

# 2007

Annual Report



جدوى للإستثمار  
Jadwa Investment

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



The Custodian of The Two Holy Mosques  
King Abdullah Bin Abdul Aziz Al-Saud



His Royal Highness Prince  
Sultan Bin Abdul Aziz Al-Saud  
Second Deputy Premier, Minister of Defense  
and Aviation and Inspector General

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A Saudi Closed Joint Stock Company,  
licensed by the Capital Market Authority,  
Capital SAR 500,000,000 Fully Paid  
Phone +966 1 279-1111 Fax +966 1 279-1571  
P.O. Box 60677, Riyadh 11555, Saudi Arabia

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## Chairman's Statement

Dear Shareholders,

Our first year of operations was an outstanding one for Jadwa Investment. In 2007 we launched innovative new products and services and executed a pioneer transaction, resulting in a highly profitable year. We founded Jadwa based on our confidence that we could pull together the right team to maximize the benefits of an economy with enduring strength and an enlightened economic and financial market liberalization program. In particular, the licensing of investment companies, backed by constructive support from the Capital Market Authority, has been a turning point in the development of financial services in the Kingdom. Efficient and innovative capital markets will be vital in putting the massive capital inflows into Saudi Arabia to work and we have positioned Jadwa to play a strong role in channeling these into investments that will generate good returns and help strengthen the economy and create jobs.

In its first year Jadwa showed that it is well placed to take advantage of these opportunities. We recruited 125 talented staff members to fill our 3,500 square meter head office and our four investment centers, which are located in the heart of our target market. Already, we have established ourselves as the leading investment company in the Kingdom. Our asset management team has built the sixth largest portfolio of assets under management of any financial institution in the Kingdom. In our first year it launched nine funds including the first multi-manager funds in the Kingdom, in partnership with Russell Investments, and the first global sukuk fund in the region. We broke new ground in our brokerage department by providing unique tailored services for high net worth clients in the Saudi market and services for all of the GCC markets and Egypt. Supporting all our business lines is research that leads the market in its influence and readership. Corporate finance took off in 2007, with the talented team executing mandates that made a large contribution to profitability.

Financial performance in 2007 was a reflection of our commitment to execute. In 2007 Jadwa's total revenues were SR262.1 million and net profit was SR104.3 million. This outstanding return represented not only core operating performance, but recovery of all start-up costs from the previous year. Return on equity was 21 percent and our return on total assets was 13 percent. As a result, shareholders' equity was raised from SR500 million to SR735 million at the end of 2007. Healthy contributions came from all business lines. Our robust financial position has continued to allow us to offer international-class remuneration packages in order to attract and retain the best talent from throughout the world, a key challenge in this growing and competitive market.

We will not settle on this stellar performance. Jadwa is striving to be a world-class Sharia-compliant investment house focused on Saudi Arabia and the GCC region, which we see as one of the most attractive areas for investment in the world. Our aim is to be the window for our Saudi clients to the best local and global investment opportunities and the entry point for top multinationals and foreign investors into the Saudi market. We have many exciting projects on the horizon and 2008 promises to be another exhilarating year for us at Jadwa.

Thank you,



Faisal Bin Salman Bin Abdulaziz Al-Saud  
Chairman of the Board of Directors

## The Board members



Adib Bin Abdulaziz Al-Zamil  
(Member)



HRH prince Faisal Bin Salman  
Bin Abdulaziz Al-Saud  
(Chairman of the Board of Directors)



Abdullah Bin Mohammed  
Al-Issa  
(Member)



Iqbal Ahmad Khan  
(Member)



Abdulaziz Bin Mohammed  
Al-Subeai  
(Member)



Abdulrahman Bin Ibrahim  
Al-Ruwaita  
(Member)



Ahmed Bin Aqeel Al-Khateeb  
(CEO & Managing Director)

SR 4.3 billion

## Company's Overview

### Corporate Finance

Corporate finance has had an extremely successful year, with revenue far exceeding budget. This was largely because of many deals including but not limited to our role in the landmark Luberef deal. The Luberef deal made Jadwa and our clients/partners Saudi Aramco's first ever local joint-venture partner and cemented our reputation as a leading player in the investment market.

The corporate finance strategy was approved by the board in March, and the department has since grown to a team of six professionals and one advisor. Jadwa's corporate finance strategy is focused on serving two needs in the Saudi Arabian market. First, supporting large industrial groups as they transition from tightly-held to broad-based ownership. Second, supporting sponsors of major projects, primarily in industrial sectors, in project advisory, project finance advisory, arranging, and refinancing.

In 2007, we exceeded our projected revenue target by 325 percent, delivering more than \$13 million. As a result of our strong performance, we have increased our 2008 revenue target by over 220 percent to \$20 million (meaning that we aspire to hit our 2009 target in 2008). This target does not include value associated with corporate finance originating opportunities for Jadwa to take principal equity positions, which we are confident will be significantly greater than our transaction fee revenues.

Our main priorities for 2008 are to keep delivering high-quality service to clients and to use our growing market reputation

to win mandates from the blue-chip deal opportunity pipeline that we have developed over the past year. Accomplishing these goals is dependent on building a high-quality team capable of attracting and executing the kind of deals we desire. In 2008, we aim to grow our team to sixteen professionals, focusing on enhancing our capabilities in debt capital markets (sukuk) and real estate.

### Brokerage

The brokerage department has made an encouraging start in difficult market conditions. In March, Jadwa became one of the first companies to be awarded Tadawul licenses to offer local share brokerage. Since then we executed deals worth SR 4 billion (\$ 1.06 billion), representing a 0.08 percent market share in 2007. During that period, we traded about 85 million shares in 52,000 deals. A total of 291 accounts that can trade through Jadwa online and through our central unit were opened.

Our client segment is principally local high net worth clients and institutions. In addition, we have attracted two major regional banks and one GCC company to deal in the Saudi stock market.

We have established direct relationships with top-tier banks and investment companies in each of the other GCC countries and Egypt and are working on offering brokerage services for the markets of Morocco, Jordan, Tunisia and Turkey. We are working on offering the major international markets and key emerging markets to clients. In addition, we are preparing to develop our south east Asia capabilities. International brokerage is

In only six months, we were able to attract SR 4.3 billion in assets under management. This achievement reflects the professionalism of our team and the quality products & services that we offer, which satisfied clients' needs and got their trust.

## Company's Overview (continued)

also working on offering Sharia-compliant products such as ETFs.

We offer to selected clients advisory services on a non-discretionary basis whereby we choose criteria based on research (both internal and third-party) and client appetite. Non-DPMs offer clients the flexibility to construct the portfolio of their choice with the ability to liquidate their holdings any time the markets are open. This service is unique and gives Jadwa an edge among the local investment companies. We will create many more portfolios in all markets in order to satisfy our clients.

### Asset Management

Since starting its operations in May, asset management has grown rapidly. By the end of 2007 we had the sixth largest assets under management of any financial institution in the Kingdom, at SR4.3 billion (\$1.14 billion). We have taken an innovative approach to product development, launching the region's first global sukuk fund and Saudi Arabia's first multi-manager funds in partnership with Russell Investments. In total, asset management manages five discretionary portfolios and nine funds including three regional equity funds, two Murabaha funds, the global sukuk fund, a close-end private equity fund, and two international multi-manager funds.

We have grown into a full-fledged unit comprised of 14 skilled and experienced professionals looking after portfolio management, conducting in-house research and developing new products. During 2008, asset management plans to launch more

than 10 new funds, structured products, and services with an objective of increasing its assets under management to approximately SR7.5-8 billion (\$1.8-2.1 billion). We aim to recruit up to five more professionals during 2008.

### Research

Jadwa's research department has established itself as the leading source of macroeconomic research and stock market strategy in the Kingdom. Reports have been published on the key issues for Saudi investors—inflation, the riyal, the sub-prime crisis, the budget and the stock market. These have been extensively covered in the media, generating widespread publicity for Jadwa and creating a reputation for insightful and timely comment.

Our burgeoning reputation means that the research department has become the first port of call for key businesspeople, foreign investors and diplomats interested in the Saudi economy and the markets. We have leveraged our knowledge to become very active in business development, by making speeches and presentations to key contacts and high-profile groups throughout the region.

All our reports are published simultaneously in English and Arabic. Soft copies are distributed to almost 2,000 clients, prospects and important contacts, while hard copies are placed in investment centers and used to support other promotional activity.

All our reports are put on the website, where they generate several thousand downloads per month.





We have developed thorough and analytically sound models as the basis for our equity research, which will be launched in early 2008. We have tested the products in a successful consultancy mandate with a top-tier corporate client. Preparations are in place to hit the market hard with a regular flow of clear and objective equity research; we aim to issue initial coverage reports on 25 companies during 2008.

This has been achieved in less than six months by a team of five people. Production of the departments reports and presentations is entirely self-contained and all the processes have been generated from scratch, with the department designing the suite of products, the look of the reports and responsible for all translation, desktop publishing and the management of the distribution lists.

### Business Development

Jadwa targets high net worth families and individuals, corporations and institutions. We have investment centers in the three main regions in the Kingdom, which together cover more than 70 percent of our target audience. The investment centers are the point of contact with our clients and the place where they can discuss their investment needs with more than 25 very highly skilled professional relationship managers. All four centers are equipped with small trading lounges for private clients furnished with newspapers, research, state-of-the-art news and data channels, dedicated areas for prayer and a special section for ladies. More than 300 clients have opened

accounts in less than six months. Very soon we will launch institutional and high net worth services.

### Information Technology

Information technology gives Jadwa a competitive advantage by basing its infrastructure on the best technology currently available. We have provided all the required services and supporting infrastructure for the launch of brokerage operations for eight markets (Saudi Arabia, UAE, Qatar, Bahrain, DIFX, Oman, Kuwait and Egypt). Jadwa's migration to the new Tadawul operating system (NewGen) was smoothly completed in October and we achieved excellent results in a Tadawul audit of the security of our IT trading system.

Over the past few months, IT has developed and implemented a number of projects. These include the Jadwa core system (including back office and trading system), Jadwa intranet, web-based MIS reporting system, asset management system (PORTIA), archiving system, SMS system with full integration with Saudi Telecom's SMS gateway, E-corp system, telephone billing and dispatching system, and changing configuration management.

Apart from the day-to-day activity of maintaining, fine tuning and serving all requests to support the business, we are currently working on several projects. The most important of these is a new system through which clients will be able to trade all GCC markets through one online platform. In addition, we are working on international trading, Oracle HR self

We at Jadwa addressed the most important and critical issues. During a very short period, Jadwa's research department issued 10 reports covering key macroeconomic and stock market issues in a clear and concise style. We have shown the flexibility to respond quickly to new events and make objective and timely recommendations. Our reports have a major impact on the markets and provide an important source of reference for businesses and policymakers.

## Company's Overview (continued)

services, IVR trading and the portal for our corporate website.

### Corporate Communications

Corporate communications has helped make Jadwa the leading brand among the new investment companies. In addition to the design of marketing materials, presentations and providing logistics, we launched three major advertisement campaigns: the global sukuk fund, the Russell-Jadwa multi-manger funds and the Luberef fund. We maintained our high profile through presence at major investment conferences within the Kingdom. As a part of Jadwa's corporate social responsibility we invited new university graduates to the head office to introduce them to Jadwa. We have developed a plan for the current year that includes assistance for the disabled and delivering educational lectures at the University of Prince Sultan and Yamama College about the capital markets, investment and the economy in general.

### Operations

The operations department maintains an essential role in supporting the business units. We are now performing all related back office activities for brokerage and all Jadwa DPMs and mutual funds, including subscriptions, redemptions, NAV calculations, valuations, settlements and reconciliations.

The operations team has reviewed the processes in the department and introduced a couple of modifications that have resulted in savings and new sources of revenue.

We were also able to generate additional revenue from exchange rate fluctuations. The operations team participated heavily in the testing of the NewGen system upgrade.

### Premises and Administration

Premises and administration has overseen the opening and maintenance of Jadwa's head office and its branches. After the successful inauguration of the head office premises on the third and fourth floors of the Sky Towers building in Riyadh, we executed Jadwa's expansion to the second floor and moved three departments accordingly. Luxury branches in Riyadh, Hofuf, Al-Khobar and Jeddah have also been opened. Our ongoing tasks include implementing contracts with hotels, car rental agencies, a travel agency, security services, stationers and Saudi Telecoms mobile services.

### Human Resources

HR assisted in the recruitment of 92 employees in 2007, raising our total number of staff to 125. In addition, we have implemented several important projects. The Oracle human resource management system (HRMS), which covers such areas as core HR administration, recruitment and payroll, has been fully executed. The business requirements for the second phased of the HRMS have been completed and implementation is under way.

A staff handbook has been developed and reviewed by the policy and procedure committee and is published on our internal Intranet. It includes vital information on areas such as policies, procedures, job



duties, working conditions, wages and other employee benefits. HR has also started coordinating training requirements for Jadwa staff with reputable organizations inside and outside of the Kingdom. After a review of the organizational structure we will be working on number of projects including grade structure and titling, revising job descriptions, and the performance appraisal system.

#### Legal Department

Legal department performed a vital role in supporting other departments. From June 2007 we provided all types of legal advice as per the requirements of different business units. This ensured that Jadwa's interests are well protected and in conformity with the regulations in a proper manner. We also provided the necessary advice during the formation of Jadwa Industrial Investment Company to ensure that its structure works in line with the legal requirements and disciplines of Luberef.

#### Corporate Secretary

In order to apply high corporate governance standards the corporate secretary provided advice on policies, processes and people to serve the needs of the shareholders and other stakeholders by directing and controlling management activities with business savvy, objectivity and integrity. We also liaised with Jadwa's key employees to ensure that all action items discussed in board meetings are given proper attention.

#### Compliance & AML

Last year was busy one for compliance and anti-money laundering unit. We reviewed the documentation for Jadwa's new founds and continued to ensure that Jadwa was always fully comply with Capital Market Authority rules and other relevant regulations. In addition, we handled compliance and anti-money laundering inquiries from various global and regional banks. During the year we started to develop the Jadwa generic compliance and the anti-money laundering program. All these are expected to be launched during 2008.

#### Finance

Finance department completed 2007 with a proud record. We delivered significant value to the business lines by providing expertise in investment structuring, advance accounting and Treasury operations. This included perfectly executing well over SR1.8 billion in foreign exchange transactions resulting in earnings that exceeded SR9 million, planning and executing a major bank settlement transaction and creating and maintaining a Saudi-based special purpose vehicle.

Jadwa has acquired ExxonMobil's 30% equity stake in Lube Oil refinery "Luberef" to become a partner with Saudi Aramco.

# Financial Statements and independent Auditor's Report

**Jadwa Investment** (SAUDI CLOSED JOINT STOCK COMPANY)

## Deloitte.

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### INDEPENDENT AUDITORS' REPORT

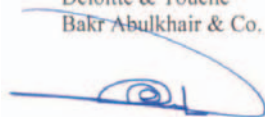
To the shareholders  
Jadwa Investment  
Riyadh, Saudi Arabia

We have audited the accompanying balance sheet of Jadwa Investment (Saudi closed joint stock company) (the "Company") as at December 31, 2007, and the related statements of income, changes in shareholders' equity and cash flows for the period from February 19, 2007 (date of commercial registration) to December 31, 2007, and notes 1 to 18 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 statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007, and the results of its operations and its cash flows for the period from February 19, 2007 (date of commercial registration) to December 31, 2007 in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the articles of associations of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Bakr A. Abulkhair  
License No. 101  
Muharram 26, 1429  
February 4, 2008



Audit, Tax, Consulting, Financial Advisory.

- 1 -

Member of  
Deloitte Touche Tohmatsu

## Balance Sheet As at December 31, 2007

	Notes	SR
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	4	26,040,796
Accounts receivable		78,783,683
Available for sale investments	5	58,544,284
Prepaid expenses and other assets	6	6,242,645
<b>Total current assets</b>		<b>169,611,408</b>
<b>Non-current assets</b>		
Property and equipment, net	8	51,799,412
Investment in associate	9	572,882,483
<b>Total non-current assets</b>		<b>624,681,895</b>
<b>TOTAL ASSETS</b>		<b>794,293,303</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accrued expenses and other liabilities	11	54,656,043
Zakat provision	10	2,795,327
<b>Total current liabilities</b>		<b>57,451,370</b>
<b>Non-current liabilities</b>		
End-of-service indemnities		1,516,930
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	1	500,000,000
Statutory reserve	12	10,431,264
Change in fair value of investments	5, 9	131,012,362
Retained earnings		93,881,377
<b>Total shareholders' equity</b>		<b>735,325,003</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>794,293,303</b>

The accompanying notes form an integral part of these financial statements

# Financial Statements and independent Auditor's Report (continued)

**Jadwa Investment** (SAUDI CLOSED JOINT STOCK COMPANY)

## Statement of Income

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

	Notes	SR
<b>REVENUES</b>		
Asset management		15,028,054
Corporate finance		36,932,592
Brokerage		3,850,779
Proprietary investment:		
- Share in net income of associate	9	176,347,384
- Commission income		15,799,873
- Realized gains from available for sale investments		14,131,076
<b>Total revenues</b>		<b>262,089,758</b>
<b>EXPENSES</b>		
Salaries and other benefits	13	(75,805,240)
Rent expenses		(5,113,661)
Depreciation	8	(14,277,446)
Pre-operating expenses	14	(33,025,420)
Other general and administrative expenses		(26,760,023)
<b>Total expenses</b>		<b>(154,981,790)</b>
<b>Income before zakat</b>		<b>107,107,968</b>
Zakat	10	(2,795,327)
<b>NET INCOME</b>		<b>104,312,641</b>
<b>Earnings per share</b>		<b>2.09</b>

The accompanying notes form an integral part of these financial statements

## Statement of Changes in Shareholders' Equity

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

	Notes	Share capital SR	Statutory reserve SR	Change in fair value of investments SR	Retained earnings SR	Total SR
Capital funding		500,000,000	-	-	-	500,000,000
Change in fair value of available for sale investments	5	-	-	14,444,284	-	14,444,284
Changes in fair value of investments held by associate	9	-	-	116,568,078	-	116,568,078
Net income		-	-	-	104,312,641	104,312,641
Transfer to statutory reserve	12	-	10,431,264	-	(10,431,264)	-
December 31, 2007		500,000,000	10,431,264	131,012,362	93,881,377	735,325,003

The accompanying notes form an integral part of these financial statements

# Financial Statements and independent Auditor's Report (continued)

**Jadwa Investment** (SAUDI CLOSED JOINT STOCK COMPANY)

## Statement of Cash Flows

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

	SR
<b>OPERATING ACTIVITIES</b>	
Income before zakat	107,107,968
Adjustments for:	
Share in net income of associate	(176,347,384)
Depreciation	14,277,446
Loss from write-off of property and equipment	4,431,844
End-of-service indemnities	1,516,930
Changes in assets and liabilities:	
Accounts receivable	(78,783,683)
Prepaid expenses and other assets	(6,242,645)
Accrued expenses and other liabilities	54,656,043
<b>Net cash used in operating activities</b>	<b>(79,383,481)</b>
<b>INVESTING ACTIVITIES</b>	
Property and equipment	(69,726,637)
Advances on acquisitions in process	(782,065)
Available for sale investments	(44,100,000)
Investment in associate	(279,967,021)
<b>Net cash used in investing activities</b>	<b>(394,575,723)</b>
<b>FINANCING ACTIVITIES</b>	
Capital contribution	500,000,000
<b>Net cash from financing activities</b>	<b>500,000,000</b>
<b>Net change in cash and cash equivalents</b>	<b>26,040,796</b>
Cash and cash equivalents, beginning of period	-
<b>Cash and cash equivalents, end of period</b>	<b>26,040,796</b>
<b>NON-CASH ITEMS:</b>	
Change in fair value of investments	131,012,362

The accompanying notes form an integral part of these financial statements



# Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

## 1. GENERAL

Jadwa Investment (the "Company") is a Saudi closed joint stock company established pursuant to Royal Decree Number M/30 and registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010228782 on 1 Safar 1428H corresponding to February 19, 2007.

The share capital of the Company, amounting to SR 500,000,000, is divided into 50,000,000 shares of SR 10 each.

The principal activities of the Company are trading as principal and agent, underwriting, establishment and management of mutual funds and portfolio management, arranging, providing advisory and safekeeping services for administrative arrangements and procedures relating to investment funds, portfolio management and trading as per license of the Capital Market Authority ("CMA") number 06034-37, dated 3 Shabaan 1427H corresponding to August 27, 2006.

## 2. FIRST FISCAL YEAR

As per the Company's articles of association, the Company's first fiscal year will commence on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, which was dated Safar 1, 1428 (corresponding to February 19, 2007), and will end on December 31, the following year, being December 31, 2008. In this connection, the Board of Directors decided to change the Company's first fiscal year ending date from December 31, 2008 to December 31, 2007. The Company is currently in the process of amending its articles of association with the Ministry of Commerce and Industry with respect to this change.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the Standard of General Presentation and Disclosure issued by the Ministry of Commerce and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

### Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

### Cash and cash equivalents

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

### Available for sale investments

Available for sale investments are stated at fair value, and unrealized gains and losses thereon are included in shareholders' equity. Where the fair value is not readily determinable, such financial instruments are stated at cost less allowance for impairment in value.

### Investment in associate

Associates are those entities in which the Company hold more than 20% but less than 50% in the share capital or otherwise can significantly influence the financial and operating policies. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or recoverable amount.

### Property and equipment

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

	Years
Computer hardware	4
Computer software	4
Furniture and fixtures	4
Office equipment	4
Motor vehicles	4
Leasehold improvements	7

# Financial Statements and independent Auditor's Report (continued)

## Jadwa Investment (SAUDI CLOSED JOINT STOCK COMPANY)

### Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

#### Pre-operating expenses

Pre-operating expenses comprise of underwriting fees, lawyers, administrators, consultants and accountants fees, various fees relating to registering the Company, advertising and promotion expenses relating to establishing the Company, costs of the share certificates and expenditure to obtain licenses, salaries, rental expenses and others.

#### Provisions for obligations

A provision is made when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### 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 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.

#### Revenue recognition

Revenue is recognized upon delivery of services to customers and is stated net of discounts. Dividends from investments are recognized when earned or publicly declared by the investee. Commission income is recognized on an accrual basis.

#### Zakat

The Company is subject to the Regulations of the Directorate 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 in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank current accounts and Murabaha contracts with original maturities less than three months from the acquisition date:

	December 31, 2007 SR
Bank current accounts	6,540,796
Murabaha contracts	19,500,000
	26,040,796

#### 5. AVAILABLE FOR SALE INVESTMENTS

Cost and fair value of available for sale investments as at December 31, 2007 are as follows:

	Cost SR	Change in fair value SR	Fair value SR
Jadwa Saudi Equity Fund	9,700,000	5,954,549	15,654,549
Jadwa GCC Equity Fund	9,700,000	4,084,466	13,784,466
Jadwa Arab Markets Equity Fund	9,700,000	4,092,061	13,792,061
Jadwa SR Murabaha Fund	7,500,000	148,343	7,648,343
Jadwa USD Murabaha Fund	7,500,000	164,865	7,664,865
	44,100,000	14,444,284	58,544,284

The change in fair value of available for sale investments amounting to SR 14,444,284 is included in shareholders' equity as at December 31, 2007.

## Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

### 6. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2007 SR
Loans to employees	2,700,000
Prepaid rent	2,008,217
Prepaid software maintenance	830,776
Others	703,652
	<hr/> 6,242,645 <hr/>

### 7. RELATED PARTY TRANSACTIONS

The significant transactions with related parties and the related amounts are as follows:

	Period from February 19, 2007 December 31, 2007 SR
Corporate finance income from partners in an associate	36,499,565
Brokerage income from shareholders	2,361,978
Rent paid to a company owned by a shareholder	1,256,015
Compensation and attendance allowances paid to board members	138,127

Accounts receivable from related parties as at December 31, 2007 consist of the following:

	SR
Prepaid rent to a company owned by a shareholder	584,174

Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

8. PROPERTY AND EQUIPMENT, NET

	Computer hardware SR	Computer software SR	Furniture and fixtures SR	Office equipment SR	Motor vehicles SR	Leasehold improvements SR	Total SR
<b>COST</b>							
February 19, 2007	-	-	-	-	-	-	-
Additions	31,299,885	10,974,909	10,956,090	4,783,316	47,500	11,664,937	69,726,637
Write-off	(5,598,119)	-	-	-	-	-	(5,598,119)
December 31, 2007	25,701,766	10,974,909	10,956,090	4,783,316	47,500	11,664,937	64,128,518
<b>DEPRECIATION</b>							
February 19, 2007	-	-	-	-	-	-	-
Charges for period	7,786,686	2,739,599	1,685,253	1,165,836	11,875	888,197	14,277,446
Write-off	(1,166,275)	-	-	-	-	-	(1,166,275)
December 31, 2007	6,620,411	2,739,599	1,685,253	1,165,836	11,875	888,197	13,111,171
<b>NET BOOK VALUE</b>							
December 31, 2007	19,081,355	8,235,310	9,270,837	3,617,480	35,625	10,776,740	51,017,347
Advances on acquisitions in process	-	-	782,065	-	-	-	782,065
<b>Total</b>	<b>19,081,355</b>	<b>8,235,310</b>	<b>10,052,902</b>	<b>3,617,480</b>	<b>35,625</b>	<b>10,776,740</b>	<b>51,799,412</b>

During the fourth quarter of 2007, the Company wrote-off portion of the telecommunications equipment with technical capacity exceeding the Company's needs, for an initial cost of SR 5,598,119 and net book value of SR 4,431,844.

9. INVESTMENT IN ASSOCIATE

	Ownership %	Addition SR	Disposal SR	Share in income SR	Changes in fair value SR	Ending balance SR
Jadwa Industrial Investment Company ("JIIC")	33	279,967,021	-	176,347,384	116,568,078	572,882,483

The investment of the Company in JIIC consists mainly of an equity holding of 33% in the share capital of SR 500,000 and a non-commission earning long-term loan of SR 279,302,728. The change in fair value of investments held by the associate amounting to SR 116,568,078 is included in the shareholders' equity as at December 31, 2007.

## Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

### 10. ZAKAT

The principal elements of the zakat base are as follows:

	December 31, 2007 SR
Share capital	500,000,000
Investment in associate	(279,967,021)
Property and equipment	(62,707,384)
Adjusted net loss	(45,512,497)
Zakat base	<u>111,813,098</u>

The movement in the zakat provision is as follows:

	December 31, 2007 SR
February 19, 2007	-
Provision for the period	2,795,327
Payment during the period	-
	<u>2,795,327</u>

### 11. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2007 SR
Accrued employees salaries and related benefits	38,271,629
Suppliers of fixed assets	10,984,695
Others liabilities and provisions	5,399,719
	<u>54,656,043</u>

### 12. STATUTORY RESERVE

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

### 13. SALARIES AND RELATED CHARGES

	SR
Discretionary performance bonuses	38,602,200
Basic salaries	21,684,033
Housing allowances	5,419,692
Transportation allowances	2,968,188
Insurance expenses	2,497,766
End of service indemnities	1,516,930
Others	3,116,431
	<u>75,805,240</u>

# Financial Statements and independent Auditor's Report (continued)

**Jadwa Investment** (SAUDI CLOSED JOINT STOCK COMPANY)

## Notes to the Financial Statements

For the period from February 19, 2007 (Date of Commercial Registration) to December 31, 2007

### 14. PRE-OPERATING EXPENSES

The pre-operating expenses amounting to approximately SR 33 million were approved by the shareholders' constituent general assembly held on Muharram 24, 1428 H (corresponding to February 12, 2007).

### 15. COMMITMENTS

At December 31, 2007, the Company had an outstanding commitment in the form of a letter of guarantee with respect to its share of investment in associate amounting to SR 330 million.

### 16. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's financial assets and liabilities, except investment in associate and available for sale investments, approximate their carrying amounts.

### 17. RISK MANAGEMENT

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at bank, investments and other receivables. The Company's cash equivalents and investments are placed with banks and third parties of repute and hence the credit risk is limited. The credit risk with respect to other receivables is limited as the total amount receivable is spread over a number of accounts.

#### Foreign exchange risk

Currency risk is the risk that the value of a financial investment will fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Riyals.

#### Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair value of financial instruments. The Company is not exposed to any significant commission rate risk.

#### Liquidity risk

Liquidity risk is the risk that arises from the difficulty of selling an asset in a timely manner and quickly enough to prevent or minimize a loss. Liquidity risk is closely monitored by performing regular review of available funds and present and future commitments.

### 18. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the board of directors on February 4, 2008.