

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

For the three-months period and year ended December 31, 2015



KPMG Al Fozan & Partners

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**REVIEW REPORT ON THE INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Shareholders
Saudi Cable Company
(A Saudi Joint Stock Company)
Jeddah, kingdom of 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 at December 31, 2015, the related interim consolidated statement of income for three -months period and the year then ended, the interim consolidated statements of cash flows and changes in equity for the year then ended and the attached notes 1 to 17 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the 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 information 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 as a whole. Accordingly, we do not express such an opinion.

Observations resulting in qualified review conclusion

- i) During the year ended December 31, 2015, the Group's net profit amounted to SR 1.69 million (December 31, 2014: net loss of SR 201.68 million). However, as at the balance sheet date, its current liabilities exceeded current assets by SR 693.39 million (December 31, 2014: SR 845.08 million) and accumulated losses have reached to SR 365.64 million (December 31, 2014: SR 367.33 million), representing 48.11% (December 31, 2014: 48.33%) of the parent Company's share capital. These circumstances indicate the existence of material uncertainties that may cast doubt about the Group's ability to continue as a going concern. Nevertheless, based on a comprehensive plan, management believes the operations shall continue and be profitable, in the foreseeable future, subject to the successful restructuring of part of the Group's total debt amounting to approximately SR 1.10 billion and certain changes in business operations.

In view of management intentions of restructuring the debt obligations; on April 7, 2015 the Company has been able to secure agreement on the "Indicative Restructuring Terms" with a consortium of three banks, for debt amounting to SR 640 million. The conclusion of this restructuring will provide joint lenders, certain additional securities and rights on some of the Group's assets and will permit the Company to extend term of the loan up to eight years. As at December 31, 2015, the relevant agreements are being formulated and reviewed by the lenders' legal counsel.



The Company is also progressing towards restructuring another overdue loan amounting to SR 77 million from an independent bank and a SR 112.96 million from a Development Financial Institution (“DFI”), that have respectively agreed to revise their terms, and tenure in line with the consortium restructuring.

The Company is in the process of fulfilling revised restructuring requirements with the consortium of banks and expects the restructuring agreement to be signed, along with the legal documentation for restructuring arrangement with an independent bank and DFI, by January 31, 2016.

As mentioned in the preceding paragraphs, whilst the Company has been able to secure initial restructuring terms with some of the financiers, the outcome of the restructuring is still uncertain and dependent on fulfilling additional requirements and reaching to formal loan agreements. The validity of going concern assumption for these interim condensed consolidated financial statements depends on successful restructuring of the business and said debt obligations. Consequently management’s forecasts and the operational plans do not include any adjustments that might result from a failure to finalize the implementation of above negotiations with banks and financial institutions. Accordingly, the notes to interim condensed consolidated financial statements do not sufficiently disclose the details of above restructuring plan and its potential implications on Group’s financial position.

- ii) We were unable to obtain sufficient evidence in respect of:
- the recoverability of unbilled revenues of SR 45.26 million (December 31, 2014: 50.40 million) that is overdue for more than one year;
 - the reversal of financial charges accrued in the current and prior periods of SR 62 million (December 31, 2014: NIL) based on an understanding with the lenders, that would be formalized as part of restructuring agreement;
 - the basis of reversal of provision for doubtful receivables amounting to SR 40 million (2014: SR Nil) and
 - the commercial and financial feasibility of development cost amounting to SR 65.7 million (December 31, 2014: SR 67.3 million), which has been included under intangible assets.

Consequently, we were unable to determine whether any adjustment to these balances is necessary which may impact the assets and equity and net profit / (loss) for the period included in the interim consolidated balance sheet and interim consolidated statement of income, respectively.

Qualified review conclusion

Based on our review, except for the effects of matters described in the 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.

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Rabi Al Thani 11, 1437H
Corresponding to January 21, 2016

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

As at December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2015 (Unaudited)	December 31, 2014 (Audited)
<u>ASSETS</u>			
Current assets:			
Cash and Bank balances	5	60,107	61,951
Trade receivable		533,568	357,065
Unbilled revenue	6	64,322	77,081
Inventories		333,677	418,878
Retentions receivable - current portion		88,698	90,688
Prepayments and other current assets		150,490	110,777
Total current assets		1,230,862	1,116,440
Non-current assets:			
Investments in securities		650	624
Investments in equity accounted investees		469,985	469,583
Retentions receivable - non-current portion		71,988	132,056
Investment properties		29,757	30,719
Property, plant and equipment		681,526	747,202
Deferred tax asset		6,193	5,524
Intangible assets	7	150,542	153,645
Total non-current assets		1,410,641	1,539,353
Total assets		2,641,503	2,655,793
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term loans	8	744,908	843,216
Long-term loans - current portion	8	177,209	204,609
Obligations under finance lease – current portion		1,651	9,919
Accounts payable		465,490	351,186
Due to related parties		62,949	41,571
Accrued expenses and other current liabilities	9	391,857	446,279
Zakat and income-tax		80,191	64,740
Total current liabilities		1,924,255	1,961,520
Non-current liabilities:			
Long-term loans	8	177,094	160,281
Obligations under finance lease		27,844	28,896
Employees' end of service benefits		71,201	67,937
Total non-current liabilities		276,139	257,114
Total liabilities		2,200,394	2,218,634

The accompanying notes 1 through 17 form an integral part of these interim condensed consolidated financial statements.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (continued)

As at December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2015 (Unaudited)	December 31, 2014 (Audited)
<u>EQUITY</u>			
Share capital	10	760,000	760,000
Statutory reserve	11	63,432	63,432
Cumulative changes in fair values		(13,694)	(20,123)
Foreign currency translation reserve		(9,143)	(6,234)
Accumulated losses		<u>(365,644)</u>	<u>(367,331)</u>
Total equity attributable to the shareholders' of the Parent Company		434,951	429,744
Non-controlling interests		<u>6,158</u>	<u>7,415</u>
Total equity		441,109	437,159
Total liabilities and equity		<u>2,641,503</u>	<u>2,655,793</u>

The accompanying notes 1 through 17 form an integral part of these interim condensed consolidated financial statements.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

	Notes	For the three-months period ended December 31,		For the year ended December 31,	
		<u>2015</u> (Unaudited)	<u>2014</u> (Unaudited)	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Revenue		449,837	404,743	1,918,059	1,716,321
Costs of revenue		(451,084)	(424,021)	(1,849,654)	(1,709,658)
Gross (loss) / profit		(1,247)	(19,278)	68,405	6,663
Selling and distribution expenses		(15,190)	(23,383)	(55,859)	(84,058)
General and administrative expenses		(33,047)	(20,262)	(114,620)	(124,090)
Loss from operations		(49,484)	(62,923)	(102,074)	(201,485)
Financial charges-net	12	45,234	(21,723)	(21,733)	(112,039)
Share of profit from equity accounted Investees		15,590	36,963	83,763	114,540
Other income - net	13	1,939	(7,329)	54,778	8,683
Net profit / (loss) for the period / year before zakat and income-tax and non-controlling interests		13,279	(55,012)	14,734	(190,301)
Zakat and income-tax		(1,830)	(1,663)	(13,900)	(13,535)
Net profit / (loss) for the period / year before non-controlling interests		11,449	(56,675)	834	(203,836)
Non-controlling interests		152	(3,264)	853	2,157
Net profit / (loss) for the period / year attributable to the Company's shareholders		11,601	(59,939)	1,687	(201,679)
Loss per share from operations for the period / year (SR)	14	(0.65)	(0.83)	(1.34)	(2.65)
Earnings / (loss) per share from net profit / (loss) for the period / year (SR)	14	0.15	(0.79)	0.02	(2.65)

The accompanying notes 1 through 17 form an integral part of these interim condensed consolidated financial statements.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve months period ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

	2015 (Unaudited)	2014 (Audited)
Cash flows from operating activities:		
Net profit / (loss) before Zakat and income-tax and non-controlling interests	14,734	(190,301)
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	76,582	79,341
Amortization of intangible assets	15,977	16,485
Impairment of Goodwill	--	12,342
(Reversal) / provision for doubtful debts	(40,619)	3,970
Provision for slow-moving inventories	4,771	35,123
Loss / (gain) on disposal of property, plant and equipment and investment property	1,708	(5,526)
Provision against investment	(26)	1,698
Deferred tax asset	1,493	(2,709)
Change in non-controlling interest - net	(404)	5,103
Share of profit from equity accounted investees	(83,763)	(114,540)
Provision for employees' end of service benefits	13,355	16,663
Finance charges	21,733	112,039
Changes in operating assets and liabilities:		
Trade receivable	(135,884)	386,678
Retention receivables	62,058	(222,744)
Prepayments and other current assets	(39,713)	51,794
Unbilled revenue	12,759	130,910
Inventories	80,430	66,469
Accounts payable	114,304	(268,586)
Accrued expenses and other current liabilities	(24,115)	172,877
Due to related parties	21,378	(13,465)
	<u>116,758</u>	<u>273,621</u>
Zakat and income-tax paid	(611)	(929)
Financial charges paid	(42,035)	(78,798)
Employees' end of service benefits paid	(10,091)	(7,384)
Net cash provided by operating activities	<u>64,021</u>	<u>186,510</u>
Cash flows from Investing activities		
Additions to property, plant and equipment	(19,026)	(2,251)
Additions to intangible assets	(12,874)	(17,257)
Proceeds from disposal of property, plant and equipment	7,375	8,346
Dividends received from an equity accounted investees	76,875	87,167
Net cash provided by investing activities	<u>52,350</u>	<u>76,005</u>
Cash flows from financing activities		
Net change in long and short-term loans	(108,895)	(258,194)
Net change in obligations under finance lease	(9,320)	(11,454)
Net changes in restricted cash against financing	164	65,110
Net change in other long-term liabilities	-	(52,945)
Net cash used in financing activities	<u>(118,051)</u>	<u>(257,483)</u>
Net movement in cash and cash equivalents	(1,680)	5,032
Cash and cash equivalents at the beginning of the period	<u>35,172</u>	<u>30,140</u>
Cash and cash equivalents at the end of the period	<u>33,492</u>	<u>35,172</u>
Supplemental schedule of non-cash information:		
Cumulative changes in fair value of derivative financial instruments	(6,429)	43,210
Foreign currency translation movement	<u>2,909</u>	<u>(951)</u>

The accompanying notes 1 through 17 form an integral part of these interim condensed consolidated financial statements.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

	Equity attributable to the shareholders' of the Parent Company						Non-controlling interests (NCI)	Total equity
	Share capital	Statutory reserve	Cumulative changes in fair values	Foreign currency translation reserve	Accumulated losses	Total		
Balance at January 1, 2014	760,000	63,432	23,087	(7,185)	(165,652)	673,682	4,469	678,151
Net loss for the year	-	-	-	-	(201,679)	(201,679)	(2,157)	(203,836)
Fair value adjustments	-	-	(43,210)	-	-	(43,210)	-	(43,210)
Foreign currency movement	-	-	-	951	-	951	-	951
Other changes in NCI	-	-	-	-	-	-	5,103	5,103
Balance at December 31, 2014 (Audited)	760,000	63,432	(20,123)	(6,234)	(367,331)	429,744	7,415	437,159
Net profit / (loss) for the year	-	-	-	-	1,687	1,687	(853)	834
Fair value adjustments	-	-	6,429	-	-	6,429	-	6,429
Foreign currency movement	-	-	-	(2,909)	-	(2,909)	-	(2,909)
Other changes in NCI	-	-	-	-	-	-	(404)	(404)
Balance at December 31, 2015 (Unaudited)	760,000	63,432	(13,694)	(9,143)	(365,644)	434,951	6,158	441,109

The accompanying notes 1 through 17 form an integral part of these interim condensed consolidated financial statements.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

1. THE COMPANY, SUBSIDIARIES AND ITS PRINCIPAL ACTIVITIES

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

The objectives of the Group (“Parent Company” and its following “subsidiaries”) are to manufacture and supply electrical and telecommunication cables, copper rod, PVC compounds, wooden reels and related products. The Group is also engaged in the contracting, trading, distribution and supply of cables, electronic products, information technology products and related accessories.

The registered office of the Company is located at the following address:

Saudi Cable Company
P. O. Box 4403, Jeddah 21491
Kingdom of Saudi Arabia

The accompanying interim condensed consolidated financial statements include assets, liabilities and the results of the operations of the following subsidiaries:

<u>Company's name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>Effective % of ownership</u>	
			<u>2015</u>	<u>2014</u>
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 Sirketi	Holding Company (Previously Mass 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	94%	79%
Elimsan Metalurji ve Makine San. Ve Tic. A.S.	Manufacture and distribution of electronic gears and goods	Turkey	94%	79%

SAUDI CABLE COMPANY
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

1. THE COMPANY, SUBSIDIARIES AND ITS PRINCIPAL ACTIVITIES (continued)

As at December 31, the Group has the following investments in equity accounted investees:

<u>Company's name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>% of ownership</u>	
			<u>2015</u>	<u>2014</u>
Midal Cables W.L.L.	Conductors & related products Implementation of information	Bahrain	50%	50%
XECA International Information Technology	Systems and network services	Saudi Arabia	25%	25%

All subsidiaries and equity accounted investees have the same year-end as of the Parent Company.

2. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and in accordance with Accounting Standards on Interim Financial Reporting, issued by Saudi Organization for Certified Public Accountants standard (SOCPA).

The interim results may not be an indicator of the annual results of the Group. The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the latest annual audited consolidated financial statements of the Group.

(b) Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale investments and derivative financial instruments which are stated at fair values, using the accrual basis of accounting and the going concern concept (Note 3).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(c) Basis of consolidation

These interim condensed consolidated financial statements comprise the interim financial statements of the parent company and its subsidiaries, as explained in Note (1) above.

Subsidiaries

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, the right to variability of return from its involvement with the investee and its ability to affect those returns through its power over the investee, is considered. 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 subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidating the interim condensed consolidated financial statements.

Non-controlling interest

Non-controlling interest ("NCI") represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with Non-controlling interest parties are treated as transactions with parties external to the Group.

(d) Functional and presentation currency

These interim condensed consolidated financial statements have been presented in Saudi Arabian Riyals (SR) which is the Group's presentation currency and Parent Company's functional currency. All financial information presented in SR has been rounded to the nearest thousand, unless otherwise stated.

(e) Use of estimates and judgments

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgments (continued)

The key areas requiring significant management judgments are as follows:

- **Impairment of trade receivable**
A provision for impairment of trade receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.
- **Impairment of slow moving and obsolete inventories**
The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.
- **Impairment of non-financial assets**
Non-current assets including goodwill are reviewed for impairment losses 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 or cash generating unit's (CGU) 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. Non-current assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income, immediately in the consolidated statement of income. Impairment losses recognized on goodwill are not reversible.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgments (continued)

- *Cost to complete the projects*

As part of application of percentage of completion method on contract accounting, the cost to complete the project is estimated. These estimates include, amongst other items, the construction costs, variation orders by contractors and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods. Contract variations, once confirmed are recognised as revenue to the extent that it is probable that they will result in revenue which can be reliably measured. This requires the exercise of judgment by management based on prior experience, application of contract terms and relationships with the contract owners and stage of negotiations reached.

- *Contract claims*

A claim is an amount that that the contractor seeks to collect from the customer or another party as reimbursements for costs not included in the contract price. A claim may arise from customer caused delays, prolongation costs, cost of acceleration of project, program errors in specification or design and disputed variation in contract work. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are only included in contract revenue when the amount has been accepted by the customer and can be reliably measured.

- *Useful lives of property and equipment*

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

3. ACCUMULATED LOSSES AND GOING CONCERN

During the year ended December 31, 2015, the Group has earned net profit of SR 1.69 million (December 31, 2014: SR 201.68 million loss) and as at date, the Group's current liabilities exceeded its current assets by SR 693.39 million (December 31, 2014: SR 845.08 million) and accumulated losses have reached to SR 365.64 million (December 31, 2014: SR 367.33 million), which is 48.11 % (December 31, 2014: 48.33%) of the share capital. Although, these circumstances indicate the existence of material uncertainties that may cast doubt on the Group's ability to continue as a going concern; the interim consolidated financial statements have been prepared on a going concern based on the management's assessment and the comprehensive plans prepared by them, that are dependent on the successful restructuring of its business and debt obligations, as well as the Group's ability to achieve its operational plans that shall provide sufficient resources for continuing the business in the foreseeable future. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. (Note 8).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the interim condensed consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current period's presentation.

a) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three-month or less, if any, which are available to the Group without any restrictions.

b) Trade receivables

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to interim consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to consolidated statement of income.

c) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost 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 comprises estimated selling price in the ordinary course of business, less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for non-metal components of obsolete, slow moving and defective stocks.

d) Investments

i) Investment in equity accounted investees

Investment in equity accounted investees 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 or jointly controlled entities. The Group's share in the investees' net income for the period is included in the interim consolidated statement of income and its share in post-acquisition movement in reserves is recognized directly in the Group's statement of changes in equity. Dividends are recorded when the right to receive the dividend is established.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

d) **Investments (continued)**

ii) *Investments in Securities (Available-for-sale)*

Investments purchased neither with the intention of being held to maturity nor for trading purposes are designated as available for sale investments and initially recorded at cost and subsequently measured at fair value. Unrealised gains and losses on subsequent measurement are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity, is included in the interim consolidated statement of income for the period.

Fair value is determined by reference to the market value in the open market. If fair value is not available, cost is considered to be the most appropriate objective and reliable measurement of the fair value of investments.

Dividend income is recognized when the right to receive the dividend is established.

e) **Property, plant and equipment**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. 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, plant and equipment. All other expenditure is recognized in the interim consolidated 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, plant and equipment. The estimated useful lives of assets over which the asset will be depreciated are as follows:

	<u>Number of years</u>
Buildings	15 – 50
Plant and machineries	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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and impairment losses, if applicable. The estimated useful lives over which the investment property is depreciated is 50 years.

Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is including in the interim consolidated statement of income in the period in which the investment property is derecognized.

g) Intangibles

i) Goodwill

Goodwill represents the excess of the investment over the Group's share in the fair value of the identifiable 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 to determine whether any objective indicator of impairment exists unless an event or change in circumstances occur during the year indicating an impairment of the carrying value which requires a valuation of goodwill during the year.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

ii) Research and development costs

Research costs are charged to the interim consolidated statement of income in the period in which they are incurred.

Development activities involve a conversion of the results of the research activities into a plan or design for new products, services and technological mechanism or for significant improvement on existing products, services or mechanisms, regardless of the purpose whether being for sale or use. Development costs are recorded when they occur as period costs and charged to interim consolidated statement of income. Development costs can only be capitalized if all of the following conditions are met:

- Clear identification of the product or the process, and the possibility of separating and measuring costs related to the product or the process in a reliable manner.
- The technological feasibility of the process or the product has been established.
- The intention of the Group to produce and market or use the product or the process.
- Existence of adequate resources, or ensuring that such resources could be made available to complete the development project and to market or use the product or process.
- Existence of a market for the product or the process. If the product or process is used inside the Group, the Group's benefits from the use should be confirmed.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the interim consolidated statement of income.

i) Trade Payable and Accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

j) Deferred tax

Deferred tax applicable on foreign operations, is recognized on differences between the carrying amounts of assets and liabilities in the financial statements of the subsidiary and the corresponding tax bases which are used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

k) Zakat and income-tax

The Group is subject to zakat in accordance with the regulations of Saudi Department of Zakat and Income-tax ("DZIT"). Foreign subsidiaries are subject to the relevant income-tax regulations in their countries of domicile. Group's zakat and its share in the foreign subsidiaries income-tax are accrued and charged to the interim consolidated statement of income currently. Foreign income-tax attributable to the foreign subsidiaries' shareholders are charged to the minority shareholders in accompanying interim condensed consolidated financial statements. Additional zakat and foreign income-tax liabilities, if any, related to prior years' assessments are accounted for in the period in which the final assessments are finalized.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Employees' end-of-service benefits

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

The foreign subsidiaries' end of service liability is determined in accordance with the applicable laws of the country in which the subsidiaries' are registered.

m) Revenue

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Group,
- it can be reliably measured, regardless of when the payment is being made,
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable as per the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Sales of goods

Sales of goods are recognized when products are delivered or shipped to customers and when risks and rewards are transferred. Sales represent the invoiced value of the goods supplied during the period, net of discounts and returns.

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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products. All other expenses excluding cost of sales and financial charges are classified as general and administrative expenses.

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

o) Provisions

A provision is recognized in the interim consolidated balance sheet when the Group 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.

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring which has been notified to affected parties.

p) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

q) Segmental reporting

Operating Segment:

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Decision Maker in order to allocate resources to the segments and to assess its performance. An operating segment is a separately identifiable group of assets, operations or entities engaged in revenue producing activities, and its financial information is separately available.

Geographical Segment:

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Derivative financial instruments

- i) The Group uses derivative financial instruments such as metal futures, to hedge the exposure against metal price changes risk on purchases and 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 income. However, changes in fair value of derivative financial instruments that qualify for cash flow hedges accounting are recorded as derivative financial instruments in the consolidated balance sheet and taken to other reserves in statement of changes in equity.

The derivative instruments used by the Group are designated as cash flow hedges.

When the hedging instrument matures or expires or the hedge ceases to be effective, any associated accumulated gain or loss in other reserves is reclassified to statement of income in the same period during which the hedged item affects statement of income.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the interim consolidated statement of income 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 income for the period.

- ii) The Group uses interest rate swaps to manage its exposure to interest rate fluctuations on its bank borrowings.

Interest rate swaps, if material, are presented as a non-current asset in case of favorable contracts or a non-current liability in case of unfavorable contracts if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the interim balance sheet date. All differences are taken to the interim consolidated statement of income. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

Foreign operations

Assets and liabilities of foreign operations are converted into Saudi Arabian Riyals at the exchange rates in effect at the balance sheet date. The equity components of foreign subsidiaries with the exception of retained earnings are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation reserve) attributable to shareholders of the Company in the interim condensed consolidated financial statements.

t) 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 interim consolidated statement of income 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 year.

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

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

5. CASH AND BANK BALANCES

Cash and Bank balances at December 31, comprise the following:

	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Cash in hand	431	490
Cash at bank in current accounts	<u>33,061</u>	<u>34,682</u>
Cash and cash equivalents for cash flow statement purposes	33,492	35,172
Restricted cash	<u>26,615</u>	<u>26,779</u>
Cash and bank balances	<u>60,107</u>	<u>61,951</u>

6. UNBILLED REVENUE

Unbilled revenue represents revenue earned but not yet billed as at December 31, 2015. This also includes an amount of SR 45.26 million (December 31, 2014: SR 50.4 million) which remains overdue for billing for more than one year. The management believes that this amount will be invoiced and collected during 2016.

7. INTANGIBLE ASSETS

Intangible assets as at December 31, comprise the following:

	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Goodwill (Note 7.1)	74,216	74,216
Development cost	65,701	67,304
Rights and licenses	<u>10,625</u>	<u>12,125</u>
	<u>150,542</u>	<u>153,645</u>

- 7.1 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 a consideration of SR 128.34 million that resulted in goodwill amounting to SR 86.56 million. During the year ended December 31, 2014, the Group performed an impairment analysis and consequently, SR 12.34 million was recorded as impairment.

For the year ended December 31, 2015, a detailed impairment assessment of goodwill by an independent consultant, is currently in progress. Determination of the assets' recoverable amount involves the use of estimates and can have a material impact on the respective values as at December 31, 2015 and ultimately the amount of impairment, if any.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

8. BANK BORROWINGS AND FINANCIAL RESTRUCTURING

The Group has several financing arrangements with local and foreign banks and development financial institutions (DFI) with short and long-term maturity is to finance its working capital and capital expenditure requirements. All these loans are obtained at prevailing commercial rates.

Short term loans are secured by assignment of Group's receivables and has contractual maturity within one year, whereas the loans relating to subsidiaries' are secured by the Company's guarantee. As on December 31, 2015 short term loan comprise the following:

Long term loans as at December 31, comprise the following:

	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Loans from commercial banks	241,343	266,730
Loan from a DFI	112,960	98,160
Total	<u>354,303</u>	<u>364,890</u>
Less: current portion of long term loans	<u>(177,209)</u>	<u>(204,609)</u>
Non-current portion of long term loans	<u>177,094</u>	<u>160,281</u>

The loan agreements contain certain covenants that amongst other things, limits the distribution of dividends, requires a minimum net worth and prescribes the Company to maintain certain level of ratios. As at December 31, 2015, the Group is not in compliance with some of the covenants. However, the Group is under negotiation with the financier to obtain waiver for the same.

At December 31, 2015, the Group has overdue loan amounting to SR 779 million out of the total Group debt of SR 1,099 million.

The Group has developed and presented a comprehensive plan proposing a long term feasible financial structure, with additional working capital financing, including capital increase that shall assist stabilizing and strengthening the on-going operations, with an aim to realign the financial and management resources.

In this regard on April 7, 2015, the Company has been able to secure agreement on the "Indicative Restructuring Terms" with its main lenders, namely National Commercial Bank, AL Rajhi bank and Bank Al-Jazira (consortium of banks) for restructuring part of the debt amounting to SR 640 million including accumulated interest, that mainly states:

- Moratorium on repayments to the three banks until March 31, 2016;
- Repayment tenure not to exceed 8 years from the start of moratorium period.
- Total amount to be restructured is SR 640 million.
- Rights issue of at least SR 500 million by no later than December 2017.

As at December 31, 2015, the relevant agreements are being formulated and reviewed by the lenders' legal counsel. The Company is in the process of fulfilling revised restructuring requirements, which are expected to be completed by January 31, 2016.

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

8. BANK BORROWINGS AND FINANCIAL RESTRUCTURING (continued)

Additionally, the Group is also progressing towards restructuring another overdue loan amounting to SR 77 million from BNP Paribas that has shown willingness to join the consortium and agree on the similar terms of restructuring. Moreover, on August 12, 2015, DFI has agreed to match the tenor of their loan with other banks' restructured loan, retaining the requirement to comply with debt covenants.

By January 31, 2016 the Group expects to:

- Fulfill revised restructuring requirements with the consortium of banks and expects the restructuring agreement to be signed, along with the legal documentation for restructuring arrangement with an independent bank and DFI.
- Obtain waiver letter from SIDF, following the breach of covenants.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Accrued expenses	259,637	284,407
Advances from customers	99,080	115,888
Billing in excess of contract revenue	33,140	45,984
	<u>391,857</u>	<u>446,279</u>

10. SHARE CAPITAL

The share capital consists of 76,000,000 shares of Saudi Arabian Riyals 10 each as at December 31, 2015 and December 31, 2014.

11. STATUTORY RESERVE

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equaled 50% of the share capital. This reserve is not available for dividend distribution. As the Company have accumulated losses, therefore, no amount has been transferred to statutory reserve during the current year.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

12. FINANCE CHARGES – NET

During the three months period ended December 31, 2015, an amount of SR 62 million (December 31, 2014: Nil) has been reversed that had been accrued in the current and prior periods. The financial charges reversed relates to the borrowings obtained under Islamic principles and based on an understanding with the lenders, that will formally be agreed as part of restructuring agreement. (Note 8).

13. OTHER INCOME - NET

Other income for year ended December 31, 2015 mainly represents, an amount of SR 40 million (2014: Nil) on account of reversal of provision against doubtful receivables. During the year, the Group has recovered significant amount of outstanding debts and accordingly provision held against has been reversed. The recoveries of the old outstanding receivables are principally driven by the improvements in the collection process, including rigorous follow up with the customers.

14. LOSS / EARNINGS PER SHARE

Loss / Earnings per share from operations for the period/year is calculated by dividing loss from operations by the weighted average number of outstanding shares during the period/year. Loss per share has been calculated on loss from operations attributable to the Group (including non-controlling interests).

Earnings / loss per share from loss for the period/year is calculated by dividing the net loss attributable to the equity holders of the Company for the period by the weighted average number of outstanding shares during the period/year.

The calculation of diluted earnings per share is not applicable to the Company.

15. SEGMENTAL INFORMATION

Operating Segment:

The Group has the following main business segments:

- Sale of manufactured goods
- Turnkey power and telecommunication projects (based on the contracts)

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

15. SEGMENTAL INFORMATION (continued)

These form the basis of internal management reporting of main business segments

	<u>Sale of goods</u>		<u>Contract revenue</u>		<u>Total</u>	
	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Revenue	1,827,034	1,563,179	91,025	153,142	1,918,059	1,716,321
Costs of revenue	1,766,995	1,567,793	82,659	141,865	1,849,654	1,709,658
Net (loss) / profit	(5,254)	(183,990)	6,941	(17,689)	1,687	(201,679)
Trade receivable	393,892	244,901	139,676	112,164	533,568	357,065
Property, plant and equipment	676,583	740,296	4,943	6,906	681,526	747,202
Short-term loans	672,161	770,469	72,747	72,747	744,908	843,216
Long-term loans	258,839	269,426	95,464	95,464	354,303	364,890

Geographic Information:

The Group's operations are conducted in Kingdom of Saudi Arabia, UAE and Turkey. Selected financial information summarized by geographic area, is as follows:

	<u>Saudi Arabia</u>	<u>UAE</u>	<u>Turkey</u>	<u>Total</u>
2015 (Unaudited)				
Revenue	1,329,427	80,843	507,789	1,918,059
Costs of revenue	1,308,733	76,616	464,305	1,849,654
Net profit / (loss)	25,040	364	(23,717)	1,687
Trade receivable	336,826	34,546	162,196	533,568
Property, plant and equipment	329,725	24	351,777	681,526
Short-term loans	602,093	--	142,815	744,908
Long-term loans	290,169	--	64,134	354,303
2014 (Audited)				
Revenue	1,129,271	45,716	541,334	1,716,321
Costs of revenue	1,137,021	42,557	530,080	1,709,658
Net loss	(124,087)	(708)	(76,884)	(201,679)
Trade receivable	288,475	5,642	62,948	357,065
Property, plant and equipment	376,221	118	370,863	747,202
Short-term loans	646,006	--	197,210	843,216
Long-term loans	302,769	--	62,121	364,890

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three-months period and year ended December 31, 2015
(Expressed in thousands of Saudi Arabian Riyals)

16. COMMITMENTS AND CONTINGENCIES

In addition to the notes 3 and 8, following are the commitments and contingencies:

	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Outstanding forward metal contracts	<u>103,278</u>	<u>411,840</u>
Contingent liabilities in respect of performance and bid bonds	<u>128,799</u>	<u>182,394</u>
Authorized and contracted for capital expenditure commitments	<u>8,833</u>	<u>9,774</u>
Corporate guarantees issued	<u>61,196</u>	<u>79,217</u>

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.

17. APPROVAL OF THE FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved for issuance by the management on behalf of the Board of Directors on Rabi Al Thani 11, 1437H, corresponding to January 21, 2016.