

SAUDI CABLE COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016
with
INDEPENDENT AUDITORS' REPORT



KPMG Al Fozan & Partners
Certified Public Accountants
Zahran Business Centre
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 12 698 9595
Fax +966 12 698 9494
Internet www.kpmg.com/sa

License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

The Shareholders
Saudi Cable Company
Jeddah, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Saudi Cable Company ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 34 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company's Bylaws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except for the matters described in the Basis for qualified opinion qualification paragraph, we conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



Basis for Qualified Opinion

- i) We draw attention to note 3 to the accompanying consolidated financial statements, which describes the basis on which these consolidated financial statements have been prepared. For the year ended December 31, 2016 the Group has suffered a net loss of SR 198.79 million (December 31, 2015: net profit of SR 1.69 million). As at that date, the Group's current liabilities exceeded its current assets by SR 253.20 million (December 31, 2015: 706.19 million) and its accumulated losses have reached to SR 501 million (December 31, 2015: SR 365.64 million), representing 65.92% of the share capital (December 31, 2015: 48.11 %). However, on May 1, 2017, the Board of Directors recommended to reduce the share capital of the Company by absorption of accumulated losses of the Company amounting to SR 355.89 million. Subsequently, on May 8, 2017, the Capital Market Authority ("CMA") has authorized such reduction. This share capital reduction has been approved by the shareholders in their extra ordinary general meeting held on June 4, 2017.

Additionally, on February 23, 2016 the Group had debts amounting to SR 796 million repayable over next 7 years under "Restructuring Framework Agreement" with its four main lenders ("the Participating Banks"), subject to the fulfillment of conditions, including repayment of SR 84 million during 2016 and SR 224 million by 31 December 2017; primarily through issuance of right issue shares (note 15). These factors indicate the existence of material uncertainties that casts significant doubt on the Company's and the Group's ability to continue as a going concern.

Management has developed internal plans to achieve the Group's operational goals during the foreseeable period; ensuring sufficient resources are available for the continuing business, servicing debt obligations and adhering to other financial commitments as and when they fall due. As at December 31, 2016, the remaining balance of restructured loan amounts to SR 712 million against which , the following arrangements were made subsequent to the year end (note 33):

- On April 17, 2017, the Company negotiated a final settlement agreement with BNP Paribas. Based on this the Company's total outstanding obligations of SR 142 million has been reduced to SR 24.99 million, after the payment of SR 40 million on April 18, 2017. This resulted in a reversal of the obligations through statement of income and reduction in accumulated losses by SR 77 million.
- On June 11, 2017, the Company finalized a further renegotiation to "Restructuring Framework Agreement" through an amendment and restatement agreement (hereinafter referred as "second amendment agreement") by virtue of which the Participating Banks (excluding BNP Paribas) have agreed to defer the repayment of the loan for a further period. According to the terms of the said agreement, the Company shall increase its share capital through issuance of right issue shares and repay an amount of SR 188.38 million from the said proceeds by June 30, 2018. The remaining amount of SR 371.65 million is payable in equal semi-annual installments commencing from December 31, 2018 to June 30, 2022.

However, in an event that the rights issue does not materialize by June 30, 2018; the Group may pursue alternative means for generating sufficient cash. This includes consideration of disposal of an equity stake in an associate to meet its obligations to the participation banks. In this regard, on August 22, 2017, in accordance with the shareholders' agreement between Saudi Cable Company and Al Zayani Investment ('second shareholder'), the Group has formally expressed its desire to sell its stake in Midal Cables to the second shareholder. According to the terms of the Articles of Association of Midal Cables, the second shareholder has an option to accept the offer by November 22, 2017.

During October 2017, all the Participating Banks within the restructuring consortium, have confirmed to provide continued support in case of unwillful defaults by the Company due to unforeseen circumstances and further:



- in an event, the issuance of right issue shares gets delayed and the Company is unable to generate sufficient cash for the repayment of amounts due on June 30, 2018, the Participating banks are willing to revisit the current repayment terms and defer the obligations for a sufficient period to ensure that the Company's operations are not discontinued.
- the Company shall be relieved from any breaches of debt covenants caused by the aforementioned delay.

The Group's ability to continue as a going concern is solely dependent on the successful outcome of the above mentioned events. The group's consolidated financial statements do not sufficiently disclose the effect of these material uncertainties on the financial position and performance of the Group, including the fact that the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities.

- ii) We were unable to obtain sufficient appropriate audit evidence in respect of the recoverability of unbilled revenues up to SR 28.66 million (December 31, 2015: SR 45.26 million) that is overdue for more than one year. Consequently, we were unable to determine whether adjustments might have been necessary in respect of unbilled revenue as at December 31, 2016.
- iii) We were unable to obtain sufficient appropriate audit evidence in respect of the recoverability of development and deferred costs amounting to SR 20.86 million and SR 4 million respectively. Consequently, we were unable to determine whether adjustments might have been necessary in respect of development and deferred costs as at December 31, 2016.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis of Qualified Opinion paragraphs, the consolidated financial statements taken as a whole:

- 1) present fairly, in all material respects, the consolidated financial position of Saudi Cable Company and its subsidiaries as at December 31, 2016 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Ebrahim Oboud Baeshen
License No.382



Safar 26, 1439H
Corresponding to November 15, 2017

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED BALANCE SHEET
As at December 31, 2016
(Expressed in thousands of Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2016	December 31, <u>2015</u>
<u>ASSETS</u>			
Current assets:			
Cash and bank balances	5	29,359	60,094
Trade receivables	6	466,030	521,414
Unbilled revenue	8	47,218	64,322
Inventories	9	281,417	331,802
Retentions receivable - current portion	7	74,147	88,698
Prepayments and other current assets	10	110,763	156,230
Total current assets		1,008,934	1,222,560
Non-current assets:			
Investments in securities		661	650
Investments in equity accounted investees	11	470,971	469,985
Retentions receivable - non-current portion	7	51,853	71,988
Investment properties	12	28,794	29,757
Property, plant and equipment	13	600,641	681,578
Deferred tax asset	18	5,568	5,834
Intangible assets	14	29,150	150,542
Total non-current assets		1,187,638	1,410,334
Total assets		2,196,572	2,632,894
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term loans	15	142,522	742,122
Long-term loans - current portion	15	265,671	177,209
Obligations under finance lease – current portion	16	9,358	9,454
Trade payables		406,865	463,995
Accrued expenses and other current liabilities	17	277,874	392,827
Due to related parties	27	68,790	62,949
Zakat and income-tax	18	91,056	80,191
Total current liabilities		1,262,136	1,928,747
Non-current liabilities:			
Long-term loans	15	594,515	173,472
Obligations under finance lease	16	14,871	20,126
Employees' end of service benefits	19	69,686	69,444
Total non-current liabilities		679,072	263,042
Total liabilities		1,941,208	2,191,789



The accompanying notes 1 through 34 form an integral part of these financial statements.



SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET - Continued

As at December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

	<u>Notes</u>	December 31, 2016	December 31, <u>2015</u>
<u>EQUITY</u>			
Share capital	20	760,000	760,000
Statutory reserve	21	--	63,432
Fair value reserve	22	5,095	(13,694)
Foreign currency translation reserve		(14,348)	(9,143)
Accumulated losses		<u>(501,000)</u>	<u>(365,644)</u>
Total equity attributable to the shareholders' of the Parent Company		249,747	434,951
Non-controlling interests (NCI)		<u>5,617</u>	<u>6,154</u>
Total equity		<u>255,364</u>	<u>441,105</u>
Total liabilities and equity		<u>2,196,572</u>	<u>2,632,894</u>

The accompanying notes 1 through 34 form an integral part of these financial statements.



SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

	Notes	December 31, <u>2016</u>	December 31, <u>2015</u>
Revenue	29	1,564,555	1,918,059
Costs of revenue	29	<u>(1,488,599)</u>	<u>(1,849,654)</u>
Gross profit		75,956	68,405
General and administrative expenses	23	(129,161)	(114,620)
Selling and distribution expenses	24	<u>(51,924)</u>	<u>(55,859)</u>
Loss from operations		(105,129)	(102,074)
Financial charges-net		(65,258)	(21,733)
Impairment of intangible assets	14	(111,931)	--
Share of profit from equity accounted investees	11	42,577	83,763
Other income – net	25	<u>51,460</u>	<u>54,778</u>
Net (loss) / income for the year before zakat and income-tax and non-controlling interests		(188,281)	14,734
Zakat and income-tax	18	<u>(10,952)</u>	<u>(13,900)</u>
Net (loss) / income for the year before non-controlling interests		(199,233)	834
Non-controlling interests		<u>445</u>	<u>853</u>
Net (loss) / income for the year attributable to the Company's shareholders		<u>(198,788)</u>	<u>1,687</u>
Basis and diluted (Loss) / earnings per share			
Loss per share from operations for the year (SR)	26	(1.38)	(1.34)
(Loss) / earnings per share from net (loss) / income for the year (SR)	26	(2.62)	0.02

The accompanying notes 1 through 34 form an integral part of these financial statements.

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

	Notes	December 31, 2016	December 31, 2015
Cash flows from operating activities:			
Net (loss) / income before Zakat and income-tax and non-controlling interests		(188,281)	14,734
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	12 & 13	69,986	76,581
Amortization of intangible assets	14	12,626	15,974
Impairment of intangible assets	14	111,931	--
Net-reversal for provision for doubtful debts	6.2	(5,793)	(40,130)
Provision for slow-moving inventories	9	17,800	22,108
(Gain) / loss on disposal of property, plant and equipment		(41,102)	1,708
Changes in fair value of investments		(11)	(26)
Deferred tax assets		266	1,790
Change in non-controlling interests - net		--	(408)
Share of profit from equity accounted investees	11	(42,577)	(83,763)
Provision for employees' end of service benefits	19	5,502	13,355
Finance charges		65,258	21,733
Changes in operating assets and liabilities:			
Trade receivables		61,177	(124,219)
Unbilled revenue		17,104	12,759
Inventories		32,583	64,968
Retention receivables		34,686	62,058
Prepayments and other current assets		59,438	(45,453)
Trade payables		(57,130)	112,809
Accrued expenses and other current liabilities		(31,403)	(23,218)
Due to related parties		5,841	21,378
		<u>127,901</u>	<u>124,738</u>
Zakat and income-tax paid		(87)	(549)
Financial charges paid		(41,678)	(42,835)
Employees' end of service benefits paid	19	(5,260)	(11,848)
Net cash provided by operating activities		<u>80,876</u>	<u>69,506</u>
Cash flows from Investing activities			
Additions to property, plant and equipment	13	(23,141)	(19,079)
Additions to intangible assets	14	(3,165)	(12,871)
Proceeds from disposal of property, plant and equipment		76,157	7,376
Dividends received from an equity accounted investees	11	41,202	76,875
Net cash provided by investing activities		<u>91,053</u>	<u>52,301</u>
Cash flows from financing activities			
Net movement in long and short-term loans		(197,313)	(114,429)
Repayment of obligations under finance lease		(5,351)	(9,235)
Net movement in restricted cash against financing		25,298	164
Net cash used in financing activities		<u>(177,366)</u>	<u>(123,500)</u>
Net movement in cash and cash equivalents		(5,437)	(1,693)
Cash and cash equivalents at the beginning of the year		33,479	35,172
Cash and cash equivalents at the end of the year	5	<u>28,042</u>	<u>33,479</u>
Supplemental schedule of non-cash information:			
Changes in fair values of derivative financial instruments	22	18,789	(6,429)
Foreign currency translation movement		(5,205)	2,909

The accompanying notes 1 through 34 form an integral part of these financial statements.

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

(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	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Total		
Balance at January 1, 2015	760,000	63,432	(20,123)	(6,234)	(367,331)	429,744	7,415	437,159
Net income for the year	-	-	-	-	1,687	1,687	(853)	834
Fair value adjustments (note 22)	-	-	6,429	-	-	6,429	-	6,429
Foreign currency translation reserve movement	-	-	-	(2,909)	-	(2,909)	-	(2,909)
Other changes in NCI	-	-	-	-	-	-	(408)	(408)
Balance at December 31, 2015	760,000	63,432	(13,694)	(9,143)	(365,644)	434,951	6,154	441,105
Net loss for the year	-	-	-	-	(198,788)	(198,788)	(537)	(199,325)
Fair value adjustments (note 22)	-	-	18,789	-	-	18,789	-	18,789
Absorption of accumulated losses through transfer of statutory reserve (note 21)	-	-	(63,432)	-	63,432	-	-	-
Foreign currency translation reserve movement	-	-	-	(5,205)	-	(5,205)	-	(5,205)
Balance at December 31, 2016	760,000	-	5,095	(14,348)	(501,000)	249,747	5,617	255,364

The accompanying notes 1 through 34 form an integral part of these financial statements.

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

1. THE COMPANY, SUBSIDIARIES AND THEIR 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 consolidated financial statements include assets, liabilities, the results of the operations and the cash flows of the following subsidiaries:

<u>Company’s name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>Effective % of ownership</u>	
			<u>2016</u>	<u>2015</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 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%	94%
Elimsan Metalurji ve Makine San. Ve Tic. A.S.	Manufacture and distribution of electronic gears and goods	Turkey	94%	94%

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

1. THE COMPANY, SUBSIDIARIES AND THEIR 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>2016</u>	<u>2015</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 reporting period as of the Parent Company.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia, issued by Saudi Organizations for Certified Public Accountants (SOCPA).

The new Regulation for Companies issued through Royal Decree M/3 on November 11, 2015 (hereinafter referred as "the Law") came into force on Rajab 25, 1437H (corresponding to May 2, 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of the Law.

As required by Saudi Organization for Certified Public Accountants (SOCPA), all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective January, 01 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Group will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

(b) Basis of measurement

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

(c) Basis of consolidation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(c) Basis of consolidation (continued)

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, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-Group/Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Non-controlling interests

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 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 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(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:

- Provision for trade receivables

A provision for impairment of trade receivables 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 recognised 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 non- metal 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 excluding goodwill are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss on goodwill is assessed annually. An impairment loss, if any, is recognised 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 recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income, immediately in the consolidated statement of income. Impairment losses recognised on goodwill are not reversible.

The company performs impairment reviews annually if events or changes in circumstances indicate a potential impairment. Determination of the assets' recoverable amount on assets involves the use of estimates and can have a material impact on the respective values and ultimately the amount of any impairment.

- 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgments (continued)

- Cost to complete the projects (continued)

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 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 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 plant and equipment

The management determines the estimated useful lives of property, plant 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, 2016, the Group has incurred a net loss of SR 198.79 million (December 31, 2015: net profit of SR 1.69 million) and as at date, the Group's current liabilities exceeded its current assets by SR 253.20 million (2015: SR 706.19 million) and accumulated losses have reached to SR 501 million (December 31, 2015: SR 365.64 million), which is 65.92% (December 31, 2015: 48.11%) of the share capital. Moreover as at the balance sheet date, the Group has total debt obligations amounting to SR 1 billion (2015: SR 1.09 billion). These circumstances indicate the existence of material uncertainties that casts doubt on the Group's ability to continue as a going concern.

Management has made an internal assessment and comprehensive plans that support the Group's ability to provide adequate resources for continuing the business for the foreseeable future, with sufficient cash resources available to service its debt obligations and to meet its working capital requirements and financial commitments as and when they fall due.

SAUDI CABLE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

3. ACCUMULATED LOSSES AND GOING CONCERN (continued)

The Company's ability to continue as a going concern is critically dependent upon the Group fulfilling the revised terms and conditions with the financiers (Note 15), which states that the Company shall increase capital through issuance of right shares and settle an amount of SR 188.38 million, from the said proceeds by June 30, 2018. The remaining amount of SR 371.65 million is payable in equal semi-annual installments commencing from December 31, 2018 to June 30, 2022.

In an event that the rights issue cannot be achieved by June 30, 2018, the Group will consider offering alternative options in the form of assets sales (including the equity stake in its associate) to the participating banks to meet its obligations as per the said agreement (note 15 and 33). Subsequent to the Board of Directors' resolution dated August 21, 2017, the Group has formally expressed its desire to sell its stake in Midal Cables to the second shareholder on August 22, 2017, in accordance with the shareholders' agreement between Saudi Cable company and Al Zayani Investment (second shareholder) . According to the terms of the Articles of Association of the Midal Cables, the second shareholder has an option to accept the offer by November 22, 2017.

During October 2017 all the participating banks within the restructuring consortium, have confirmed through a letter (Note 15 and 33) that, in an event the issuance of right shares gets delayed and the Company is unable to generate sufficient cash for the repayment of amounts due on June 30, 2018, the participating banks will revisit the current repayment terms and defer the obligations for a sufficient period to ensure that the Company's operations are not discontinued. Concurrently, the Company shall be relieved from any breaches of debt covenants caused by the aforementioned delay. Additionally, the Participating banks have also confirmed to provide continued support to in case of unwillful defaults by the Company due to unforeseen circumstances, as mentioned.

Based on the above mentioned facts, these consolidated financial statements have been prepared on a going concern basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash in 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 consolidated statement of income and any subsequent recovery of receivable amounts, previously written off, are credited to consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated statement of income and its share in post-acquisition movement in reserves is recognised directly in the Group's statement of changes in equity. Dividends are recorded when the right to receive the dividend is established.

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 derecognised 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 consolidated statement of income for the year.

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 recognised when the right to receive the dividend is established.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the 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>No. 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 capitalised as property and equipment when the project is completed.

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 consolidated statement of income in the period in which the investment property is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortised 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 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 consolidated statement of income. Development costs can only be capitalised 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.

h) Borrowings

Borrowings are recognised at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised 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 consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Trade payables 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 recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

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 General Authority of Zakat and tax ("GAZT"). 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 consolidated statement of income currently. Foreign income-tax attributable to the foreign subsidiaries' shareholders are charged to the minority shareholders in accompanying 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 finalised.

The Group withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulation

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Revenue

Revenue is recognised 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 recognised.

Sales of goods

Sales of goods are recognised 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 revenues

Revenue on long-term contracts, where the outcome can be estimated reliably, is recognised 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 recognised in excess of amounts billed to customers are classified under current assets as unbilled revenue. Amounts billed to customers in excess of revenue recognised are classified under current liabilities as billings in excess of revenue.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Provisions

A provision is recognised in the 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 recognised 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 recognised 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 Operating 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.

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 recognised at fair value and subsequently re-measured at fair value. Derivatives are recognised 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 recognised immediately in the consolidated statement of income. However, changes in fair value of derivative financial instruments that qualify for cash flow hedge accounting are recorded as derivative financial instruments in the consolidated balance sheet and taken to other reserves in consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of Saudi Arabian Riyals)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Derivative financial instruments (continued)

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 consolidated statement of income in the same period during which the hedged item affects consolidated statement of income.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the 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 recognised 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 recognised in equity is transferred to the consolidated statement of income for the period.

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 balance sheet date. All differences are taken to the 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 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 recognised 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Leasing (continued)

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 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 consolidated statement of income on a straight line basis over the term of the operating lease.

u) Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Company's financial statements under contingent liabilities.

5. CASH AND BANK BALANCES

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

	<u>2016</u>	<u>2015</u>
Cash on hand	6,000	431
Cash at bank - current accounts	22,042	33,048
Cash and cash equivalents for cash flow statement purposes	28,042	33,479
Restricted cash (note 5.1)	1,317	26,615
Cash and bank balances	<u>29,359</u>	<u>60,094</u>

5.1 Restricted cash represents the cash held in current accounts, under lien, not available to the Group for its operations.

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6. TRADE RECEIVABLES

6.1 Trade receivables at December 31, comprise the following:

	<u>2016</u>	<u>2015</u>
Other customers	630,076	690,701
Related parties (Note 27)	309	861
	<u>630,385</u>	<u>691,562</u>
Less: provision for doubtful debts (Note 6.2)	<u>(164,355)</u>	<u>(170,148)</u>
	<u>466,030</u>	<u>521,414</u>

6.2 The movement in provision for doubtful debts is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	170,148	210,278
Provisions for the year	506	--
Reversal of provision (note 6.3)	<u>(6,299)</u>	<u>(40,130)</u>
Balance at December 31	<u>164,355</u>	<u>170,148</u>

6.3 During the year, the Group has recovered significant amount of outstanding debts and accordingly provision held against these debts 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.

6.4 The Group's receivables are held as collateral by the banks against short term bank debts (note 15).

6.5 The ageing of trade receivables is as follows:

	<u>Gross Receivable</u>	<u>Neither past due nor impaired</u>	<u>Past due but not Impaired</u>	<u>Past due and Impaired</u>
December 31, 2016				
Not yet due	217,038	217,038	--	--
Due for less than one year	121,330	--	110,212	11,118
Above one year	292,017	--	138,780	153,237
	<u>630,385</u>	<u>217,038</u>	<u>248,992</u>	<u>164,335</u>
	<u>Gross Receivable</u>	<u>Neither past due nor impaired</u>	<u>Past due but not Impaired</u>	<u>Past due and Impaired</u>
December 31, 2015				
Not yet due	215,557	215,557	--	--
Due for less than one year	281,737	--	178,632	85,105
Above one year	194,268	--	109,225	85,043
	<u>691,562</u>	<u>215,557</u>	<u>287,857</u>	<u>170,148</u>

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6. TRADE RECEIVABLES (continued)

The credit quality of trade receivables that are neither past due nor impaired is periodically assessed with reference to the counter party's more recent credit condition as well as default rates. No material historical default rates exist that require additional impairments.

Receivables that are past due at the reporting date but which the Company has not impaired are assessed for their recoverability and necessary provisions are made. As at December 31, 2016, an amount of SR 139.71 million is due from government and Quasi Government customers.

7. RETENTION RECEIVABLES

Retention receivables represent amounts withheld by the customers in accordance with the terms of the agreements for sales and turnkey projects. The amounts are expected to be collected by December 2017.

Retention receivables are expected to be received as follows:

	<u>2016</u>	<u>2015</u>
Within one year	74,147	88,698
Between one to two years	21,423	29,197
Between two to five years	30,430	42,791
	<u>126,000</u>	<u>160,686</u>

8. UNBILLED REVENUE

Unbilled revenue amounting to SR 47,218 (December 31, 2015: SR 64,322), represents project related revenues of a subsidiary, recognized using percentage of completion method, but not yet billed as at December 31, 2016. This includes an amount of SR 28.66 million (December 31, 2015: SR 45.26 million) that remains overdue for billing for more than one year. The management believes that these amounts will be invoiced and collected during 2017. These are mainly related to quasi government companies based in Qatar and Kingdom of Bahrain.

The breakup of unbilled revenue is as follows:

	<u>2016</u>	<u>2015</u>
Projects in Qatar	16,624	17,559
Projects in Bahrain	24,339	44,382
Others	6,255	2,381
	<u>47,218</u>	<u>64,322</u>

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9. INVENTORIES

Inventories at December 31, comprise the following:

	<u>2016</u>	<u>2015</u>
Raw materials	132,601	189,445
Finished goods	139,608	140,341
Work in process	69,959	58,237
Spare parts and wooden reels	36,023	31,938
	<u>378,191</u>	419,961
Less: allowance for slow moving and obsolete inventories	<u>(96,774)</u>	<u>(88,159)</u>
	<u>281,417</u>	<u>331,802</u>

9.1 The movement in provision for slow moving and obsolete inventories is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	88,159	83,388
Provisions made during the year	17,800	22,108
Written off during the year	<u>(9,185)</u>	<u>(17,337)</u>
Balance at December 31	<u>96,774</u>	<u>88,159</u>

10. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31, comprise the following:

	<u>2016</u>	<u>2015</u>
Deposits (Note 10.1)	37,784	46,860
Advances to suppliers	26,301	51,543
Prepaid expenses	18,990	25,575
Positive fair value of derivatives	1,702	--
Other receivables	25,986	32,252
	<u>110,763</u>	<u>156,230</u>

10.1 Deposits mainly include margin deposits with banks of sound credit ratings.

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11. INVESTMENT IN EQUITY ACCOUNTED INVESTEEES

11.1 The movement in investments in equity accounted investees is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	469,985	469,583
Share in net income of equity accounted investees	42,577	83,763
Share of net movement of unrealised loss relating to cash flow hedges and translation of foreign operations	(389)	(6,486)
Dividends received	(41,202)	(76,875)
	<hr/>	<hr/>
Balance at December 31	<u>470,971</u>	<u>469,985</u>

11.2 Summarised financial information of major equity accounted investee is as follows:

Midal Cable W.L.L.	Ownership %	Assets	Liabilities	Revenues	Net income
2016	50%	2,166,300	1,219,257	2,970,375	84,045
<u>2015</u>	50%	1,926,521	991,583	3,598,511	168,135

11.3 As Xeca Information Technology has reported losses during previous years, the Company's carrying value of investments has reduced to SR Nil (2015: SR Nil).

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12. INVESTMENT PROPERTIES

The movement in investment properties during the year ended December 31, 2016 is analyzed as under:

	<u>2016</u>	<u>2015</u>
<u>Cost:</u>		
Balance at January 1 and December 31	<u>47,123</u>	<u>47,123</u>
<u>Depreciation:</u>		
Balance at January 1	<u>17,366</u>	16,404
Charge for the year	<u>963</u>	962
Balance at December 31	<u>18,329</u>	<u>17,366</u>
Net book value	<u>28,794</u>	<u>29,757</u>

12.1 Investment properties includes landholdings and buildings held by Mass Kablo Yatırım ve Ticaret Anonim Şirketi and Elimsan Salt Cihazları ye Elektromekanik San ve Tic, subsidiaries based in Turkey. The Group has pledged its investment properties with AK Bank (a bank registered in Turkey) to secure credit facilities.

12.2 The depreciation over investment property is allocated to general and administrative expenses.

13. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year ended December 31, 2016 is analyzed as under:

	<u>Lands</u>	<u>Buildings</u>	<u>Plant, machineries & vehicles</u>	<u>Furniture and fixtures</u>	<u>Capital work-in- progress</u>	<u>Total</u>
<u>Cost:</u>						
Balance at January 1, 2016	171,470	430,491	1,336,757	149,313	25,134	2,113,165
Additions during the year	--	960	6,564	1,030	14,587	23,141
Disposals during the year	(31,460)	(12,109)	(14,739)	(373)	--	(58,681)
Transfers during the year	--	890	3,263	396	(4,549)	--
Balance at December 31, 2016	<u>140,010</u>	<u>420,232</u>	<u>1,331,845</u>	<u>150,366</u>	<u>35,172</u>	<u>2,077,625</u>
<u>Accumulated depreciation:</u>						
Balance at January 1, 2016	--	253,533	1,053,300	124,754	--	1,431,587
Charge for the year	--	11,615	45,230	12,178	--	69,023
Disposals during the year	--	(8,846)	(14,272)	(508)	--	(23,626)
Balance at December 31, 2016	<u>--</u>	<u>256,302</u>	<u>1,084,258</u>	<u>136,424</u>	<u>--</u>	<u>1,476,984</u>
<u>Net book value:</u>						
December 31, 2016	<u>140,010</u>	<u>163,930</u>	<u>247,587</u>	<u>13,942</u>	<u>35,172</u>	<u>600,641</u>
December 31, 2015	<u>171,470</u>	<u>176,958</u>	<u>283,457</u>	<u>24,559</u>	<u>25,134</u>	<u>681,578</u>

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

13.1 Capital work-in-progress represents construction and renovation of buildings, installation and up gradation of plant and machineries.

13.2 Depreciation charge for the year ended December 31, has been allocated as follows:

	<u>2016</u>	<u>2015</u>
Cost of sales	58,218	61,380
General and administrative expenses (note 23)	10,561	13,883
Selling and marketing expenses (note 24)	244	356
	<u>69,023</u>	<u>75,619</u>

13.3 Certain machinery and equipment at December 31, 2016 having cost of SR 31.5 million (2015: SR 26.9 million) and net book value of SR 25.2 million (2015: SR 22.1 million) have been acquired under finance lease arrangement. (note 15).

13.4 At December 31, 2016 certain assets with a net book value of SR 120.3 million (2015: SR 124.9 million) were pledged as collateral against certain credit facilities. (note 15).

14. INTANGIBLE ASSETS

The movement in intangible assets during the year ended December 31, 2016 is analyzed as under:

	<u>Goodwill</u>	<u>Development costs</u>	<u>Rights & licenses</u>	<u>Deferred costs</u>	<u>Total</u>
<u>Cost:</u>					
Balance at January 1, 2016	74,216	130,756	16,996	24,690	246,658
Additions during the year	--	1,535	1,630	--	3,165
Balance at December 31, 2016	<u>74,216</u>	<u>132,291</u>	<u>18,626</u>	<u>24,690</u>	<u>249,823</u>
<u>Accumulated amortisation:</u>					
Balance at January 1, 2016	--	63,984	13,918	18,214	96,116
Charge during the year	--	9,735	446	2,445	12,626
Impairment during the year	74,216	37,715	--	--	111,931
Balance at December 31, 2016	<u>74,216</u>	<u>111,434</u>	<u>14,364</u>	<u>20,659</u>	<u>220,673</u>
<u>Net book value:</u>					
December 31, 2016	<u>--</u>	<u>20,857</u>	<u>4,262</u>	<u>4,031</u>	<u>29,150</u>
December 31, 2015	<u>74,216</u>	<u>66,772</u>	<u>3,078</u>	<u>6,476</u>	<u>150,542</u>

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14. INTANGIBLE ASSETS (continued)

- 14.1 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, 2016, the Group assessed an impairment of Goodwill. Considering the economic conditions and performance of Elimsan Salt Cihazlari ye Elektromekanik San ve Tic. A.S. (group of companies), the amount of impairment assessed is SR 74.21 million

- 14.2 During the year ended December 31, 2016, based on a detailed assessment on the recoverability of development costs, SR 37.72 million was recorded as impairment.

15. BANK BORROWINGS AND FINANCIAL RESTRUCTURING

The Group has entered into several financing arrangements with local and foreign banks and development financial institutions (DFI) with short and long-term maturities 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 Parent Company's guarantee.

As at December 31, short-term loans comprise the following:

	<u>2016</u>	<u>2015</u>
Bank Al Bilad	9,791	31,431
Saudi British Bank	5,483	41,251
Bank Al Jazira	--	76,191
BNP Paribas	--	70,189
National Commercial Bank	--	218,142
Al Rajhi Bank	--	164,889
Lenders of subsidiaries (outside Kingdom of Saudi Arabia)	<u>127,248</u>	<u>140,029</u>
	<u>142,522</u>	<u>742,122</u>

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15. BANK BORROWINGS AND FINANCIAL RESTRUCTURING (continued)

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

	<u>2016</u>	<u>2015</u>
<i>Current portion of long term loans:</i>		
National Commercial Bank	77,878	--
Al Rajhi Bank	69,956	169,599
BNP Paribas Bank	49,702	7,610
Saudi Industrial Development Fund (DFI)	38,963	--
Bank Al Jazira	29,172	--
	<u>265,671</u>	<u>177,209</u>
<i>Non-current portion of long term loans:</i>		
Al Rajhi Bank	194,254	--
National Commercial Bank	144,601	--
BNP Paribas Bank	92,284	--
Saudi Industrial Development Fund (DFI)	73,227	112,960
Bank Al Jazira	54,169	--
Lenders of subsidiaries (outside Kingdom of Saudi Arabia)	35,980	60,512
	<u>594,515</u>	<u>173,472</u>
Total long term loans	<u>860,186</u>	<u>350,681</u>

On February 23, 2016, the Group secured financial restructuring agreements (“Initial restructuring agreement”) with its four main lenders that requires the Group to comply with additional covenants and allows the Group to reschedule repayment of its debts over a period of 7 years, culminating with a final payment at the end of December 2022, subject to certain additional requirements to be completed within sixty days. The amount of total debt restructured is SR 796 million, including accumulated financing costs of SR 85 million. However, these terms were amended subsequent to the year end, through the following:

- a) On April 17, 2017, the Group had entered into a Final Settlement Agreement (“the Settlement agreement”) with BNP Paribas on the basis of which the Group made a payment of SR 40 million. Based on the terms of the said agreement, on receipt of SR 40 million by BNP Paribas, the loan amount of BNP Paribas shall be reduced from SR 142 million to SR 24.99 million. Accordingly, the Group has reversed the obligation through consolidated statement of income and reduction in accumulated losses, by SR 77 million in the period subsequent to year end.

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15. BANK BORROWINGS AND FINANCIAL RESTRUCTURING (continued)

- b) On June 11, 2017, the Group finalized further renegotiations to "Restructuring Framework Agreement" through an amendment and restatement agreement by virtue of which the Participating Banks (excluding BNP Paribas) have agreed to defer the repayment of the loan for a further period. According to the terms of the said agreement, the Company shall increase its capital through issuance of right shares and settle an amount of SR 188.38 million, from the said proceeds by June 30, 2018. The remaining amount of SR 371.65 million is payable in equal semi-annual instalments commencing from December 31, 2018 to June 30, 2022.
- c) During October 2017 all the participating banks (excluding BNP Paribas) within the restructuring consortium, have confirmed that, in an event the issuance of right shares gets delayed and the Company is unable to generate sufficient cash for the repayment of amounts due on June 30, 2018, the participating banks will revisit the current repayment terms and defer the obligations for a sufficient period to ensure that the Company's operations are not discontinued. Concurrently, the Company shall be relieved from any breaches of debt covenants caused by the aforementioned delay. Additionally, the Participating banks have also confirmed to provide continued support to in case of unwillful defaults by the Company due to unforeseen circumstances, as mentioned.
- d) Subsequent to the year end, the Group has decided to dispose the Tele cable plant of Saudi Cable Company and the investment property held in one of the subsidiaries of the Group.
- e) On August 22, 2017, in accordance with the shareholders' agreement between Saudi Cable company and Al Zayani Investment (second shareholder) , the Group has formally expressed its desire to sell its stake in Midal Cables, to the second shareholder. According to the terms of the Articles of Association of the Midal Cables, the second shareholder has an option to accept the offer within three months from the date of the offer. As at the date of the approval of these financial statements, the second shareholder has not formally conveyed its decision to the group.

Furthermore, as per the restructuring agreement, DFI has agreed to restructure the loan according to the revised repayment terms of the restructured loan.

In line with the revised term of the repayment, the principal amounts for the restructured loan are as follows:

	<u>Restructured Loan</u>	DFI	<u>Total</u>
Within one year	127,000	1,960	128,960
Between one to two years	251,110	1,960	253,070
Between two to five years	226,477	89,410	315,887
After five years until December 31, 2022	107,428	18,860	126,288
	<u>712,015</u>	<u>112,190</u>	<u>824,205</u>

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16. OBLIGATIONS UNDER FINANCE LEASE

Finance leases relate to manufacturing equipment leases with a term of 5 years or less. The Group has options to purchase the equipment for a nominal amount at the end of the lease agreement. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

	<u>2016</u>	<u>2015</u>
Minimum lease payments	26,796	33,090
Less: financial charges not yet due	<u>(2,567)</u>	<u>(3,510)</u>
Present value of minimum lease payments	24,229	29,580
Less: current portion shown under current liabilities	<u>(9,358)</u>	<u>(9,454)</u>
Non - current portion shown under current liabilities	<u>14,871</u>	<u>20,126</u>

The leased assets have been acquired under finance lease arrangements for a total lease value of SR 48.62 million, and remaining balance of SR 24.23 million payable in equal monthly installments.

The present value of minimum lease payments has been determined at an effective interest rate of 6% per annum. Future lease payments as at December 31, are as follows:

	<u>2016</u>	<u>2015</u>
Obligation under finance lease	<u>24,229</u>	<u>29,580</u>
Within one year	9,358	9,454
Within two to five years	14,871	20,126

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17. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	<u>2016</u>	<u>2015</u>
Accrued financial charges	6,912	55,640
Advances from customers	74,315	99,080
Billing in excess of contract revenue (note 17.1)	27,117	33,140
Negative fair value of derivatives	--	46,049
Accrued commission	9,854	13,346
Employee payables	23,659	10,741
Payables to non-controlling shareholders of Elimsan Salt (note 17.2)	89,461	89,461
Other current liabilities	46,556	45,370
	<u>277,874</u>	<u>392,827</u>

17.1 Billing in excess of contract revenue represents project related revenues that has not been recognized using percentage of completion method, but has already been billed based on the achievement of the contract milestones as at December 31, 2016.

17.2 The liability represents the payments due to the non-controlling shareholders of Elimsan Salt Cihazlari ye Elektromekanik San ve Tic. A.S (“Elimsan Salt”) under an agreement of purchase of shares by Mass Kablo. According to agreement, Mass Kablo was required to pay 90% of the net profit to the shareholders of Elimsan Salt till the year ended December 2014. However, if there was no profit during the said period, Mass Kablo was liable to pay US\$ 14.256 million in 2014 and thereafter US\$ 5 million in each year ended 2015 and 2016. As at December 31, 2016 no amount has been paid by the Company to the shareholders of Elimsan Salt.

18. ZAKAT AND INCOME TAX

a) Charge for the year

Zakat and income tax charge for the year ended December 31 comprises the following

	<u>2016</u>	<u>2015</u>
Zakat charge for the year	10,686	16,000
Deferred tax	266	(2,100)
Zakat and income tax charge for the year	<u>10,952</u>	<u>13,900</u>

Zakat computation for the years ended December 31, 2016 and 2015 was based on the financial statements of the parent Company and its subsidiaries.

Foreign subsidiaries are subject to income tax in accordance with the tax laws of the countries of their incorporation. Provisions for income tax of foreign subsidiaries are charged to the consolidated statement of income.

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18. ZAKAT AND INCOME TAX (continued)

b) Accrued Zakat and income tax

The movement in accrued zakat during the year ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	80,191	64,740
Add: Charge for the year	10,952	16,000
Less: Payments during the year	(87)	(549)
	<hr/>	<hr/>
Balance at December 31	<u>91,056</u>	<u>80,191</u>

Components of zakat base

The Group's local subsidiaries file separate zakat and income tax declarations on unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and estimated taxable income, less deductions for the net book value of property, plant and equipment, investments and certain other items.

The movement in deferred tax asset during the year ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	5,834	5,524
Net movement during the year	266	310
	<hr/>	<hr/>
Balance at December 31	<u>5,568</u>	<u>5,834</u>

At December 31, 2016, deferred tax asset amounting to SR 5.57 million (2015: SR 5.83 million) relates to a foreign subsidiary of the Group and the management believes that it is recoverable.

Status of assessments:

Saudi Cable Company

The zakat assessments have been finalised by General Authority of Zakat and Income Tax (GAZT) for all years up to December 31, 1992.

The General Authority of Zakat and Income Tax (GAZT) has assessed additional Zakat liability amounting to Saudi Riyals 50.70 million on the Company for the years 1993 to 2004. The Company objected against part of the additional liabilities, which is still under an appeal at various levels between GAZT and Board of grievances (BOG).

GAZT issued the assessment for the years 2005 to 2007 and claimed additional zakat and withholding tax liability amounting to SR 35.69 million. The Company objected against the said assessment, which was transferred to Preliminary Objection Committee (POC) for the review and decision. POC accepted the GAZT's verdict. Accordingly, the Company filed an appeal against POC's decision with Higher Appeal Committee (HAC). The HAC issued its decision, which supported the POC's decision. The Company filed a petition against the said decision with BOG, which is currently under review by BOG.

GAZT has raised assessment for the years 2008 and 2009 with additional liability of 32.9 million. The company has filed an appeal against the GAZT's assessment with the Preliminary Objection Committee (POC).

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18. ZAKAT AND INCOME TAX (continued)

The GAZT issued the assessment for the years from 2010 to 2012 and claimed additional Zakat liability of SR 72.22 million. The Company objected against the said assessment, which was which was upheld by the POC. Accordingly, the Company filed an appeal against POC's decision with the HAC. The Company expects a favourable outcome regarding the above appeal and firmly believes that their views will prevail.

The Company has recorded a provision of SR 91 million against current and above mentioned assessments by the GAZT. The Company filed its Zakat returns for the year 2013, 2014 and 2015 and has obtained the restricted Zakat certificates.

Mass Projects for Power & Telecommunications Limited

The Company has filed its Zakat returns for the years from 1999 to 2015, The GAZT issued its final Zakat Assessments for the years 1999 to 2004 and claimed additional Zakat liabilities of SR 3 million. The Company filed an objection against the GAZT assessment, which is still under review by GAZT. Final assessments for the years 2005 to 2015 were not issued by the GAZT till to date.

Mass Centers for Distribution of Electrical Products Limited

The GAZT issued the Zakat assessments for the years from 1998 to 2007 and claimed additional Zakat liability of SR 1 million. The Company filed an appeal with the Higher Appeal Committee (HAC) against the said assessments and is confident of favorable outcome.

The Company filed its Zakat returns for the years ended December 31, 2008 to 2010. The GAZT did not issue the final Zakat assessments for the said years till to date. Although, the Company is essentially dormant but is in the process to file the Zakat returns for the years from 2011 to 2014.

Saudi Cable Company for Marketing Limited

The GAZT issued the final assessment for the years 1996 to 2004, and claimed additional zakat liability of SR 17 million. The Company filed its objection against the said Zakat assessment and is confident of favorable outcome. The Company filed its Zakat returns for the years 2005 to 2007. The GAZT did not issue the final Zakat assessment for the said years till to date. Although, the Company is essentially dormant but is in the process to file the Zakat returns for the years up to 2015.

19. EMPLOYEES' END OF SERVICE BENEFIT

The movement in employees' end of service benefit liability is as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	69,444	67,937
Provisions for the year	5,502	13,355
Paid during the year	<u>(5,260)</u>	<u>(11,848)</u>
Balance at December 31	<u>69,686</u>	<u>69,444</u>

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20. SHARE CAPITAL

The share capital consists of 76,000,000 shares of Saudi Arabian Riyals 10 each as at December 31, 2016 and December 31, 2015.

Subsequent to the year end, on June 4, 2017, the shareholders resolved to reduce the share capital of the Company by SR 355.89 million by reducing the number of shares in the exchange ratio of 1:2.14, subsequent to approval of Capital market Authority ("CMA") (note 33).

21. STATUTORY RESERVE

In accordance with the by-laws, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital.

In the Annual General Meeting held on June 2, 2016, shareholders have approved the absorption of accumulated losses by transferring the statutory reserve under Article 126 of the Regulation for Companies. Accordingly, the statutory reserve has been transferred to accumulated losses, reducing the balance of statutory reserve to Nil (December 31, 2015: SR 63.432 million). As the Company is in losses, therefore no amount has been transferred to statutory reserve during the current period.

22. FAIR VALUE RESERVE

Fair value reserve mainly represent the unrealized gain arising from the fair value of derivatives. The Movement in fair value reserve is as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Balance at January 1	(13,694)	(20,123)
Net movement in realized / unrealized gains on available-for-sale investments	--	24
Net movement in unrealized gains relating to cash flow hedges of the Company and its subsidiaries	13,971	
Net movement in unrealized gains relating to cash flow hedges of the equity accounted investee	4,818	6,405
Balance at December 31	<u>5,095</u>	<u>(13,694)</u>

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23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprises of the following:

	<u>2016</u>	<u>2015</u>
Salaries and related benefits	64,464	40,731
Professional charges	18,153	14,100
Depreciation (note 12 and 13)	11,524	14,845
Amortisation (note 14)	12,626	15,974
Bank charges	2,442	5,085
Repairs and maintenance	3,690	4,899
Traveling and transportation expenses	2,311	3,088
Rent and insurance	2,887	2,650
Utilities	2,680	2,127
Trainings	284	2,046
Printing, stationery and advertisements	1,169	1,129
Others	6,931	7,946
	129,161	114,620

24. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses comprises of the following:

	<u>2016</u>	<u>2015</u>
Salaries and related benefits	27,581	24,799
Freight, insurance and transportation	16,580	22,872
Repairs and maintenance	1,436	1,263
Professional charges	1,091	1,335
Depreciation (note 13)	244	356
Rent	825	1,835
Utilities	533	460
Printing, stationery and advertisements	969	519
Others	2,665	2,420
	51,924	55,859

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25. OTHER INCOME - NET

Other income comprises of the following:

	<u>2016</u>	<u>2015</u>
Gain on disposal of property, plant and equipment – net (note 25.1)	41,102	--
Reversal of provision for doubtful receivables - net	5,793	40,130
Foreign exchange gain	--	8,127
Others	4,565	6,521
	<u>51,460</u>	<u>54,778</u>

- 25.1 As part of the restructuring agreement, the Group has agreed to dispose certain domestic and international real estate properties and utilize its proceeds for repayment of the loans (note 15).

During the year ended December 31, 2016, the Company has sold these assets to Al Rajhi Development Company Limited for SR 72.11 million, resulting into a gain of SR 41.1 million, recognised in consolidated statement of income.

26. BASIC AND DILUTED LOSS / EARNINGS PER SHARE

Loss / earnings per share for the years ended December 31, 2016 and 2015 have been computed by dividing the net (loss) / profit and loss from operations for such years by the weighted average number of shares outstanding at the end of the year. Diluted earnings per share is also same as basic earnings per share.

27. RELATED PARTIES TRANSACTIONS AND BALANCES

- a) Related parties include the Company's shareholders and their relatives upto the fourth generation, associated and affiliated companies (including equity accounted investees) and key management personnel of the Company. Terms and conditions of these transactions are approved by the Company's Board of Directors.
- b) Related party transactions mainly represent purchase and sale of finished goods and recharging of expenses from / to affiliates. These are undertaken at mutually agreed terms and are approved by the Company's Board of Directors
- c) Significant related party transactions and balances arising there from as at December 31 are summarized as under:

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27. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

i) Due from related parties

<u>Transaction with</u>	<u>Relationship</u>	<u>Nature of transaction</u>	Transactions during the year ended		Closing balance	
			<u>December 31, 2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Hidada Limited	Affiliate	Sale of goods	143	1,207	309	483
Xeca International Information Technology	Associate	Shared services	--	4,105	--	378
					309	861

ii) Due to related parties

<u>Transaction with</u>	<u>Relationship</u>	<u>Nature of transaction</u>	Transactions during the year ended		Closing balance	
			<u>December 31, 2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Midal Cables W.L.L	Associate	Purchase of raw material	29,472	31,189	--	--
		Directors remuneration	1,875	1,875	--	--
		Dividends received	41,202	76,875		
		Others	1,159	439	22,288	22,237
Xenel Industries Limited	Shareholder	Expenses recharged by the Group	2,821	2,377	41,417	38,596
Chem Global Limited	Affiliate		--	--	664	664
Hidada Limited	Affiliate	Expenses incurred by the Group	--	--	1,452	1,452
Xeca International Information Technology	Associate	Expenses incurred by the Group	5,292	--	2,969	--
					68,790	62,949

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27. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

iii) Remuneration of Directors and Key Management Personnel

Key management include personnel / executive directors and members of the Board of Directors.

	<u>2016</u>	<u>2015</u>
Directors Remuneration	<u>63</u>	<u>45</u>

The remuneration of the key management personnel during the year was as follows:

	<u>2016</u>	<u>2015</u>
Short term benefits	<u>10,390</u>	<u>8,365</u>
Post employment benefit	<u>280</u>	<u>312</u>

Short term benefits include the monthly gross salary paid to the key management personnel which include basic salary, allowances and other incentives..

Post employment benefits include the current service cost for the employees' end of service benefit

28. COMMITMENTS AND CONTINGENT LIABILITIES

In addition to contingencies mentioned in note 18, following are the additional commitments and contingent liabilities of the Group

	<u>2016</u>	<u>2015</u>
Outstanding forward metal contracts	<u>40,508</u>	<u>103,278</u>
Contingent liabilities in respect of performance and bid bonds	<u>86,097</u>	<u>128,799</u>
Authorised and contracted for capital expenditure commitments	<u>4,667</u>	<u>8,833</u>
Corporate guarantees issued	<u>21,938</u>	<u>61,196</u>

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

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28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Furthermore, the parent company is involved in legal proceedings with a third party vendor for supply of certain telecommunication cables. The court in its verdict dated December 5, 2006, directed the vendor to permit the Parent company to inspect the telecommunication cables and to replace them. Management estimates that they will have to incur additional SR 3.75 million for the replacement of cable. Additionally, the court directed the parent company to pay a compensation of SR 1.75million to the third party vendor. The vendor has however, not permitted the Parent company to inspect the telecommunication cables.

The management, on the basis of a legal opinion is confident that as the vendor has not permitted the company to inspect the telecommunication cables, the verdict is not tenable. The management further believes that they have multiple grounds to appeal this verdict and intends to vigorously pursue such appeals. Accordingly, no provision has been made in these financial statements.

29. 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)

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

	<u>Sale of goods</u>		<u>Contract revenues</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue	1,442,794	1,827,034	121,761	91,025	1,564,555	1,918,059
Costs of revenue	1,379,661	1,766,995	108,938	82,659	1,488,599	1,849,654
Net (loss) / profit	(198,959)	(5,254)	171	6,941	(198,788)	1,687
Trade receivables	358,391	381,738	107,639	139,676	466,030	521,414
Property, plant and equipment	597,255	676,635	3,386	4,943	600,641	681,578
Short-term loans	142,522	669,375	--	72,747	142,522	742,122
Long-term loans	860,186	255,217	--	95,464	860,186	350,681

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Saudi Arabian Riyals)

29. SEGMENTAL INFORMATION (continued)

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>
<u>2016</u>				
Revenue	966,162	153,696	444,697	1,564,555
Costs of revenue	944,832	147,673	396,094	1,488,599
Net (loss) / profit	(167,618)	506	(31,676)	(198,788)
Trade receivables	269,462	70,131	126,437	466,030
Property, plant and equipment	254,141	29	346,471	600,641
Short-term loans	15,274	--	127,248	142,522
Long-term loans	824,205	--	35,981	860,186
	<u>Saudi Arabia</u>	<u>UAE</u>	<u>Turkey</u>	<u>Total</u>
<u>2015</u>				
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 receivables	336,826	34,546	150,042	521,414
Property, plant and equipment	329,725	24	351,829	681,578
Short-term loans	602,093	--	140,029	742,122
Long-term loans	290,169	--	60,512	350,681

30. OPERATING LEASES

Rent expense for the year ended December 31, 2016 amounted to SR 6.375 million (December 31, 2015: SR 5.10 million).

31. RISK MANAGEMENT

The Group has exposure to the following risks:

- Commission rate risk
- Liquidity risk
- Credit risk
- Currency risk
- Commodity price risk

This note represents information about the Group's exposure to each of the above risks, Group's objectives, policies and processes for measuring and managing such risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

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31. RISK MANAGEMENT (continued)

a) Commission rate risk

Commission rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group is exposed to commission rate risk mainly on the amounts due to banks. The Group monitors the fluctuation, where applicable, in the interest rates and also enters into interest rate Swap with a commercial to hedge future adverse fluctuation in interest rates on its long term borrowing. All the borrowings of the Company are on floating commission rate

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. This risk is managed by the Group's treasury department by monitoring the maturity profile of the Group and affiliates' financial assets and liabilities to ensure that adequate liquidity is maintained. The Group's financial liabilities primarily consist of short term and long term loans, accounts payable, finance lease obligations, other liabilities and due to related parties. This assists the Group in monitoring the cash flow requirements to ensure that it has sufficient liquidity. The Group also monitors the levels of expected cash inflows on trade and other receivables together with the expected cash outflows on trade payables and bank borrowings, including finance costs.

As at December 31, 2016, the Group's current liabilities exceeded its current assets by SR 253.20 million (December 31, 2015: SR 706.19 million). However, subsequent to the year end, during October 2017, all the participating banks within the restructuring consortium, have confirmed to provide continued support in case of unwillful defaults by the Company due to unforeseen circumstances, as mentioned (Note 15).

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk arises from the possibility that assets could be impaired because counter parties cannot meet their obligations in transactions involving financial instruments. The Group has established procedures to manage credit exposure including credit approvals, credit limits and guarantee requirements. An allowance for potential doubtful receivables is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on delinquent receivables.

The amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

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31. RISK MANAGEMENT (continued)

c) Credit risk (continued)

The table below shows the maximum exposure to credit risk for the significant components of the balance sheet:

	<u>2016</u>	<u>2015</u>
Bank balances	23,359	59,663
Trade receivables	466,030	521,414
Retention receivable	126,000	160,686
Unbilled revenue	47,218	64,322
Deposits	37,784	46,860
Other receivables	27,688	32,352
	<u>728,079</u>	<u>885,297</u>

d) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates. Except for operations of foreign subsidiaries, the Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year.

e) Commodity price risk

The Group is exposed to commodity price risk and accordingly uses commodity derivative instruments to manage, some of the risks arising from fluctuations in commodity prices. Where these derivatives have been designated as cash flow hedges of underlying commodity price expenses, certain gains and losses attributable to these instruments are deferred in shareholders' equity and recognised in the consolidated statement of operations when the underlying hedged transaction crystallizes or is no longer expected to occur.

The Group's activities expose it primarily to the financial risks of changes in metal pricing. The Group enters into derivative financial instruments to manage its exposure to metal pricing.

32. FAIR VALUES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying consolidated financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale investments and derivative financial instruments which are carried at fair values through equity, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

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33. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the following major events have occurred:

- On May 1, 2017, the Board of Directors recommended to reduce the share capital of the Company by absorption of accumulated losses of the Company up to SR 355.89 million. The Capital Market Authority ("CMA") has authorized such reduction on May 8, 2017, which has been approved by the shareholders in their extra ordinary general meeting held on June 4, 2017.
- On April 17, 2017, the Group had entered into a final settlement agreement with BNP Paribas on the basis of which the Group made a payment of SR 40 million. Based on the terms of the said agreement, on receipt of SR 40 million by BNP Paribas, the loan amount of BNP Paribas shall be reduced from SR 142 million to SR 24.99 million. Accordingly, the Group has reversed the obligation through consolidated statement of income and reduction in accumulated losses, by SR 77 million in the period subsequent to year end.
- On June 11, 2017, the Group has finalized further renegotiation to "Restructuring Framework Agreement" through an amendment and restatement agreement by virtue of which the Participating Banks (excluding BNP Paribas) have agreed to defer the repayment of the loan for a further period. According to the terms of the said agreement, the Company shall increase capital through issuance of right shares and settle an amount of SR 188.38 million, from the said proceeds by June 30, 2018. The remaining amount of SR 371.65 million is payable in equal semi-annual installments commencing from December 31, 2018 to June 30, 2022.

Furthermore, during October 2017, all the participating banks (excluding BNP Paribas) within the restructuring consortium, have confirmed that, in an event the issuance of right shares gets delayed and the Company is unable to generate sufficient cash for the repayment of amounts due on June 30, 2018, the participating banks will revisit the current repayment terms and defer the obligations for a sufficient period to ensure that the Company's operations are not discontinued. Concurrently, the Company shall be relieved from any breaches of debt covenants caused by the aforementioned delay. Additionally, the participating banks have also confirmed to provide continued support to in case of unwillful defaults by the Company due to unforeseen circumstances, as mentioned.

- Subsequent to the year end, the Group has decided to dispose the Tele cable plant of Saudi Cable Company and the investment property held in one of the subsidiaries of the Group.
- On August 22, 2017, in accordance with the shareholders' agreement between Saudi Cable company and Al Zayani investment (second shareholder), the Group has formally expressed its desire to sell its stake in Midal Cables, to the second shareholder. According to the terms of the Articles of Association of the Midal Cables, the second shareholder has an option to accept the offer within three months from the date of the offer. As at the date of the approval of these financial statements, the second shareholder has not formally conveyed its decision to the group.

These events do not require adjustments in the numbers reported in the consolidated financial statements.

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34. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved for issuance by the Board of Directors on Safar 26, 1439H, corresponding to November 15, 2017.