsidiary

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

	2012	2011
Purchases of material and projects supplies	**15.9**	39.7
Purchases of air tickets	**17.6**	13.4
Training fees	**0.3**	-

Due to related parties as of September 30, are comprised of the following:

	2012	2011
Mohammad al Mojil and partners supply & services Co.	**21**	31.9
Mohammad al Mojil and partners Travel & tourism agency Co.	**3.2**	1.4
Saudi National Development Training Institute Company	**0.3**	-
	24.5	33.3

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12. 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 nine vessels which will support the Company's offshore projects and operations. As at September 30, 2012, the company had drawn down a total amount of SR 168.9 million (SR 80 million as at September 30, 2011) through a Murabaha sale agreement, which is repayable in 23 equal quarterly instalments, commencing on March 31, 2011, and the last instalment will be due on September 30, 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 September 30, 2012, the outstanding balance amounted to SR 161 million (SR 77.6 million as at September 30, 2011).

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 September 30, 2012 amounted to SR 42 million (SR 42 million as at September 30, 2011) and is repayable in 12 equal quarterly instalments commencing March 31, 2012 and the last instalment will be due on December 30, 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 September 30, 2012, amounted to SR 50 million (September 30, 2011: nil) and is repayable in 15 equal monthly instalments commencing January 31, 2013 and the last instalment will be due on March 31, 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, all long-term portion has been reclassified as current liabilities as at September 30, 2012.

13. GENERAL AND ADMINSTRATIVE EXPENSES

	2012	**2011**
Employees' Salaries and related benefits	**53.8**	57.9
Professional and consultancy fees	**18.2**	3.3
Software's licenses and maintenance	**5.2**	1.9
Business trips and transportation	**3.4**	1.7
Stationary and Printing	**0.6**	0.9
Communication expenses	**0.5**	1.7
Other	**7.5**	3.1
	89.2	70.5

Expressed in Millions of Saudi Riyals

14. SHARE CAPITAL

The paid-up share capital of the company as of September 30, 2012, and September 30, 2011, amounted to SR 1.25 billion and is divided into 125 million shares of SR 10 each.

15. 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 December 17, 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 has already been presented and approved in the general assembly.

16. DIVIDENDS PAID

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 Halalahs for each outstanding share as at December 31, 2010. The board also recommended that a bonus to be paid for the members of the board of director amounting to SR 1 million for the year ending December 31, 2010. The General Assembly, in their meeting held on May 30, 2011, approved the Board of Directors' recommendations.

17. COMMITMENTS AND CONTINGENCIES

At September 30, the Company has the following contingencies:

	2012	2011
Letters of Credit	**281.9**	199.9
Letters of Guarantee	**923.3**	1,023

At September 30, 2012, the Company had future capital commitments amounting to SR 5.8 million. These capital expenditures are related to the purchase of machinery and equipment to support the Company's operations and projects.

18. LOSS/EARNINGS PER SHARE (LPS)/EPS

Losses/earnings per share for the period have been computed by dividing the net (loss)/ income for each period by the weighted-average number of ordinary shares outstanding during the periods ended September 30, 2012, and September 30, 2011, totalling to 125 million shares.

19. SEGMENT INFORMATION

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

20. 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. Accounts receivable balance and the retentions receivable from five major clients amounted to almost SR 308.7 million, which represent 85% from the total receivables as of September 30, 2012 (see note 9) . 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.

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 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.

21. COMPARATIVE FIGURES

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

22. SUBSEQUENT EVENTS

The Company faced restrictions on its operational bank accounts on August 25, 2012, and management have been in discussion and ongoing negotiations with its lenders to remedy the situation. On September 19, 2012, the banks provided written confirmation of ongoing support to the Company and the unfreezing of the Company's bank accounts, subject to a number of conditions which the Company have now complied with. The bank account was made available for use on 15 October 2012.

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 14 Dhu Al Hijja 1433H, corresponding to October 30, 2012.