BREAKING THROUGH BARRIERS

Annual Report 2019

MEPCO

Middle East Paper Company

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TRUE LEADERSHIP SOARS THROUGH HEADWINDS

2019 cemented MEPCO's position as the leading producer of containerboard and specialty paper products in the Middle East and North Africa. What's behind our continued success? From people to products to planet, we continue innovating in the face of adversity. Amidst challenging market conditions in 2019, MEPCO management and staff showed remarkable vision and creativity.

Our products continue delivering value across industries. And our sustainability initiatives continue to set standards.

SWOOPING IN TO SEIZE OPPORTUNITIES

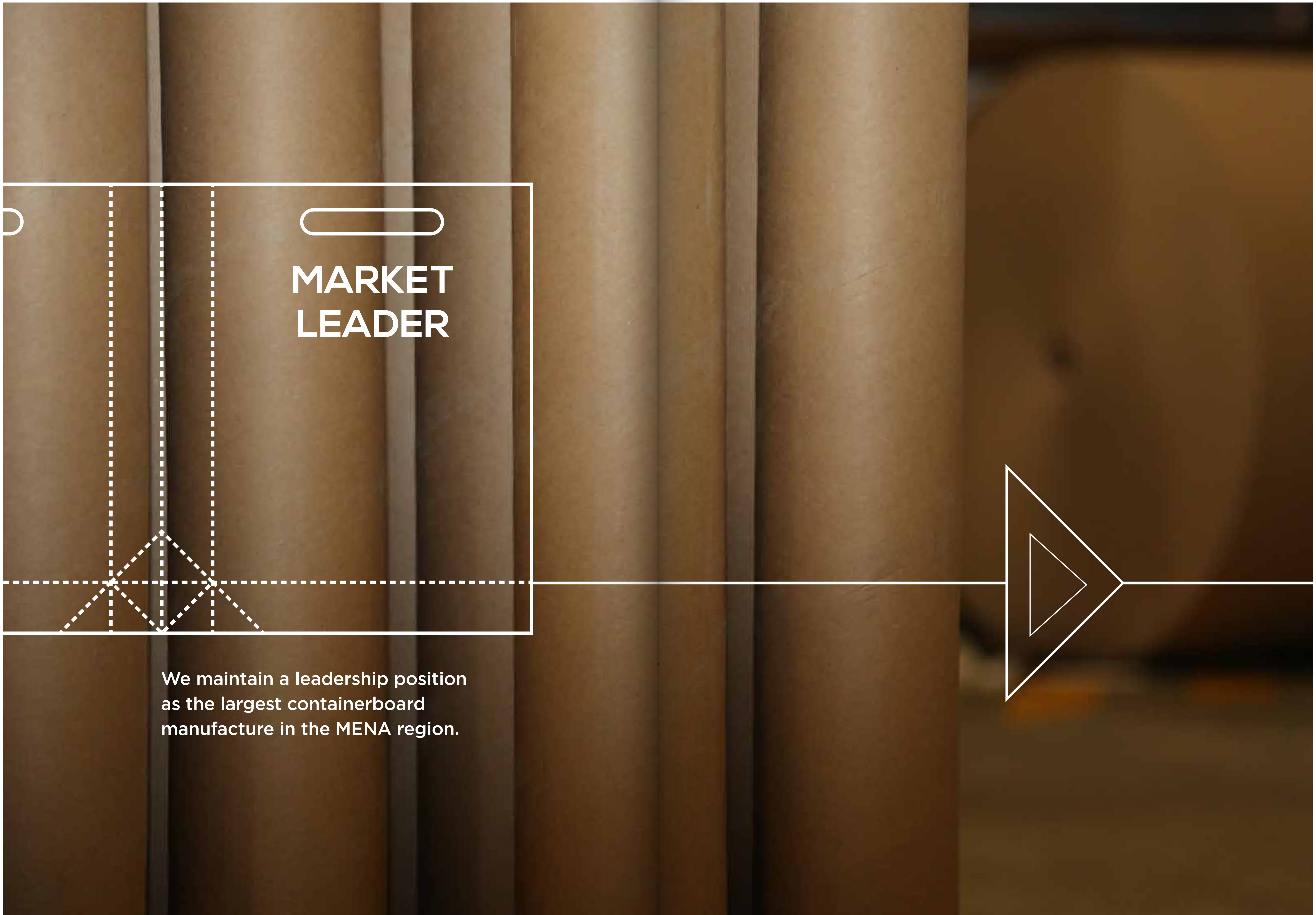
We've thrived on challenge at a time when many others struggled with commodity price turmoil. Thanks to our flexible operating model, broad product portfolio and diverse client base, we successfully gained market share in 2019. With our experienced management and backward integration, we've navigated an efficient course through this year's challenges.

The results in this Annual Report are proof of our agility – and our ability to seize opportunities as we maintain our track record of growth.

A FIRM COMMITMENT TO PROGRESS

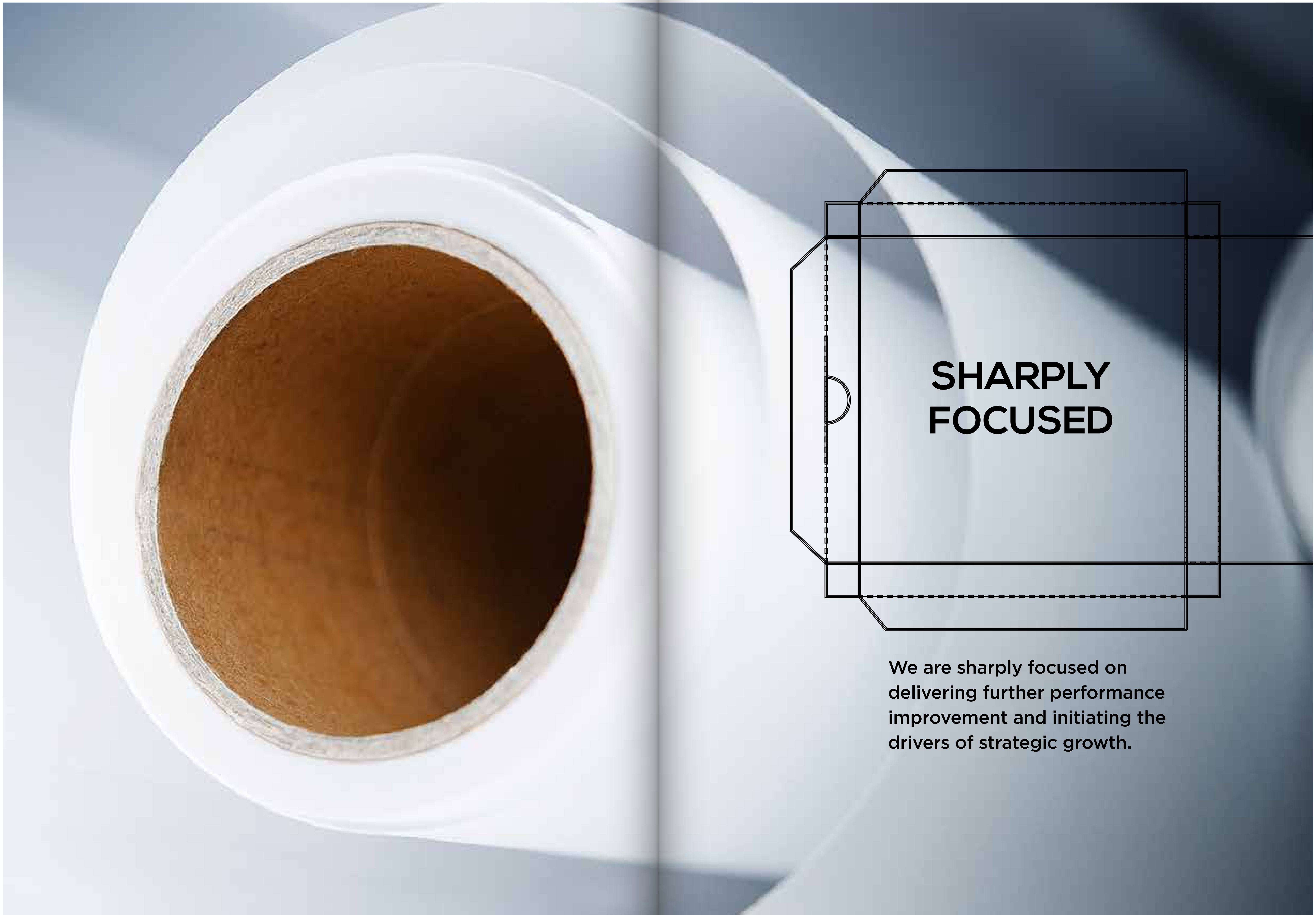
2019 showcased MEPCO's trademark commitment – to customers, staff, suppliers, investors, communities and peers. Despite rapid external changes, we demonstrated a unique ability to forge ahead. Not only did we continue delivering value to all stakeholders,.

But we also continued supporting responsible manufacturing and environmental protection. And we're proud of our impressive results – broadening our client base and hitting new sales Records.



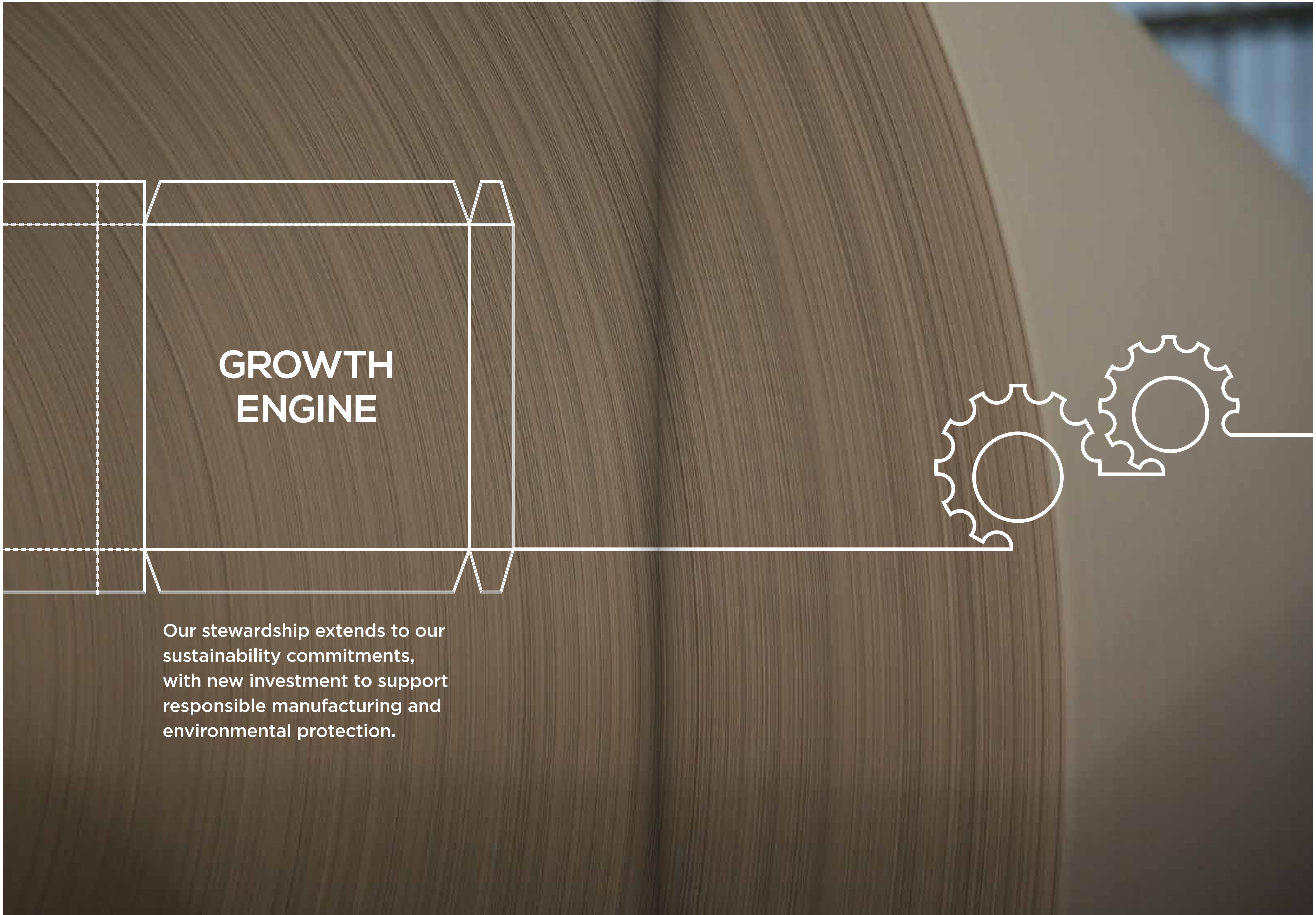
MARKET LEADER

We maintain a leadership position as the largest containerboard manufacture in the MENA region.



SHARPLY FOCUSED

We are sharply focused on delivering further performance improvement and initiating the drivers of strategic growth.



GROWTH ENGINE

Our stewardship extends to our sustainability commitments, with new investment to support responsible manufacturing and environmental protection.

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

I report with pride that MEPCO has consolidated its position as the largest containerboard manufacturer in the Middle East and North Africa. This achievement comes not only from our commitment to innovation, integration and sustainability, but also from our high standards of leadership and governance.

Our strong management team leveraged MEPCO's robust financial position and skilfully steered the business through challenging market conditions. Their strength has received widespread industry recognition. Not only was MEPCO celebrated at the Waste & Recycling Middle East Awards, but CEO Sami Al Safran received accolades for his leadership. We also added a new ISEGA certification and ISO/IEC 17025 to our long list of accreditations, putting us at the forefront among MENA containerboard manufacturers.

MEPCO has demonstrated its resilience and dynamism when it comes to tackling challenges, applying best practices and setting new standards to deliver value to customers and shareholders. We look forward to our continued collaboration with you, as well as with our staff, suppliers, Government and other stakeholders. On behalf of the Board of Directors, I'd like to extend sincere thanks and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince and the Saudi Government for their patronage of the private sector. And I'd like to end by thanking you, our shareholders, for your ongoing support.

Emad Abdulkadir Al Muhaidib
Chairman

MESSAGE FROM THE CEO

Dear Shareholders,

2019 proved MEPCO's leadership, agility and commitment within the containerboard industry. I'm delighted to report that – despite commodity price volatility – we gained market share and broadened our customer base.

As you'll see in this report, MEPCO exceeded the 400,000 tonne threshold this year – a record in our 19-year history. We continued our global expansion, exporting to 50+ countries and achieving 52.7% of sales from international customers. As a result, we've cemented our position as the region's largest containerboard manufacturer – and enhanced our reputation for quality, innovation and value.

Agility has been key to this success. Our talented team demonstrated their expertise and commitment, exceeding 92%+ utilisation rates and introducing SAR 50 million of new sustainability measures. Our flexible operating model allowed us to focus on more profitable grades and to streamline inventories. This, in turn, helped us exceed customer expectations, boost environmental protection and strengthen the business. MEPCO remains ideally positioned to capitalise on the rise of e-commerce and demand for environmentally-friendly packaging. WASCO, our wholly-owned sister company, is a trailblazer in the KSA waste management industry, and has launched a strategic initiative to help realise the country's environmental ambitions under Saudi Vision 2030.

Thank you to all our customers, suppliers and shareholders for your support this year. To our dedicated staff, I extend my sincere gratitude for your enthusiasm and ingenuity. Thank you also to the Custodian of the Two Holy Mosques, the Crown Prince and the Government, and we look forward to ongoing collaboration in line with Saudi Vision 2030.

Together, we will continue seeing the benefits of MEPCO's leadership, agility and commitment – as we break through barriers to deliver value to customers, communities and shareholders.

Sami Al Safran
Chief Executive Officer

2019 SAW A SPEED OF CHANGE AND SCOPE OF CHALLENGES RARELY BEFORE ENCOUNTERED

MEPCO AT A GLANCE

MEPCO is the largest producer of containerboard and specialty paper products in the Middle East and North Africa – and the only listed paper manufacturer in the region.

Our wholly-owned sister company, WASCO, is MENA's largest waste management specialist. Backward integration underpins our strong performance and competitive position in this evolving, global market.

6
Containerboard products

41
Countries

9
SPECIALTY PAPER PRODUCTS

26%
KSA market Share

500
Thousand Tonnes Annual installed capacity

3
Paper machines

80%
Of MEPCO's raw materialis collected domestically though WASCO

3
Industries

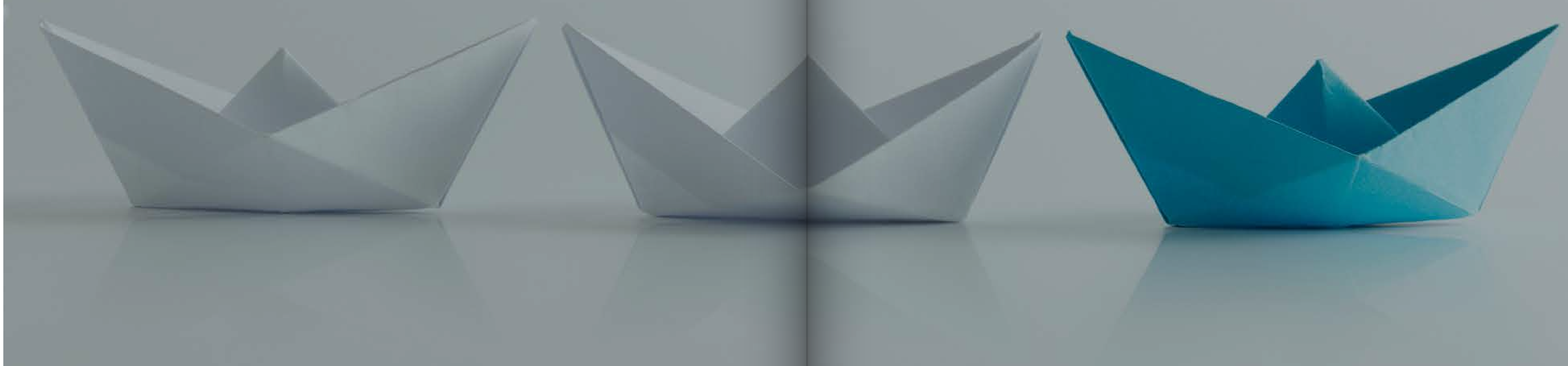
38.42%
Saudization rate

50%
Of KSA's recyclable materials are handled by WASCO

547
Students graduated from our Higher Institute

10
Km From Jeddah Port in the Red Sea

A YEAR OF LEADERSHIP, AGILITY AND COMMITMENT



2019 was a year of breaking through barriers amidst a backdrop of falling commodity prices, Chinese economic slowdown, Brexit uncertainty and US protectionism. Our successes are a testament to MEPCO's leadership, agility and commitment.

Thanks to our flexible operating model, financial strength and experienced management, we've maintained our focus on delivering sustainable growth. WASCO, our wholly-owned sister company, is MENA's largest waste management specialist – and this backward integration remains a key competitive advantage. With sales of more then 400,000 tonnes hitting a new record, we're proud to have cemented our position as the region's leading containerboard manufacturer.

Performance

All figures are in SAR

	2019 In '000	2018 In '000	Change
Sales Revenue	691,077		-81.7%
Gross Profit	141,710		-87.3%
Gross Profit %	20.5%		-8.6 bps
EBIDTA	127.685		-84.7%
EBIDTA %	18.5%		-4.2 bps
Net Profit	6,128		-96.5%
Net Profit %	0.9%		-9.6 bps
Earnings per Share (SAR)	0.12		-0.97

Markets

26%	50+ Countries
KSA market share	On 5 continents (Asia, Africa, Europe, South America and North America) import MEPCO products

Operations

400,000+ tonnes	92%+
Sold in 2019 – a new record	Utilisation rate throughout 2019
3	500,000 tonnes
Paper machines	Annual installed capacity

Sustainability

80%	50%
Of MEPCO's raw material is collected domestically through WASCO	Of KSA's recyclable materials are handled by WASCO
SAR 50 million	100%
Of environmental projects completed in 2019, enhancing sustainable production	Of our energy needs are met by our own power generation capacity

People

38.42%	12.16%	547
Saudization rate	Of our Saudi workforce is women	Students graduated from our Higher Institute for Paper & Industrial Technologies in 2019

2019 Recognition

Waste & Recycling Middle East Awards

- Paper Recycling Company of the Year
- Personality of the Year (CEO Sami Al Safran)

ISEGA certification
For MEPWHITE white top liner, meaning MEPCO has a full range of ISEGA-certified containerboard products.

ISO/IEC 17025 certification
For MEPCO Laboratories, making us the only paper manufacturer in the Middle East to meet this high international standard.

LEADERSHIP

2019 saw greater sales volumes, production output and market penetration despite challenging economic conditions. MEPCO has therefore cemented its position as MENA's largest containerboard manufacturer – by installed capacity and market share.

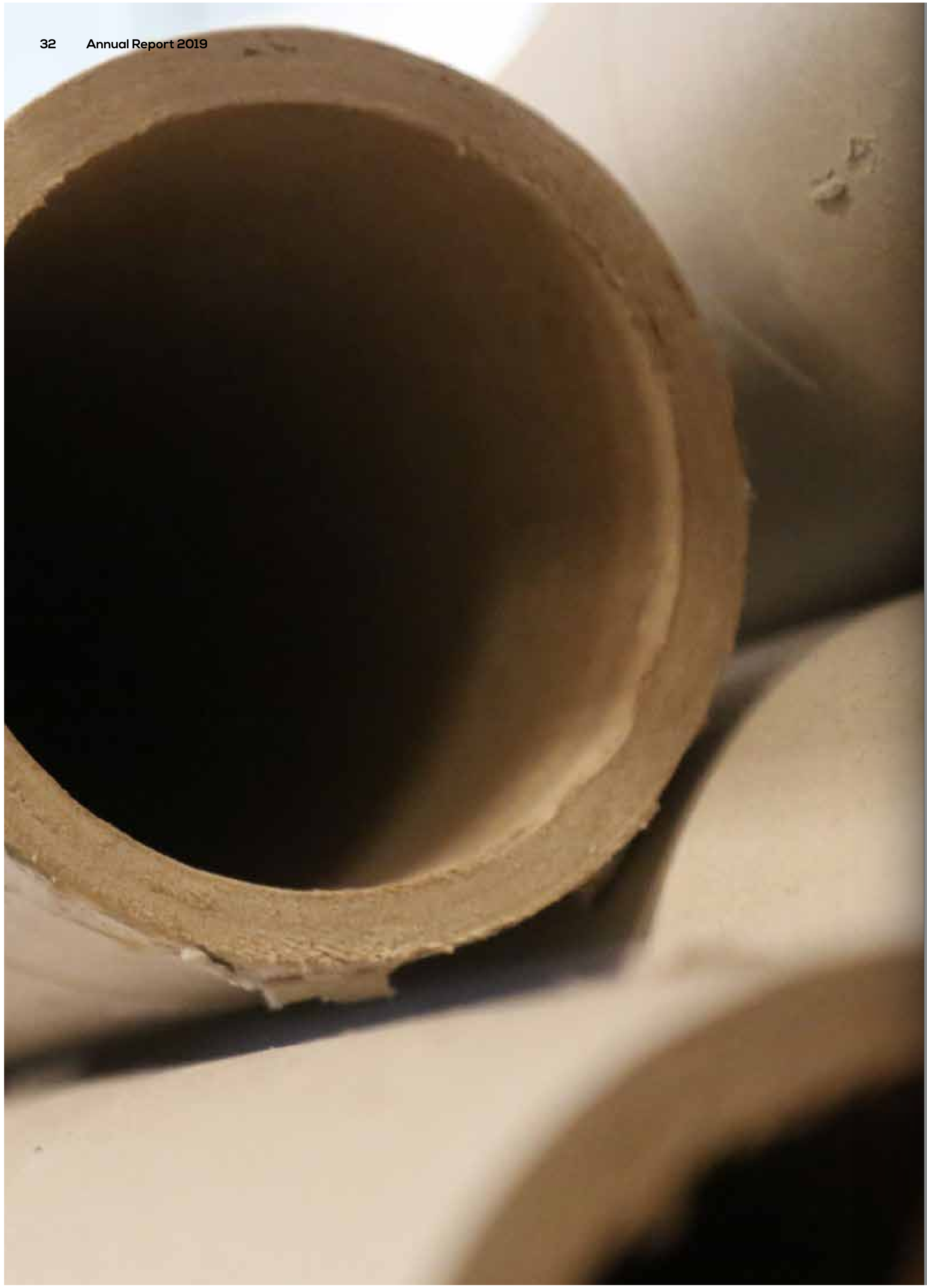
> "MEPCO is the only Middle Eastern company with a full containerboard range certified by ISEGA as safe for food contact. This gives MEPCO a clear competitive advantage against regional peers – and secures a level-playing-field for competing internationally."
>
> *__Ahmed Fazary, Chief Commercial Officer, MEPCO*

PRODUCT QUALITY & INNOVATION

Over the past 19 years, MEPCO has developed a well-deserved reputation for quality, innovation and value. We're known for our leadership – in championing our customers' businesses and in developing high-performance, durable products. Throughout 2019, we worked in partnership with customers, helping them capitalise on trends like the rise of e-commerce and the move away from plastic packaging.

In October, we successfully obtained ISEGA dry food contact certification for our MEPWHITE white top liner. As a result, we now have a full range of ISEGA-certified containerboard products. We're the only paper company in the Middle East with this accolade, and this globally-recognised mark of product quality gives us a competitive advantage for regional and international growth.

MEPCO also became the only Middle Eastern papermaker to achieve ISO/IEC 17025 accreditation. This certification for our testing and calibration laboratories not only recognises our high standards, but also helps us drive innovation. These add to our long list of certifications, which include ISO 14001, ISO 45001, ISO 9001 and FSC.



REGIONAL & GLOBAL FOOTPRINT

Our 2019 sales volumes marked a new production record. We were resilient in the face of commodity price fluctuation, achieving a remarkable year-on-year increase in volumes sold.

We continued leveraging on our size and position to gain market share and broaden our customer base. As a result, we maintained our share of the KSA market while expanding our export markets. Thanks to our location just 10 km from Jeddah Port, we're ideally located for streamlined material import and product export, helping us deliver the fast lead times our customers need.

Customers around the world are using MEPCO products as well as our logistics, planning and international trade services. As a result, new and current customers are finding it easier to manage costs, optimise their stockholding and drive revenue.

MEPCO exports to 50+ countries on 5 continents – and achieved a remarkable 5% year-on-year increase in sales volumes.'

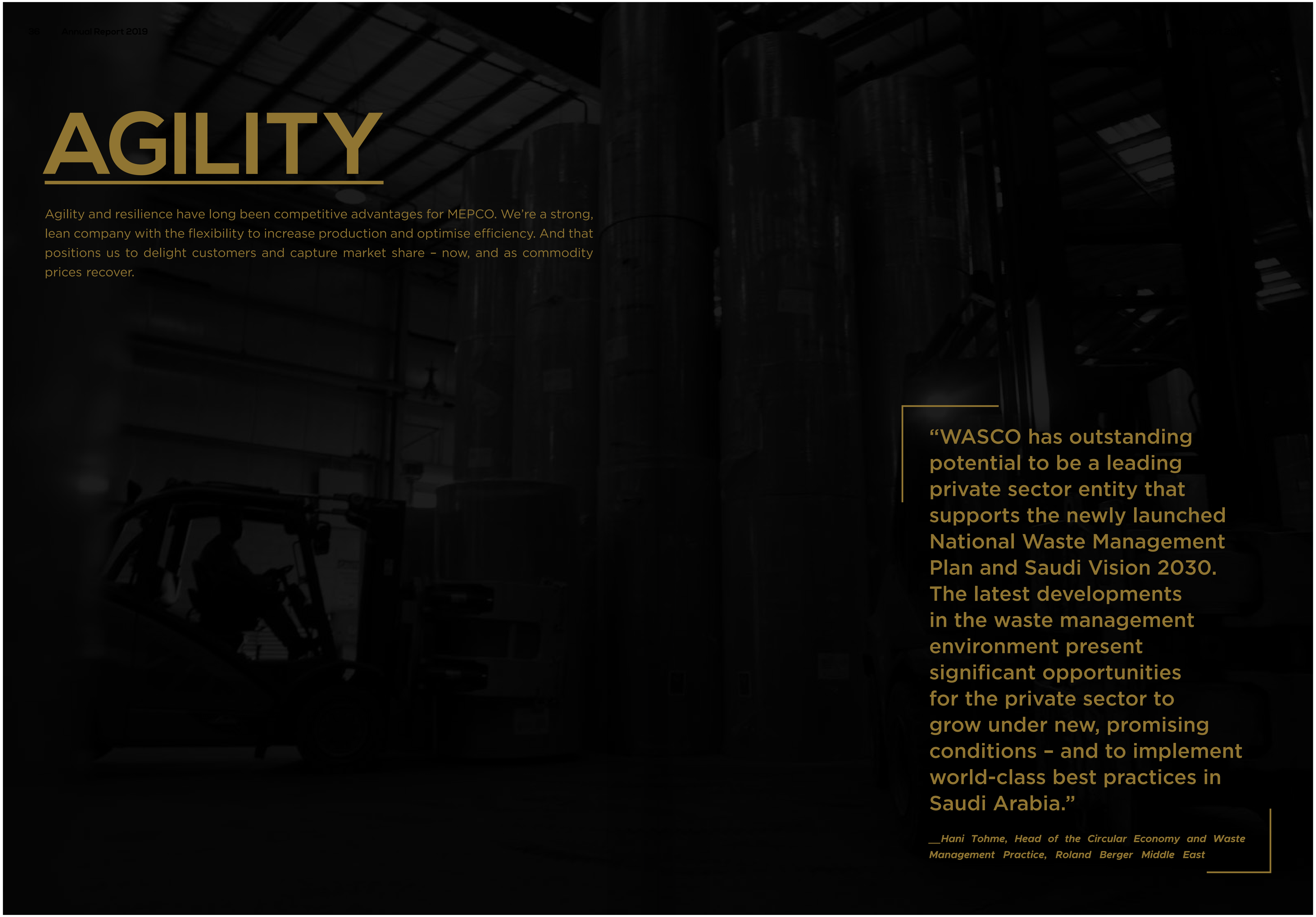
INDUSTRY LEADERSHIP

MEPCO management are recognised for their extensive experience and heritage in the paper industry. At the recent Waste & Recycling Middle East Awards, MEPCO was awarded Paper Recycling Company of the Year, with CEO Sami Al Safran recognised as Personality of the Year.

2019 was a year in which we spearheaded regional cooperation and development, hosting the first meeting of the Arab Federation of Paper, Printing, and Packaging Industries (AFPPPI). Representatives from across the GCC met at MEPCO to develop a roadmap for mutually beneficial collaboration around standards, data and best practices.

We have been at the frontline of lobbying for a more regulated and fairer local paper market. A major success was the WTO's imposition of anti-dumping duties on certain paper and containerboard products from Spain and Poland. MEPCO took the lead in filing the anti-dumping case in 2017, and the WTO found in our favour. On 1 May 2019, it imposed duties of 24.6% to 34% for 5 years. We have since conducted regular discussions with Government officials on the issue, resulting in a ministerial decision to review all paper imports. These developments are giving the containerboard industry reasonable protection against harmful practices and a level playing field for expansion.

> "MEPCO is proud to have received prestigious recognition of our efforts to drive best practice and set new standards in the paper industry. Our collaboration with partners and our alignment with Saudi Vision 2030 is improving productivity and driving sustainable growth."
>
> *__Sami Al Safran, CEO, MEPCO*



AGILITY

Agility and resilience have long been competitive advantages for MEPCO. We're a strong, lean company with the flexibility to increase production and optimise efficiency. And that positions us to delight customers and capture market share – now, and as commodity prices recover.

> "WASCO has outstanding potential to be a leading private sector entity that supports the newly launched National Waste Management Plan and Saudi Vision 2030. The latest developments in the waste management environment present significant opportunities for the private sector to grow under new, promising conditions – and to implement world-class best practices in Saudi Arabia."
>
> *__Hani Tohme, Head of the Circular Economy and Waste Management Practice, Roland Berger Middle East*

OPERATIONAL EXCELLENCE

MEPCO is sharply focused on improving performance and driving sustainable growth, and 2019 saw successful initiatives to restructure operations and work in a leaner way. As a result, our utilisation rates stayed above 92% – remarkable when you consider that competitors were operating at 85% and lower amidst regular shutdowns.

Thanks to our flexible operating model, we were able to focus on conventional sales, mitigating the effects of increasing virgin fibre prices. 2019 sales were 71.8% conventional and 28.2% non-conventional, and we retained the ability to adjust production dynamically to focus on higher-margin grades.

Another key achievement was 14% savings on direct costs through a strategic optimisation programme. This spanned chemicals, technology, production, HR and energy, and positively impacted our cost per tonne and operating costs. This trend is set to continue with the Government's decision to fix fuel prices for 10 years. Combined with refinancing of medium-term loans, these efforts supported our resilient financial position.

IT infrastructure improvements continued. SAP deployment progressed across our verticals and subsidiaries, and there were continued efficiency and cost benefits from having moved our servers to the cloud. The materials requirement planning (MRP) system implemented in 2018 has streamlined reordering, and the preventative maintenance system is contributing to our high utilisation rates. The ease with which we can now share information and access data has increased production profitability and efficiency.

MEPCO achieved **14%** savings on direct costs and **92%+** utilisation rates in 2019.

BACKWARD INTEGRATION

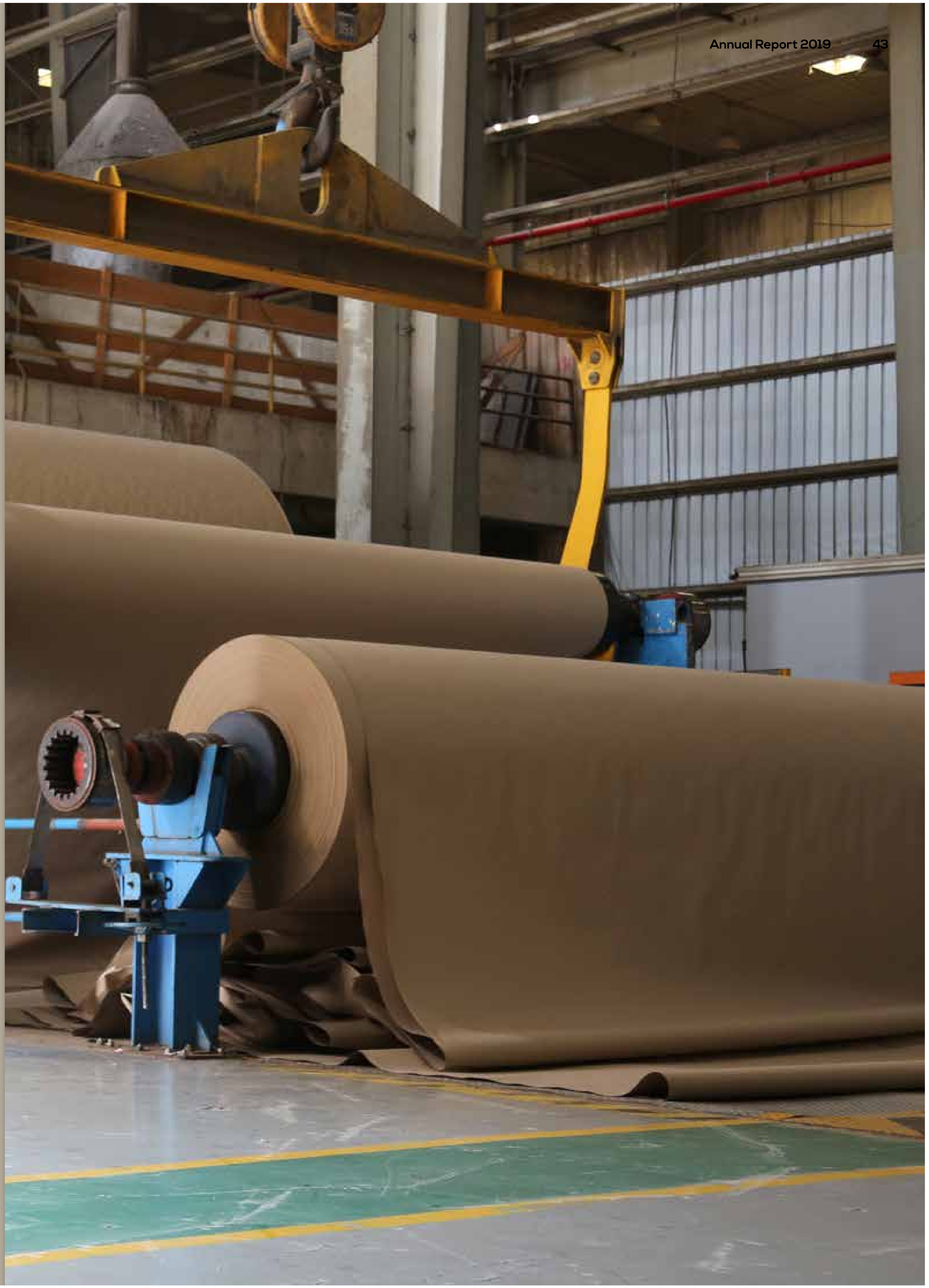
Backward integration underpins our strong performance and competitive position in this global market. WASCO, our wholly-owned sister company, is the largest waste management specialist in the MENA region. It controls 500,000 tonnes of Saudi Arabia's recyclable materials through landfill concessions, long-term supply contracts with major retailers, as well as direct collections. It has 22 branches in Saudi Arabia, Jordan and Sudan.

As part of Saudi Vision 2030, the KSA Government has launched a National Centre for Waste Management. In August 2019, WASCO began working with global strategy consultant Roland Berger to develop a comprehensive strategy for supporting this initiative. We're collaborating to put WASCO at the forefront when it comes to driving best practice and supporting the Vision. This vital work is reinforcing WASCO's ability to engage in the wider transformation of KSA's waste management plans, diversify revenue streams, maintain cost competitiveness and deliver operational excellence.

DIVERSE CUSTOMER BASE & PRODUCT RANGE

Our focus has always been on fostering a sustainable business and strategic growth. To that end, we've cultivated a diverse customer base – nationally, regionally and globally. No single customer exceeds 7% of sales, putting MEPCO in a strong position to protect value while increasing market share.

MEPCO is known as a one-stop shop for containerboard and specialty paper. Our extensive product range includes 6 containerboard and 10 specialty paper products, with base weights from 90 to 550 gsm. Our 3 advanced paper machines have 475,000 tonnes of annual capacity, and because they operate at high speeds, we can produce a wide range of products with fast lead times. Our customers span furniture, construction and packaging; MEPCO products are used in a variety of applications, such as e-commerce, household goods and electronics. This gives us an advantage when it comes to economies of scale, productivity and cost competitiveness.



COMMITMENT

MEPCO's 2019 achievements are a testament to our enduring commitment – to customers, shareholders, staff, the planet and the communities we work in.

SUSTAINABILITY

MEPCO is more than a manufacturer – we're driven by sustainability in every aspect of our business. Not only do we work with recycled material, but we're at the forefront of championing responsible working practices and ecological awareness. After all, our growth is tied to improving our surrounding environment.

In 2019, we completed SAR 50 million of programmes and projects to promote more sustainable production. These included installing flue-gas desulphurisation technology, renovating the effluent treatment plant and raising factory chimneys from 30 to 90 metres. We also installed 66 high-powered fans to enhance air circulation and improve working conditions. The initiatives have decreased emissions, promoted cleaner air within the surrounding area, and reduced the carbon footprint of production.

We maintained our leadership when it comes to energy and water efficiency. MEPCO produces 100% of our own power at our dedicated generation facility, which has a capacity of up to 49MW per hour. As a result, our power costs are 35% below grid price. We recycled 70% of the water used in production. And we boosted our water reclamation and treatment efficiency, allowing us to use more recycled water and reduce consumption costs.

Through our sister company WASCO, we continue to spearhead recycling in the region. In 2019, WASCO increased its market share, handling X% of KSA's recyclable material. It is also playing a larger role in national initiatives as part of Saudi Vision 2030. Together with global strategy consultancy Roland Berger, WASCO is helping formulate cutting-edge waste management plans. We're advocating for international-level environmental regulation that will raise standards while reducing raw material prices. And we're promoting recycling awareness, helping increase participation in domestic schemes.

In 2019, MEPCO invested SAR **50 million** in environmental initiatives and projects to make production processes more sustainable.

PEOPLE

Success in 2019 was a tribute to MEPCO's committed staff, who helped the business and our customers compete in a challenging market.

We're proud to have maintained our platinum level under the Nitaqat programme. In 2019, we continued to exceed the 20% benchmark, ending the year at 38.42%. This is in part thanks to our successful stewardship of the Higher Institute for Paper & Industrial Technologies (HIPIT), which is providing a steady pipeline of exceptional local talent.
The KSA Government signalled clear intentions to continue supporting Saudi industry, providing an expat levy exemption for 5 years. This saves MEPCO SAR 2 million annually and gives us more flexibility when it comes to attracting and retaining the best skills. Staff turnover was just 5%, with dynamic new starters injecting fresh ideas. As a result, average Employees' age has been fallen from 48 to 31.

Our efforts to empower women in the workforce continued. They account for 12.16% of MEPCO employees and are gaining new skills and responsibilities across quality control, laboratory, HR, procurement, sales and marketing, internal audit and support services.

Training and professional development reached new levels through structured programmes, with employees each receiving an average of 5.6 training hours. 47% of courses were delivered through external specialists in areas like leadership, time management, communication, technology and English language. 2 Saudi engineers successfully certified as Radiation Safety Officers, and post-graduate trainees gained professional and practical expertise. Internal training covered topics including HR, responsible business, internal management systems and FSC awareness.

The MEPCO spirit was strong. There was a busy and popular calendar of engagement activities, including the annual Ramadan football tournament and Iftar parties. We arranged transport for staff to perform Ummrah, as well as daily Iftar and Suhoor during Ramadan.

COMMITTED TO EMPOWERING WOMEN IN THE WORKPLACE

"I joined MEPCO in 2013. Since then, the company has created opportunities that encourage Saudi women, enhance their talents and support gender diversity."

Marketing Officer

"This was my first experience working in an industrial environment, and I'm proud to work for a leader like MEPCO. MEPCO recognises achievements and offers a friendly working environment, flexibility and continuous development to all."

Payroll Accountant

"Working in MEPCO Laboratories is a perfect fit for my field of study and my experience. The company takes care of its employees – catering to their interests and showing appreciation. There's lots of motivation to progress."

Quality Control Dry End Tester

"MEPCO creates opportunities for employees and encourages creativity. It's very motivating to have such continuous support – and to be encouraged to seek new challenges."

Human Resource Coordinator

COMMUNITY

MEPCO's community initiatives focus on education and environment, in line with value creation. As an employer, education champion and regional sustainability pioneer, we're active locally and nationally to make a positive social impact.

The Higher Institute for Paper & Industrial Technologies (HIPIT) is a cornerstone initiative. We established it in 2013 as an independent, not-for-profit technical training centre, empowering young people to make their mark on KSA's burgeoning industrial sector and become future leaders. 547 students graduated in 2019, bringing their skills to MEPCO and the wider KSA economy. The diploma in paper technology is driving our ambition to shape the country into one of the world's foremost paper producers – in alignment with Saudi Vision 2030.

Our community engagement programmes continued. These included:

- "Don't litter, Donate" campaign with King Abdulaziz University, which encouraged university students to recycle unwanted books
- 2 intakes for an environmental leadership course in partnership with King Abdulaziz University, from which 80 trainees graduated
- Outreach programmes for local schools, welcoming 165 students to our facilities for educational trips, including children with special educational needs
- "Paper's Story" educational initiative reaching 5,702 children
- Welcoming autistic adults to plant 10 trees in MEPCO's central square
- Earth Day event promoting recycling and environmental awareness with 50 children from a local orphanage

We're proud to have an engaged and community-spirited workforce who are active in their support. Coordinated activity included local volunteering days, which had 30 employees participating, as well as distributing 300 food boxes to disadvantaged families during Ramadan.

In 2019, **547** students graduated from the Higher Institute for Paper & Industrial Technologies – and are empowered to become future leaders in KSA's industrial sector.

CHAIRMAN'S WORD TO SHAREHOLDERS,

MEPCO shareholders,
God's peace and blessings be upon you

On behalf of the members of the Board of Directors, It's an honor to introduce the Board of Directors report for the fiscal year 2019, which folds the company's main activities and results throughout the year 2019.

It's worth citing that during 2019, the company endured challenges due to the rapid changes in the global markets, especially in terms of the reduced selling price of the company's products, in addition to the risks resulting from measures taken by some countries, which fundamentally affected paper markets globally and locally, although these challenges had some negative impacts on the 2019's profitability. It managed to greatly uncover areas that need additional improvements and additional efficiencies. This also allowed us to study the potential risks of future disturbances that may occur, God forbid.

Despite being a year full of challenges in the industry, our company has achieved the highest sales record since its inception, and has maintained a balanced performance aligned with the market alterations, aiming to maintain its market share and customer base, all along commitment to product quality and meet the customers' demands while giving uttermost priority to meeting local demand.

The Board of Directors had a major role in facing these challenges through directing the administration, and intensifying individual and collective communication among members and the executive management in order to discuss challenge-facing methods.

Moreover, the Board of Directors has also recommended developing the company strategy, and its subsidiary companies' in alignment with the business environment rapid variable.

Accordingly we shall not forget the efforts of the board, its committees and the executive management in maintaining good practices in corporate governance, Monitoring methods Development and Improvement, risk management, social responsibility activities, environment perseverance and society development, all in complete accomplice with the Kingdom 2030 Vision Program.

Hence, we hereby review the board's report for the year 2019.

1

Board of Directors

The Company board of directors is the management board elected by the General Assembly of the company, and acts as the company ruler and is delegated to manage The board is well aware of its legal responsibility and that it is legally responsible before the shareholders for the conduct of the company's affairs in a manner that fulfills the shareholders interests.

Moreover, both the corporate governance and the board work bylaws include detailed provisions regarding the Board of Directors formation and its committee, its competencies, responsibilities, meetings, member rights and their duties. As well as emphasizing the effective participation principle throughout decision-making processes within the board and strictly codifies cases of conflicts of interests between its members and the company. Moreover, the bylaws also decide honesty and trustworthiness, caring and attention as business principle and approach.

The company principal bylaw system specifies the number of board members, their incentives and authorities, in addition to their appointment and end-of-membership processes, taking into account the size and nature of the company's business and the expertise required for membership.

The Company Board of Directors is made up of Eight (8) members, including four independent members who have been elected by the company's general assembly in the month of June 2019, with the term cycle lasting for 3 calendar years started on November 14th, 2019.

Some of the most important responsibilities of the Board of Directors and its tasks (but not limited to) are:

- Setting plans, policies, strategies and main company objectives, as well as supervising its implementation on a periodic basis. In addition to ensuring the availability of the necessary human and financial resources to achieve this, establishing systems and controls for internal audit control and the general supervision over them.
- Verifying company's commitment to the rules of corporate governance, as well as reviewing and updating the corporate governance rules in accordance with regulatory requirements and best practices.
- Oversee the company's financial management, cash flows, as well as the financial and credit relationships with others.
- Setting the initial and annual financial statements of the company, including the proposed expulsion for profit distribution, and lists approval/ validation before its publishing.
- Setting the Board of Directors report and its authorization before publishing.
- Setting the policies and procedures that ensure the company abides by the rules and regulations, and its commitment to disclose essential information to the shareholders and stakeholders, the board of directors also verify the executive management's compliance by such policies and procedures.
- Ensure the accuracy and safety of data and information that should be disclosed, in accordance with the policies and work flows of the disclosure act.
- Laying effective communication channels allowing shareholders to be constantly and periodically informed on various company activities and fundamental developments.

A) Composition of the Board of Directors and Membership Classification by the end of year 2019:

Name	Position	Membership Classification
Eng. Abdullah Abdul Rahman Almoammar	Chairman of the Board	Non-Executive
Mr. Musaab Sulaiman Al Muhaidib	Deputy Chairman of the Board	Non-Executive
Mr. Emad Abdulkadir Al Muhaidib	Member	Non-Executive
Mr. Abdulelah Abdullah Abunayyan	Member	Non-Executive
Mr. Khaled Saleh Al Khotaf	Member	Independent
Mr. Ahmed Mubarak Al Debasi	Member	Independent
Mr. Walid Ibrahim Shukri	Member	Independent
Eng. Omar Mohamed Siraj Najar	Member	Independent

The Board of Directors of the company was elected for the cycle starting its business on November 14, 2019, and for a period of three years, On the extraordinary general assembly held on June 16, 2019. During which Eng. Omar Mohamed Siraj Najar was elected to replace Mr. Tariq Mutlaq Al-Mutlaq, effective upon cycle inception on November 14, 2019. On November 14, 2019, the company announced the appointment of the Chairman and his deputy and the formation of committees.

A) Board Meetings and Attendance Percentage

Name	Board Meetings Timeline through 2019					Percentage of Attendance
	March 7th	June 16th	September 8th	December 8th	December 16th	
Mr. Emad Abdulkadir Al Muhaidib	Attended	Attended	Attended	Attended	Attended	100%
Eng. Abdullah Abdul Rahman Almoammar	Attended	Absent	Attended	Attended	Attended	80%
Mr. Abdulelah Abdullah Abunayyan	Attended	Absent	Attended	Attended	Attended	80%
Mr. Khaled Saleh Al Khotaf	Attended	Attended	Attended	Attended	Attended	100%
Mr. Musaab Sulaiman Al Muhaidib	Attended	Attended	Attended	Attended	Attended	100%
Eng. Omar Mohamed Siraj Najar	Board Membership commenced November 14th			Attended	Attended	40%
Mr. Ahmed Mubarak Al Debasi	Attended	Attended	Attended	Attended	Attended	100%
Mr. Walid Ibrahim Shukri	Attended	Attended	Attended	Attended	Attended	100%
Mr. Tariq Mutlaq	Absent	Absent	Absent	Membership ended on November 13th		

*The last date of the held general assembly of the company was on 16 June 2019 and the Board of Directors has held three meetings post the assembly in accordance with the above table.

Academic Qualifications and Work Experience of members of Board of Directors, committees and senior executives:

Name	Title	Work Qualification	Work Experience, and Current/Previous Occupations
Members of the Board of Directors			
Mr. Emad Abdulkadir Al Muhaidib	Member	Bachelor of Commerce - Honorary Doctorate Degree	Among the founders and Chairman of the Board of Directors of the Middle East Company for Paper Industry and Production. Also acting as Vice Chairman of the Board of Directors of Al Muhaidib Multi-Investments Group. Mr. Emad enjoys vast experience in the fields of Corporate Business, Commerce, Business Administration, Investment and Business Management, and membership of board of directors. Currently, He is a member of both the board of directors and the board of executives in a number of companies and commerce chambers.
Eng. Abdullah Abdul Rahman Almoammar	Chairman of the Board	Bachelor's degree in Industrial Engineering, King Saud University - MA of Business Administration King Fahd University	Among the founders, and has extensive experience in the company's business. Acting as Vice Chairman of the Board at MEPCO, he has more than 25 years of experience in industry. (Formerly Managing Director of MEPCO - Board Member of the Saudi Printing and Packaging Company, Director and then General Manager of the Saudi Paper Manufacturers Company).

Name	Title	Work Qualification	Work Experience, and Current/Previous Occupations
Mr. Abdulelah Abdullah Abunayyan	Member of the board and Head of Executive Committee	Bachelor of Economics	He held many leadership and executive positions in several public, private, and industrial companies. Gained an extensive knowledge, skills and experience in his work at the Board of Directors and strategic business development, sales and marketing, besides his ability to identify and invest in business opportunities. Excellent leadership and communication skills, high skills in management and strategic planning. Formerly Vice President of Investment at Samba Bank, and member of the board of directors at Qatar Alpha Batoun Cast Concrete Company.
Mr. Khaled Saleh Alkhuttaf	Board Member and Executive Committee - Chairman of the Accounting Committee	Bachelor of accounting MA in Financial Management and Accounting from the University of Colorado - Certificate of American Legal Accounting	Membership Certificate of Chartered Accountants of multiple boards of directors for joint-stock companies as well as in the committees evolving from the Council. He enjoys vast investment experience, and Advanced Finance analysis besides Strategy, Leadership and Governance. Formerly CEO of Lavana Holding Company, CEO of Saudian company Nomoura. Also Former Financial Director of the Financial Saudi Market Company (Tadawol) and Saudi Arabian Monetary Institution for Investment Management, along with International Investment Guarantee Corporation at the international bank in Washington Treasury Department.

Name	Title	Work Qualification	Work Experience, and Current/Previous Occupations
Mr. Musaab Sulaiman Al Muhaidib	Deputy Chairman of the Board and member of the Executive Committee and the Audit Committee	Bachelor of Business Administration from the University of Miami _ Master of Business Administration from the University of Liverpool	Board membership and committees in several companies. Experience in strategic business development, directing sales and marketing operations, experience in project management and real estate operations, directing expansion strategy and designing revenue resources to increase sales. He is General Director of Masdar, a Building Materials Company. Beside being a member of the board of directors in many companies inside and outside the Kingdom - and Formerly (The huge warehouses of Al Badia Cement, Latifia Contracting Company)
Mr. Ahmed Mubarak Al Debasi	Member of the Board of Directors and Chair-man of the Remuner-ation and Nominations Committee	Bachelor's degree in Business Administration from Temple University, USA	34 years of experience in industrial companies and membership in boards of directors and committees, chairman of the Saudi Steel Pipe Company and member of the Board of Directors of the Titanium and Steel Industries Company three-dimensional installations company - and previously served as CEO and general manager of the Saudi Steel Pipe Company.
Mr. Walid Ibrahim Shukri	Member of the Board of Directors and the Audit Committee	Bachelors of Industrial Management Department of Accounting from King Fahd University of Petroleum and Minerals - Certified Public Accountant in Saudi Arabia & USA	The membership of the Board of Directors, audit and risk management committees in several companies inside and outside the Kingdom are experienced in the work of auditing, experience in planning, organizing and supervising the provided audit services. Formerly (a member of the Board of Directors of ARCON Global in Australia, Senior Director of Deloitte Touche Saudi Arabia, a former advisor to Ernst Andiung, Member of the Board of Directors of the Saudi Organization for Certified Public Accountants. Former member of the Committee for Small and Medium Enterprises in the Chamber of Commerce in the Eastern Province and representative of the Kingdom of Saudi Arabia at the General Assembly of the Accounting and Auditing Organization for the States of the Gulf Cooperation Council).

Name	Title	Work Qualification	Work Experience, and Current/Previous Occupations
Mr. Omar Mohamed Siraj Najar	Member of the Board of Directors and member of the Remuneration and Nominations Committee	Bachelor of Systems Engineering - Master of Industrial Engineering - Master of Business Administration and Management	Chief Executive Officer of MESK Training Academy. Formerly Saudi Aramco Engineering and Exploration Technology - Saudi Airlines Industrial Engineering and Performance Development - Uniever International Human Resources - Emaar Economic City Business Development - National Industrial Company and subsidiary companies CEO of Saudi Ground Services Company Vice Chairman of the National Board of Directors For manufacturing and casting metals.

Senior Executives

Mr. Sami Ali Youssef	Chief Executive Officer	Bachelor degree in industrial chemistry in 1992	The CEO of the company from 2012 to date. Fromerly (General Manager of the company since 2005 - Deputy General Manager since 2004 - Technical Director in the Saudi Paper Manufacturing Company - Project Manager in the Saudi Paper Manufacturing Company - Technical Advisor at the Saudi Nalco Company)
Dr. Mohamed Saleh Darwish	Chief Financial Officer	Bachelor of Commerce - Master of Accounting, Egypt - Doctor of Financial Business Administration - and American Fellowship in Accounting and Auditing	He held the position of chief financial officer for many industrial, commercial and real estate companies, with experience in external auditing, financial analysis, costs, feasibility studies, mergers and acquisitions. Formerly (Chief Financial Officer of Qassim Cement - Chief Financial Officer of Eshraqa Investment Group in Dubai - Chief Financial Officer of Khamas Investment Group in Dubai - Chief Financial Officer of Delta Gas Group in Egypt - Auditor of Hashish audit company in Egypt)

Name	Title	Work Qualification	Work Experience, and Current/Previous Occupations
Mr. Mohamed Wadih Mlebari	Chief Operations Officer	Bachelor degree in industrial chemistry in 1992	Head of the company's operations from 2011 to date. Formerly (General Manager, Services of the subsidiary, Wasco - General Manager of Amiantit Procurement - Deputy General Manager of the company - Director of Amiantit Fiberglass Factory - Procurement Director in Amiantit Companies - Director of Quality in Amiantit Companies.
Mr. Naguib Fakih Muhammad	Head of Wasco	Bachelor of Chemical Engineering 1991	Experience in the works of the subsidiary company Wasco for 14 years. Formerly (General Manager of the East Dublas Factory in Dubai - Vice President of the Packaging Sector at Savola Group, Project Superintendent at United Engineers Company, Jeddah - Production Engineer, Clorox Factory, Jeddah)
Mr. Abdulaziz Bashir Al-Jazzar	General Manager	Bachelor of Systems Engineering	Enjoys an experience in the work of the subsidiary company Wasco for 14 years. Formerly assistant manager of the Arab Bank, Jeddah Branch.

Names of companies for which the company's board member is a member of its current, and previous boards of directors, or one of its managers:

Name of the Board Member	Mr. Emad Abdul Qadir Abdul Mohsen Al Muhaidib				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Amwal Al Agial Commercial Company	Inside the kingdom	Limited liability	United Sugar Company	Inside the kingdom	Limited liability
Mayar Foods	Inside the kingdom	Limited liability	United Sugar - Egypt	Outside the kingdom	Limited liability
Badia cement	Outside the kingdom	Closed contribution	Emad Abdul Qadir Al Muhaidib Company	Inside the kingdom	Limited liability
United for Feed	Inside the kingdom	Limited liability	Mayar Foods	Inside the kingdom	Limited liability
Waste Collection and Recycling (Wasco)	Inside the kingdom	Limited liability	Industrial Cities Operation and development	Inside the kingdom	Limited liability
Al Muhaidib Holding	Inside the kingdom	Limited liability	Savola Group	Inside the kingdom	Limited liability
Al Masyrah International for Industrial Investment	Inside the kingdom	Limited liability	Al-Muhaidib Contracting (Thabat Company)	Inside the kingdom	Limited liability
Saudi Arabia For Paper import and export	Inside the kingdom	Limited liability	Al-Shamiya for Urban Development	Inside the kingdom	Limited liability
Al Mohafazat development	Inside the kingdom	Closed contribution	Jeddah Development and Urban Development	Inside the kingdom	Limited liability

Name of the Board Member	Mr. Emad Abdul Qadir Abdul Mohsen Al Muhaidib				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
United for Feed Industry	Inside the kingdom	Limited liability	Al-Tawfeek Plastic and Bag Industries	Inside the kingdom	Limited liability
Abdul Qadir Al-Muhaidib and Sons	Inside the kingdom	Closed contribution	United Mining Industries	Inside the kingdom	Closed contribution
Masdar for building materials	Inside the kingdom	Closed contribution	United Mineral Investment Company	Inside the kingdom	Limited liability
Emad Abdul Qadir Al Muhaidib Company	Inside the kingdom	Limited liability			

Name of the Board Member	Eng. Abdullah Abdul Rahman Almoammar				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Al Masseirah International for Industrial Investment	Inside the kingdom	Limited liability	Saudi Arabia for Paper Manufacturing	Inside the kingdom	Listed Contribution
Waste Collection and Recycling (Wasco)	Inside the kingdom	Limited liability	Saudi Arabia for Printing and Packaging	Inside the kingdom	Listed Contribution

Name of the Board Member	Eng. Abdullah Abdul Rahman Almoammar				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Al Injazat Specialized Company	Inside the kingdom	Limited liability			
United for Feed Industry	Inside the kingdom	Limited liability			
Al Saraya Investment Holding	Inside the kingdom	Limited liability			

Name of the Board Member	Mr. Abdulelah Abdullah Abunayyan				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Rafal Tower	Inside the kingdom	Closed contribution	Katr-Alpha Batoun Ready Casted Concrete	Outside the kingdom	Limited liability
Ithraa Capital	Inside the kingdom	Closed contribution	Holoul Com-munications	Inside the kingdom	Limited liability
Al-Hassan Ghazi Ibrahim Shaker	Inside the kingdom	Listed Contribution			
Lafana Holding	Inside the kingdom	Closed contribution			
Abunyan Group	Inside the kingdom	Listed Contribution			

Name of the Board Member	Mr. Abdulelah Abdullah Abunayyan				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Rafal Real Estate Development	Inside the kingdom	Closed contribution			
Abdulelah Abdullah Abunayyan Company	Inside the kingdom	Listed Contribution			
Ultra Medical	Inside the kingdom	Listed Contribution			

Name of the Board Member	Mr. Ahmed Mubarak Al Debasi				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Saudi Steel Pipe Company	Inside the kingdom	Listed Contribution	Saudi Steel Pipe Company	Inside the kingdom	Listed Contri-bution
Titanium and Steel Industries Ltd.	Inside the kingdom	Limited liability			
3D Structures Ltd.	Inside the kingdom	Limited liability			

Name of the Board Member	Mr. Khaled Saleh Al-Khattaf				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Gulf Investment Corporation	Outside the Kingdom	Closed contribution	Saudi Namura Company	Inside the kingdom	Closed contribution
National Finance Company - Bahrain	Outside the Kingdom	Closed contribution	Capital Market Company Tadawul	Inside the kingdom	Closed contribution
Rafal Real Estate Development	Inside the kingdom	Closed contribution	Al-Hassan Ghazi Ibrahim Shaker	Inside the kingdom	Listed Contribution
Samba Capital	Inside the kingdom	Closed contribution	Lafana Holding	Inside the kingdom	Closed contribution

Name of the Board Member	Mr. Walid Ibrahim Shukri				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Saudi agricultural investment and animal production	Inside the kingdom	Closed contribution	Al Matbouly Group	Inside the kingdom	Closed contribution
Al-Hokair group	Inside the kingdom	Listed Contribution	ARCON International	Outside the Kingdom	Limited Liability
Saudi Mechanical Industries	Inside the kingdom	Closed contribution	Pricewater-houseCoopers PwC	Inside the kingdom	Limited Liability
Youssef bin Ahmed Kanou companies	Outside the Kingdom	Limited Liability			

Name of the Board Member	Mr. Musab Suleiman Abdul Qadir Al-Muhaidib				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
Abdul Qadir Al-Muhaidib and Sons	Inside the kingdom	Closed contribution	Al Makhazen Al Kubra	Inside the kingdom	Closed contribution
Al-Hassan Ghazi Shaker	Inside the kingdom	Listed Contribution	Badia cement	Outside the kingdom	Closed contribution
National Industrialization	Inside the kingdom	Listed Contribution	Latifa Con-tracting Com-pany	Inside the kingdom	Closed contribution
Door Hospitality	Inside the kingdom	Listed Contri-bution	Masdar for Commercial Carpentry	Inside the kingdom	Closed contribution
Goldman Sachs Saudi Arabia	Inside the kingdom	Listed Contri-bution	Al Muhaidib Technical Supplies	Inside the kingdom	Closed contribution
Masdar for building materials	Inside the kingdom	Closed contri-bution	Al Rayyan Company	Outside the kingdom	Closed contribution
Endeavor Saudi Arabia	Inside the kingdom	Closed contri-bution	Al Ibdaa Real Estate Investment and Development	Inside the kingdom	Closed contribution

Name of the Board Member	Mr. Omar Siraj Muhammad Najjar				
Companies whose board member is a member of their current boards or directors	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**	**Names of companies whose board member is a member of their previous boards or their directors**	**Inside the kingdom Outside the kingdom**	**Law entity A listed/ unlisted Contribution unlisted with limited liability**
National Metal Manufacturing and Casting	Inside the Kingdom	Listed Contribution	Ground services company	Inside the Kingdom	Listed Contribution
			National In-dustrialization	Inside the Kingdom	Listed Contribution
			Emaar	Inside the Kingdom	Listed Contribution

5) Communication with shareholders and investors:

In light of the Board's commitment to provide complete, clear and correct information to enable shareholders to fully exercise their rights, and to provide this information in a timely manner and update it regularly, the company has intensified its efforts in communicating with shareholders and with a wider range of investors with the aim of strengthening its ownership base with a greater proportion of long-term investors.

The company achieved an optimal participation rate in local and international investor conferences, as it participated in 5 conferences during 2019. Also, the Investor Relations Department strengthened the content of its data throughout the year by increasing both the quantity and quality of information available to the general investors according to what was disclosed to all shareholders, and the company continued to hold a telephone-based press conference with investors after each result announcement starting from announcing 2019 Q1 results, which provided a greater opportunity for investors and financial analysts to reach out directly for the management to obtain adequate answers to questions they might have regarding the announced results.

The Investor Relations Department submits a periodic report to the Board of Directors on its various activities, and informs it of the opinions and

inquiries of shareholders and investors, whether by direct communication during conferences and meetings or through special designated e-mails. Moreover, the Investor Relations Department organizes field visits for shareholders and investors to the company's facilities to see its business closely.

6) Means upon which Board of Directors evaluated its performance and the performance of committees and members:

The performance appraisal system for the Board of Directors comes in the context of corporate governance, and the Board of Directors has approved, based on the proposal of the Nominations Committee, the necessary mechanisms to evaluate the annual performance of the Board, its members, committees, and executive management. Through appropriate performance measurement indicators related to the extent of achieving the company's strategic goals, the quality of risk management, and the adequacy of internal control systems and others. The strengths and weaknesses should be identified and the proposal to address them in line with the company's interest.

By the end of the year 2019, the Board of Directors recommended the appointment of an external authority to evaluate its performance, in full accordance with best practices, the Remuneration and Nomination Committee will supervise applied recommendations.

2

Board Committees

In order to ensure the optimal performance of the company's management, and to assist the Board of Directors in fulfilling its role in the company's management, the Board of Directors of the Company formed the Remuneration and Nominations and the Executive Committees, and recommended to the General Assembly to form the Audit Committee Moreover, it agreed to its current formation on June 16, 2019, and the committees are formed according to general procedures set by the Board that include determining the tasks of each committee's work, the work duration, and the powers vested in it during this period, as long as how the board monitors it. The committees must inform the board of the results of their findings or take decisions in a transparent manner, and the board of directors should follow the work of these committees regularly to ensure they perform their assigned tasks.

Each committee is responsible for its actions before the board of directors, and this does not prejudice the board's responsibility for those actions or the powers delegated to it.

Moreover, the company is committed to appoint a sufficient number of non-executives and independent board members in the committees concerned with tasks that may create conflict of interest situations, such as ensuring the integrity of financial and non-financial reports, reviewing the deals of related parties, nominating for membership in the Board of Directors, appointing senior executives, and determining rewards. The chairmen, along with members of these committees, adhere to the principles of honesty, loyalty and care. Besides giving due attention to interests of the company and shareholders, and favoring them over their personal interest.

1) Audit Committee

In the meeting of the general assembly of the company on June 16, 2019, based on the recommendation of the Board of Directors, the formation of the audit committee was approved, along with the approval of its tasks, work controls and remuneration of its members for a new session beginning on November 14, for a period of three calendar years.

The committee consists of three members of the board of directors, including two independents, all of whom have experience in financial and accounting matters. The committee is concerned with overseeing the company's business, verifying the integrity of reports, financial statements and internal monitoring systems therein. In addition to verifying the company's compliance with the applicable regulations, quality of risk management and assisting the board of directors in performing its oversight responsibilities on the company's business.

Among the most important tasks of the audit committee are the following:

- Study the company's preliminary and annual financial statements before submitting them to the Board of Directors and expressing its opinion and recommendation regarding them to ensure their integrity, fairness and transparency.
- Examination of any important or unfamiliar matters involved in the financial reports.
- Carefully research any issues raised by the company's financial manager, his duties, the company's compliance officer or auditor.
- Provide technical opinion upon the request of the Board, whether the report of the Board of Directors and the financial statements are fair, balanced and understandable.
- Study and review the company's internal and financial control and risk management systems and internal audit reports and follow up on the implementation of corrective measures for the notes contained within.
- Recommend to the board of directors to appoint the director of the internal audit unit or department and the compliance officer and propose their rewards.
- Review the results of the reports of the regulatory authorities, and verify the company's compliance with the laws and regulations.
- Reviewing the contracts and proposed transactions with the related parties, and providing visuals to the Board of Directors.

Committee members and Attendance Record

Name	Membership Classification	Position	Chronology of the committee's meetings during the year 2019					Attendance
			Dec. 8th	Oct. 27th	July 30th	May 1st	March 7th	
Khaled Saleh Al-Khattaf	Independent	Chairman of Committee	Attended	Attended	Attended	Attended	Attended	5
Walid Ibrahim Shukri	Independent	Member	Attended	Attended	Attended	Attended	Attended	5
Musaab Sulaiman Al Muhaidib	Non-Executive	Member	Attended	Attended	Attended	Attended	Attended	5

2) Rewards and Nominations Committee

The goal of forming this committee is to assist the Board of Directors in fulfilling its oversight responsibilities in nominating board members and senior executives and ensuring the strategy integrity of the rewards, benefits, incentives and salaries.

Its most important tasks are the following:

- Participate in preparing policies for the remuneration of the members of the Board of Directors and the committees emanating from the Board, and the executive management, clarifying the relationship between bonuses and policies, periodically reviewing the remuneration policy, and assessing its effectiveness in achieving the objectives envisaged from it.
- Recommend to the Board of Directors the remunerations of the members of the Board of Directors, the committees emanating from it and the senior executives of the company in accordance with the approved policy.
- Recommend to the Board of Directors to nominate members and re-nominate them in accordance with the approved policies and standards, to propose clear policies and standards for membership in the Board of Directors and executive management, determine the time that the member must allocate to the work of the Board of Directors.
- Prepare a description of the capabilities and qualifications required for membership of the Board of Directors and executive management positions.
- Annual review of the necessary skills or appropriate experiences for board membership and executive management positions.
- Review the structure of the board and executive management and make recommendations regarding changes that can be made.
- Annual verification of the independence of the independent members, and the absence of any conflict of interest if the member is a member of the board of directors of another company.
- Job description for executives, non-executive members, independent members, and senior executives.
- Setting special procedures in the event of vacancy of position of member of the Board of Directors or senior executives.

Committee members and Attendance Record

Name	Membership Classification	Position	Chronology of the committee's meetings during the year 2019			Attendance
			Nov. 10th	Sep. 9th	May 8th	
Ahmed Mubarak Al Debasi	Independent	Chairman of Committee	Attended	Attended	Attended	3
Abdullah Abdul Rahman Almoammar	Non-Executive	Member	Attended	Attended	Attended	3
Omar Mohamed Siraj Najar	Independent	Member	Attended	Attended	Attended	3

3) Executive committee

The aim of forming the committee is to assist the board of directors in performing its responsibilities, control the company's operational and administrative work, supervise the company's executive management, make recommendations, and review the necessary studies on strategic matters and the general goals of the company and investments, and in general provide the board's presence between its meetings with the aim of providing the ability to respond quickly in cases In addition to assisting the council in performing its supervisory tasks and implementing its recommendations efficiently and effectively

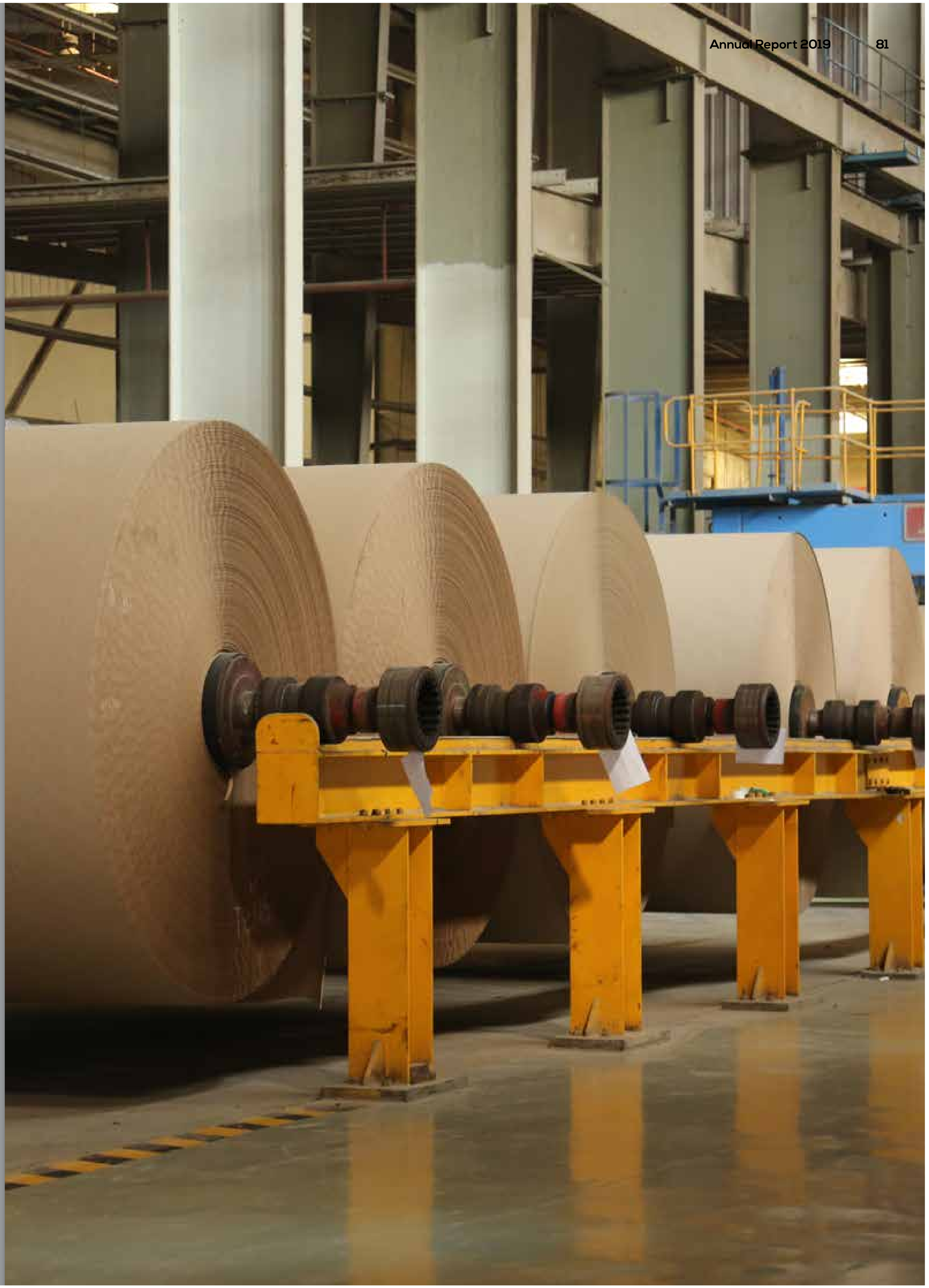
Among its most prominent tasks are the following:

- Discussing and making decisions related to urgent issues that need urgent decisions.
- Follow up on the preparation and implementation of the company's long, medium and short-term strategic plans, update them and review them from time to time.
- Meeting with the sector heads and all related bodies to monitor the operating and financial performance of the company and its sectors.
- Nomination of the company's senior executives in coordination with the Remuneration and Nominations Committee.
- Follow up the implementation of the company's estimated budgets, analyze the causes of performance deviations, if any, and make recommendations thereon.
- Regular review of actual capital expenditures and their compliance with the budgets approved by the Board of Directors
- Recommendation to enter new investment and industrial projects, as well as developing existing activities both vertically and horizontally.

Committee members and Attendance Record

Name	Membership Classification	Position	Chronology of the committee's meetings during the year 2019			Attendance
			May 1st	Aug 1st	Nov. 10th	
Abdulelah Abdullah Abunayyan*	Non-Executive	Chairman of Committee	Attended	Attended	Attended	3
Abdullah Abdul Rahman Almoammar	Non-Executive	Member	Attended	Attended	Attended	3
Khaled Saleh Al-Khattaf	Independent	Member	Attended	Absent	Attended	2
Musaab Sulaiman Al Muhaidib	Non-Executive	Member	Absent	Attended	Attended	2

*Mr. Abdulelah Abdullah Abunayyan was chosen as the chair of the committee, which started on November 14, 2019 in place of Eng. Abdullah Abdul Rahman Almoammar, the former head of the committee during the previous council session.



3

A Description of the Interests of the Members of the Board of Directors, The Executive Management, Their Wives and Minor Children in the Company's Shares

Name	Beginning of the year 2019		End of the year 2019		Net change during the year	Percentage of change
	Stocks	Debt Instruments	Stocks	Debt Instruments		
Board members, their wives and minor children, if any,						
Emad Abdulkadir Al Muhaidib	1000	-	1000	-	-	-
Abdullah Abdul Rahman Almoammar	4.750.000	-	4.750.000	-	-	-
Abdulelah Abdullah Abunayyan	1000	-	1000	-	-	-
Walid Ibrahim Shukri	1000	-	1000	-	-	-
Ahmed Mubarak Al Debasi	22,765	-	22,765	-	-	-
Omar Mohamed Siraj Najar	500	-	500	-	-	-
Khaled Saleh Al-Khattaf	1000	-	1000	-	-	-
Musaab Sulaiman Al Muhaidib	1000	-	1000	-	-	-
Senior executives, their wives, and minor children, if any						
Sami Ali Yousef Al-Safran	249.027	-	249.027	-	-	-
(Chief Executive Officer's Spouse)	19.870	-	19.870	-	-	-

Ownership of major shareholders that exceed 5% of the company's shares as of 12/31/2019.

Name	Balance at year beginning	Balance at year end	Ratio	Percentage of Change
Abdulkadir Al Muhaidib & Sons Company	11,619,500	11,619,500	23,23%	--
LaFana Holding Company	9,219,600	3,572,534	7,14%	11,30%
Abdullah Abdul Rahman Almoammar	4,750,000	4,750,000	9,5%	--

4

Remuneration and Compensation Policy

1. General Criteria for Awarding Remuneration and Rewards:

The Company's Remunerations and Nominations Committee prepared a policy for the remuneration of the members of the Board of Directors, the committees emanating from the Board and the senior executives, and it was approved by the general assembly of the company in its meeting on December 5, 2017, without prejudice to the provisions of the companies system, the Capital Market Authority system, their executive regulations, and the company's articles of association.

The remuneration policy shall take into consideration the following:

- Its consistency with the company's strategy and objectives, and its compatibility with the size, nature and degree of risks of the company.
- The rewards should be presented for the purpose of urging the members of the Board of Directors and the Executive Management to realize long-term success and development for the company, such as linking the changing part of the rewards to the long-term performance.
- Rewards are determined based on job level, tasks and responsibilities assigned to them, educational qualifications, work experience, skills and level of performance.
- Taking into consideration the practices of other companies in determining bonuses, while avoiding the unjustified rise in bonuses and compensation that may result from that.
- To aim at attracting, maintaining and motivating professional competencies, without exaggerating them.
- Be prepared in coordination with the Nominations Committee upon new appointments.
- Investigating the cases of stopping the exchange of the reward or its recovery if it was determined that it was decided on the basis of inaccurate information provided by a member of the board of directors or the executive management in order to prevent the exploitation of the employment status to obtain unpaid bonuses
- Regulating the granting of shares in the company to the members of the board of directors and executive management, whether it is new issuance or shares bought by the company.

The awards for the members of the Board of Directors and the committees were determined and granted based on the policy approved by the General Assembly and according to the following criteria:

- According to what the company's articles of association stipulated, the remuneration of the members of the Board of Directors provided that each member's earnings do not exceed the limits stipulated in the corporate system and regulations, the committees 'work regulations determine the members' remuneration and attendance allowances.
- The remuneration is proportional to the size of the members 'participation in activities related to the work of the council or the committee emanating from the council.
- The remuneration should be fair and proportionate to the member's powers, actions, and responsibilities that he undertakes and bears in addition to the objectives specified by the Board of Directors and intended to be achieved during the fiscal year.
- The bonus must be based on the recommendation of the Company's Rewards and Nominations Committee.
- Remunerations for non-independent directors may be a percentage of profits provided that this percentage does not exceed 10% and it is disbursed according to what is stipulated in the Companies Law and its bylaws and the Company's Articles of Association.
- The rewards should be reasonably sufficient to attract members of the Council and Committees with appropriate competence and experience.
- Rewards may be of varying amount to reflect the member's experience, terms of reference, tasks assigned to him, his independence, the number of sessions he attends and other considerations.
- The independent members of the board of directors remuneration must not be a percentage of the profits achieved by the company, or be based directly or indirectly on the profitability of the company.
- A member of the Board of Directors may obtain a remuneration for his membership in the audit committee formed by the General Assembly, or for any business, executive, technical, administrative, or advisory positions under an additional professional license assigned to him in the company, in addition to the remuneration that he can obtain In his capacity as a member of the Board of Directors and in the committees formed by the Board of Directors, in accordance with the Companies Law and the Company's Articles of Association.
- If the General Assembly decides to terminate the membership of a member of the Board of Directors due to his failure to attend three consecutive meetings of the Board without a legitimate excuse, this member is not entitled to any bonuses for the period following the last meeting he attended, and he must return all the rewards that were spent for him for that period.

The awards were determined and granted to the executive management based on the policy approved by the company's general assembly and according to the following criteria:

- The bonus must be based on the recommendation of the Company's Rewards and Nominations Committee.
- Senior executives are awarded bonuses based on performance evaluation, in addition to fixed compensation and bonuses according to their contracts and bonuses in the form of shares, in a manner that does not conflict with the regulatory controls and procedures issued in implementation of the corporate system.

- Principle Key performance indicators at the company level include a set of short-term and long-term goals that include profitability, solvency, liquidity and growth indicators.
- The performance management process ensures that all objectives are properly aligned at all levels of the company, reaching the relevant business units and employees.
- Monitoring the application of performance indicators upon which bonuses are spent for senior executives and employees, as well as monitoring the appropriateness of these standards for granted bonuses.
- The rewards aim to provide the required competitive condition to attract and retain qualified employees, and maintain the high level of skills the company needs.

2. Remuneration of Members of the Board of Directors

Names	Certain Amount	Allowance to attend Council sessions	Total allowance to attend committee sessions	In-kind benefits	Technical, administrative and consulting works reward	Reward the council chairman, delegated member, or secretary if he is from	Total
Ahmed Mubarak Al Debasi	200,000	15,000	9,000	-	-	-	224,000
Walid Ibrahim Shukri	200,000	15,000	15,000	-	-	-	230,000
Khaled Saleh Al-Khattaf	200,000	15,000	21,000	-	-	-	236,000
M. Omar Mohamed Siraj Najar	50,000	6,000	4,500	-	-	-	60,500
Total for independent members	650,000	51,000	49,500	-	-	-	750,500
Emad Abdulkadir Al Muhaidib	200,000	15,000	-	-	-	50,000	265,000

Names	Certain Amount	Allowance to attend Council sessions	Total allowance to attend committee sessions	In-kind benefits	Technical, administrative and consulting works reward	Reward the council chairman, delegated member, or secretary if he is from	Total
Abdullah Abdul Rahman Almoammar	160,000	12,000	18,000	-	-	-	190,000
Abdulelah Abdullah Abunayyan	160,000	12,000	9,000	-	-	-	181,000
Musaab Sulaiman Al Muhaidib	200,000	15,000	21,000	-	-	-	236,000
Total for non-executive members	720.00	54,000	48,000	-	-	50,000	872,000

* Knowing that members of the board received no sums for the following items (a percentage of profits, periodic rewards, short or long-term incentive plans, shares granted, end-of-service compensation, allowances and expenses).

3. Remuneration of the members of the Board Committees

Names	Fixed rewards (Except for attendance allowance)	Allowance to attend sessions	Total
	Members of the Audit Committee		
Khaled Saleh Al-Khattaf	100,000	15,000	115,000
Walid Ibrahim Shukri	175,000	15,000	190,000
Musaab Sulaiman Al Muhaidib	50,000	15,000	65,000
Total	325,000	45,000	370,000
	Members of the Remuneration and Nominations Committee:		
Ahmed Mubarak Al Debasi	50,000	9,000	59,00
Abdullah Abdul Rahman Almoammar	50,000	9,000	59,000
Omar Mohamed Siraj Najar	100,000	4,500	104,500
Total	200,000	22,500	222,500
	Members of the Executive Committee:		
Abdullah Abdul Rahman Almoammar	50,000	9,000	59,000
Abdulelah Abdullah Abunayyan	50,000	9,000	59,000
Khaled Saleh Al-Khattaf	35,000	6,000	41,000
Musaab Sulaiman Al Muhaidib	35,000	6,000	41,000
Total	170,000	30,000	200,000

* Knowing that members of the board received no sums for the following items (a percentage of profits, periodic rewards, short or long-term incentive plans, shares granted, end-of-service compensation, allowances and expenses).

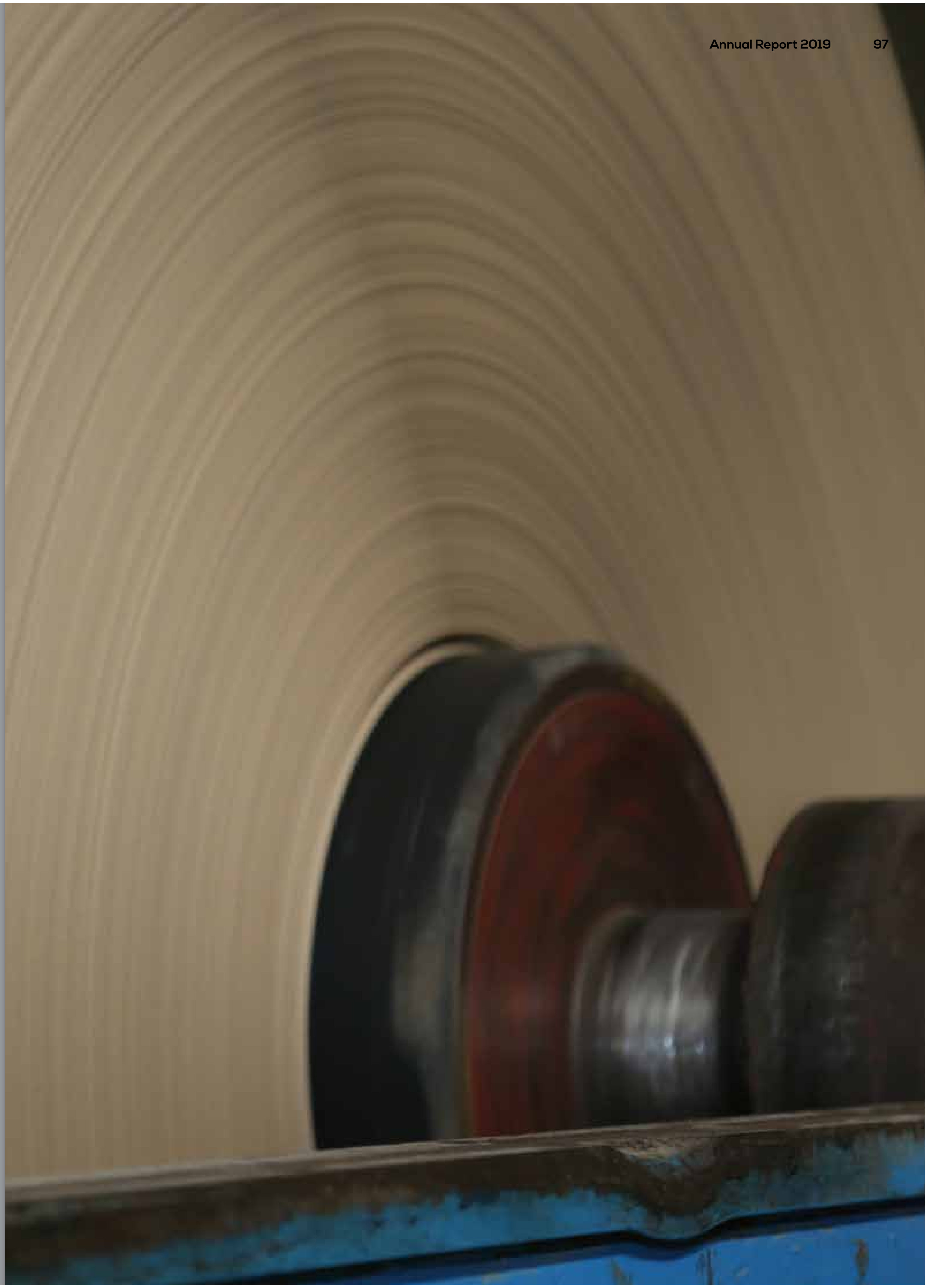
4. Senior Executives Remunerations (Numbers in Thousands SAR)

Five of the top executives who received the highest rewards and compensation, including the CEO and chief financial officer.	Salaries	Allowances	Variable Rewards					Fixed Rewards				Grand Total
			In-kind Benefits	Total	Periodic Rewards	Short motivational plans	Long motivational plans	Granted Shares	Total	Indemnity	Total Council rewards	
Total Payment	5,759	2,889	1,343	9,992	60	910	-	-	970	611	-	11,572

5

Statement of any penalty, precautionary measure or precautionary restriction imposed on the company during the year 2019

Type of Penalty	Penalty Causes	The signatory of the penalty	Method of Correction
A Fine of 10,000 SAR.	Continuity of a joint registration despite leaving work	Social Security	The subscriber was deleted, and administrative measures were established to prevent its future recurring



6

Results of annual effectiveness review of the effectiveness of internal audit system procedures

Supervising the implementation of the control system within the company

The Audit Committee reviews the reports submitted by the Internal Audit Department, Governance and Compliance Department and Risk Management on a regular basis within the framework of the annual plan for the oversight activities of the activities included in the plan to verify the following:

- The extent of compliance with the applicable laws and regulations.
- The adequacy and effectiveness of the internal audit system.
- Procedures for evaluating and updating the policies and procedures related to the administrative, financial, operational and marketing activities of the company and its subsidiaries.
- Ways to verify the accuracy of the information contained in the financial reports of the company.
- How to proactively identify, mitigate and avoid risks, to the extent available.

Audit committee monitors the commitment to implement the approved internal audit program, and "internal audit plans" and its annual results are discussed through the reports submitted by the head of the internal audit team and the responses of the executive management thereon.
To ensure that the company's internal audit team has been able to perform its duties that were entrusted to it during the year 2019, and to examine the company's business and its subsidiaries according to the approved annual plan.

The committee also ensures that the work of the company's internal audit team is completely independent of the work of the executive management, and that the internal audit team's direct dependence on the audit committee.

The Internal Audit Department has used the following to carry out its duties:

- Its activities were directed to high risk activities and some medium risk activities to raise the effectiveness and efficiency of the company's operations.
- Follow up on the executive management taking the necessary measures to address the contents and observations contained in the audit reports.
- It has performed its role in coordination with the company's management and the external auditor in a satisfactory and efficient manner.

7

Audit Committee's Opinion on the Effectiveness of the Company's Internal Audit

During the year 2019, the Audit Committee recommended the appointment of an external consultant to conduct an independent evaluation using the monitoring framework issued by the Committee of Sponsoring Organizations (COSO) in conjunction with the implementation of the company's internal audit department to implement the approved annual audit plan to assess the status of the applied internal control system.

In addition to the external auditor planning and implementing quarterly and annual audit work in accordance with the international auditing standards adopted in the Kingdom, which resulted in providing an unreserved opinion on the financial statements of the company during the year 2019.

It became clear from the annual examination of the internal control procedures examined during the year 2019, that the results of this examination provided reasonable guarantees regarding the effectiveness and efficiency of operations, preparation and fair presentation of financial reports, as well as compliance with applicable regulations, and we note that it is not possible to absolutely confirm the comprehensiveness of the checks and assessments operations that Internal control procedures take place because the audits are essentially based on the examination of selected samples and it is not possible to give confirmation of the effectiveness of any system of internal control and auditing with a degree of complete reliability.

Based on the above, the audit committee recommends that the management continues to strengthen the internal control system by improving the control environment and strengthening and developing the information technology systems applied in the company and using the COSO framework in implementing and evaluating the internal control system and enhancing the independence of the supervisory departments and supporting them with human and technological resources that help them to raise their performance, as well as exerting more efforts to implement the recommendations and notes, and implement the corrective action plans that the management has undertaken without any delay.

8

Social Responsibility Activities

The social responsibility of the Middle East Paper Company represents an essential part of its values and framework and its aim is the company's contribution to achieve the sustainable development goals of the society in which it operates with its ongoing commitment to act ethically, responsibly and transparently to enhance its competitive position in the markets and the company follows the method of integration with the operating model by integrating the social responsibility of the company in the company's daily operations, as well as translating the commitment to social responsibility into specific goals and included in the company's future policies, procedures and goals.

The company is committed to create sustainable practices in its business that meet the needs of the present without compromising the well-being of future generations and committed to prepare strategies that enable it to move forward towards sustainability and enhance the value provided to our customers.

In order for our efforts to match value creation, MEPCO's corporate responsibility towards society and corporate initiatives focus on two pillars:

Education and Environment, these are the main pillars of 2019.

Education and Empowerment:

Based on MEPCO's keenness to enhance the skills and enthusiasm of the Saudi youth and in terms of social responsibility of the company, since 2011 the company initiated the establishment of the Higher Institute for Paper and Industrial Technologies in Jeddah Governorate (as a non-profit institute) which is one of the projects of strategic partnership programs by signing an agreement between the Middle East Paper Company (MEPCO) and Technical and Vocational Training Corporation, which aims to qualify high school graduates from Saudi youth to obtain a diploma and employ them in private sector companies from the date they joined the institute.

In 2019, the number of trainees at the institute reached 572 trainees on the institute's training seats, and the number of graduates reached 547 graduates, including 183 graduates working at MEPCO.

Whereas, the vision of the institute is to have a qualified Saudi youth specialized in all types of manufacturing industries and its mission is to provide high-quality training based on the latest training equipment and professional training staff, the institute has a number of programs for diploma, including the diploma of electricity, the diploma of mechanics and the diploma of supply; the institute is also committed to providing a high-quality training environment in the field of technology needed by private sector companies in all areas of manufacturing industries.

The Environment:

Sustainability is an essential part of the company's strategy and the main source of its business model, in addition to innovation and constant improvement of sustainable practices, so we participate in society and industry more actively to enhance environmental awareness.

2019 initiatives include:

- MEPCO's contribution to the project of establishing Al-Mulaisa Gardens, south of Jeddah, with Jeddah Municipality and Al-Hayaa Centers Association, the final form of the garden is approved and the contract is signed with the contractor's office to start implementing the project.
- The "Friends of the Environment Convoys" initiative in partnership with the Scientific Endowment of King Abdulaziz University and our subsidiary WASCO, the initiative works to establish paper collection centers used for recycling throughout Jeddah, in 2019 the initiative was implemented 3 times, each lasting for 10 days and provides several collection centers throughout the city of Jeddah.
- MEPCO supports an awareness-raising workshop for children entitled "Story of a Paper" presented to about 5,000 children. The workshop aims to raise the level of social and environmental awareness for waste recycling and environmental protection and highlight the benefits of recycling for the environment and societies. This workshop is presented by Al Nabata company for environmental awareness.
- Visiting the autistic rehabilitation youth for the company and conducting an educational workshop on the importance of recycling, as their role was activated by planting seedlings around the factory.
- Holding the Earth Day event in partnership with Al Nabatah orphanage company, which included promoting awareness about preserving and caring about living organisms for their continuity and the number of children was 50 children.
- MEPCO was crowned the best recycling company in the paper industries for the second year in a row for 2019.

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The General Meeting of the Shareholders during the Year 2019

Name	Record of Attendance
	First Meeting, June 16
Mr. Emad Abdulkadir Al Muhaidib	Attended
Eng. Abdullah Abdul Rahman Almoammar (Head of Executive Committee)	Attended
Mr. Abdulelah Abdullah Abunayyan	Absent
Mr. Khaled Saleh Al Khutaf (Head of Audit Committee)	Attended
Mr. Musaab Sulaiman Al Muhaidib	Attended
Mr. Walid Ibrahim Shukri	Attended
Mr. Ahmed Mubarak Al Debasi (Head of Remunerations and Nomination Committee)	Attended
Mr. Tarek Motlek Al Motlek	Absent

10

Company Profile and Its Subsidiaries

MEPCO is the leading company in the manufacture of paper in the Middle East, integrated vertically, offering a variety of cardboard products and specialized paper products that serve the manufacturing, construction, furniture and basic paper industries worldwide. Also, MEPCO supplies its products to the Saudi domestic market, as well as the countries of the Gulf Cooperation Council, the Middle East and Africa, moreover, the company has developed a growing presence in South Asia, the Americas and Europe.

Also, the company's innovative approach to do business allows to achieve significant environmental and economic benefits for its domestic market and enables the use of MEPCO's energy and efficient water and energy production operations provides eco-friendly and recyclable products to the market through its wholly owned subsidiary, WASCO.

MEPCO obtains raw materials from several locations throughout the Kingdom, ensuring business sustainability while providing measurable benefits to the Saudi economy and MEPCO is also listed in the Saudi Stock Exchange (Tadawul) under the code number 1202.

The company offers a variety of products for many sectors, including:

Packaging Sector

Cardboard Paper: Used in making cardboard boxes for packing foodstuff, electronics and many other uses.

Cardboard Pipe Paper: Used in a wide range of industries including textile rolls, paper mills and more.

Furniture Sector

High Impregnated Formica Paper: Used on furniture surfaces, including offices, kitchen cabinets and doors.

Building and Construction Sector

Gypsum Board Paper: This product is used to manufacture gypsum board which is used for wall and suspended ceiling.

The company respects the highest international quality standards in terms of environmental sustainability and operational efficiency and is always working to develop its activities to meet the variables and needs of the markets.

The company obtained certificates from several international organizations for applying the international ISO standards such as (ISO 9001), (ISO14001), (ISO 45001), FSC Certificate, ISEGA Certificate and ISO 17025 Certificate.

The company's strategic location near Jeddah Islamic Port enhances its ability to reach its products to a wide range of major markets in the Middle East and North Africa, the Indian subcontinent, South Asia, Europe and America.

The company invests heavily in research and development to provide a wide range of innovative products to its loyal partners and customers.

The core values of MEPCO are to provide high-quality products to its customers, contribute in preserving the environment and meeting the needs of the market; since the establishment of the company and we care about the environment and preserve it by recycling the paper and converting it into products of economic value, and our interest in the environment extends to all aspects related to the production process, starting with water treatment and reuse, using renewable chemical additives, we are making continuous efforts to preserve our green world.

The company obtains the main raw materials from several locations throughout the kingdom and neighboring countries through its subsidiary company Waste Collection and Recycling Company Ltd. (WASCO), which is wholly owned by the company and one of the leading companies in the field of waste management and paper collection.

The company has three lines for the production of paper in its factory located in Jeddah; with a production capacity of 475 thousand tons annually of brown paper rolls and is one of the largest companies in the region in terms of production capacity and geographical spread of sales.

The local content of the final product of the company is more than 75% as the company recycles the combined cardboard paper by its subsidiary WASCO and turns it into a complete product used in brown paper converting factories and the packaging industry.
The company's localization rate is approximately 39% and maintains the Platinum range according to the Ministry of Labor's program "Netakat".

The company distributes its products to more than 50 countries around the world and the export percentage of total sales is 53% for the current year.

The company is the official sponsor of the Higher Institute of Paper and Industrial Technologies in Jeddah which is a non-profit organization aiming to graduate those who are qualified to work in the company's factory and train Saudi youth on paper technologies to have a diploma in paper and industrial technologies as one of the company's initiatives in the field of social responsibility and the company has many graduates from the institute.

The company has many activities in the field of social responsibility and environmental education and has won several awards in this field.

Description of the main activities of the company and its subsidiary:

- The main activity of the company is the manufacture and production of packaging paper and industrial paper.
- The main activity of the subsidiary companies is the collection, recycling and trading of paper and waste.

The activities contribution is represented in the volume of the company's business and its contribution to the results as follows: (the numbers are in thousands of SR)

Activity	Revenues from activity	Percentage (%)
Paper Industry and Production (Industry)	669,889	97
Collection and Recycling of Paper and Waste (Trade)	21,188	3

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Plans and Future Prospects

The company always aims to develop its products and production lines and increase production efficiency to continue its successes, maintain its leading position and meet the needs of the local and global markets the demand on its products.

Also it develops its infrastructure and services supporting production lines in order to constantly maintain the lead as one of the largest paper producers in the Middle East and North Africa as it seeks to maximize shareholders 'profits by following the following strategies:

1. Building human capabilities and enhance technical capabilities by training and by providing an appealing work environment for competencies and preserving distinguished calibers.
2. Continuity of building and maintaining a permanent customer base for the company, globally and regionally, by providing services and products of international quality to meet the aspirations of these customers.
3. Flexibility in operations and diversity in the company's products and its ability to respond to market trends by introducing new products.
4. Expansion in the use of raw materials that were previously difficult to use with axial paper kneaders to reduce costs.

12

Important Recommendations and Decisions of the Board of Directors during the Fiscal Year 2019

Timeline of the most important decisions and recommendations of the Board of Directors during the year 2019.
The decision to approve the annual consolidated financial statements for the fiscal year 2018, on 07 March 2019, based on the recommendation of the audit committee.
The decision to approve the annual report of the board of directors and the disclosure form No. (8) for the fiscal year 2018, on March 07, 2019.
Recommendation of the company's board of directors on March 07, 2019 to amend some articles of the company's articles of association according to the latest amendment occurred on the companies system.
The company's board of directors 'decision on March 7, 2019 to distribute cash dividends to the company's shareholders for the second half of the fiscal year 2018, at a value of SR 25 million, at 50 Halala per share, at a rate that represents 5% of the nominal value of the share.
The decision to approve the preliminary financial statements for the first quarter of the fiscal year 2019, on May 07, 2019, upon the recommendation of the Audit Committee.
Recommend to the General Assembly to form the audit committee for the new session of the board beginning on November 14, 2019, based on the recommendation of the Audit Committee.
Inviting the shareholders to attend the extraordinary general assembly meeting of the company to vote on the agenda for the year 2019 on May 21, 2019
Decision to approve the preliminary financial statements for the second quarter of the fiscal year 2019 on August 01, 2019, based on the recommendation of the Audit Committee.
Decision to approve the preliminary financial statements for the third quarter of the fiscal year 2019 on October 29, 2019, based on the recommendation of the Audit Committee.
Decision to appoint the chairman and his deputy, formation of committees (Executive, Remunerations and Nominations) and appointment of commissioners to CMA and Tadawul on November 14, 2019.
Decision to approve the amendment of the company's governance regulations and the regulations followed by and the amendment of the Board and Executive Committee's work regulations dated December 08, 2019

13

The Most Important Events and Disclosures during the Fiscal Year 2019

#	Event	2019
1	Announcing the distribution of cash dividends to shareholders for the second half of 2018	10th March
2	Announcing the annual financial results ending on 31-12-2018	10th March
3	Announcement of obtaining new banking facilitation (compatible with the provisions of Islamic Sharia) from Riyad Bank	10th March
4	Announcement of the opening of candidacy for the membership of the Board of Directors for the new session beginning on the 14th of November 2019	21st March
5	Announcing the issuance of the decision of the Standing Committee for Combating Harmful Practices in International Trade in a complaint of dumping for the company	1stt April
6	Announcement of the preliminary financial results for the period ending on 31-03-2019 (three months)	7th May
7	Announcement of obtaining new banking facilitation (compatible with the provisions of Islamic Sharia) from the National Commercial Bank.	7th May
8	Announcing the shareholders' invitation to attend an extraordinary general assembly meeting (first meeting)	21st May
9	Announcing the results of the extraordinary general assembly meeting (first meeting)	17th July
10	Announcing the preliminary financial results for the period ending on 30-06-2019 (six months).	1st Aug
11	Announcing the preliminary financial results for the period ending on 30-09-2019 (nine months).	29th October
12	Announcing the appointment of the Chairman and Vice Chairman and the formation of committees for the new session beginning on November 14, 2019	14th November

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Board of Directors Declarations during the Year 2019

#	Paragraph	Acknowledgment
1	Recommendation of the Audit Committee regarding the need to appoint an internal auditor in the company in case of absence - The company has had an internal audit department since 2013.	Not applicable
2	The recommendations of the Audit committee that are conflicting with the decisions of the Board of Directors, or which the board refused to adopt regarding appointing and dismissing the company's accounts auditor and determining its fees and assessing their performance or appointing the internal auditor, and the justifications for those recommendations and the reasons for not taking them.	Not applicable
3	A description of any interest in the category of shares entitled to vote belonging to persons (except for members of the company's board of directors and senior executives and their relatives) , and they informed the company of those rights under Article (68) of the regulations for offering securities and ongoing obligations, and any change in those rights during the last fiscal year.	Not applicable
4	A description of the categories and numbers of any convertible debt instruments and any contractual securities or issue right notes or similar rights issued or granted by the company during the fiscal year with clarification of any compensation obtained by the company in exchange for that.	Not applicable
5	A description of any transfer or issuing rights under convertible debt instruments, contractual securities, or right-to-isse notes, or similar rights issued or granted by the company.	Not applicable
6	A description of any redemption, purchase, or cancellation by the company of any recoverable debt instruments, and the value of the remaining securities, with a distinction between the listed securities purchased by the company and those purchased by its subsidiaries.	Not applicable
7	A statement of any arrangements or agreement whereby a member of the company's board of directors or a senior executive waives any remuneration.	Not applicable
8	A statement of what the members of the board have received as active members or administrators, or what they have received in exchange for technical, administrative or consulting work.	Not applicable
9	A statement of any arrangement or agreement whereby a shareholder of the company waives any rights in profits.	Not applicable
10	Stock details and debt instruments issued for each subsidiary	Not applicable
11	A statement of the value of any investments or reserves created for the benefit of the company's employees during the year 2019	Not applicable

The Board of Directors also acknowledges that:

12	A. The accounting records have been correctly prepared. B. The recommendations of the Audit committee that are conflicting with the decisions of the Board of Directors, or which the board refused to adopt regarding appointing and dismissing the company's accounts auditor and determining its fees and assessing their performance or appointing the internal auditor, and the justifications for those recommendations and the reasons for not taking them. C. A description of any interest in the category of shares entitled to vote belonging to persons (except for members of the company's board of directors and senior executives and their relatives) , and they informed the company of those rights under Article (68) of the regulations for offering securities and ongoing obligations, and any change in those rights during the last fiscal year.
13	There are no differences from the accounting standards issued by the Saudi Organization for Certified Public Accountants.
14	It was not recommended that the auditor be replaced during the year 2019 before the end of the period for which he was appointed, and he was reassigned on June 16, 2019.
15	There are no concerns from the auditor on the company's financial statements according to his report for the fiscal year 2019.
16	The auditor did not provide any consulting services for the company and he did not receive any fees from it.
17	The auditors did not submit any request to the board of directors to invite the general assembly of the company to convene during the fiscal year 2019.
18	The Chairman did not receive any written request to hold emergency general assembly from two or more members during fiscal year 2019.
19	The company emphasizes that it did not receive any request from shareholders who own 5% of the capital or more to convene the general assembly or add an item or more to its agenda when preparing it during the fiscal year 2019.
20	The Chairman did not receive any notice from any member of the board regarding his interests with the company in any dealings, and none of them requested a license to conduct competitive business, (except for what was disclosed in this report regarding dealings with stakeholders).
21	The company emphasizes that it has not put in place any procedures or restrictions that may hinder the shareholder's use of their rights guaranteed under the laws and regulations.
22	The company did not provide any cash loan of any kind to its board members, nor did it guarantee any loans that any of them hold with others.
23	The Board of Directors did not absolve any of the Company's debtors of their obligations during the fiscal year 2019.

The company does not have preferred shares or shares that have a special priority in voting, whether for shareholders or members of the board of directors or their affiliates and that all the shares of the company are ordinary shares of equal nominal value and equal in voting rights and other rights according to the system, the number of free shares changes from one period to another according to the company's daily circulation of shares in the stock market.

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Risks related to the activity of the company, its subsidiaries and operations

The company's activity, financial conditions, future expectations, results of its operations and cash flows may fundamentally be negatively affected if any of the following risks occurred, or in case other risks that could not be identified at the present time.

The company, like any industrial entity, is exposed to such risks during its activities and the company takes all possible measures and sets policies and provides adequate support and information to the risk and compliance department to reduce the effects of these risks on the company's performance.

During Q4 of 2019, the Board of Directors decided to appoint a consultant to put down a plan and confront risks of business interruption, based on the recommendation of the Audit Committee. It is scheduled to be completed in mid-2020.

1. Company Risk Management Strategy

The strategy of risk management is represented in the process of taking the calculated risks, which is the systematic way to identify risks, prioritize them, apply the strategies and work plans necessary to reduce risks, as it includes both prevention of potential risks and early detection of actual problems, it is an ongoing process in which human resources are involved at all levels of the company.

A well-prepared risk management strategy enables management to know the risk and analyze it using the appropriate method, and then find the appropriate solution that removes that risk or reduces its effects.

The basic steps to build a company's risk management strategy can be summarized in a continuous series of five steps:

- **Environmental Assessment** - by setting rules for how the risk is viewed and how it is dealt with by the company's employees, as this includes defining a risk management philosophy. The setting of goals by management enables it to discern potential events that affect its achievement.
- **Risk Identification / Identification** - by answering the two questions: What could happen? How can that happen? Internal and external events affect the achievement of the company's goals, and management must distinguish between risks and opportunities.
- **Risk Analysis** - This analysis is done taking into account the possibility of the occurrence of the risk and the degree of its impact on the company's goals, so that a clear rule is set for how the assessed risks should be managed.
- **Risk Assessment** - Management assesses potential risks and selects responses to risk: avoiding, accepting or reducing the impacts, and the management then develops a set of activities to prioritize risk according to its priority.
- **Discussion / Risk Treatment** - At this stage, possible strategic alternatives are identified to control the risk, and then the optimal strategic alternative is chosen from which, in the light of which plans for the treatment of risk include the necessary means for that, taking cost into account.

These five steps are accompanied by a continuous process of oversight by the risk management, by monitoring and making adjustments as necessary. These control activities may be separate for each of the previous five steps, or they may be combined.

2. Methods of Risk Handling

After the risk recognition and assessment process has been completed, all the techniques used to deal with it fall into one or more of the following four main groups:

Transportation: It is a means that helps in accepting the risk by another party, usually through contracts or financial protection. Insurance is an example of transferring the risk through contracts.

Avoidance: Attempting to avoid activities that lead to a certain risk means that avoidance appears to be a solution to all risks, but at the same time it may lead to deprivation of benefits and profits that could have been obtained from the activity that was avoided.

Downsizing: This includes ways to reduce the severity of the losses due to risk by taking measures to reduce the losses caused by the risk.

Acceptance: It means accepting losses when they occur. This method is considered an acceptable strategy in the case of small risks, in which the cost of risk insurance over time is greater than the total losses, and therefore all risks that cannot be avoided or transferred must be accepted.

3. Types of risks that the company and its subsidiaries may face

1) The risks of economic and political fluctuations

Some countries in the region witness some political fluctuations that may adversely affect the competitiveness of the company and limit access to some customers in those countries. Among the company's strategic goals and risk management policy is access to new markets to compensate for the losses that they lose from clients in conflict areas. The company is also affected by its performance by economic conditions at the local and global levels, and the company cannot predict the time, strength or duration of any economic slowdown or subsequent economic recovery.

2) Risks related to the activity of the company and its subsidiaries and operations

A. Risks of relying on key employees

The company is managed by elite of the best administrative and technical competencies and the failure of these competencies to work is one of the most important risks affecting the development and continuation of the company; eligible to assume responsibility in the future and take over from leaders who supervised their training in job skills.

B. Risks of unavailability of raw materials and fluctuating prices

Revenues and profits of the company and its subsidiaries are affected by the prevailing prices of goods and raw materials, especially used paper, and are also affected by the availability of them in the markets, which by their nature are subject to rapid and wide fluctuations, so the company is always keen to support the business of the subsidiary (Wasco) and support it in Confronting competitors to strengthen its competitive position in the markets as the strategic arm of the company in providing the company's needs of raw materials at the right price.

C. Energy Supply Risks

The company depends on a contract to supply its facilities with fuel from Saudi Aramco and it is possible that the price of fuel that Saudi Aramco supplies to the company may rise, and the company may not be able to increase the prices of its products by a rate that reflects the value of the increase in the price of fuel supplied To them, which will negatively affect the company's business and future expectations, so the company supports internal initiatives to reduce costs to reduce the effects of higher energy prices if they occur.

D. The company's geographical location risks

The company's factory is located in the Khamra, Jeddah in a private industrial zone on a plot of land fully owned by the company, and the company has all the necessary licenses to practice its activity in its current location and is keen on its renewal upon legal dates. In the event of new regulations that prevent the continued presence of factories outside the Industrial cities of the Industrial Cities Authority (MODON), this will affect the company's business and its financial position.

E. Operational risks and unexpected business interruptions

The company's plant consists of several production lines and machines for the manufacture of paper. Consequently, if anything that negatively affects the factory's business, whether for technical reasons (such as a power, energy or water supply interruption) or its exposure to any accident or emergency, God forbid affects the continuity of its business, which will fundamentally affect the company's operational and financial results.

Therefore, the company takes all precautionary measures to reduce these risks as the company has an electric power generation plant that covers its needs in addition to backup generators used when necessary, as well as long-term contracts and agreements with more than one party to supply the quantities of water needed for the industry as it maintains an insurance cover that includes compensation for Business interruption, as production lines operate completely independent of each other, so that none of them is affected by the other's discontinuation.

F. Transportation risks

The company relies on external transportation service providers to deliver its products to its customers. Any interruption in these transportation services may temporarily affect the company's ability to supply its products to its customers, which can negatively affect the results of the company's business. The company is always keen on building strategic companies and signing agreements with several companies that provide transportation services to ensure continuous availability of these services with quality and price edge.

3) Market and sector risks

A. Product Price Risk

The future performance of the company is affected by its ability to maintain appropriate prices for its products and the ability to transfer any increase in production costs to its customers by raising the prices of products and this is not certain because the price of the final product depends on supply and demand in the local and global market.

B. Risks Related to Sector concentration and specialization

The company is concentrated in one sector of the paper industry which is manufacturing recycled brown paper. The factors of growth in industrial and agricultural production, the increase in per capita spending, the development of patterns and methods of paper packaging by manufacturers, and the development of awareness of the importance of paper recycling, are all key factors affecting this industry, positively or negatively. Consequently, the decline in these factors or their negative change will affect the company's operations, and the company is always keen on developing and diversifying its products to keep pace with the development in the field of packaging and manufacturing industry that is related to the company's activity.

C. Competitive environment risks

The company operates in a highly competitive environment and the possibility of being dumped with cheap products from external competitors. The company may face a decrease in the prices of its products as a result of this competition, and thus negatively affects the results of the company's business and the company's competitive ability to distinguish its products from other products offered in the market by providing high quality products at reasonable prices.

4) Financial risk

1. **Risks of insufficient insurance:**

the company maintains an insurance cover that includes several types of insurance, and situations may arise that call for the company to resort to the insurance company concerned to compensate it for any insured loss or damage, and the value of the company's claims may exceed the amount of insurance held by the company, or The damage to it is not completely covered by insurance, and consequently, the occurrence of such cases would negatively affect the company's business and the results of its operational and financial operations.

2. **Risks of future availability of additional financing**

The financing needs of the company depend on its capital and its financial position and the results of its operations, cash flows and financing that it obtains from the financial institutions that finance it. Unfavorable or high cost, may adversely affect the company's business and the results of its operational and financial operations, and the company avoids these risks through continuous monitoring of cash flows and ensuring the availability of the necessary financing for the company's needs through the credit facilities it obtains.

3. Credit risk

Credit risk is the risk of financial loss due to the inability of the company's customers to fulfill their obligations. The credit risk of the company mainly relates to trade receivables, and some of the company's clients may face unfavorable economic conditions that prevent them from fulfilling their financial obligations towards the company, which negatively affects the results of the company's business

And its expectations, the company regularly monitors credit risks related to receivables and monitors the allocations necessary to hedge these risks. The company also resortes to insurance coverage of credit risks, especially with its customers outside the Kingdom to reduce these risks.

4. The risks of fluctuating interest rates, currency exchange rates and financing costs

The company is exposed to foreign currency exchange rate risk and that any unexpected large fluctuations in exchange rates will negatively affect the financial performance of the company and the high cost of financing significantly, especially in the case of growth in the volume of financing, will expose the company to incur high financing costs, which may adversely affect Its future profitability, most of the company's dealings are made in Saudi riyals and US dollars, and the company hedges the risks of fluctuating interest rates by monitoring interest rates regularly, as the company entered into financial derivative contracts (interest / profit swaps) with banks to hedge the risks of fluctuating interest rates.

5) Liquidity risk

The risk that the company will encounter difficulty raising funds to fulfill obligations associated with the financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by ensuring on a regular basis that sufficient funds are available through committed credit facilities to fulfill any future obligations. The company does not have a significant concentration of liquidity risk.

6) Dividend risk

The distribution of profits depends on several factors, including the company's ability to achieve profits and its financial position, the requirements of legal precautions, requirements of the financial institutions funded, available credit limits, general economic conditions, and other factors that are subject to the recommendation of the Board of Directors to declare the distribution of profits as it sees fit. Any fundamental change in these factors may affect the company's ability to distribute profits and the distribution of profits is subject to the requirements of the company's articles of association and the applicable regulations and regulations in this regard.

7) The risk of different fair values of financial instruments

The risks that the company may face as a result of the difference in price that will be received to sell an asset or be paid to settle an obligation in an orderly transaction between market participants at the measurement date. The company's management follows the process of managing financial assets and liabilities permanently so that the fair values of financial instruments do not differ materially from their book values.

8) Capital risk management

The goals of the company from the capital management is to maintain the company's ability to continue in the market and thus provide returns to shareholders and benefits for other stakeholders and maintain the optimal capital structure to reduce the cost of capital and maintain and improve it. The company manages capital risk by actively monitoring levels of its debt and liquid assets and maintaining future investment requirements and shareholder expectations.

5. Risks related to laws, regulations, permits and licenses

1) Legislations, regulations and regulatory environment

The company and its work in the field of paper manufacture and waste collection and recycling are subject to supervisory authorities that apply the applicable laws and regulations in the Kingdom of Saudi Arabia in particular, and in the event of modifications to the current systems or regulations or the issuance of new systems or regulations related to the manufacture and production of paper or collecting and recycling waste, the company may be forced, in order to comply with it, to make adjustments to its operations or methods of providing its services or to make adjustments to its products or production lines in line with the requirements imposed by these regulations, which will lead to additional financial unexpected expenses accordingly or influence on its operations substantially lead to a negative impact on the financial results and profitability of the company.

The company always seeks to renew its industrial and commercial licenses, reconcile its conditions and develop its facilities according to the requirements of new regulations and decisions. The company has established a special department for governance and commitment to follow up the application of laws and regulations and ensure that the company or its subsidiary companies do not violate the laws and regulations during the conduct of its activities.

2) Environmental and safety risks

The company's and its subsidiaries' businesses involve some risks related to environmental and safety regulations. Obliging factories in the future to apply more stringent standards to provide environmental and safety requirements for safety will increase the costs of the company, which will affect the results of its business.

The company has occupational safety standards, fire safety and hazardous materials protection.

The Safety team makes field trips to deal with all emergencies and accidents, in addition to conducting periodic training courses for employees on safety procedures and measures. That is besides ensuring uniformity and applying safety precautions within all departments and sites of the company.

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Financial Information and Data

The consolidated financial statements of the company are prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the Kingdom of Saudi Arabia and other standards and circulars issued by the Saudi Organization for Certified Public Accountants. (SOCPA)

The general assembly of the company agreed in its meeting on June 16, 2019 to appoint PwC to review the company's accounts from among the candidates based on the recommendation of the audit committee, to examine, review and audit the financial statements for the second, third and annual quarter of the fiscal year 2019 and the first quarter of the fiscal year 2020, and decide its fees.

*Financial figures beginning in 2016 in accordance with International Standards (IFRS)

1. Business results (Numbers in Thousands SAR)

Statement	2019	2018	2017	2016	2015
Sales	691,077	833,614	771,008	634,405	691,077
Costs of sales	549,368	597,940	584,898	503,122	508,313
Gross profit	141,710	235,674	186,110	131,283	172,856
Operating profit	31,860	128,230	95,833	33,892	81,865
Net profit	6,128	99,444	68,131	94,907	55,118

2. Assets and Liabilities (Numbers in Thousands SAR)

Statement	2019	2018	2017	2016	2015
Assets	474,595	459.173	477.544	444,344	515,053
Non-current assets	1,102,216	1.046.513	1.071,491	1.095.397	1,078,399
Total assets	**1,576,811**	**1.505.686**	**1.549.035**	**1.539.741**	**1,593,452**
Current Liabilities	420,460	354.100	432.969	426.413	483,324
Non current liabilities	424,972	400.274	393.686	419.863	452,123
Total liabilities	**845,433**	**754.373**	**826.655**	**846.276**	**935,447**

3. Substantial differences in operating results (Numbers in Thousands SAR)

Income statement indicators	2019	2018	The value of the changes	Percentage of changes	Causes of change
The Sales	691,077	833,614	(142,537)	(17%)	Lower average selling prices.
Sales Cost	549,368	597,940	(48,572)	(8%)	Decreased average prices for raw materials.
Total Income	141,710	235,674	(93,964)	(40%)	The decrease in the value of sales by a percentage that is higher than the decrease in the cost of sales.
Operating and other Expenses	114,395	108,151	6,244	6%	Increase in selling and distribution expenses and low fair value of financial derivatives.
Operating and other Income	4,544	707	3,837	543%	Resulting from profit on sale of an investment at fair value.
Operating Profit	31,860	128,230	(96,370)	(75%)	Decreased gross profit due to the decrease in the value of sales at a rate higher than the decrease in the cost of sales.

4. Geographical Analysis of the Company total revenue and its subsidiaries

The company and its subsidiaries operate in the Kingdom of Saudi Arabia, the countries of the Gulf Cooperation Council, North and East Africa, and some other geographical regions. According to the geographical distribution as follows: -

(Numbers in Thousands SAR)

Statement	Kingdom of Saudi Arabia	Gulf Cooperation Council	Other Countries	Total Revenue
Company	317,179	49,857	302,853	669,889
Subsidiary	21,188	-	-	21,188
Total	**338,367**	**49,857**	**302,853**	**691,077**

5. Information related to loans to MEPCO and its subsidiaries

1. Medium term loans and facilitations (Numbers in Thousands SAR)

Loan Donor	The principal loan amount / facilitations	Duration of the loan / facilitations	Balance at the beginning of the year	Added during the year / scaled during the year	Amount paid during the year	Balance at the end of the year
Industrial Development Fund	139,500	5 Years	106,500	-	34,000	72,500
Samba Bank	50.000	5 Years	25,000	25,000	-	50.000
Arab Bank	200.000	5 Years	123,810	-	123,810	-
French bank	150.000	5 Years	60,000	-	-	60,000
National bank of Kuwait	150.000	4 Years	72,589	-	24,857	47,732
SABB Bank	100.000	4 Years	100,000	-	21,429	78,571
Bank AlBilad	100.000	5 Years	-	100,000	-	100,000

Loan Donor	The principal loan amount / facilitations	Duration of the loan / facilitations	Balance at the beginning of the year	Added during the year / scaled during the year	Amount paid during the year	Balance at the end of the year
National Commercial Bank	80.000	4 Years	-	80,000	5,000	75,000
Total	969,500	-	487,899	205,000	209,096	483,803
Financing fees due, deferred financial charges	-		815	-	-	732
Total	969,500		488,714	205,000	209,096	484,535

2. Short term loans and facilitations (Rotating) (Numbers in Thousands SAR)

Loan Donor	The principal loan amount / facilitations	Duration of the loan / facilitations	Balance at the beginning of the year	Added during the year / scaled during the year	Amount paid during the year	Balance at the end of the year
Arab Bank	100,000	1 Year	-	30,670	13,550	17,120
National bank of Kuwait	50.000	1 Year	20.000	51,752	71,752	-
Bank AlBilad	100,000	1 Year	76,000	276,500	292,500	60.000
Al Rajhi Bank	100,000	1 Year	27,500	42.000	51.500	18.000
Banque Saudi Fransi	210,000	1 Year	2,999	-	2.999	-
National Commercial Bank	60.000	1 Year	-	4.000	-	4.000
Samba Bank	40.000	1 Year	-	40.000	-	40.000
Riyad Bank	50.000	1 Year	-	74.094	49.095	24.999

Loan Donor	The principal loan amount / facilitations	Duration of the loan / facilitations	Balance at the beginning of the year	Added during the year / scaled during the year	Amount paid during the year	Balance at the end of the year
Total	710,000	-	126,499	519,016	481,396	164,119
Due and other payment papers	-		1,802	-	-	7,581
Total	710,000		128,302	519,016	481,396	171,700
Total medium and short term	1,679,500		617,015	724,016	690,492	656,235

3. Subsidiary company (Wasco) short-term facilitations (Rotating) (Numbers in Thousands SAR) (These Facilitations were not used during the year 2019)

Loan Donor	The principal loan amount / facilitations	Duration of the loan / facilitations	Balance at the beginning of the year	Added during the year / scaled during the year	Amount paid during the year	Balance at the end of the year
Arab Bank	20,000	1 Year	-	-	-	-
National Commercial Bank	15,000	1 Year	-	-	-	-
Total	35,000	-	-	-	-	-
Total (MEPCO & WASCO)	1,714,500	-	617,015	724,016	690,492	656,235

4. Classification of total loans according to international standards (Numbers in Thousands SAR)

Classification	2019	2018
Short-term loans and facilities	171,700	128,301
Current portion of long-term loans	141,617	128,352
Long-term loans	342,918	360,362
Total	656,235	617,015

6. Subsidiaries

Company Name	Capital	Activity	County of Establishment	Country of Activity	Equity
Collection and recycling of limited waste	20 Million SAR	Used Paper Collection and Trade	Saudi Arabia	Saudi Arabia & Other Countries	100%
Achievement Specialised Company Ltd.	100 Thousands SAR	Used Paper Collection and Trade	Saudi Arabia	Saudi Arabia	100%

It is worth noting that subsidiary companies work in integration with their parent company, as the paper collection and sorting companies and their branch supply the paper factory with the raw materials needed for production in addition to their trade in the rest of the types that the factory does not need in order to achieve profit by selling the surplus in the targeted markets.

7. Value statement of the regular payments due with a brief description

- **Zakat:** The company is subject to the regulations of the General Authority of Zakat and Tax in the Kingdom of Saudi Arabia. Zakat is registered on an accrual basis. Subsidiaries operating outside the Kingdom of Saudi Arabia are subject to tax regulations for countries in which they operate.
- **Tax:** The company and its subsidiary registered in the value-added tax system, which was activated in January 2018.
- **Social insurance:** The company is subject to the social insurance system, social insurance fees are recorded according to the accrual basis, and social insurance is paid monthly on the basis of the due for the previous month.
- **Passport & Visa costs:** These are costs the company bears to obtain visas, abroad recruitment fees and commercial visits.
- **Labor office fees:** are the costs of obtaining a work permit and changing professions.

Numbers in Thousands SAR

Statement for the fiscal year 2019	Due	Paid	Reasons
Zakat	910	3,493	According to the review through the company's zakat advisor
Tax	(6,313)	(4,526)	VAT and external services to foreign suppliers
General Organization for Social Insurance.	5,560	5,706	According to who is due in the social security records
Passport & Visa Cost	965	863	Recruitment, commercial visits, visas and their renewal
Labor office fees	8,786	8,561	Employment fees and work permits
Total	9,908	14,097	

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Details of the Treasury Shares Held by the Company and Details of the Uses of these Shares

During the year 2018, 300,000 shares of the company were purchased as treasury shares after the approval of the General Assembly and the shares were allocated to the employee shares program and these shares do not have the right to vote on the terms of the company's general assembly meetings.

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Numbers of Requests for the Shareholders Register during the Year 2019

#	Date of Ownership File	Request Reason
1	13 March 2019	Stock register for the purpose of distributing the profits
2	17 March 2019	Data on the movement of ownership ratios of companies and investment funds
3	13 May 2019	Data on the movement of ownership ratios of companies and investment funds
4	16 June 2019	Stock register for the purpose of the extraordinary general assembly meeting.
5	04 August 2019	Data on the movement of ownership ratios of companies and investment funds
6	15 August 2019	Data on the movement of ownership ratios of companies and investment funds
7	30 September 2019	Data on the movement of ownership ratios of companies and investment funds
8	30 November 2019	Data on the movement of ownership ratios of companies and investment funds
9	17 December 2019	Data on the movement of ownership ratios of companies and investment funds
10	19 December 2019	Data on the movement of ownership ratios of companies and investment funds
11	31 December 2019	Ownership data for board, senior executives and major shareholders at the end of the year.

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Information about the Contracts or Deals that the Company Signed with Related Parties

They are the same transactions that have an indirect interest to some members of the Board of Directors, the CEO or any person related to them.

Contracting Nature	The Other Party in the Contract	Conditions of Work or Contract	Beginning Contract	Contract – Transaction Duration	Value of Transactions in Riyals during 2019	Member's Name / Senior Executives or any person related to any of them
Supply of cardboard (ball) tubes and packaging plastic	Napco Multi-Packaging Company (NAPCO Multipak)	These are continuous commercial transactions that take place in the context of ordinary business and according to the prevailing commercial terms and without any preferential conditions.	2018	Valid until termination by one of the parties whenever they desire.	1,189,331	Tarek Mutlak Al Mutlak
Purchase the company's products from brown paper rolls	Napco Multi-Packaging Company (NAPCO Multipak)	These are continuous commercial transactions that take place in the context of ordinary business and according to the prevailing commercial terms and without any preferential conditions.	2018	Valid until termination by one of the parties whenever they desire.	4,744,691	Tarek Mutlak Al Mutlak
Purchase the company's products from brown paper rolls	The Eastern Carton Industry Company (EASTERN-PAK)	These are continuous commercial transactions that take place in the context of ordinary business and according to the prevailing commercial terms and without any preferential conditions.	2018	Valid until termination by one of the parties whenever they desire.	1,746,188	Tarek Mutlak Al Mutlak
Purchase the company's products from gypsum board rolls	United Mining Company	These are continuous commercial transactions that take place in the context of ordinary business and according to the prevailing commercial terms and without any preferential conditions.	2010	Valid until termination by one of the parties whenever they desire.	2,303,214	Emad Abdulkadir Al Muhaidib

Contracting Nature	The Other Party in the Contract	Conditions of Work or Contract	Beginning Contract	Contract – Transaction Duration	Value of Transactions in Riyals during 2019	Member's Name / Senior Executives or any person related to any of them
Supplying water to meet the company's needs among the approved suppliers	Industrial Cities Devel-opment and Operating	These are continuous commercial transactions that take place in the context of ordinary business and according to the prevailing commercial terms and without any preferential conditions.	2005	Valid until 2025.	4,497,924	Emad Abdulkadir Al Muhaidib Abdulelah Abdullah Abunayyan

* Membership of Board Member Mr. Tarek Mutlak ended at the end of the Board's session on November 13, 2019.

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The Distributed and Proposed Cash Dividends for the Year 2019

During the year 2019, and based on the delegation from the company's general assembly, the Board of Directors decided to distribute interim cash dividends to shareholders for the year 2018.

The Board of Directors issued the decision on March 7, 2019 to distribute cash dividends to the company's shareholders for the second half of 2018 at 50 Halalas per share, at a rate of 5% of the capital, the total distributions amounted to 25 million Riyals and the distribution started on March 25, 2019. The distributions were approved in the general assembly of the company on June 16, 2019.

Dividend Policy:

1- Cash Dividend Distribution:

Dividends are distributed to the shareholders according to what is stipulated in the Companies System and its bylaws and the company's Articles of Association. The company's net profits are distributed after deducting all general expenses and other costs as follows:

- Avoid (10%) of the net profits to form a systematic reserve and the ordinary general assembly may stop this appropriation when the said reserve reaches (30%) of the paid-up capital.
- The Ordinary General Assembly, based on the proposal of the Board of Directors, to set aside a certain percentage of the net profits to form an agreed reserve and allocate it for a specific purpose or purposes. This reserve may not be used except by a decision from the Extraordinary General Assembly.
- The Ordinary General Assembly may decide to form other reserves, to the extent that it achieves the interest of the company or ensures distributing fixed profits as much as possible to the shareholders, and the aforementioned aasembly may also deduct amounts from the net profits to establish social institutions for the employees of the company or to assist the existing ones from these institutions.
- From the remainder, a payment shall be distributed to the shareholders, not less than (5%) of the paid-up capital.
- Subject to the provisions stipulated in Article (twenty-one) of this system, and Article (seventy-six) of the Companies, a percentage of no more than (10%) of the remainder shall be allocated to the remuneration of the Board of Directors if the remuneration is a certain percentage of the company's profits, as the entitlement to this remuneration is proportional to the number of sessions a member attends.
- After fulfilling the controls set by the competent authority, the company may distribute semi-annual and quarterly dividends to shareholders.

2- Distribution of Bonus Shares:

- The company may distribute the profits in the form of granting bonus shares to the shareholders with an aim to increase the capital by issuing bonus shares at the nominal value of the share, by transferring the nominal value of the bonus shares from the retained earnings item and adding them to the capital, the approval of the Capital Market Authority must be obtained on the request of increasing the capital, then obtain the approval of the extraordinary general assembly of the company.
- The shareholder deserves his share in the cash dividends or the bonus shares in accordance with the decision of the General Assembly issued in this regard or the decision of the Board of Directors to distribute interim dividends, and the decision shall specify the due date and date of distribution. The distribution of the dividends is entitled to the shareholders who are registered in the shareholders 'records at the end of the specified day for entitlement.

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Corporate Governance Information

A) MEPCO Corporate Governance

The company has established its own corporate governance system with the aim of setting rules and standards to guarantee compliance with the best governance practices that ensure the protection of the rights of shareholders, stakeholders and related parties, and the rules, policies and procedures listed in the company's corporate governance rules and regulations are binding on all members of the board of directors, executive management, managers and all employees of the company. This system may not be modified except by a decision of the company's board of directors.

The corporate governance system aims to the optimal and most rational investment its capabilities and resources by creating a work environment based on responsibility, control, commitment and its pillars are clarity and transparency, whether in defining the company's goals and strategic business plans, or in describing the rights of each of its entities and their obligations, or in managing its relationship with suppliers, financiers, consumers and monitoring authorities and on the activity they works in. This environment interacts with the national legislation system in which the company operates within its framework and integrates with it to achieve its goals effectively and fairly.

MEPCO adheres to the best standards of corporate governance and always adjusts its systems due to developments in these standards and considers that this commitment is a fundamental factor for its long-term success, therefore the company has developed its own governance system and rules, and this system is consistent with the company's commitment to integrity and quality in all of its operations, activities and products.

During the year 2019, the Board of the Capital Market Authority issued its decisions to approve the amendments of the corporate governance regulation and the controls and regulatory procedures issued in implementation of the corporate system and the rules for offering securities and ongoing obligations. The company initiated a review of its corporate governance system and its regulations and policies and amended it according to the amendments approved by the authority and the amendments were approved by the board of directors.

<u>The MEPCO Governance System focuses on the following objectives:</u>

- Activating the role of shareholders in the company and facilitate their exercise of their rights;
- Achieve transparency, integrity and fairness in the company and its dealings and business environment and enhance disclosure thereof;
- Providing effective and balanced tools to deal with conflict of interest situations;
- Clarify the specializations of the Board of Directors and the Executive Management and their responsibilities;
- Activating the role of the Board of Directors and committees and developing their efficiency to enhance decision-making mechanisms in the company;
- Strengthening the oversight and accountability mechanisms of company employees;
- Establish a general framework for dealing with stakeholders and considerate their rights;
- Increase the efficiency of internal supervision and oversight, and provide the necessary tools for that;
- Educate employees about the concept of professional behavior and urging them to adopt responsible and normalized behavior when exercising their duties.

The most important principles of MEPCO governance	
Responsibility	Ensuring effective performance of tasks and with the best available capabilities;
Oversight and Accountability	Oversight of actions, behaviors and accountability of any person making a decision and ensuring that they are able to clarify and justify their actions;
Equality	Fair treatment and non-discrimination for all parties;
Transparency	Disclosure carefully and clearly ,and ensuring that all company operations and data are clear and available to all;
Ethics	Act according to the Code of Professional and Ethical Conduct and deal with integrity, fairness and professionalism with all parties;
A vision to establish sustainable value	Long-term outlook for achieving sustainability, ensuring growth and achieving benefit for society.

B) The Company's Articles of Association

It is its own system that determines what the company is and organizes its affairs and purposes, how to manage it, organize its meetings, the rights of shareholders in it, how to monitor its business, the company's authority to borrow and buy its shares and outlines its policy outlines from its inception until its expiration.

<u>Some articles of the company's Articles of Association have been amended and approved by the Extraordinary General Assembly meeting on June 16, 2019</u>

C) Shareholders' Rights

The corporate governance regulations pay special attention to the rights of shareholders, and encourage their effective participation in the general assembly meetings and inform them about voting procedures and rules, their rights to fair treatment without discrimination among them, and obtain information that enables them to fully exercise their statutory rights, obtain a share of the profits, and their right to obtain a share of the company's assets upon liquidation, the right to attend shareholder assemblies, participate in its deliberations, vote on its decisions, the right to dispose of shares, the right to request access to the company's books and documents, control the actions of the board of directors, the right to inquire and request information that does not harm the company's interests and does not contradict the financial market system and its executive regulations, the right to file a liability claim against the members of the board, and to appeal the nullity of the shareholders assemblies decision, as it took care of the rights of other stakeholders, and all of those rights were guaranteed and confirmed by the company's Articles of Association.

D) The Internal Control System

The Board of Directors adopted a system of internal control of the company based on recommendation of the Audit Committee with the aim of evaluating the policies and procedures related to risk management, applying the provisions of the rules of corporate governance system and its regulations, and adhering to the relevant laws and regulations. The audit committee also recommended the use of the COSO framework in the evaluation, implementation and supervision of internal control.

The internal control and risk management processes of the company are listed according to the COSO framework as follows:

Strategy: That the higher goals of the company are consistent with and supportive of the company's mission.

Operations: The effective and efficient use of resources to achieve the targeted goals.

Reports: The reliability of financial reports.

Compliance: Compliance with all ongoing and applicable laws and regulations.

The executive management undertakes the implementation of internal control systems and risk management, verifies the effectiveness and adequacy of these systems and the application of best practices, and assesses and monitors the internal control system in the company and its subsidiaries, both from internal audit management, governance, compliance and risk management, each according to its specific role. These departments enjoy independence and report to the Audit Committee and the Board of Directors periodically.

In the beginning of the year 2019, with the aim of strengthening the internal control system, the Audit Committee recommended the approval of the framework issued by the Committee of Sponsoring Organizations (COSO) in implementing, reviewing and evaluating the internal control system, and work began to evaluate the existing system by an independent consultant, and a steering committee was formed to oversee the implementation of the recommendations. The company continues to use the framework to implement internal control procedures and evaluate them annually. The Audit Committee also recommended during the year 2019 the appointment of an external consultant to support the risk management, review of risk records and control plans and the company's ability to bear risks. The level of risk acceptance limit of the company was modified and approved by the end of the year 2019 based on the recommendation of the Audit Committee.

The company has strengthened its governance role by taking the following actions:

1) The Internal Audit Department plays an important role in providing the board and the executive management with an objective and comprehensive view of all the company's activities and ensuring the effectiveness of internal control systems in facing the risks identified by the risk management function in order to reduce and limit those risks, and its tasks will be addressed in the results of the annual review of control procedures, which is an independent department that performs its work under the supervision of the Audit Committee.

2) The Corporate Governance and Compliance Department is an independent department that works in cooperation with the company's departments and under the supervision of the Board of Directors and the Audit Committee. Its main tasks are focused on the following:

- Monitor the application of the general framework of governance and ensure that its components are reviewed periodically to ensure that it aligns with changes that may occur to the company's goals or activities, regulatory requirements or leading practices in the field of governance.
- Follow-up to the amendments issued by the regulatory and supervisory authorities on the systems, regulations and instructions of joint-stock companies; and update the company's internal regulations accordingly.
- Ensure that the company abides by the instructions and regulations imposed by the regulatory and supervisory authorities related to the company's activities.
- Responding to inquiries and correspondence received to the company from the regulatory and supervisory authorities and participating in the training activities conducted by these authorities, and strengthening trust between them and the company.
- Monitor compliance with company policies and internal control and oversight systems to achieve compliance with externally imposed rules.
- Promote awareness of the culture of corporate governance and commitment within the company and conducting the necessary training for workers.
- Inform the executive management of (the risks of non-compliance) that result in penalties and statutory procedures, financial losses or abuse of the company's reputation as a result of its failure to implement the regulations, instructions, rules, teachings, behavioral and ethical values that cover the work environment in which the company operates.
- Respond to alleged violations of rules,

regulations, policies, procedures and standards of ethical behavior through evaluation and recommending the initiation of investigation procedures.

- Conduct an annual review of all instructions included in the policy and procedures manuals on corporate governance applied in the company to ensure that they conform to and comply with the requirements of all regulations and instructions, and to ensure compliance with their application, and updating them according to requirements.
- Monitor the company's compliance with laws and regulations in its dealings with the external environment; the company's departments 'commitment to operating in accordance with the company's corporate governance policies and internal regulations, and support the internal audit department in its oversight role.

3) Risk Management is operating under the umbrella of the Governance and Compliance Department.
The most prominent tasks of its work are the following:

- Ensure the effectiveness of managing the risks company is, or likely to, exposed to.
- Define, develop and monitor the application of guidelines and risk management procedures necessary to define, measure, control and monitor risks inherent in the company's activities.
- Review the risk record submitted by each department manager regarding his management and submitting it to the CEO and the company's Audit Committee, and preparing a regular report on the risk management framework and risk structure of the company.
- Promote awareness of the risks and culture of risk management within the company and conduct the necessary training for workers.
- Ensure that all employees are fully aware of the risks in their work environment and their personal responsibilities.
- Coordinate with the executive management to ensure the effectiveness and efficiency of the company's risk management system.
- Reporting to the Audit Committee and Board of Directors, including recommendations to the executive management that support the effective risk management.

4) Legal Administration is a specialized department that works with other departments to achieve the goals of the company, and to ensure that the actions taken by the departments operating in the company are in conformity with the legal rules and that they provide legitimate and legal consultations and opinions, review the regulations, and audit contracts and agreements, as well as providing legal advice in what is referred to it from dealings from different departments, and also its tasks also to formulate decisions, letters and memos assigned to prepare them, and to express the legal opinion on the issues that are referred to previewed by it and to coordinate with the law offices that

handle the company's issues, in addition to spreading legal awareness and educating the company's employees through coordination with different departments.

22

The Corporate Governance Regulations That have been Applied

The company has implemented the mandatory provisions contained in the corporate governance regulations issued by the board of the Capital Market Authority, and its subsequent amendments until the end of the year 2019, with the exception of the following provisions, which include indicative provisions

Article Number	Article Text	Reasons for not applying
14 Paragraph (a)	When preparing the agenda of the General Assembly, the Board of Directors must take into account the issues that shareholders wish to include, and the shareholders who hold at least 5% of the company's shares may add one or more topics to the agenda of the General Assembly when preparing it.	The company was not notified of any issues that the shareholders wish to include on the agenda during the meetings of the General Assembly in 2019.
39 Paragraph (2)	Setting the necessary mechanisms for the members of the Board of Directors and the Executive Management to obtain continuous training programs and courses in order to develop their skills and knowledge in areas related to the company's activities.	The company is satisfied with applying paragraph (1) of the article, and the board is always informed of developments in the company's work field through meetings and reports submitted by the management.
41 Paragraph (d, e)	The individual evaluation of the members of the Board of Directors takes into account the extent of the effective participation of the member and his commitment to the performance of his duties and responsibilities, including attending the sessions of the Board and committees and allocating the time necessary for them. The Board of Directors shall make the necessary arrangements to obtain the evaluation of a competent external authority for its performance every three years.	A guiding article (at the end of 2019, the Board of Directors recommended the appointment of a competent external authority to evaluate its performance and the performance of the committees and members in coordination with the Remuneration and Nominations Committee).
46 Paragraph (3)	The chairman of the board of directors informs the ordinary general assembly when it is held of the competing activities practiced by the board member, after the board of directors verifies the competition of the board member for the company's activities or its competitor in one of the branches of activity that is practiced according to criteria issued by the general assembly of the company - based on the proposal of the board of directors - and published on the website of the company, provided that these works are verified annually.	During the year 2019, the board was not notified of any competition actions and regarding competition standards, it will be presented to the General Assembly at the next meeting in accordance with the requirements.

Article Number	Article Text	Reasons for not applying
60	A) A committee called the Remuneration Committee shall be formed by a decision of the company's board of directors, from three members who are not members of the executive board of directors, provided that at least one of them is an independent member. B) The General Assembly of the company issues, on the proposal of the Board of Directors, the regulations for the remuneration committee, ...	Not applicable as The Remuneration Committee was combined with the Nominations Committee into one committee.
63	The Remuneration Committee meets periodically every (at least) year, and whenever the need arises.	Not applicable since the company included the Remuneration and Nominations Committee in one committee
64	A) A committee called (the Nominations Committee) will be formed by a decision of the company's board of directors, not from the executive board members, provided that at least one of them is an independent member. B) The General Assembly of the company issues, on the proposal of the Board of Directors, the work regulations of the Nominations Committee, ...	Not applicable since the company included the Remuneration and Nominations Committee in one committee
67	The Remuneration Committee meets periodically every (at least) every year, and whenever the need arises.	Not applicable since the company included the Remuneration and Nominations Committee in one committee
70	A committee called the "Risk Management Committee" shall be formed by a decision of the company's Board of Directors, whose chairman and the majority of its members are non-executive board members. Its members are required to have an adequate level of knowledge of risk management and financial affairs.	The company did not form a specialized committee for risk management, and the risk officer monitors the risk management and implementation of the risk management policy in coordination with the internal audit and compliance and under the supervision of the audit committee.

Article Number	Article Text	Reasons for not applying
85 Paragraph 3,2,1	The company establishes programs to develop and motivate the participation and performance of workers in the company, provided that it includes - in particular - the following: 1) Forming committees or holding specialized workshops to listen to the opinions of the employees of the company and discussing them in matters and issues that are the subject of important decisions, programs for granting employees shares in the company or a share of the profits achieved or pension programs, establishing a separate fund to spend on these programs and establishing social institutions for the company's employees.	Partially not applicable, knowing that the company has established a program to give some employees shares in the company, as the company provides means of communication for employees to offer opinions and submit suggestions and complaints, and surveys of job satisfaction are conducted through independent external parties, and training courses for employees inside and outside the company are also prepared.
88 Paragraph (1)	Setting measuring indicators linking the company's performance with its initiatives in social work, and comparing that with other companies of similar activity.	Does not apply because the text is indicative and difficult to implement, especially compared to other companies with similar activity to the scarcity of information.
95	In case the Board of Directors creates a committee specialized in corporate governance, then it must delegate to it the powers prescribed under Article (ninety-four) of these regulations, and this committee should follow up on any issues regarding the applications of governance, and provide the Board of Directors, at least annually, with the reports and recommendations reached.	The company has not formed a special governance committee, and there is a department dedicated to governance and compliance that, in coordination with the internal audit, is responsible for overseeing and supervising the implementation of the corporate governance system under the supervision of the audit committee and the board of directors.

In conclusion, the Board of Directors is pleased to extend sincere thanks and appreciation to the rational government of the Custodian of the Two Holy Mosques for its support and ongoing care for the private sector and government initiatives to support the private sector in implementation of the Kingdom's 2030 vision. The Board also extends sincere thanks and appreciation to all those dealing with the company from the company's customers, banks and suppliers, and sincere thanks and appreciation to the shareholders of the company, for their trust and continuous support, calling on the Lord Almighty to crown this confidence with more development and prosperity, and thanks to the executive management and employees of the company for their sincere efforts, and the board looks forward to accomplish more achievements during the year 2020, God willing.

Asking the Lord Almighty to grant success to everyone,

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (together the "Group") as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key audit matter • Implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. The matter described below was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Key audit matter	How our audit addressed the Key audit matter
Implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) The Group adopted IFRS 16 'Leases' with effect from January 1, 2019. This new standard supersedes the requirements of International Accounting Standard 17 'Leases' (IAS 17). IFRS 16 represents a significant change in accounting for leases which had previously been classified as "operating leases" under the principles of IAS 17. IFRS 16 principally modifies the accounting treatment of such operating leases at inception, by recognizing as of January, 1, 2019 both a right-of-use asset and a corresponding liability for the amount of lease payments over the term of the lease contract discounted using lessee's incremental borrowing rate ("IBR"). The IBR method is used where the implicit rate of interest in a lease is not readily determinable. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at December 31, 2018. Management performed a detailed analysis of each lease contract in existence at January 1, 2019 to identify how each lease would be affected by differences between the requirements of the two standards, identify changes required to be made to existing accounting policies and determine transition adjustments and consequential changes to processes and controls required particularly in connection with identification of whether an arrangement meets the definition of a lease.	• We performed the following procedures in relation to the Group's implementation of IFRS 16: • Reviewed management's assessment of the impact of IFRS 16 in terms of the classification and measurement of its right-of-use assets and lease liabilities, and understood the approach taken towards implementation. • Tested completeness of the lease register by testing the reconciliation of the lease liabilities recognised at January 1, 2019 to the Group's operating lease commitments as at December 31, 2018. Also tested management's assessment of contracts on a sample basis for inclusion or exclusion of leases at the adoption date. • Tested the accuracy of lease data on a sample basis by testing lease data captured by management through inspection of lease documents. • Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right-of-use assets and lease liabilities, based on terms of the lease contracts and traced prepaid and accrued expenses. We also tested the arithmetical accuracy of those individual lease schedules and how these accumulated into the total adjustment applied in the accompanying consolidated financial statements as at January 1, 2019. • Assessed the appropriateness of the discount rates used in the computation of lease liabilities. • We also reviewed the adequacy of the disclosures included in the accompanying consolidated financial statements in relation to the implementation of the new standard.

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper (continued)

Key audit matter	How our audit addressed the Key audit matter
Implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) (continued) We considered this to be a key audit matter because the calculations of amounts underlying the right-of-use assets and the corresponding lease liabilities involve new processes for collecting data, complex rules and the application of management judgement relating to the terms of the various lease contracts and the discount rate to be applied. Refer to Note 2.3(a), which explains the impact of the adoption of the new accounting standard, Note 3.8 for the accounting policy and Notes 6 and 20 for the related disclosures in the accompanying consolidated financial statements.	

Other information

Management is responsible for the other information. The other information comprises the information included in the Board of Director's Report of the Group but does not include the consolidated financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Board of Director's Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent auditor's report to the shareholders of Middle East Company for Manufacturing and Producing Paper (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent auditor’s report to the shareholders of Middle East Company for Manufacturing and Producing Paper (continued)

Auditor’s responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers

Mufaddal A. Ali
License Number 447

March 17, 2020
professional scepticism throughout the audit. We also:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2019

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Property, plant and equipment	5	**1,056,884,444**	1,040,868,466
Right-of-use assets	6	**43,313,001**	-
Intangible assets	7	**2,018,137**	3,580,821
Derivative financial instruments	8	**-**	2,064,063
Total non-current assets		**1,102,215,582**	1,046,513,350
Current assets			
Inventories	9	**208,074,647**	213,933,195
Trade receivables	10	**159,881,870**	156,877,366
Prepayments and other receivables	11	**15,927,918**	15,046,939
Other current assets	12	**67,457,820**	43,948,837
Financial asset at fair value through profit or loss	13	**39,434**	524,256
Cash and cash equivalents	14	**23,213,483**	28,842,546
Total current assets		**474,595,172**	459,173,139
Total assets		**1,576,810,754**	1,505,686,489
Equity and liabilities			
Equity			
Share capital	15	**500,000,000**	500,000,000
Statutory reserve	16	**84,220,419**	83,607,622
Treasury shares	17	**(6,816,812)**	(6,816,812)
Retained earnings		**153,974,608**	174,522,254
Net equity		**731,378,215**	751,313,064
Liabilities			
Non-current liabilities			
Long-term borrowings	19	**342,918,084**	360,361,646
Lease liabilities	20	**37,896,894**	-
Derivative financial instruments	8	**224,625**	-
Employees' end of service benefits	21	**43,932,711**	39,912,063
Total non-current liabilities		**424,972,314**	400,273,709
Current liabilities			
Zakat payable	22	**1,437,193**	4,020,197
Current portion of long-term borrowings	19	**141,617,251**	128,352,211
Current portion of lease liabilities	20	**5,456,196**	-
Derivative financial instruments	8	**15,416**	-
Short-term borrowings	23	**171,700,857**	128,301,031
Trade and other payables	24	**97,374,542**	90,097,948
Other current liabilities	25	**2,858,770**	3,328,329
Total current liabilities		**420,460,225**	354,099,716
Total liabilities		**845,432,539**	754,373,425
Total equity and liabilities		**1,576,810,754**	1,505,686,489

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer   Chief Executive Officer   Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Revenue	4	**691,077,493**	833,613,856
Cost of revenue	26	**(549,367,624)**	(597,939,514)
Gross profit		**141,709,869**	235,674,342
Selling and distribution expenses	27	**(53,297,734)**	(44,107,432)
General and administrative expenses	28	**(58,788,666)**	(61,714,260)
Impairment losses on financial assets	10	**(4,187)**	(1,394,492)
Fair value (loss)/gain on derivative financial instruments		**(2,304,104)**	706,825
Other operating income/(expenses) - net	29	**4,544,426**	(934,689)
Operating profit		**31,859,604**	128,230,294
Finance costs - net	30	**(24,821,843)**	(26,013,446)
Profit before zakat		**7,037,761**	102,216,848
Zakat expense	22	**(909,789)**	(2,772,913)
Profit for the year		**6,127,972**	99,443,935
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses on re-measurement of employee benefit obligations	21	**(1,062,821)**	(1,194,249)
Total comprehensive income		**5,065,151**	98,249,686
Earnings per share:			
Basic and diluted	31	**0.12**	2.00

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer   Chief Executive Officer   Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
Balance as at January 1, 2019		500,000,000	83,607,622	(6,816,812)	174,522,254	**751,313,064**
Profit for the year		-	-	-	6,127,972	**6,127,972**
Other comprehensive loss for the year		-	-	-	(1,062,821)	**(1,062,821)**
Total comprehensive income for the year		-	-	-	5,065,151	**5,065,151**
Transfer to statutory reserve	16	-	612,797	-	(612,797)	-
Dividends	35	-	-	-	(25,000,000)	**(25,000,000)**
Balance as at December 31, 2019		**500,000,000**	**84,220,419**	**(6,816,812)**	**153,974,608**	**731,378,215**
Balance as at January 1, 2018		500,000,000	73,663,228	-	148,716,962	722,380,190
Profit for the year		-	-	-	99,443,935	99,443,935
Other comprehensive loss for the year		-	-	-	(1,194,249)	(1,194,249)
Total comprehensive income for the year		-	-	-	98,249,686	98,249,686
Transfer to statutory reserve	16	-	9,944,394	-	(9,944,394)	-
Purchase of treasury shared	17	-	-	(6,816,812)	-	(6,816,812)
Dividends	35	-	-		(62,500,000)	(62,500,000)
Balance as at December 31, 2018		500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer Chief Executive Officer Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Cash flows from operating activities			
Profit before zakat		**7,037,761**	102,216,848
Adjustments for:			
Depreciation and amortization	5,6,7	**95,825,257**	86,797,813
Finance costs	30	**24,821,843**	26,013,446
(Gain)/loss on disposal of property and equipment	29	**(390,125)**	526,421
Allowance for impairment of trade receivables	10	**4,187**	1,394,492
Allowance for slow moving inventories	9	**3,600,000**	3,067,797
Provision against advances to suppliers and employees	12	**1,500,206**	-
Employees' end of service benefits	21	**6,495,935**	5,630,936
Fair value loss/(gain) on derivative financial instruments		**2,304,104**	(706,825)
Gain on disposal of financial assets at fair value through profit or loss		**(3,250,266)**	-
Fair value gain on financial asset at fair value through profit or loss	13	**(15,178)**	(11,953)
Changes in operating assets and liabilities:			
Inventories		**2,258,548**	(36,828,525)
Trade receivables		**(3,008,691)**	51,345,723
Prepayments and other receivables		**(1,806,098)**	(2,857,788)
Other current assets		**(25,009,189)**	88,432
Trade and other payables		**7,307,159**	12,511,678
Other current liabilities		**(125,714)**	(1,358,544)
Cash generated from operations		**117,549,739**	247,829,951
Finance costs paid		**(26,284,064)**	(23,875,071)
Zakat paid	22	**(3,492,793)**	(1,759,375)
Employees' end of service benefits paid	21	**(3,538,108)**	(2,243,895)
Net cash inflow from operating activities		**84,234,774**	219,951,610
Cash flows from investing activities			
Acquisition of property and equipment	5	**(102,779,597)**	(60,484,680)
Proceeds on disposal of property and equipment		**2,448,333**	139,951
Acquisition of investment at fair value through profit or loss	13	**(24,065,394)**	-
Proceeds from sale of investments at fair value through profit or loss		**27,815,660**	-
Net cash outflow from investing activities		**(96,580,998)**	(60,344,729)
Cash flows from financing activities			
Net change in short-term borrowings		**42,998,576**	(94,244,433)
Proceeds from long-term borrowings	19	**205,000,000**	162,000,000
Repayments of long-term borrowings	19	**(209,095,715)**	(160,218,750)
Principal elements of lease payments	20	**(7,185,700)**	-
Purchase of treasury shares	17	**-**	(6,816,812)
Dividends paid	35	**(25,000,000)**	(62,500,000)
Net cash inflow / (outflow) from financing activities		**6,717,161**	(161,779,995)
Net change in cash and cash equivalents		**(5,629,063)**	(2,173,114)
Cash and cash equivalents at beginning of year		**28,842,546**	31,015,660
Cash and cash equivalents at end of year	14	**23,213,483**	28,842,546

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chief Financial Officer Chief Executive Officer Chairman of the Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2019
(Expressed in Saudi Riyals unless otherwise stated)

1. General information

Middle East Company for Manufacturing and Producing Paper ("MEPCO" or the "Company") and its subsidiaries (collectively "the Group") are engaged in the production and sale of container board and industrial paper. MEPCO is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia.

The Company obtained its Commercial Registration No. 4030131516 on Rajab 3, 1421H, corresponding to September 30, 2000. During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated Safar 14, 1433H (January 8, 2012). The Company's application for its initial public offering was accepted by the Capital Market Authority (CMA) on Jumad-ul-Awal 25, 1436H (March 16, 2015). The Company was converted to Saudi Joint Stock Company on Rajab 14, 1436H (May 3, 2015).

At December 31, 2019, the Company had investments in the following subsidiaries (collectively referred to as "Group"):

Subsidiary name	Country of incorporation	Principal business activity	Effective ownership interest
Waste Collection and Recycling Company Limited ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	100%
Special Achievements Company Limited ("SACO")	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	100%

During 2018, the Company started the process to transfer the 3% shareholding of WASCO and SACO in each other to the Company. The transfer of SACO's 3% shareholding in WASCO to the Company was completed during 2018. However, the legal formalities for the transfer of WASCO's 3% shareholding in SACO to the Company are under process as of the date of the issuance of the consolidated financial statements.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), that are endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA), and interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC).

2.2 Accounting convention / Basis of measurement

These consolidated financial statements have been prepared on a going concern basis and on historical cost convention except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in Note 3 – Significant accounting policies.

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2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their reporting periods commencing on or after January 1, 2019.

Annual Improvements to IFRS Standards 2015 - 2017

These amendments include minor changes to IAS 23 - Borrowing costs – a company treats as part of general borrowings any long-term borrowing originally made to develop a qualified asset when the asset is ready for its intended use or sale. (Accounting policy 3.13 and Note 5). A portion of the finance cost paid on the general borrowings is capitalized as part of the qualifying asset presented in capital work-in-progress.

International Financial Reporting Standards Interpretations Committee ("IFRS IC") 23 - Uncertainty over income tax treatments

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 - Income taxes, are to apply where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not IAS 37 - Provisions, contingent liabilities and contingent assets, applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Impact of changes in accounting policies due to the adoption of new IFRS standards

The Group has adopted International Financial Reporting Standard 16 *Leases* (IFRS 16) from January 1, 2019. This note explains the impact of the adoption of IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in Note 3 below.

The Group has adopted IFRS 16 from January 1, 2019 but has not restated comparatives for the year-ended December 31, 2018, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at January 1, 2019.

a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities are now measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.83%.

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2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group (continued)

	January 1, 2019 (Date of initial application)
Operating lease commitments	61,820,358
Discounting impact using the lessee's incremental borrowing rate	(9,884,100)
Less: short-term leases recognised on a straight-line basis as expense	(1,954,743)
Lease liability recognised	49,981,515
Classified as:	
Current lease liabilities	6,478,666
Non-current lease liabilities	43,502,849
	49,981,515

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at January 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at January 1, 2019 (date of initial application).

The recognised right-of-use assets relate to the following types of assets:	December 31, 2019	January 1, 2019
Leased land	**41,847,735**	47,168,541
Buildings	**1,465,266**	3,307,027
Total right-of-use assets	**43,313,001**	50,475,568

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- right-of-use assets – increase by Saudi Riyals 50.48 million
- prepayments – decrease by Saudi Riyals 0.92 million
- lease liabilities – increase by Saudi Riyals 49.98 million.
- other liabilities – decrease by Saudi Riyals 0.34 million.

There is no net impact on retained earnings on January 1, 2019 as a consequence of change in accounting policy.

b) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities for December 31, 2019 are increased as a result of the adoption of IFRS 16. The following segments were affected by the change in policy:

	Manufacturing	Trading	Eliminations	Total
As at December 31, 2019				
Impact on assets	325,008	42,987,993	-	**43,313,001**
Impact on liabilities	288,290	43,064,800	-	**43,353,090**

Earnings per share increased by Saudi Riyal 0.0025 per share and Saudi Riyal 0.0130 per share for the three-month and twelve-month periods year ended December 31, 2019, respectively as a result of the adoption of IFRS 16.

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2. Basis of preparation (continued)

2.3 New and ammended standards adopted by the Group (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

2.4 Standards and interpretations issued but not yet applied by the Group

The following new accounting standards, amendments to standards and interpretations have been published by IASB that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform

These amendments provide certain reliefs in connection with interest rate benchmark reform.

Transition from LIBOR to risk free rates

In July 2017, the United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates.

LIBOR reforms and expectation of cessation of LIBOR will impact the Group's current risk management strategy and possibly accounting for certain financial instruments. The Group has certain borrowings which are exposed to the impact of LIBOR as at December 31, 2019.

As part of the Group's risk management strategy, the Group uses financial instruments to manage exposures arising from variation of interest rates that could affect comprehensive income.

The Group assessed that the impact of transition from LIBOR to risk free rates will not be significant on Group's financial statements as all of its LIBOR based borrowings will be paid before or during the year 2021.

2.5 Functional and presentation currency

These consolidated financial statements of the Group are presented in Saudi Arabian Riyals which is the functional and presentation currency of all of the entities in the Group.

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2. Basis of preparation (continued)

2.6 Use of judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements was prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Information about estimates and judgments made in applying accounting policies that could potentially have an effect on the amounts recognised in the consolidated financial statements, are discussed below:

(a) *Allowance for impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(b) *Allowance for inventory obsolescence*

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The Group provides an amount as an allowance for obsolete and slow moving inventories on a monthly basis and reassesses the closing balance at each reporting date based on the result of a physical count and the outcome of the periodic inspections of inventory undertaken by its technical team. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to differing remaining useful life, change in technology, possible change in usage, their expiry, sales expectation and other qualitative factors of the portfolio of inventory from year to year.

(c) *Useful lives and residual values of property, plant and equipment*

The management determines the estimated useful lives and residual values of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear and expected proceeds on disposal of the respective assets. Management reviews the useful lives and residual values annually and future depreciation charges are adjusted where management believes the useful lives and residual values differ from previous estimates.

(d) *Employee benefits – defined benefit plan*

Employee benefits represent the employee termination benefits. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The cost of post-employment defined benefits are the present value of the related obligation, as determined using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates or high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term approximating the terms of the related obligation.

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2 Basis of preparation (continued)

2.6 Use of judgments and estimates (continued)

Where there is no deep market in such bonds, then market rates on government bonds are used or the rates from international bond markets are used which are adjusted for the country risk premium. Since there is no deep corporate bonds or government bonds in Saudi Arabia, the discount rate was selected using the yield available on Citi Pension Liability Index (CPLI) of the duration equal to the duration of the liability and adjusted for the country risk premium. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. With respect to determining the appropriate discount rate, yield and duration of high quality bonds obligation, as designated by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. Please see Note 19 for assumptions used.

(e) *Right-of-use assets and lease liabilities*

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the weighted average Group's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(f) *Zakat*

The Company and its two wholly owned subsidiaries are subject to zakat in accordance with the regulations of the GAZT.

A provision for zakat is estimated at the end of each reporting period in accordance with the regulations of the GAZT and on a yearly basis zakat returns are submitted to the GAZT. Differences, if any, at the finalization of final assessments are accounted for when such amounts are determined.

3. Significant accounting policies

The accounting policies adopted by the Group for the preparation of these consolidated financial statements are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for accounting policies related to the new standard adopted by the Group effective as of January 1, 2019 (see Note 2.3).

3.1 Basis of consolidation

(a) *Subsidiaries*

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:
i) the Group has power over the entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) Eliminations on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment are recognised net within other income in profit or loss.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and capital work in progress are not depreciated.

The estimated useful lives for the current and comparative years are as follows:

	Years
• Buildings and mobile cabinets	6 – 33
• Machinery and equipment	2 – 30
• Furniture and office equipment	5 – 20
• Motor vehicles	4 – 5

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively, if required. For discussion on impairment assessment of property, plant and equipment, please refer Note 3.9.

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3. Significant accounting policies (continued)

3.2 Property, plant and equipment (continued)

Assets in the course of construction are capitalised in the capital work-in-progress account. The asset under construction is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management.

The cost of an item of capital work-in-progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item intended by management.

Borrowing costs related to qualifying assets are capitalised as part of the cost of the qualified assets until the commencement of commercial production.

Capital work-in-progress is measured at cost less any recognized impairment.

3.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. The amortization expense on intangible assets is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. These are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset, with a finite useful life, is reviewed at least annually. Any change in the estimated useful life is treated as a change in accounting estimate and accounted for prospectively.

3.4 Inventories

Raw materials and spares, work in progress and finished goods are measured at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other highly liquid investments with original maturities of three months or less from the date of acquisition.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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3. Significant accounting policies (continued)

3.6 Foreign currency (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e. the translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

3.7 Financial instruments

IFRS 9 largely retains the previous requirements under IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets classified as held to maturity, loans and receivables and available for sale.

(i) Financial assets

Classification
On initial recognition, a financial asset is classified in the following categories:
- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit and loss ("FVPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Debt instruments

A 'debt instrument' is classified as subsequently measured at amortised cost if both the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

(b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

If the above two conditions are not met, the 'debt instrument' is classified as subsequently measured at fair value, either at FVPL or FVOCI, based on the business model.

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

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3. Significant accounting policies (continued)

3.7 Financial instruments (continued)

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Debt instruments subsequently measured at amortised cost

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

Instruments subsequently measured at fair value

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognized either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

(b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade and other receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

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3. Significant accounting policies (continued)

3.7 Financial instruments (continued)

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due aging buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense in profit or loss.

(ii) Financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group classifies non-derivative financial liabilities as 'financial liabilities at amortized cost'. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the EIR method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivative financial instruments

Derivative financial instruments, principally representing profit rate swaps, are initially recorded at fair value on the date a derivative contract is entered into and re-measured to their fair value at the end of each subsequent reporting periods. Changes in the fair value of derivative financial instruments, as these are not designated as a hedging instrument, are recognised in profit or loss as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated statement of financial position.

3.8 Leases

The Group leases various employees' accommodation, warehouses buildings and landfills. Rental contracts are typically made for fixed periods of 1 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year-end, above leases were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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3. Significant accounting policies (continued)

3.8 Leases (continued)

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3.9 Impairment of assets

The carrying amounts of the Group's non-financial assets (other than goodwill and intangible assets with indefinite useful lives, if any which are tested at least annually for impairment), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is arrived based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre- tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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3. Significant accounting policies (continued)

3.10 Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

Defined benefit plans

The Group operates a single post-employment benefit scheme of defined benefit plan, driven by the Labor Laws and Workman Laws of the Kingdom of Saudi Arabia, which is based on most recent salary and number of service years. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labor Law of Saudi Arabia.

The Group's obligation under employee end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. The Group determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Proposed Employee Share Option Scheme (ESOP)

The Company has a proposed ESOP scheme for which required approvals were still in progress as of December 31, 2019. See also Note 3.20.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.12 Revenue

Revenue comprises of sales to customers and is measured based on the considerations specified in contracts with customers and excludes rebates and amounts, if any, collected on behalf of third parties. Certain customers are eligible for volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Revenue is recognised, when (or as) the Company satisfies the performance obligations as specified in the contract with the customer (buyer), when the seller has transferred to the customer control over the promised goods and services, either:

- at a point in time or
- over a time basis equivalent to the stage of completion of the service.

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3. Significant accounting policies (continued)

3.12 Revenue (continued)

The Group recognizes revenue from the following major sources:

a) Sale of the following goods directly to the customers:

- Sale of container board and industrial paper
- Whole and retail sales of paper, carton and plastic waste

b) Rendering of the following services directly to the customers:

- Transportation of goods

The timing and measurement of revenue recognition for the above-mentioned main sources of revenue (i.e. sales of goods and rendering of services directly to customers) are as follows:

Sale of goods directly to the customers
Revenue is recognized when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by the customers as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time.

Invoices are usually payable within the credit period agreed with the customer which may vary from one customer to another. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

Rendering of services – transportation of goods to customers

The Group sells a significant proportion of its goods on Cost and Freight ocean transport ("CFR") and Cost, Insurance and Freight ocean transport ("CIF") as per the International Commercial Terms ("Incoterms") and therefore, the Group is responsible for providing shipping services after the date at which control over the promised goods have passed to the customer at the loading port. The Group is therefore, responsible for the satisfaction of two performance obligations under its CFR and CIF contracts with the customers and recognizes revenue as follows:

- sale and delivery of goods at the loading port resulting in the transfer of control over such promised goods to the customer and recognizing the related revenue at a point in time basis; and
- shipping services for the delivery of the promised goods to the customer's port of destination and recognizing the related revenue over a time basis, equivalent to the stage of completion of the services.

The physical loading of the approved promised goods on the vessel, satisfies the Group's performance obligation and triggers the recognition of revenue at a point in time. The Group has full discretion over the price to sell the goods.

The selling price includes revenue generated for the sale of goods and transportation services depending on the Incoterms contained in the contract with the customer. The selling price is therefore unbundled or disaggregated into these two performance obligations, being the sale of the promised goods and the transportation thereof and it is being disclosed separately.

The Group recognizes a trade receivable for the sale and delivery of the promised goods when the goods, delivered to the loading port, are loaded on to the vessel as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

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3. Significant accounting policies (continued)

3.12 Revenue (continued)

However, the trade receivable related to the transportation service are recognized over time, if material, based on the stage of completion of service which is assessed at the end of each reporting period. The disaggregation between separate performance obligations is done based on the standalone selling price.

All shipping and handling costs incurred by the Group, in relation to the satisfaction of performance obligation for the transportation of the promised goods, under CFR and CIF contracts with the customers, are recognized as selling expenses in the consolidated statement of comprehensive income.

3.13 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

IAS 23, Borrowing costs requires any incremental transaction cost to be amortised using the Effective Interest Rate (EIR). The Group accounts for finance cost (Interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. General and specific borrowing cost directly related for any qualifying assets are capitalised as part of the cost of the asset.

3.14 Zakat

The Company and its subsidiaries are subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense for the Company and zakat related to the Company's ownership in the subsidiaries is charged to the profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.15 Selling and distribution expenses

Selling and distribution expenses comprise of all costs for selling, distribution and transportation of the Group's products and include other sales related expenses. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

3.16 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or the selling and distribution activity of the Group. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

3.17 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

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3. Significant accounting policies (continued)

3.17 Earnings per share (continued)

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, if any.

3.18 Segment reporting

Operating Segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

An operating segment is group of assets and operations:

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

3.19 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.20 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity. These treasury shares are purchased in advance for the proposed Employee Share Option Programme ("ESOP") for which required approvals were still in progress as of December 31, 2019.

3.21 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

4. Segment information

The Group has two operating and reportable segments, i.e. manufacturing and trading, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's top management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing segment represents manufacturing of container board and industrial paper.
- Trading segment represents wholesale and retail sales of paper, carton and plastic waste.

Segment results that are reported to the Chairman of the Board of Directors and top management (Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO)) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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4. Segment information (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management.

The following table presents segment information:

	Manufacturing	Trading	Elimination	Total
Results for the year ended December 31, 2019				
Revenues	**669,888,517**	**238,233,825**	**(217,044,849)**	**691,077,493**
External revenues	**669,888,517**	**21,188,976**	**-**	**691,077,493**
Segment profit (loss) before zakat	**6,900,858**	**1,727,473**	**(1,590,570)**	**7,037,761**
Zakat	**772,886**	**136,903**	**-**	**909,789**
Financial costs	**24,149,701**	**672,142**	**-**	**24,821,843**
Additions to property, plant and equipment	**98,555,707**	**6,768,485**	**-**	**105,324,192**
Depreciation and amortization	**82,066,180**	**13,759,077**	**-**	**95,825,257**
Results for the year ended December 31, 2018				
Revenues	811,635,826	293,697,265	(271,719,235)	833,613,856
External revenues	811,635,826	21,978,030	-	833,613,856
Segment profit (loss) before zakat	102,211,667	(10,247,450)	10,252,631	102,216,848
Zakat	2,767,732	5,181	-	2,772,913
Financial costs	25,603,718	409,728	-	26,013,446
Additions to property, plant and equipment	57,017,625	4,762,800	-	61,780,425
Depreciation and amortization	76,784,893	10,012,920		86,797,813
As of December 31, 2019				
Total assets	**1,491,338,540**	**152,386,456**	**(66,914,242)**	**1,576,810,754**
Total liabilities	**759,960,325**	**97,119,324**	**(11,647,110)**	**845,432,539**
As of December 31, 2018				
Total assets	1,468,929,782	113,672,108	(76,915,401)	1,505,686,489
Total liabilities	717,616,718	59,767,370	(23,010,663)	754,373,425

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export external sales during the year ended December 31, 2019 amounted to Saudi Riyals 352.71 (2018: Saudi Riyals 359.16 million). Local external sales during the year ended December 31, 2019 amounted to Saudi Riyals 338.37 (2018: Saudi Riyals 474.45 million).

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5. Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
At January 1, 2018							
Cost	97,870,400	179,449,401	1,379,805,776	28,181,711	43,015,391	31,796,433	1,760,119,112
Accumulated depreciation	-	(46,228,962)	(590,014,652)	(24,181,565)	(34,704,664)	-	(695,129,843)
Net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Year ended December 31, 2018							
Opening net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Additions	150,000	555,985	22,844,564	659,650	1,532,200	36,038,026	61,780,425
Transfers							
- Cost	-	391,756	14,817,242	15,550	880,000	(16,104,548)	-
Disposals							
- Cost	-	-	(781,466)	-	(907,975)	-	(1,689,441)
- Accumulated depreciation	-	-	206,661	-	816,408	-	1,023,069
Depreciation charge	-	(6,201,413)	(74,808,823)	(1,469,317)	(2,755,303)	-	(85,234,856)
Closing net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
At December 31, 2018							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	1,820,210,096
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	(779,341,630)
Net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	1,040,868,466
Year ended December 31, 2019							
Opening net book value	98,020,400	127,966,767	752,069,302	3,206,029	7,876,057	51,729,911	**1,040,868,466**
Additions	-	742,703	26,521,077	1,711,851	3,335,212	73,013,349	**105,324,192**
Transfers							
- Cost	-	-	17,934,516	-	-	(17,934,516)	**-**
Disposals							
- Cost	-	-	(6,655,727)	-	(126,050)	-	**(6,781,777)**
- Accumulated depreciation	-	-	6,198,566	-	54,622	-	**6,253,188**
Write off							
- Cost	-	(402,100)	(1,270,840)	-	(190,500)	-	**(1,863,440)**
- Accumulated depreciation	-	38,200	120,729	-	174,892	-	**333,821**
Depreciation charge	-	(5,839,738)	(77,530,349)	(1,351,198)	(2,528,721)	-	**(87,250,006)**
Closing net book value	**98,020,400**	**122,505,832**	**717,387,274**	**3,566,682**	**8,595,512**	**106,808,744**	**1,056,884,444**
At December 31, 2019							
Cost	98,020,400	180,737,745	1,453,215,142	30,568,762	47,538,278	106,808,744	**1,916,889,071**
Accumulated depreciation	-	(58,231,913)	(735,827,868)	(27,002,080)	(38,942,766)	-	**(860,004,627)**
Net book value	**98,020,400**	**122,505,832**	**717,387,274**	**3,566,682**	**8,595,512**	**106,808,744**	**1,056,884,444**

During 2019, finance costs of Saudi Riyals 2.5 million is capitalized as part of property, plant and equipment (2018: Saudi Riyals 1.3 million).

Capital work-in-progress at December 31, 2019 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2020. See also Note 33 for capital commitments.

All land, buildings and mobile cabinets, machinery and equipment and furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first degree pledge (see Note 19).

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6. Right of use assets

	Leased land	Buildings	Total
At January 1, 2019			
Cost (Note 2)	47,168,541	3,307,027	50,475,568
Accumulated depreciation	-	-	-
Net book value	47,168,541	3,307,027	50,475,568
Year ended December 31, 2019			
Opening net book value	47,168,541	3,307,027	50,475,568
Re-measurement	-	(150,000)	(150,000)
Depreciation charge	(5,320,806)	(1,691,761)	(7,012,567)
Closing net book value	**41,847,735**	**1,465,266**	**43,313,001**
At December 31, 2019			
Cost (Note 2)	47,168,541	3,157,027	50,325,568
Accumulated depreciation	(5,320,806)	(1,691,761)	(7,012,567)
Net book value	**41,847,735**	**1,465,266**	**43,313,001**

7. Intangible asset

Computer software and ERP

At January 1, 2018	
Cost	7,813,426
Accumulated amortization	(2,669,648)
Net book value	5,143,778
Year ended December 31, 2018	
Opening net book value	5,143,778
Amortization	(1,562,957)
Closing net book value	3,580,821
At December 31, 2018	
Cost	7,813,426
Accumulated amortization	(4,232,605)
Net book value	3,580,821
Year ended December 31, 2019	
Opening net book value	3,580,821
Amortization	(1,562,684)
Closing net book value	2,018,137
At December 31, 2019	
Cost	**7,813,426**
Accumulated amortization	**(5,795,289)**
Net book value	**2,018,137**

8. Derivative financial instruments

	2019	2018
Interest rate swaps – (Negative)/positive fair value	**(240,041)**	2,064,063
Less: Current portion interest rate swaps – Negative fair value	**(15,416)**	-
Non-current interest rate swaps – (Negative)/positive fair value	**(224,625)**	2,064,063

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8. Derivative financial instruments (continued)

The Company entered into interest rate swap (IRS) agreements with commercial banks to convert floating rate interest to fixed rate interest arrangement. The total contracts' amount is Saudi Riyals 300 million (2018: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 140 million at December 31, 2019 (2018: Saudi Riyals 180 million).

9. Inventories

	2019	2018
Raw materials	**75,305,340**	69,502,782
Finished goods	**64,184,390**	82,374,970
Goods in transit	**9,900,292**	5,885,777
Work-in-progress	**2,384,602**	2,281,262
Consumable spare parts, held not for sale	**59,638,231**	57,297,579
	211,412,855	217,342,370
Less: Allowance for slow moving inventories	**(3,338,208)**	(3,409,175)
	208,074,647	213,933,195

Movement in allowance for slow moving inventories is as follows:

	2019	2018
January 1	**3,409,175**	1,315,387
Additions	**3,600,000**	3,067,797
Write-offs	**(3,670,967)**	(974,009)
December 31	**3,338,208**	3,409,175

During the year Saudi Riyals 3.6 million (2018: Saudi Riyals 3.0 million) were recognized as an expense under cost of sales.

10. Trade receivables

	2019	2018
Trade receivables - gross	**166,622,529**	163,613,838
Allowance for impairment	**(6,740,659)**	(6,736,472)
	159,881,870	156,877,366

Movement in allowance for impairment of trade receivables is as follows:

	2019	2018
January 1	**6,736,472**	5,341,980
Additions	**4,187**	1,394,492
December 31	**6,740,659**	6,736,472

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. The average credit period on sales of goods is less than one year and therefore are all classified as current, and are mostly secured through trade insurance. Trade receivables are recognised at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Before accepting any new credit customer, the Group uses an internal credit review system to assess the potential customer's credit quality and defines credit limits by customer.

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10. Trade receivables (Continued)

No interest is charged on trade receivables balances that are overdue. The overdue amounts are constantly monitored by the management and a provision towards expected credit loss is made in the books if required.

The Group has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at December 31, 2019 and 2018 was determined as follows:

Ageing	Gross carrying amount	Expected Credit loss range (%)	Loss allowance
As at December 31, 2019:			
Within the credit period	115,305,037	0.33% - 9.38%	**399,874**
1-90 days past due	28,968,888	1.35% - 8.69%	**462,712**
91-180 days past due	11,073,964	6.73% - 19.76%	**771,789**
181- 270 days past due	2,781,594	9.90% - 25.61%	**532,256**
271- 360 days past due	2,248,257	10.60% - 82.93%	**1,112,308**
More than 1 year past due	6,244,789	15.91% - 90.00%	**3,461,720**
Total	166,622,529		**6,740,659**

Ageing	Gross carrying amount	Expected Credit loss range (%)	Loss allowance
As at December 31, 2018:			
Within the credit period	93,814,820	0.28% - 0.36%	341,791
1-90 days past due	42,388,725	0.28% - 10.76%	517,772
91-180 days past due	14,097,190	0.35% - 13.40%	1,467,461
181- 270 days past due	2,544,222	0.50% - 24.25%	307,471
271- 360 days past due	2,558,282	0.50% - 96.87%	912,363
More than 1 year past due	8,210,599	9% - 97.00%	3,189,614
Total	163,613,838		6,736,472

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses in profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

11. Prepayments and other receivables

	2019	2018
Prepaid expenses	**11,635,397**	9,725,764
Net Value Added Tax (VAT) receivables	**1,857,540**	2,748,069
Deposits with suppliers	**508,997**	533,998
Others	**1,925,984**	2,039,108
	15,927,918	15,046,939

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12. Other current assets

	Note	2019	2018
Advances to suppliers		**48,394,695**	28,459,059
Receivable from Higher Institute for Paper and Industrial Technology (HIPIT)	(a)	**14,234,712**	9,727,398
Advances to employees		**6,328,619**	5,762,380
		68,958,026	43,948,837
Less: provision for impairment allowance		**(1,500,206)**	-
		67,457,820	43,948,837

(a) This balance represents the expenses paid by the Company on behalf of HIPIT. HIPIT is an independent not-for-profit vocational training and administrative training institute, which is supported by the Group along with other local companies as part of their Corporate Social Responsibility project.

13. Financial asset at fair value through profit or loss

During 2017, the Company acquired the units of an unlisted open-ended mutual fund. As at December 31, 2019, the fair value of the investment is Saudi Riyals 39,434 (2018: Saudi Riyals 524,256).

Fair value gains of Saudi Riyals 15,178 (2018: Saudi Riyals 11,953) have been recognized in profit or loss.

During 2019, the group invested in equity shares of listed companies amounting Saudi Riyals 24,065,394 and sold before year end. Group has recognised gains on sales of these equity shares amounting Saudi Riyals 3,250,266 in profit or loss during the year 2019.

14. Cash and cash equivalents

	2019	2018
Cash in hand	**3,154,859**	4,502,278
Cash at bank	**20,058,624**	24,340,268
	23,213,483	28,842,546

15. Share capital

At 31 December 2019, the Company's issued share capital of Saudi Riyals 500 million (2018: Saudi Riyals 500 million) consists of 50 million (2018: 50 million) fully paid shares of Saudi Riyals 10 each.

	2019	2018
In issue at the beginning of the reporting period	**50,000,000**	50,000,000
Issued for cash	**-**	-
In issue at the end of the reporting period	**50,000,000**	50,000,000
Authorized – Par value Saudi Riyals 10	**50,000,000**	50,000,000

The Company has only one class of equity shares having a par value of Saudi Riyals 10 per share. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

16. Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of profit for the year until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

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17. Treasury shares

Treasury shares are shares purchased by the Company for the purpose of issuing shares under the proposed ESOP for which required approvals were still in progress as of December 31, 2019. The Company purchased 300,000 shares at prevailing market rates at the time of purchase.

18. Retained earnings

Other comprehensive loss accumulated in retained earnings:

	2019	2018
Actuarial losses on re-measurements of defined benefits liability	**8,152,518**	7,089,697

19. Long-term borrowings

	2019	2018
Saudi Industrial Development Fund (SIDF)	**72,251,125**	106,379,698
Islamic banking facilities (Tawarruq)	**412,284,210**	382,334,159
Long-term borrowings	**484,535,335**	488,713,857
Less: Current portion shown under current liabilities	**(141,617,251)**	(128,352,211)
Long term borrowings shown under non-current liabilities	**342,918,084**	360,361,646

Reconciliation of cash movement of borrowings	2019	2018
Balance at beginning of year	**488,713,857**	482,688,292
Disbursements	**205,000,000**	162,000,000
Repayment of principal instalments	**(209,095,715)**	(160,218,750)
Movement in accrued financial charges	**(1,057,604)**	1,758,388
Movement in deferred financial charges	**974,797**	2,485,927
Balance at end of year	**484,535,335**	488,713,857

(a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 255 million in 2012 to partially finance the construction of manufacturing lines within the Company's production facility. The loan was fully repaid during 2018.

During the year 2013, the Company signed another loan agreement with SIDF amounting to Saudi Riyals 124.7 million to finance the construction of manufacturing facilities. This loan was also fully utilized as of December 31, 2017. The loan is repayable in unequal semi-annual instalments up to March 2022.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortised over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. Under the terms of the SIDF loan agreement, the Company's property, plant and equipment are pledged as collateral to SIDF.

(b) The Company has also obtained long-term credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates in Saudi Arabia (SIBOR) and United Kingdom (LIBOR).

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2024.

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19. Long-term borrowings (Continued)

The above loans and facilities include certain covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank any breach or probable breach immediately. The Company was not in compliance related to Debt Service Coverage Ratio at December 31, 2019 and has taken waiver letters in this regard from the respective banks, before end of the financial year.

The loans are denominated in Saudi Riyals and US Dollars as follows:

	2019	2018
Long term borrowings		
Saudi Riyals	**463,202,058**	452,989,475
US Dollars	**21,333,277**	35,724,382
Total	**484,535,335**	488,713,857

The scheduled maturities of the long-term borrowings outstanding are as follows:

2019 Year ending December 31:	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
2020	140,678,856	(414,582)	1,352,977	**141,617,251**
2021	153,660,285	(82,258)	-	**153,578,027**
2022	120,714,287	(74,949)	-	**120,639,338**
2023	62,500,000	(49,281)	-	**62,450,719**
2024	6,250,000	-	-	**6,250,000**
	483,803,428	(621,070)	1,352,977	**484,535,335**

2018 Year ending December 31:	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
2019	127,190,761	(1,249,131)	2,410,581	**128,352,211**
2020	140,440,761	(339,427)	-	**140,101,334**
2021	122,171,903	(7,309)	-	**122,164,594**
2022	67,083,334	-	-	**67,083,334**
2023	31,012,384	-	-	**31,012,384**
	487,899,143	(1,595,867)	2,410,581	**488,713,857**

20. Lease liabilities

Movement in lease liabilities is summarized as follows:

At January 1, 2019 (Note 2)	**49,981,515**
Payments made	**(7,185,700)**
Remeasurement	**(150,000)**
Interest charged	**707,275**
At December 31, 2019	**43,353,090**

The scheduled maturities of the lease liabilities as of period ended December 31, 2019 are as follows:

	Principal amount	Interest	Net lease liabilities
Current portion	**7,146,049**	**(1,689,853)**	**5,456,196**
Non-current portion	**45,402,226**	**(7,505,332)**	**37,896,894**
	52,548,275	**(9,195,185)**	**43,353,090**

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21. Employees' end of service benefits

Movement in provision for employees' end of service benefits is summarized as follows:

	2019	2018
At beginning of year	**39,912,063**	35,330,773
Current year charge:		
- Current service cost	**4,951,288**	4,457,050
- Interest cost	**1,544,647**	1,173,886
	6,495,935	5,630,936
Re-measurement losses:		
- Financial assumptions	**(333,053)**	99,206
- Demographic assumptions	**-**	(1,162,073)
- Experience adjustment	**1,395,874**	2,257,116
	1,062,821	1,194,249
Payments	**(3,538,108)**	(2,243,895)
At end of year	**43,932,711**	39,912,063

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate	**2.30% to 2.45%**	4.00 % to 4.20 %
Future salary growth	**2.90% to 3.20%**	4.60 % to 4.95 %
Mortality rate	**0.25%**	0.11 % to 0.25%

Sensitivity analysis

	31 December 2019		31 December 2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(2,833,254)**	**2,425,469**	(1,602,354)	1,727,826
Future salary growth (1% movement)	**2,602,204**	**(3,040,942)**	1,882,199	(1,776,454)
Future mortality (1 year change in mortality age)	**376,086**	**(357,244)**	6,974	(6,921)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	2019	2018
Less than a year	**8,547,278**	7,026,753
Between 1 – 5 years	**15,661,607**	20,219,512
Over 5 years	**26,608,221**	20,623,480

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22. Zakat

22.1 Components of zakat base

The Company and its subsidiaries file separate zakat declarations which are filed on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations are principally comprised of shareholder's equity, provisions at the beginning of the year, long-term borrowings and adjusted net income, less deductions for the adjusted net book value of property, plant and equipment and certain other items.

22.2 Provision for zakat

	2019	2018
At the beginning of the year	**4,020,197**	3,006,659
Provisions		
- Provision for current year	**1,437,193**	4,020,197
- Adjustment related to prior years	**(527,404)**	(1,247,284)
Payments	**(3,492,793)**	(1,759,375)
At the end of the year	**1,437,193**	4,020,197

22.3 Status of final assessments

The zakat assessments of the Group are finalized for the years through December 31, 2008.

During 2016, the Company received additional zakat assessments amounting Saudi Riyals 16.54 million for the years 2009 to 2012. The Company has settled an amount of Saudi Riyals 0.04 million on the non-objected items and submitted an objection against the remaining balance amount. During 2019, the GAZT has issued a revised assessment reducing the additional assessment amount to Saudi Riyals 6.83 million. The Company has settled Saudi Riyals 1.2 million and submitted the objection against the remaining revised assessment. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company. The zakat declarations of the Company for the years 2013 to 2018 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2018 are currently under review by the GAZT.

23. Short-term borrowings

	2019	2018
Islamic banking facilities (Tawarruq)	**164,119,650**	126,499,317
Notes payable	**6,557,138**	1,178,895
Accrued financial charges	**1,024,069**	622,819
	171,700,857	128,301,031

The Group has short-term credit facilities from commercial banks comprising of short-term loans, letters of credit and guarantees. These borrowings bear financing charges at the prevailing market rates. These facilities include certain financial covenants which require the Group to maintain certain levels of ratios. The Group is in compliance with these debt covenants at December 31, 2019. The loans are denominated in Saudi Riyals, US Dollars and Euro as follows:

	2019	2018
Short-term borrowings		
Saudi Riyals	**154,445,093**	120,800,221
US Dollars	**214,245**	7,500,810
Euro	**17,041,519**	-
Total	**171,700,857**	128,301,031

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24. Trade and other payables

	2019	2018
Trade payables - third parties	**67,947,235**	62,983,468
Employees related accruals	**17,686,374**	19,679,301
Accrued transportation expenses	**6,356,975**	2,992,154
Accrued sales services expenses	**1,101,451**	1,939,651
Accrued rent expense	**-**	325,762
Accrued legal and consultancy fees	**485,859**	212,072
Accrued directors' remuneration	**7,000**	258,583
Others	**3,789,648**	1,706,957
	97,374,542	90,097,948

25. Other current liabilities

	2019	2018
Advances from customers	**2,858,770**	2,984,484
Deferred rent payables	**-**	343,845
	2,858,770	3,328,329

26. Cost of revenue

	2019	2018
Material and employees cost	**383,742,447**	431,996,647
Depreciation and maintenance cost	**127,233,391**	112,976,370
Transportation cost	**12,278,952**	14,604,181
Rent	**1,276,413**	11,246,001
Other overheads	**24,836,421**	27,116,315
	549,367,624	597,939,514

27. Selling and distribution expenses

	2019	2018
Transportation and shipping	**40,069,129**	32,705,899
Salaries and related benefits	**6,106,575**	5,013,787
Sales commission	**2,641,465**	2,100,840
Credit insurance	**320,582**	260,506
Depreciation and amortization	**249,440**	197,715
Others	**3,910,543**	3,828,685
	53,297,734	44,107,432

28. General and administrative expenses

	Note	2019	2018
Salaries and related benefits		**38,367,336**	42,931,614
Training		**40,436**	3,220,073
Depreciation and amortization		**2,449,705**	2,605,720
Directors' remuneration	34	**2,521,267**	2,391,196
Bank charges		**1,844,815**	1,869,313
Consultation fee		**4,103,930**	1,316,442
Government fee		**1,538,506**	1,296,791
Insurance expenses		**822,372**	945,210
Travel expenses		**980,763**	707,733
Professional fee		**954,558**	549,760
Communication		**753,373**	467,742
Repairs and maintenance		**417,808**	430,758
Others		**3,993,797**	2,981,908
		58,788,666	61,714,260

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29. Other operating income/(expenses) – net

	2019	2018
Foreign currency exchange loss	**(680,992)**	(1,663,841)
Gain / (loss) on disposal of property and equipment	**390,125**	(526,421)
Gain on sale of investment at fair value through profit or loss	**3,250,266**	-
Scrap sales	**608,571**	674,579
Others	**976,456**	580,994
	4,544,426	(934,689)

30. Finance costs

	Note	2019	2018
Finance costs on long-term borrowings:	19		
- Tawarruq		**16,020,068**	13,074,979
- SIDF charges		**1,844,020**	2,732,002
- Amortisation of deferred financial charges		**974,797**	2,485,927
- Lease liabilities	20	**707,275**	-
- Interest rate swap settlements		**(772,976)**	(6,738)
Finance costs on short-term borrowings:	23		
- Tawarruq		**6,048,659**	7,727,276
		24,821,843	26,013,446

31. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2019	2018
Net profit for the year	**6,127,972**	99,443,935
Weighted average number of shares	**49,700,000**	49,817,130
Basic and diluted earnings per share	**0.12**	2.00

32. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group holds various financial instruments in the ordinary course of its activities.

32.1 Financial instruments by category

(a) *Financial assets subsequently measured at amortised cost:*

	Note	2019	2018
Trade receivables	10	**159,881,870**	156,877,366
Other current assets (Advances to employees and receivable from HIPIT)	12	**19,903,331**	15,489,778
Cash and cash equivalents	14	**23,213,483**	28,842,546
		202,998,684	201,209,690

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32. Financial instruments (Continued)

(b) Financial assets at fair value through profit or loss:

	Note	2019	2018
Derivative financial instrument – interest rate swaps	8	-	2,064,063
Investments at fair value through profit or loss	13	**39,434**	524,256
		39,434	2,588,319

(c) Financial liabilities at fair value through profit or loss:

	Note	2019	2018
Derivative financial instrument – interest rate swaps	8	**240,041**	-

(d) Financial liabilities at amortised cost:

	Note	2019	2018
Borrowings	19, 23	**656,236,192**	617,014,888
Trade and other payables	24	**97,374,542**	90,097,948
Lease liabilities	20	**43,353,090**	-
		796,963,824	707,112,836

The carrying amount of financial assets and liabilities approximates their fair value. Financial assets are not considered to pose a significant credit risk. Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them.

32.2 Fair value of assets and liabilities

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instrument is calculated as the present value of the estimated future cash flows based on observable yield curves.

The fair value of investment at fair value through profit or loss is based on the net assets value (NAV) communicated by the fund manager. The fair values under Level 2 were as follows:

	2019	2018
Level 2		
Derivative financial instruments – (Negative)/positive value	**(240,041)**	2,064,063
Investments at fair value through profit or loss	**39,434**	524,256

During the year ended December 31, 2019, there were no movements between the levels.

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33. Commitments and contingencies

i. At December 31, 2019, the Group had outstanding letters of credit of Saudi Riyals 2.77 million (2018: Saudi Riyals 11.51 million) and letters of guarantee of Saudi Riyals 2.71 million (2018: Saudi Riyals 1.62 million) that were issued in the normal course of the business.
ii. The capital expenditure contracted by the Group but not incurred till December 31, 2019 was approximately Saudi Riyals 33.8 (2018: Saudi Riyals 45.1 million).

34. Related parties' matters

34.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	2019	2018
Short term benefits	**10,682,129**	12,084,511
Post-employment benefits	**279,268**	280,321
Termination benefits	**611,097**	571,583
	11,572,494	12,936,415

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan.

34.2 Related parties' transactions

Significant transactions with related parties in the ordinary course of business included in the consolidated financial information is summarized below:

Related party	Description of transaction	Relationship	2019	2018
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	-	15,330
Directors	Directors remuneration	Directors	**2,521,267**	2,391,196

34.3 Related parties' balances

Significant due from (to) balances with related parties are summarized below:

Related party	2019	2018
Accrued directors' remuneration	**7,000**	258,583
Advances to key management personnel	**626,515**	1,194,089

35. Dividends

During March 2019, the Company has distributed a dividend based on General Assembly authorization to the Board of Directors for the second half of the financial year ended December 31, 2018 of Saudi Riyals 0.50 per share (2018: Saudi Riyals 0.75 per share and interim dividend Saudi Riyals 0.50 per share) aggregating to Saudi Riyals 25 million (2018: Saudi Riyals 37.5 million and Saudi Riyals 25 million respectively). The dividend was paid in March 2019.

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36. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group also uses derivative financial instruments to hedge certain risk exposures.

36.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is represented by: interest rate risk, currency risk and other price risk.

36.2 Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments as and entering into interest rates swap arrangements.

At December 31, 2019, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans (excluding loans hedged through interest rates swaps arrangements) will increase/decrease by Saudi Riyals 4,236,083 (2018: Saudi Riyals 3,278,985).

36.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year and accordingly the Group has no significant exposure to other foreign currencies at the year ended December 31, 2019 and 2018. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk. Exposure to Euro at the end of 2019 and 2018 was not significant.

36.4 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.

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2019, the Group has assigned credit insured trade receivables of Saudi Riyals Nil (2018: Saudi Riyals 31.82 million) to a commercial bank as the Group transferred all risks and rewards related to those receivable balances.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	2019	2018
Financial assets		
Trade receivables	**159,881,870**	156,877,366
Other current assets (*)	**19,903,331**	15,489,778
Cash at bank	**20,058,624**	24,340,268
Short-term investments	**39,434**	524,256
Derivative financial instrument – interest rate swaps	**-**	2,064,063
	199,883,259	199,295,731

(*) Other current assets comprise of advances to employees and receivable from HIPIT (see Note 12).

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36. Financial risk management (Continued)

36.4 Credit risk (Continued)

Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them. Cash at bank and short-term investments are placed with reputable local banks. There were no past due or impaired receivables from related parties.

36.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at December 31, 2019. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

31 December 2019	**1 year or less**	**Above 1 year to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities				
Borrowings	329,424,990	358,929,718	-	**688,354,708**
Trade and other payables	97,374,542	-	-	**97,374,542**
Lease liabilities	7,146,049	25,272,688	20,129,539	**52,548,275**
	433,945,581	384,202,406	20,129,539	**838,277,525**

31 December 2018	**1 year or less**	**Above 1 year to 5 years**	**More than 5 years**	**Total**
Non derivative financial liabilities				
Borrowings	278,395,419	386,830,661	-	**665,226,080**
Trade and other payables	90,097,948	-	-	**90,097,948**
	368,493,367	386,830,661	-	**755,324,028**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

36.6 Novel coronavirus (Covid-19)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity in general. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company's results.

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37. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the statement of financial position plus net debt.

The capital gearing ratio is as follows:

	2019	2018
Borrowings	**656,236,192**	617,014,888
Trade and other payables	**97,374,542**	90,097,948
Other current liabilities	**2,858,770**	3,328,329
Total debt	**756,469,504**	710,441,165
Cash and cash equivalents	**23,213,483**	28,842,546
Net debt	**733,256,021**	681,598,619
Share capital	**500,000,000**	500,000,000
Statutory reserve	**84,220,419**	83,607,622
Treasury shares	**(6,816,812)**	(6,816,812)
Retained earnings	**153,974,608**	174,522,254
Net equity	**731,378,215**	751,313,064
Capital gearing ratio - %	**0.997**	1.102

38. Date of authorization for issue

These consolidated financial statements were authorized for issue by the Company's Board of Directors on March 17, 2020.


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