

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AND REVIEW REPORT
THREE- MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2014**

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

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REVIEW REPORT

To the Shareholders of Saudi Cable Company
(A Saudi Joint Stock Company)
Jeddah, Saudi Arabia

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Cable Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (the "Group") as of June 30, 2014 and the related interim consolidated statements of operations for the three-month and six-month periods ended June 30, 2014, and the interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended, and notes 1 to 14 which form an integral part of these interim consolidated financial statements as prepared by the Group and presented to us with all necessary information and explanations. These interim consolidated financial statements are the responsibility of the Group's management.

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

Observations

- i) The Group incurred a net loss of SR 91.69 million for the six-month period ended June 30, 2014 and, as of that date the Group's current liabilities exceeded its current assets by SR 477.16 million. The management prepared forecasts that predict profitable results in 2015 financial year and onwards, which is dependent on restructuring of loans and growing the business. The restructuring of loans has not yet been finalized up to date of this review report. The accompanying unaudited interim consolidated financial statements do not include any adjustments that may arise from the possible impairment of non-current assets.
- ii) The Group recognized goodwill of SR 86.56 million when it acquired 79% the share capital of Elimsan Salt Cihazlari ve ("the Subsidiary") in 2009. Since acquisition, the Subsidiary has been incurring losses at the operating and net results level. The past performance of the Subsidiary indicates uncertainty regarding the realization of goodwill. The accompanying unaudited interim consolidated financial statements do not include any adjustments that may arise from the possible impairment of goodwill.

REVIEW REPORT (continued)

To the Shareholders of Saudi Cable Company
(A Saudi Joint Stock Company)
Jeddah, Saudi Arabia

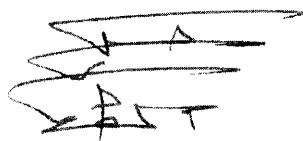
Review results

Based on our review, except for the effect of the observation paragraphs mentioned above, we are not aware of any material modifications that should be made to the interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Emphasis of matter

The accompanying interim consolidated financial statements have been prepared on a going concern basis. The Group incurred a net loss of SR 91.69 million for the six-month period ended June 30, 2014 and, as of that date, the Group's current liabilities exceeded its current assets by SR 477.16 million, breached its loan covenants and is in the process of restructuring its bank loans. These conditions indicate the existence of an uncertainty that may cast doubt about the Group's ability to continue as a going concern. The management has disclosed the facts in note 11.

Deloitte & Touche
Bakr Abulkhair & Co.



Al-Mutahhar Y. Hamiduddin
Certified Public Accountant
License No. 296

19 Ramadhan, 1435
July 17, 2014

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS OF JUNE 30, 2014

(Expressed in thousand Saudi Riyals unless otherwise stated)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents		47,233	90,447
Accounts receivable		719,021	880,725
Prepayments and other receivables		124,716	206,111
Due from related parties		1,841	1,228
Unbilled revenue		36,439	170,053
Inventories		452,652	571,143
Total current assets		1,381,902	1,919,707
Non-current assets			
Investments		409,178	360,515
Property, plant and equipment		795,331	859,545
Investment properties		31,818	32,781
Deferred tax asset		2,038	9,429
Other intangible assets		71,140	55,590
Goodwill	4	86,558	86,558
Total non-current assets		1,396,063	1,404,418
TOTAL ASSETS		2,777,965	3,324,125
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term loans		885,884	1,171,302
Current portion of long-term loans		161,676	148,842
Current obligation under finance lease		5,119	2,947
Accounts payable and accruals		571,088	554,678
Zakat and income tax		57,536	49,354
Advances from customers		143,248	215,472
Due to related parties		34,514	42,476
Total current liabilities		1,859,065	2,185,071
Non-current liabilities			
Obligation under finance lease		40,534	8,826
Long term loans		199,504	332,413
Employees' termination benefits		60,980	61,457
Other long term liabilities	5	46,502	64,121
Total non-current liabilities		347,520	466,817
Equity			
Share capital	6	760,000	760,000
Statutory reserve	7	63,432	63,432
Cumulative changes in fair values	8	11,511	(77,622)
Foreign currency translation reserve		(7,185)	-
Accumulated losses		(257,345)	(83,695)
Equity attributable to the shareholders of the parent		570,413	662,115
Non-controlling interest		967	10,122
Total equity		571,380	672,237
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,777,965	3,324,125

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

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
(Expressed in thousand Saudi Riyals unless otherwise stated)

	Note	Three-month period ended June 30		Six-month period ended June 30	
		2014	2013	2014	2013
Sales		422,341	522,870	807,406	1,098,928
Contract revenue		20,445	75,546	85,692	169,368
Total revenue		442,786	598,416	893,098	1,268,296
Cost of sales		(412,212)	(514,234)	(792,314)	(1,048,553)
Contract cost		(21,375)	(65,677)	(83,484)	(155,116)
		(433,587)	(579,911)	(875,798)	(1,203,669)
Gross profit		9,199	18,505	17,300	64,627
General and administrative expenses		(26,573)	(37,237)	(49,681)	(58,603)
Selling and distribution expenses		(15,093)	(25,146)	(30,947)	(38,190)
Provision for doubtful debts		(4,410)	(78,934)	(8,994)	(87,673)
Amortization of other intangible assets		(4,945)	95	(9,993)	(3,591)
Loss from main operations		(41,822)	(122,717)	(82,315)	(123,430)
Fair value of derivative financial instruments		2,357	-	6,715	-
Foreign currency measurement (loss)/gain		(1,006)	2,384	(2,798)	3,168
Financial charges		(31,531)	(34,161)	(66,211)	(69,664)
Equity share of profit from associates		23,654	26,682	51,359	49,004
Other (loss)/income		(190)	(612)	6,101	(1,362)
Net loss before zakat and income tax and non-controlling interest		(48,538)	(128,424)	(87,149)	(142,284)
Zakat and income tax		(3,840)	(4,248)	(8,041)	(8,047)
Net loss before non-controlling interest		(52,378)	(132,672)	(95,190)	(150,331)
Non-controlling interest		1,811	922	3,498	3,172
Net loss for the period		(50,567)	(131,750)	(91,692)	(147,159)
Loss per share from net loss (SR)	9	(0.67)	(1.73)	(1.21)	(1.94)
Loss from main operations (SR)	9	(0.55)	(1.61)	(1.08)	(1.62)
Loss per share from other operations (SR)	9	(0.09)	(0.08)	(0.06)	(0.25)

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

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

SIX-MONTH PERIOD ENDED JUNE 30, 2014

(Expressed in thousand Saudi Riyals unless otherwise stated)

	Note	Six-month period ended June 30	
		2014	2013
Shareholders' equity			
Share capital	6	<u>760,000</u>	<u>760,000</u>
Statutory reserve:			
January 1 and June 30	7	<u>63,432</u>	<u>63,432</u>
Cumulative changes in fair values			
January 1		23,087	28,188
Fair value adjustments		(11,576)	(105,810)
June 30	8	<u>11,511</u>	<u>(77,622)</u>
Foreign currency translation reserve			
January 1 and June 30		<u>(7,185)</u>	<u>-</u>
(Accumulated losses)/Retained earnings:			
January 1		(165,653)	63,464
Net loss for the period		(91,692)	(147,159)
June 30		<u>(257,345)</u>	<u>(83,695)</u>
Total shareholders' equity of the parent company		<u>570,413</u>	<u>662,115</u>
Non-controlling interest			
January 1		4,469	13,283
Net movement during the period		(4)	11
Net loss for the period attributable to non-controlling interest		(3,498)	(3,172)
June 30		<u>967</u>	<u>10,122</u>
Total shareholders' equity		<u>571,380</u>	<u>672,237</u>

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

SAUDI CABLE COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
SIX-MONTH PERIOD ENDED JUNE 30, 2014

(Expressed in thousand Saudi Riyals unless otherwise stated)

	Six-month period ended June 30	
	2014	2013
OPERATING ACTIVITIES		
Net loss before zakat and income tax and non-controlling interest	(87,149)	(142,284)
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	39,241	39,962
Provision for doubtful debts	8,994	87,673
Allowance for slow moving inventories	14,503	9,329
Amortization of other intangible assets	9,993	3,591
Provision against investment	(11)	2,324
Equity share of profit from associates	(51,359)	(49,004)
Employees' termination benefits, net	2,322	809
Finance charges	66,211	69,664
Changes in operating assets and liabilities:		
Accounts receivable	19,614	51,754
Prepayments and other receivables	21,528	43,710
Due from related parties	(1,757)	1,303
Unbilled revenue	158,601	7,308
Inventories	53,315	206,492
Accounts payable and accruals	(108,480)	(101,877)
Advances from customers	1,564	43,500
Due to related parties	(20,522)	8,952
Cash from operations	126,608	283,206
Zakat and income tax paid	(1,862)	(980)
Financial charges paid	(45,380)	(69,664)
Net cash from operating activities	79,366	212,562
INVESTING ACTIVITIES		
Additions to property, plant and equipment, net	(8,558)	(12,527)
Dividends received from an associate	87,167	9,320
Purchase of other intangible assets	(2,476)	(2,020)
Net cash from/(used in) investing activities	76,133	(5,227)
FINANCING ACTIVITIES		
Short term loans	(199,124)	(67,304)
Long term loans	(20,112)	(166,256)
Obligation under finance lease	(4,616)	(7,874)
Other long term liabilities	(6,443)	(7,833)
Net cash used in financing activities	(230,295)	(249,267)
Net change in cash and cash equivalents	(74,796)	(41,932)
Cash and cash equivalents, January 1	122,029	132,379
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	47,233	90,447

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

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
(Expressed in thousand Saudi Riyals unless otherwise stated)

1. GENERAL INFORMATION

Saudi Cable Company (“the Company”) is a Saudi joint stock company registered in Saudi Arabia under Commercial Registration No. 4030009931 dated 27 Rabi Thani, 1396H, corresponding to April 27, 1976.

The objectives of the Company are the manufacture and supply of electrical and telecommunication cables, copper rod, PVC compounds, wooden reels and related products. The Company through its subsidiaries is also engaged in the manufacture, contracting, trading, distribution and supply of cables, electronic products, information technology products and related accessories.

The accompanying interim consolidated financial statements include the accounts of the following subsidiaries (collectively referred to as “the Group”):

Name of entity	Principal activities	Country of incorporation	% of ownership	
			2014	2013
Domestic				
Saudi Cable Company for Marketing Limited	Purchase and sale of electrical cables and related products	Saudi Arabia	100%	100%
Mass Projects for Power and Telecommunications Limited	Turnkey power and telecommunication projects	Saudi Arabia	100%	100%
Mass Centers for Distribution of Electrical Products Limited	Electrical and telecommunication distribution services	Saudi Arabia	100%	100%
International				
Mass Kablo Yatirim Ve Ticaret Anonim Anonim Sirketi)	Sirketi (Previously Mass Holding Holding Company)	Turkey	100%	100%
Demirer Kablo Tesisleri Sanayi Ve Ticaret Anonim Sirketi	Manufacture, supply and trading of electrical cables	Turkey	100%	100%
Mass International Trading Company Limited (dormant)	International trade	Ireland	100%	100%
Saudi Cable Company (U.A.E) L.L.C.	Sale of cables and related products	United Arab Emirates	100%	100%
Elimsan Salt Cihazlari ye Elektromekanik San ve Tic. A.S.	Manufacture and distribution of electronic gears and goods	Turkey	79%	79%
Elimsan Metalurji ve Makine San. Ve Tic. A.S.	Manufacture and distribution of electronic gears and goods	Turkey	79%	79%

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(Expressed in thousand Saudi Riyals unless otherwise stated)

- a) The Group has the following investments in associates, which are accounted for on equity basis as at June 30:

Name of entity	Principal field of activities	Country of incorporation	% of ownership	
			2014	2013
Midal Cables W.L.L.	Conductors & related products	Bahrain	50%	50%
XECA International Information Technology	Implementation of information systems and network services	Saudi Arabia	25%	25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the interim accounting standard issued by the Saudi Organization for Certified Public Accountants. These interim consolidated financial statements have been prepared according to the accounting standards annually adopted by the Company in preparing the annual consolidated financial statements. The following is a summary of significant accounting policies applied by the Group and should be read in conjunction with the Group's audited consolidated financial statements for the year ended December 31, 2013.

Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date of the interim consolidated financial statements in addition to the reported amounts of revenues and expenses during that period. Although these estimates are based on management's best knowledge of current events and activities available with the management actual result ultimately may differ from those estimates.

Basis of preparation

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

Interim consolidated financial statements

The interim consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions among the Company and its subsidiaries are eliminated in the consolidation.

Sales

Sales are recognized upon delivery of goods and customer acceptance and are stated net of trade or quantity discounts.

Contract Revenue

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. The percentage of completion is then applied to the total contract value to determine the revenue earned to date. 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. Revenue recognized in excess of amounts billed to customers are classified under current assets as unbilled revenue. Amounts billed to customers in excess of revenue recognized are classified under current liabilities as billings in excess of revenue.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Company's products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or contract cost as required under accounting principles generally accepted in the Kingdom of Saudi Arabia.

Allocations between general and administrative expenses, cost of sales and contract cost, when required, are made on a consistent basis

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of finished goods includes cost of materials, labour and an appropriate proportion of direct overheads. Other inventories are valued on a weighted average cost basis. An allowance is made wherever necessary for obsolete, slowing-moving and defective stock.

Net realizable value represents the estimated selling price for the inventories less costs necessary to make the sale.

Investment in subsidiaries

Investments in subsidiaries which are more than 50% owned and in which the Group exercises control are consolidated based on the financial statements of the respective subsidiaries in the interim consolidated financial statements of the Group.

Intercompany transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of all investments and financial instruments is reduced to recognize other than temporary diminution in value.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
(Expressed in thousand Saudi Riyals unless otherwise stated)

Investment in associates

Investments in companies which are at least 20% owned and in which the Group exercises significant influence are recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition change in the Group's share of the net assets of the investee. These are referred to as associates. The Group's share in the associates' net income for the year is included in the consolidated statement of operations. Dividends are recorded when the right to receive the dividend is established.

Investments available-for-sale

Investments in financial instruments are classified according to the Group's intent with respect to those securities. Financial instruments available-for-sale ("AFS") are stated at fair value, and unrealized gains and losses thereon are included in interim consolidated statement of shareholders' equity. Where the fair value is not readily determinable, such financial instruments are stated at cost. The carrying amount of investment in financial instruments is reduced to recognize other than temporary diminution in value.

Income from investments in financial instruments is recognized when dividends are declared.

Property plant 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 rates of depreciation of the principal classes of assets are as follows:

	Number of years
Buildings	15 - 50
Plant and machinery	4 - 20
Furniture and fixtures	4 - 10

Capital work-in-progress

Capital work-in-progress represents all costs relating directly and indirectly to the projects in progress and is capitalized as property and equipment when the project is completed.

Goodwill

The goodwill represents the excess of the investment over the Group's share in the value of the net assets of the investee Company at the date of acquisition and is stated at cost less any impairment, if any. Goodwill is not amortized but is reviewed for impairment at least annually.

Impairment of goodwill

For the purpose of impairment testing, goodwill is allocated to each of the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment amount is allocated first to reduce the carrying amount of the any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
(Expressed in thousand Saudi Riyals unless otherwise stated)

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Derivative financial instruments

The Group uses derivative financial instruments such as metal futures that are cash settled to hedge the exposure against metal price changes risk on sale of goods.

Derivative financial instruments are initially recognized at fair value and subsequently re-measured at fair value. Derivatives are recognized as a financial asset if it has a positive fair value and as a financial liability if has a negative fair value.

The gain or loss on re-measurement to fair value is recognized immediately in the interim consolidated statement of operations. However, where derivatives qualify for hedge accounting, recognition of any resulting gain or loss depends on the nature of the item being hedged.

The derivative instruments used by the Group are designated as cash flow hedges of the risks being hedged. The use of financial derivatives is governed by the Group's policies which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of forecast transactions are recognized directly in interim consolidated statement of shareholders' equity. If the cash flow hedge results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses on the derivative that had been recognized in interim consolidated statement of shareholders' equity are included in the initial measurement of the asset or liability.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the interim consolidated statement of operations as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the interim consolidated statement of operations for the period.

Impairment of non-current assets

At each balance sheet date, the Group assesses whether there are any indications, whether internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of an asset is the higher of its value in use and fair value less cost to sell.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Group compares the non-current asset's carrying amount with the non-discounted estimated cash flow from the asset's use. If the carrying amount exceeds the non-discounted cash flow from the asset, the Group estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

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THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
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An impairment loss is recognized immediately in the interim consolidated statement of operations. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized immediately in the interim consolidated statement of operations. Impairment loss relating to intangible assets with indefinite lives is not reversed in a subsequent period. A reversal of an impairment loss to intangible assets with identified useful life of recognized immediately in the interim consolidated statement of operations.

Financial assets and financial liabilities

Financial assets comprise of cash and cash equivalents, accounts receivable, unbilled revenue and due from related parties. These financial assets are initially measured as fair value and thereafter at their cost value as reduced by appropriate allowance for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include loans, due to banks, accounts payable and due to related parties and are stated at their fair value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Certain categories of financial assets, such as accounts receivable, that are assessed not to be impaired individually are subsequently assessed for impairment on an individual basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced through the loss resulting from the impairment immediately for all the financial assets except for the accounts receivable as they are not considered recoverable it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the interim consolidated statement of operations. Changes in the carrying amount of the allowance account are recognized in the interim consolidated statement of operations

Zakat and income tax

The Group 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 accrual basis. The Zakat charge is computed on the Zakat base. Any differences in the estimate is recorded when the final assessment is approved at which time the accrual is cleared.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to interim consolidated statement of operations.

End-of-service indemnities

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

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014
(Expressed in thousand Saudi Riyals unless otherwise stated)

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 interim consolidated statement of operations.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the interim consolidated balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

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.

Assets held under capital leases are recognized as assets of the Group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease.

Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the statement of operations over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

3. INTERIM FINANCIAL RESULTS

The interim consolidated financial statements for the three-month and six-month periods ended June 30, 2014 have been prepared in accordance with SOCPA's Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The accompanying interim consolidated financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fair statements of financial position, results of operations and cash flows. The interim consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended December 31, 2013.

4. GOODWILL

On July 31, 2009, the Group acquired 79% of the issued share capital of Elimsan Salt Cihazlari ye Elektromekanik San ve Tic. A.S.(group of companies) for consideration of SR 128,336 thousand.

The acquisition was accounted for using the purchase method of accounting. The purchase consideration in excess of the fair value of the net assets acquired, which amounted to Saudi Riyals 86,558 thousand, has been accounted for as goodwill in these interim consolidated financial statements.

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5. OTHER LONG TERM LIABILITIES

Other long term liabilities include SR 36,381 thousand (2013: SR 38,810 thousand) payable to previous shareholders of in relation to an acquisition of Elimsan Salt Cihazlari ve Elektromekanik San ve Tic. A.S.

6. SHARE CAPITAL

The share capital consists of 76,000,000 shares of Saudi Riyals 10 each as at June 30, 2014 and June 30, 2013.

7. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company.

8. CUMULATIVE CHANGES IN FAIR VALUES

Movement in cumulative changes in fair values is as follows as of June 30:

	<u>2014</u>	<u>2013</u>
January 1	23,087	28,188
Net movement in unrealized gain/(losses) on available-for-sale investments	305	(225)
Net movement in unrealized losses relating to cash flow hedges	<u>(11,881)</u>	<u>(105,585)</u>
June 30	<u><u>11,511</u></u>	<u><u>(77,622)</u></u>

The balance of cumulative changes in fair values is comprised of the following as at June 30:

	<u>2014</u>	<u>2013</u>
Net unrealized gains on revaluation of investments	1,207	268
Net unrealized gains relating to cash flow hedges	<u>10,304</u>	<u>(77,890)</u>
June 30	<u><u>11,511</u></u>	<u><u>(77,622)</u></u>

9. LOSS PER SHARE

Loss per share for the three-month and six-month periods ended June 30, 2014 and 2013 have been computed by dividing the net loss, loss from main operations and loss per share from other operations for such periods by the number of shares outstanding at the end of the period.

10. SEGMENTAL INFORMATION

Segment information pertains to the Group's activities and operations as basis for preparing its own financial information.

The Group currently operates in manufacturing and selling its products and turnkey power and telecommunication projects.

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Revenues and costs for the six-month period ended June 30:

Revenue	Sale of goods		Contract revenue	
	2014	2013	2014	2013
Kingdom of Saudi Arabia	515,280	832,975	85,692	158,342
Other Gulf Cooperation Council countries	27,707	31,782	-	-
Turkey	264,419	234,171	-	10,483
	807,406	1,098,928	85,692	168,825

Cost	Cost of sales		Contract cost	
	2014	2013	2014	2013
Kingdom of Saudi Arabia	504,517	787,493	83,484	147,712
Other Gulf Cooperation Council countries	25,745	29,523	-	-
Turkey	262,052	231,537	-	7,404
	792,314	1,048,553	83,484	155,116

The Group's operations are conducted in Saudi Arabia, GCC countries and Turkey. Selected financial information for the six-month period ended June 30, and financial position as of June 30, 2014 and 2013, summarized by geographic area, is as follows:

	Saudi Arabia	GCC countries	Turkey	Total
2014 (Unaudited)				
Accounts receivable	584,142	12,358	122,521	719,021
Property, plant and equipment, net	418,197	217	376,917	795,331
Short term loans	647,666	-	238,218	885,884
Long term loans	315,068	-	46,112	361,180
Net loss	51,559	382	39,751	91,692
2013 (Unaudited)				
Accounts receivable	777,518	16,208	86,999	880,725
Property, plant and equipment, net	466,524	398	392,623	859,545
Short term loans	921,653	-	249,649	1,171,302
Long term loans	361,722	-	119,533	481,255
Net loss	117,968	294	28,897	147,159

11. FINANCIAL RESTRUCTURING

The Group has engaged internationally renowned institutions of financial advisors, to restructure the financial requirements for the Group. A comprehensive plan proposing a long term feasible financial structure for the group with additional working capital financing, including a capital increase, which will help stabilize, and strengthen the on-going operations, has been presented to its lenders. The Group has worked closely with its lenders and advisors, and expects to finalize the restructuring plan during 2014.

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12. NON-CASH TRANSACTIONS

Non-cash transactions comprised the following:

	<u>2014</u>	<u>2013</u>
Cumulative changes in fair values	11,576	105,585
Movement in non-controlling interest, net	3,502	3,161

13. COMMITMENTS AND CONTINGENCIES

	<u>2014</u>	<u>2013</u>
Outstanding forward metal contracts	527,132	643,112
Contingent liabilities in respect of performance and bid bonds	194,270	568,940
Authorized and contracted for capital expenditure commitments	-	2,810
Contingent liabilities in respect of outstanding letters of credit	221	29,982
Corporate guarantees issued	67,541	-

In addition to providing guarantees in respect of bank facilities available to certain subsidiaries, the parent company has also provided undertakings to support such subsidiaries in meeting their liabilities as they fall due.

14. COMPARATIVE FIGURES

Certain figures for 2013 have been reclassified to conform with the presentation of 2014.