MEPCO
Middle East Paper Co.

Annual Report 2017

Growth from fundamental strength

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Company Profile

Year at a glance

Learning and development

Around 4% of our company's Saudi workforce is female

Higher Institute for Paper & Industrial Technologies (HIPIT) is part of MEPCO's training and development programme as well as its Corporate Social Responsibility activity

MEPCO currently has 47% Saudization rate and hopes to continuously increase this ratio. The current percentage is aligned with the Ministry of Labor's 'platinum' bracket

Revenue

FY 2017 SAR
771.0m

Markets

Exports above 40% of consolidated sales for 2017

Local sales are around 60%, which is over 20% of Saudi market share

MEPCO's operational model allows for rapid reallocation between local and export sales, to achieve maximum profitability and client portfolio diversity

Sustainability

MEPCO has community programmes in place alongside the below organisations:

85% of raw material is collected domestically through WASCO

We are adding value to our home market from both an environmental and economic perspective

A highly-intensive domestic operation with high exportation ensures foreign currency inflows to the Saudi economy

Operational efficiency

MEPCO adheres to global quality standards in terms of environmental sustainability and operational efficiency

Certifications & Awards:
OHSAS 18001, ISO 14001 & ISO 9001 Certified
IFRS International Financial Reporting Standards compliant
ISEGA Forschungs und Untersuchungsgesellschaft mbH

10 KM to Jeddah Port in Red Sea, which provides the advantage of rapid delivery to target destinations and easy import of required materials

About MEPCO

One of the largest paper manufacturers in the Middle East and Africa, the Middle East Paper Company (MEPCO) offers a diverse range of paper products to customers within multiple industries around the world from its base in Jeddah, KSA. Its current production capacity is half a million tons, which is roughly 50% of KSA's market capacity. The Company obtained its Commercial Registration in 2000, with both an IPO and conversion into a Closed Stock Joint Company carried out in 2015. MEPCO is steadily growing, and in the last 15 years the company has realised 700% sales growth in tandem with geographical expansion across the GCC market.

MEPCO's strategic location and proximity to Jeddah sea port provides the Company with the ability to deliver its products to a wide array of markets within a very short time. The Company is present mainly in the Middle East, North & East Africa along with the Indian Subcontinent and a number of European Markets.

MEPCO's innovative approach to doing business enables it to deliver significant environmental and economic benefits to its home market. The Company exports its products from Saudi Arabia to the GCC and wider Middle East & Africa region; furthermore, it has developed a growing presence in South Asia, the Americas and Europe.

White Top Liner grades are produced by MEPCO including (High Performance Fluting, Test Liner, Semi-Chemical Fluting, Kraft Liner Board, Dual Use & White Top Test Liner) along with other grades of industrial paper (Core board, Plasterboard Liner, & Absorbent Kraft) on three paper machines. MEPCO is also intensely investing in research and development, to provide a wide range of prime quality and innovative products to its loyal partners and customers.

Through its wholly-owned subsidiary, WASCO, MEPCO's raw materials are sourced from locations across the Kingdom and neighbouring countries. The use of energy- and water-efficient production processes enables MEPCO to offer recycled products to the market, while locally-sourced raw materials provide measurable benefit to the Saudi economy.

MEPCO is listed on the Saudi Stock Exchange, under Tadawul symbol 'MEPCO' and has a share capital of SAR 500m, which consists of 50 Million shares at SAR 10.00 par value, paid in full as of 31 December 2017.

Vision and mission

Vision:
MEPCO is one of the leading integrated paper and packaging players in the Middle East and Africa, delivering outstanding quality at optimal costs.

Mission:

1. Be the preferred supplier of quality paper and packaging products to our marketplace.
2. Understand our customers' needs to deliver a diverse and innovative product portfolio.
3. Lead motivated employees to optimise the use of information, raw materials, technology and assets.
4. Do this in an ethical way that both adds maximum value to our business partners' success and produces a positive impact upon our employees, shareholders, company and the community.

Chairman's statement

"The MEPCO Board of Directors have guided the Company's compliance with corporate governance best practice over many years. This longstanding approach falls in line with its efforts towards maximising shareholder value in the long term, as well as maintaining high standards and quality across all of MEPCO's operations and products."

Dear Shareholders,

On behalf of the members of the Board of Directors, I am pleased to present to you the Annual Report outlining the Middle East Paper Company (MEPCO) performance for the 2017 fiscal year. In light of the current competition, MEPCO achieved its desired growth rates which saw the company record a solid performance with positive results, achieved through the focused efforts of all stakeholders.

As one of the leading paper manufacturers across the Middle East and Africa region, operating at an annual capacity of approximately half a million tons, MEPCO is set to continue its role as a key player in Saudi Arabia's vertical paper manufacturing sector.

At MEPCO, the entire company is committed to the central objectives of Saudi Arabia's Vision 2030, and we believe that this vision paves the way towards further progress and growth across all sectors and aspects of development. To this end, MEPCO's aims align perfectly with a rejuvenated national direction. Collectively, we continue to work hard and share the responsibility of driving development and raising industry standards, leading to a better future. Tangible results of these efforts include our adoption of the International Financial Reporting Standards (IFRS) and International Corporate Governance Guidelines.

Additionally, MEPCO contributes towards the Kingdom's environmental sustainability through high levels of paper and water recycling, benefiting all community players. Further highlighting our commitment, the new MEPCO waste sorting facility was inaugurated in collaboration with the Municipality of Al-Ahsa Governorate, and in the presence of high-level officials in October 2017.

In recognition of its efforts to raise the bar across the paper manufacturing industry, MEPCO was honoured by the King Khalid Award for Responsible Competitiveness, during an award ceremony held under the patronage of the Custodian of the Two Holy Mosques King Salman bin Abdulaziz. This title is awarded to companies that showcase exceptional competitiveness through their commitments towards sustainability and corporate social responsibility.

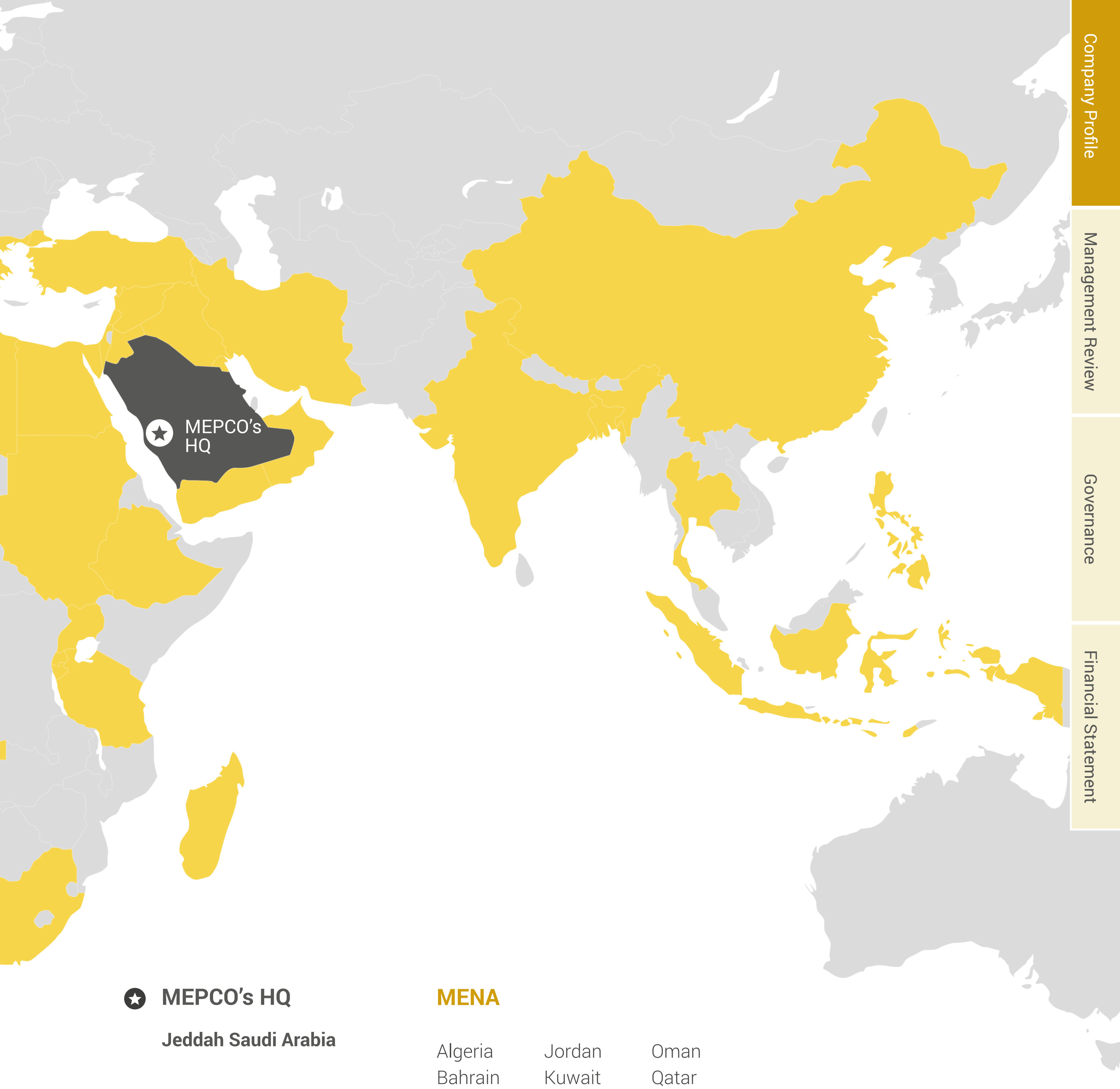
The MEPCO Board of Directors have guided the company's compliance with corporate governance best practice over many years. This longstanding approach falls in line with its efforts towards maximising shareholder value in the long term, as well as maintaining high standards and quality across all of MEPCO's operations and products. In order to raise awareness of the company's profile and image, our Management have frequently met with investors and financial analysts during special events, such as its Investor Day which was held in November 2017.

In conclusion, on behalf of the Board of Directors I would like to extend my sincere gratitude to the wise leadership of the Custodian of the Two Holy Mosques and the Saudi Government, for their continuous support of the private sector. We would like to thank all stakeholders, including MEPCO customers, banks and suppliers. Special thanks go to our esteemed shareholders for their trust and continuous support, and we will work hard to continue meeting their trust with more success and progress. We also thank the Executive Management and all employees at MEPCO, for their dedication and outstanding efforts. Together, we look forward to even more successes and achievements during 2018.

Emad Abdulkadir Al Muhaidib
Chairman

Geographic footprint

Over 40 export countries accounted for more than 40% of total consolidated sales in 2017



MEPCO's HQ

Jeddah Saudi Arabia

MENA

Algeria
Bahrain
Ethiopia
Egypt
Iran
Iraq
Jordan
Kuwait
Lebanon
Libya
Malta
Morocco
Oman
Qatar
Syria
Tunisia
Sudan
Yemen

Sub-Saharan Africa

Angola
South Africa
Madagascar
Tanzania
Uganda
Ivory Coast
Senegal

Asia

India
Bangladesh
China
Thailand
Indonesia
Turkey
Philippines

Europe

Spain
Italy
Greece
United Kingdom

South America

Peru

Growth from fundamental strength

During the past year, MEPCO achieved 'growth from fundamental strength' as it built on the foundations slowly laid over the last decade and a half. This was demonstrated through two distinct but interlinked achievements:

1. Institutional strengthening

MEPCO has elevated itself towards international standards and in so doing, supported a core pillar of Saudi Vision 2030 - 'improving the business environment'.

MEPCO's leadership engaged the Saudi government and legislative authorities to address current regulations, with the aim of ensuring that it can sustain future growth and benefit the Saudi economy at large.

MEPCO is also leading the way with the implementation of International Financial Reporting Standards (IFRS) – the global standard for company financial statements. This transition is evident in this annual report including the notes to the financial statements. 90% of IFRS implementation was carried out rapidly in the first quarter this year, with the project finalised in November.

Internally, the SAP software system implementation was undertaken and ready to support IFRS implementation. The system also ensured full readiness for the launch of Value Added Tax (VAT) from 1 January 2018, which will be implemented across Saudi Arabia as an indirect tax imposed on all goods and services that are bought and sold.

Of course, Governance Risk & Compliance remains an absolute priority across our business. As such, this is viewed as an integrated set of capabilities that enable MEPCO to achieve objectives reliably, address uncertainty and act with integrity.
The pursuit of MEPCO's vertical integration has facilitated cost efficiencies and reinforces the sustainability of its business model
MEPCO has also placed increased efforts on engagements with external stakeholders, including the investment community through improved investor relations activities.

2. Performance growth

Sales volumes and pricing showed big improvements compared to 2016 resulting in revenue growth, including from exports that can reach up to 50% of total annual production.

The drive to manage costs also played a key role in growing revenue with operating expenses 7.5% down in 2017 and profitability rising together with margins. Overall, MEPCO performed better than in previous years and has laid the foundation to maintain the strong 'growth trajectory' that has characterised its ascent over the last 15 years.

Achievements and awards

1. King Khalid Award, Responsible Competitiveness 2017

2. Arab Best Awards, Best 100 CEOs, 2017

3. CFI, Best Corporate Governance Leadership, 2017, KSA

4. Great Place to Work, KSA

Shareholder information

Abdulkadir Al Muhaidib & Sons Co.

Founded in 1943 by the late Abdulkadir Al Muhaidib, Al Muhaidib Group is a wholly Saudi-owned investment company. It holds a significant stake in many leading organisations in Saudi Arabia and beyond, with a focus on five core sectors: food, real estate, building materials, construction, utilities and infrastructure. The dovetailing of support and linkage is through a range of services providing financial and investment support, manufacturing operations, import/export and additional material supply, adding up to a holistic solution to developmental requirements in Saudi Arabia and neighbouring countries.

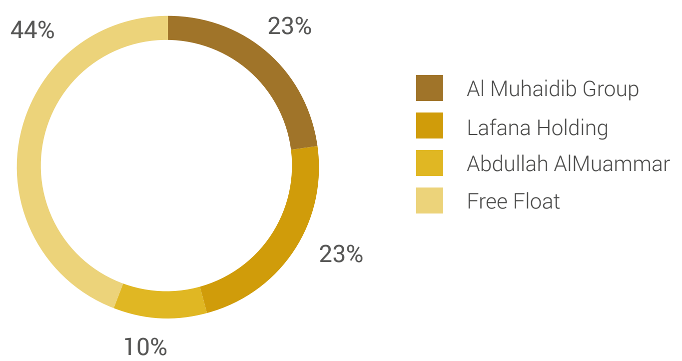
Lafana Holding

Headquartered in Riyadh, Saudi Arabia, Lafana Holding is one of the premier investment companies in the region. Its investment interests span across multiple asset classes including real assets and alternative investments. Lafana has progressed and diversified over a decade to be one of the regional transformational success stories through focus on delivering value, building partnership and driving growth.

Abdullah AlMuammar

With a longstanding relationship with MEPCO stretching back almost two decades, Abdullah AlMuammar has been on the MEPCO journey since its inception in 2000. Starting out as a Managing Director, Abdullah progressed to Non-Executive board member on July 2013 up to present day and has been CEO from September 2014 to current day. Abdullah has a longstanding passion for the paper industry, and previous to MEPCO, he worked at Saudi Paper Manufacturing Company Ltd, where he was first Deputy General Manager then General Manager. His strong ties to MEPCO extend to being one of its major shareholders.

Shareholding Structure



Share Information	
Market	Tadawul,KSA
Currency	SAR
Isin Code	SA13Q050IP16
Listing Date	03/05/2015
Financial Year End	31/12
Authorised Capital (SAR)	500,000,000
Issued Shares	50,000,000
Paid Capital (SAR)	500,000,000
Par Value (SAR)	10.00
Free Float Shares	24,285,900

Management Review

CEO's message

"We are proud to carry forward Saudi Vision 2030, through the implementation of world-class regulations, efforts that will undoubtedly result in more efficient international trade flows. MEPCO is well-positioned to benefit from this significant tailwind."

2017 saw MEPCO reach a number of key milestones as we built on our already sturdy foundations. The Company made important internal structural adjustments around systems, reporting, investor relations, governance, risk management and overall compliance - all of which improved the fundamental strength of the company and supports future growth.

We are proud to carry forward Saudi Vision 2030, through the implementation of world-class regulations, efforts that will undoubtedly result in more efficient international trade flows. MEPCO is well-positioned to benefit from this significant tailwind.

MEPCO operates in a globally competitive industry and we have filed an anti-dumping case against some European suppliers. The GCC's technical secretariat to combat harmful practices in international trade agreed to investigate our anti-dumping complaint, and a positive outcome will ensure that the regional market is able to compete on an equal footing with international suppliers.

Our strong commitment towards sustainable practises not only benefits MEPCO, but also the environment. The Company has rolled out a number of programmes to efficiently utilise paper waste and increase the recyclable paper used in our products, reducing landfill in Saudi Arabia and contributing towards a clean-living environment. We also made significant strides towards reducing water consumption by maximising water circulation in the mill, resulting in effective savings bringing us to 5 m^3/ton at the end of 2017 while the international benchmark is from 2-10 m^3/ton.

MEPCO's work in the community also includes the localisation of industries with increased technical training and our commitment towards investing in Saudi youth.

Our efforts to raise industry standards were given the royal seal of approval with the King Khaled Award for Responsible Competitiveness (RC Award), held under the patronage of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz. This accolade honours companies that have built competitive advantage through a commitment to sustainability and corporate social responsibility.

We are well-positioned to uphold our growth trajectory and look forward to continuing engagements with all of our stakeholders, including business partners, governmental organisations, employees, and investors; to ensure we maintain harmonious and mutually-beneficial relationships over the year ahead.

Eng. Sami Ali Al-Safran
CEO

CFO’s review

> We invested in improving our reporting and adopted International Finance Reporting Standards (IFRS). Enhancements to our IT infrastructure, including the full utilisation of SAP, ensures that we operate more efficiently both internally and externally.

Since MEPCO's inception in 2000, it has established itself as a major player in its industry, as the Company has steadfastly invested in its future growth and supported the Saudi economy.

I am pleased to report that we have delivered a sound financial performance, which stemmed from a number of critical measures put in place to increase productivity, maximise revenue and reduce costs across the business.

We also invested in improving our reporting and adopted International Finance Reporting Standards (IFRS). Enhancements to our IT infrastructure, including the full utilisation of SAP, ensures that we operate more efficiently both internally and externally.

Average sales volume saw a significant improvement compared with 2016 – up 5.8%, driving revenue growth of 21.5% and we also made significant headway towards driving efficiencies, by reducing operating expenses by 7.5. Niche products share of sales increased during 2017 to represent a larger share of total sales compared to previous years. The combination of these factors saw our gross profit [margin] jump to 24.1%, compared with 11.0% in the prior year, translating into a profit of SAR 66.4 m, quite a climb from the prior year when excluding the SAR 92 m net gain on claim for expropriated land and premises recorded for the prior year.

Net revenues increased by 21.5% compared to 2016, influenced by an increase in both sales volume and average sales price. Our profitability significantly improved across all levels. Compared to 2016 figures; gross profit recorded SAR 186.1 m (a 24.1% margin), operating profit reached SAR 95.8 m representing a 182.8% increase, EBITDA margin stood at a comfortable level of 23.9%. Our liquidity is in excellent shape, evidenced by the cash & cash equivalents level of SAR 31.0 m. SG&A recorded SAR 91.3 m, representing 11.8% of net revenues. The total debt was brought down to reach SAR 706.0 m yielding a comfortable debt to equity ratio down from 1.07.

Dr. Mohamed Saleh Darweesh
CFO

Strategy & business model

Strategic overview

MEPCO's fundamental strategy is focused upon identifying avenues for growth in a competitive marketplace. To achieve this, the organisation's strategy is delivered through three pillars. First, through background integration, MEPCO is focused upon providing fully integrated operations WASCO. Secondly, expansion of core operations sees a greater scale of operations, efficiency improvements and diversification of products and markets. Thirdly, a successful, progressive, Corporate and Social Responsibility programme provides the driving engine of our business model.

STRATEGY	DESCRIPTION
Backward integration	Focus on growing backward integration of WASCO's operations
Expansion of core operations	Focus on core business by building scale of operations improving efficiencies and diversifying products & markets
CSR	A successful, progressive, Corporate and Social Responsibility programme provides the driving engine of our business model

Strategic and/or opportunistic growth

Our journey

2000
Foundation of MEPCO
PM1 initiation with 60,000 mt capacity

2002
Initiation of RCP collection
Production kick-off at PM1, offering High Performance Fluting and Testliner

2004
Foundation of WASCO
PM1 upgrade to operational capacity of 90,000 mt

2006
PM2 initiation with designed capacity of 150,000 mt
Expansion of WASCO operations in Southern Region, Madinah, Riyadh

2007
Introduction of Core Board product offering

2010
Introduction of Absorbent Kraft product offering
Expansion of WASCO operations in Northern & Eastern Provinces
PM3 initiation with designed capacity of 180,000 mt

2011

Introduction of Semi-Chemical Fluting product offering

Introduction of Plasterboard Liner product offering

2012

MEPCO becomes a closed joint stock company

Introduction of Kraft Liner Board product offering

2013

Foundation of HIPIT

2014

MEPCO initiates drumpulper project

2015

Introduction of Dual Use product offering

MEPCO becomes a Saudi Joint Stock Company, listed on Tadawul

2016

Introduction of White Top Liner product offering

Major upgrade & optimisation of machinery

2017

Achieved a 182% increase in gross profit y-o-y

Commercial update

2017 was a very good year from an operational perspective. MEPCO achieved a record production target close to 400,000 tons. Sales revenue also tracked closely at SAR 771.0 for the year.

Additionally, our diversification drive has moved the Company away from the previous heavy reliance on just two major primary products and has resulted in a more balanced and varied portfolio. This resulted in healthier diversification that yields higher profitability as production of niche products composed a bigger share of total sales compared to previous years.

This drive has provided MEPCO with higher flexibility in the market, gaining better pricing power on higher value products, which is reflected in the Company's financial performance. The business also benefited from improved market selling prices.

A successful cost optimisation programme was initiated by Management to mitigate the impact of fuel cost increases. This included moving towards in-house production of chemical solutions and away from external purchases. Additional cost savings also came through efficient energy consumption coming down from 45MW to 39MW - a good development both financially and environmentally. MEPCO's continuous efforts towards sustainability saw efficient water consumption delivered, with the Company now achieving higher levels of water recycling.

The global packaging industry market is currently growing at an average of 3.0% and the containerboard industry has high levels of investment with technological barriers to entry, meaning that we have cornered a niche market with few competitors. The GCC has a total annual containerboard production slightly above 1 million tons, and with demand standing at around 1.3 million tons this means that there is still room to grow our business' capacity. Market potential is also reinforced by MENA seeing a widening supply/demand gap in excess of 2 million tons.
MEPCO exports to more than 40 countries worldwide, which accounts for over 40% of its total annual sales. The Company's flexible business model allows it to seamlessly shift from local to export in order to achieve the best profitability and client diversity possible.

Sustainability

MEPCO places a great emphasis on ensuring that it operates in a sustainable manner. The Company's CSR strategy is at the very root of its business model and is geared towards making the greatest positive impact possible on society.

MEPCO sustainability focuses upon three main areas:

- Environmental protection
- Economic development
- Supporting the national agenda on Saudization

The environmental sustainability underpinning MEPCO's operational model demonstrates a significant cost reduction through the generation of its own power, when compared with sourcing from the national grid. MEPCO operates within a country that enjoys limited water resources, However, high levels of recycled waste water for production have been achieved, through careful usage of this limited resource. Water consumption has been vastly reduced and brought the Company on par with competitors with more abundant water resources, in terms of water consumption per ton of paper produced. By the end of 2017, MEPCO decreased its water consumption per ton of paper to be 5 m³/ton. The international benchmark ranges between 2-10 m³/ton.

Formalising its sustainability processes, MEPCO has created an 'internal energy conservation team', that will provide ongoing efforts towards effective power management. This team has already saved a significant amount of power per hour in the process, stemming from capacity management of equipment, optimising process parameters, reducing idle times and providing alternate methods of lighting.

As well as carrying out its responsibility to look after the environment in which the Company operates, MEPCO has increased funding for specialised entities to promote environmental awareness. These programmes are set up to support sustainable development in the local community in line with the organisation's core business, and MEPCO has already established more than five partnerships with different entities.

The sustainability efforts carried out by MEPCO over the course of 2017 have been recognised with the King Khaled Award for Responsible Competitiveness (RC Award), held under the patronage of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz. This accolade honours companies that have built competitive advantage through a commitment to sustainability and corporate social responsibility (CSR).

Collectively, these efforts by MEPCO make it one of the leading Saudi examples of sustainable business, in line with the agenda of Saudi Vision 2030. As an eco-friendly company which generates foreign revenue, MEPCO is providing essential support for Saudi's economic programme.

The Company also provides tangible social and economic benefits by adding value to the economy through business revenues, social investments, job opportunities and improving environmental awareness through programmes, campaigns and community initiatives. Saudization maintained a rate of 47% for much of 2017, supporting the Ministry of Labour's programmes to help Saudi men and women enter the employment market, and raise the level of their participation in suitable, decent and stable work environment.

Since its inception, MEPCO has produced around **4,000,000** tons of paper

It takes 40-60 trees per acre to make a healthy forest. One ton of recycled paper saves **17** trees

This equates to around **235,000** trees saved since MEPCO started production in 2002, an area equivalent to 1,600km²

Developing human capital

At MEPCO, we recognise that our people are the bedrock of the organisation, and every year we seek to find new ways to prioritise investments in our valued employees.

Human Resources (HR) is at the heart of MEPCO and as such this department reflects MEPCO's core corporate values. In order to achieve this objective, HR must ensure that new recruitment is in line with MEPCO's culture by selecting honest, hardworking and committed people.

A total of 617 employees work at MEPCO, with the diversity ratio showing progress through female representation now achieved at each hierarchy level. The rate of female induction was at 3% of Saudi workforce in the past year and female employees are viewed as an invaluable part of reducing the country's dependence on foreign manpower. One of the company's main priorities this year has been to maintain a high level of Saudization approaching 50%.

One of the key recruitment tools MEPCO utilises is the Higher Institute for Paper & Industrial Technologies (HIPIT). MEPCO is a key investor in HIPIT, which trains young Saudi citizens to become company employees from the date they join the institute. This institute is engaged in developing industrial technical know-how across a wide range of operational areas and disciplines, helping to absorb personnel to the mainstream of our industrial operation. HIPIT has achieved a great deal of success with 209 students trained and employed to date. In addition to this, more general company training has achieved a total of 8,000 hours of training.

MEPCO employs a number of motivational schemes to reward and encourage engagement and loyalty from its employees. Such programmes include service awards upon the five-year interval for all employees, as well as quarterly and yearly bonuses, marriage allowances for Saudi employees, female allowances for Saudi female employees and where required, hardship allowances are also made available.

Governance

Board of Directors

- The Board of Directors is elected by the Company's General Assembly. It is the body authorised to manage and run the Company, aware of all its legal responsibilities and the fact that the Board of Directors is responsible to the Shareholders for the management of all matters related to the Company in a way that achieves the interests of the Shareholders. MEPCO's Corporate Governance regulations include details relating to the formation of Boards of Directors, Board Committees, jurisdiction, responsibilities, meetings, as well as the rights and responsibilities of Board members. These regulations highlight the principle of active involvement in decision making within the Board, and strictly regulates conflicts of interests between members and the Company. The principles of honesty, integrity and due diligence are defined therein as the foundation and approach of the Board. MEPCO's bylaws determines the number of Board of Director members, their rewards and remuneration, their specialties and authorities, how they are appointed and how their appointments expire – taking into consideration the size and nature of the Company's business, and the scope of expertise required in members
- The Board of Directors consists of eight members, including three independent members. The Board was elected during the General Assembly Meeting in November 2016 and will be in session for three calendar years. It is possible to re-elect the Board of Directors for several sessions

a. Communication with shareholders and investors

- Given the importance of continuous communications with the Shareholders and investors of the Company, an international firm specialising in investor relations was appointed in mid-2017. Another firm was assigned the task of developing MEPCO's website and its investor and shareholder relations section, as well as mechanisms to ensure communication with shareholders and investors. The Company also appoints an investor relations specialist whose responsibility is to oversee the work of the above-mentioned firms and the implementation of their programmes/initiatives. MEPCO's Board of Directors ensures constant communication with shareholders and is keen on receiving their feedback. This is achieved during the Company's General Assembly meetings, and during events organised by the Shareholder Affairs Department that include meetings and introductory seminars to ensure direct communication. MEPCO provides various communication channels allowing its investors and shareholders to send their enquiries and ensuring timely responses. Such channels are the Company's website, and other voice/visual communication channels. The Board of Directors constantly reviews such enquiries and responses during its meetings
- The Company pledges to ensure clear, accurate, non-misleading and timely disclosure to its shareholders, investors and the media, without any bias
- The Company is committed to comply with the laws and regulations of the Capital Markets Authority (CMA), related to disclosure and transparency. It also commits to abiding by the policy and procedures of disclosure of its information, while disclosing internal information

b. Board of Directors duties and responsibilities

- To develop the Company's plans, policies, strategies and objectives, to review them regularly and to oversee their implementation. The Board shall also ensure the availability

of human and financial resources necessary to implement such policies and strategies. It shall develop internal control systems and regulations, and maintain supervision over them
- To oversee the financial management of the Company, including cash flows, as well as financial and credit relations with other parties
- To prepare interim and annual financial statements, including the proposed dividend distribution. The Board also approves the statements prior to publishing
- To prepare the Board of Directors report and approve it prior to publishing
- To develop policies and procedures that ensure the Company's compliance to laws and regulations, and its commitment to the disclosure of material/key information to shareholders and stakeholders, as well as ensure the Executive Management's compliance
- To ensure the accuracy and validity of the disclosed information in accordance with applicable disclosure and transparency policies and regulations
- To develop effective communication channels that keep shareholders regularly informed about the various activities of the Company as well as any related material updates

c. Board of Directors structure and membership classification

Name	Title	Membership Status
Mr. Emad Abdulkadir Al Muhaidib	Chairman	Non-Executive
Eng. Abdullah Abdul Rahman Almoammar	Vice-Chairman	Non-Executive
Mr. Abdul-Ilah Abdullah Abunayyan	Member	Non-Executive
Mr. Khaled Saleh Al-Khattaf	Member	Non-Executive
Mr. Mussab Sulaiman Al-Muhaidib	Member	Non-Executive
Mr. Faisal Omer Al-Sakkaf	Member	Independent
Mr. Ahmed Mubarak Al-Debasi	Member	Independent
Mr. Tariq Mutlaq Al-Mutlaq	Member	Independent

d. Companies in which a Board Member is a Board Member in their current or previous Boards, or is one of their managers

Board Member		Mr. Emad Abdulkadir Al Muhaidib			
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)	Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)
Amwal Al-Ajyal Commercial Company	Inside KSA	Limited Liability	United Sugar Co.	Inside KSA	Limited Liability
United Mining Industries	Inside KSA	Closed Joint-stock	United Sugar Co. - Egypt	Outside KSA	Limited Liability
Al Badia Cement	Outside KSA	Closed Joint-stock	Emad Abdulkadir Al Muhaidib Company	Inside KSA	Limited Liability
United Feed Company	Inside KSA	Limited Liability	Miyar Foods	Inside KSA	Limited Liability
Waste Collection and Recycling Company (WASCO)	Inside KSA	Limited Liability	Industrial Cities Development & Operating Co.	Inside KSA	Limited Liability
Al Muhaidib Holding Company	Inside KSA	Limited Liability	SAFOLA	Inside KSA	Limited Liability
Al Massira International Company for Industrial Investments	Inside KSA	Limited Liability	Al-Muhaidib Contracting (Thabat)	Inside KSA	Limited Liability
Saudi Paper Import & Export Company	Inside KSA	Limited Liability	A Shamiyah Urban Development Co.	Inside KSA	Limited Liability
Development of governorates	Inside KSA	Closed Joint-stock	Jeddah Development and Urban Regeneration Company	Inside KSA	Limited Liability
United Feed Manufacturing Company	Inside KSA	Limited Liability	Al Tawfiq Company for Plastics and Woven Sacks	Inside KSA	Limited Liability
Abdulkadir Al Muhaidib and Sons Company	Inside KSA	Closed Joint-stock			
Masdar Building Materials	Inside KSA	Closed Joint-stock			

Board Member		Eng. Abdullah Abdul Rahman Almoammar			
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	**Inside/ Outside KSA**	**Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)**	**Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers**	**Inside/ Outside KSA**	**Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)**
Al Massira International Company for Industrial Investments	Inside KSA	Limited Liability	Saudi Paper Manufacturing Company Ltd.	Inside KSA	Listed
United Feed Company	Inside KSA	Limited Liability	Saudi Printing & Packaging Company	Inside KSA	Listed
Waste Collection and Recycling Company (WASCO)	Inside KSA	Limited Liability			
Alanjazat Specialized Company	Inside KSA	Limited Liability			
United Feed Manufacturing Company	Inside KSA	Limited Liability			
Al Saraya Investments Holding Company	Inside KSA	Limited Liability			

Board Member		Mr. Abdul-Ilah Abdullah Abunayyan			
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	**Inside/ Outside KSA**	**Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)**	**Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers**	**Inside/ Outside KSA**	**Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)**
Burj Rafal Company	Inside KSA	Closed Joint-stock		Outside KSA	Limited Liability
Ithraa Capital Company	Inside KSA	Closed Joint-stock			
Al-Hassan Ghazi Ibrahim Shaker Company	Inside KSA	Listed Joint-stock			
LAFANA Holding Company	Inside KSA	Closed Joint-stock			
Abunayyan Group	Inside KSA	Limited Liability			
Communications Solutions Co.	Inside KSA	Limited Liability			
RAFAL Real Estate Development Company	Inside KSA	Closed Joint-stock			
L.G. Shaker Company	Inside KSA	Limited Liability			
Abdul-Ilah Abdullah Abunayyan Company	Inside KSA	Limited Liability			

Board Member			Mr. Khaled Saleh Al-Khattaf		
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)	Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)
Al Khaleej Investment Co.	Outside KSA	Closed Joint-stock	Nomura KSA	Inside KSA	Closed Joint-stock
National Finance House - Bahrain	Outside KSA	Closed Joint-stock	Tadawul	Inside KSA	Closed Joint-stock
LAFANA Holding Company	Inside KSA	Closed Joint-stock	Al Hassan Ghazi Ibrahim Shaker Company	Inside KSA	Listed Joint-stock
RAFAL Real Estate Development Company	Inside KSA	Closed Joint-stock			

Board Member			Mr. Mussab Sulaiman Al-Muhaidib		
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)	Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)
Masdar Building Materials	Inside KSA	Non-listed Joint-stock	Grand Stores	Inside KSA	Closed Joint-stock
Al-Hassan Ghazi Ibrahim Shaker Company	Inside KSA	Listed Joint-stock	Al Badia Cement	Outside KSA	Closed Joint-stock
Goldman Sachs – Saudi Arabia	Inside KSA	Non-listed Joint-stock	Al Latifiya Contracting Company	Inside KSA	Closed Joint-stock
Saudi Hotels & Resorts Company (Dur)	Inside KSA	Listed Joint-stock	Masdar Technical Supplies	Inside KSA	Closed Joint-stock
Endeavor Saudi Arabia	Inside KSA	Closed Joint-stock	Al-Muhaidib Technical Supplies	Inside KSA	Closed Joint-stock
Al-Rayyan Company	Inside KSA	Closed Joint-stock			
Dar Al Ibdaa for Development and Real Estate Management	Inside KSA	Closed Joint-stock			
Asala Real Estate Development	Inside KSA	Closed Joint-stock			

Board Member		Mr. Faisal Omer Al-Sakkaf			
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	**Inside/ Outside KSA**	**Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)**	**Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers**	**Inside/ Outside KSA**	**Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)**
AlAhli Bank (NCB)	Inside KSA	Listed Joint-stock	Saudi Business Machines	Inside KSA	Limited Liability
AlAhli Takaful Company	Inside KSA	Listed Joint-stock	Saudi American Bank (SAMBA)	Inside KSA	Listed Joint-stock
Turkish Finance Bank - Partnership	Outside KSA	Closed Joint-stock	Saudi Hollandi Bank	Inside KSA	Listed Joint-stock
			Eastgate Financial Group	Outside KSA	Limited Liability

Board Member		Mr. Ahmed Mubarak Al-Debasi			
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	**Inside/ Outside KSA**	**Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)**	**Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers**	**Inside/ Outside KSA**	**Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)**
Saudi Steel Pipe Company	Inside KSA	Listed Joint-stock	Saudi Steel Pipe Company	Inside KSA	Listed Joint-stock
Titanium and Steel Manufacturing Co. Ltd.	Inside KSA	Limited Liability			
Space Structures Company Ltd.	Inside KSA	Limited Liability			

Board Member			Mr. Tariq Mutlaq Al-Mutlaq		
Companies in which the Board Member is a Board Member in their current Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Listed Joint-stock / Non-listed Joint-stock /Limited Liability/…)	Companies in which the Board Member is a Board Member in their previous Boards, or is one of their managers	Inside/ Outside KSA	Legal Entity (Joint-stock listed/Joint-stock non-listed/Limited Liability/…)
Almutlaq Group	Inside KSA	Non-listed Joint-stock	Sahara Petrochemicals Company	Inside KSA	Listed Joint-stock
Arabian Company for Water and Power Development (Acwa Power)	Inside KSA	Non-listed Joint-stock	Arabian Insurance	Inside KSA	Listed Joint-stock
Riyadh Cables Group Company	Inside KSA	Non-listed Joint-stock	AL WAHA Petrochemicals Company	Inside KSA	Limited Liability
National Wealth Management	Outside KSA	Listed Joint-stock	Saudi ORIX Leasing Company	Inside KSA	Closed Joint-stock
			National Installment Company (Takseet)	Inside KSA	Closed Joint-stock
			SHUAA Capital Saudi Arabia	Inside KSA	Closed Joint-stock
			Arabian Waterproofing Industries Ltd.	Inside KSA	Listed Joint-stock

e. Qualifications and experience of Board Directors, committee members and senior executives

Name	Title	Qualification	Experience
Board of Directors			
Mr. Emad Abdulkadir Al Muhaidib	**Chairman**	Bachelor's degree in Commerce Honorary PhD	Co-Founder and Chairman of the Middle East Paper Company's Board of Directors, giving him insight into the company's business added to 35 years of experience in the fields of commerce, business management and investment. He held positions in several company managements and Boards of Directors.
Eng. Abdullah Abdul Rahman Almoammar	**Vice-Chairman**	Bachelor's degree in Industrial Engineering MBA	Co-founder and Vice Chairman of MEPCO, he has 25 years of experience in the paper industry. He was the Deputy Manager and the General Manager of Saudi Paper Manufacturing Company.
Mr. Abdul-Ilah Abdullah Abunayyan	**Chairman**	Bachelor's degree in Economy	Held several leadership and executive roles in many public and private commercial and industrial companies, which gained him vast knowledge and extensive experience in the duties of the Board of Directors, as well as in developing strategic business, sales and marketing, and the ability to define and seize business opportunities. He enjoys excellent leadership, communication and interpersonal skills, and is highly qualified in the aspects of management, planning and organisation.

Mr. Khaled Saleh Al-Khattaf	**Member**	Bachelor's degree in Accounting Master's degree in Financial Management and Accounting CPA Applied Economy Diploma	He is the CEO of LAFANA Holding Company and is a member of several Boards of Directors of joint-stock companies, and the committees under these boards. He is the CEO and Managing Director of Nomura Saudi Arabia – which offers advisory services in the fields of risk management, international securities, trade finance and M&A. Previously he served as the CFO of Saudi Stock Exchange (Tadawul), Saudi Arabian Monetary Authority – Investment Department, and the World Bank's Multilateral Investment Guarantee Agency (MIGA) in Washington – Treasury Department.
Mr. Mussab Sulaiman Al-Muhaidib	**Member**	Bachelor's degree in Business Administration-Miami University MBA – Liverpool University	He is a member of the Boards of Directors and Board Committees in several companies, has a wide range of experience in strategic business development, sales targeting and marketing. He is also experienced in project management and real estate operations, as well as directing expansion strategies and designing revenue resources toward increasing sales. He is a member in the Board of Directors of several companies inside and outside KSA.
Mr. Faisal Omer Al-Sakkaf	**Member**	Bachelor's degree in Economy MBA – Harvard University	Head of Strategy and Business Development Sector at Alahli Bank (NCB); Assistant Director, Group Corporate Banking at the Saudi American Bank (SAMBA); Head of Group Corporate Banking at the Saudi Hollandi Bank; Head of Group Corporate Banking at the Saudi American Bank (SAMBA); CFO at Alahli Bank (NCB).
Mr. Ahmed Mubarak Al-Debasi	**Member**	Bachelor's degree in Business Administration-Temple University, USA	A total of 34 years of experience in industrial companies. Member in the several Boards of Directors and Board Committees. Board Director in: Saudi Steel Pipe Company, Titanium and Steel Manufacturing Company, Space Structures Company Ltd.
Mr. Tariq Mutlaq Al-Mutlaq	**Member**	Bachelor's degree in Business Administration – American University, Washington	General Manager of Almutlaq Furniture Company, Regional General Manager of NAPCO, Chairman of SHUAA Capital Saudi Arabia, Chairman of ALWAHA Petrochemicals Company, Board Member of SAHARA Petrochemicals Company, Board Member of Arabian Insurance, Board Member of National Finance House, Board Member of Takseet – National Instalments Company, Board Member of Saudi ORIX Leasing Company.
Non-Board Committee Members			
Eng. Omar Mohammed Siraj	**Member of the Remuneration and Nomination Committee**	Bachelor's degree in Systems Engineering Master's degree in Industrial Engineering Master's degree in Business Administration and Management	Saudi Aramco – Engineering and Drilling Technology; Saudi Airlines – Industrial Engineering and Performance Optimization; Unilever Global – Human Resources; Emaar, The Economic City – Business Development; National Industrialization Company (Tasnee) and Subsidiaries – Downstream Industries; CEO of Saudi Ground Services Company; Vice Chairman of the National Metal Manufacturing and Casting Co.

Board of Directors			
Eng. Sami Ali Yousuf	**CEO**	Bachelor's degree in Industrial Chemistry (1992)	CEO of MEPCO since 2012. Previously, he served as General Manager since 2005 and Deputy General Manager since 2004. Before joining MEPCO, he was a Technical Manager in Saudi paper Manufacturing Company, a Project Manager in Saudi paper Manufacturing Company, and before that a Technical Consultant in Saudi TALCO.
Dr. Mohamed Saleh Darweesh	**CFO**	Bachelor's degree in Commerce Master's degree in Accounting – Egypt PhD in Financial Business Administration American fellowship in accounting and auditing	Worked as CFO in several industrial, commercial and real estate companies. Has experience in external auditing, financial analysis, cost analysis, feasibility studies, M&A. CFO at Qassim Cement Co.; CFO at Dubai-based Ishraqah Investment; CFO of Dubai-based Khamas Group of Investments; CFO of Egypt-based Delta Gases Group; Auditor at Egypt-based Hashish Auditing Company.
Eng. Mohammed Wadia Malibari	**COO**	Bachelor's degree in Industrial Chemistry (1992)	COO of MEPCO since 2011 until date. Prior to that, he served as General Manager at WASCO (a subsidiary), Head of Procurement in Amiantit Company, Deputy General Manager of Amiantit Company, Head of Amiantit Fiberglass Factory, Head of Procurement in Amiantit Companies, Head of Quality in Amiantit Companies.
Eng. Najeeb Mohammed Faqeeh	**President - WASCO**	Bachelor's degree in Chemical Engineering (1991)	A total of 14 years of experience with MEPCO's subsidiary WASCO. General Manager of Dubai-based Duplas Al Sharq; Vice President of Packaging sector at SAFOLA Group; Project Supervisor at United Engineers, Jeddah; Production Manager at Clorox, Jeddah.
Eng. Abdul Aziz Bashir Al Jazzar	**General Manager**	Bachelor's degree in Systems Engineering	A total of 14 years of experience with MEPCO's subsidiary WASCO. Previously he served as Assistant Director for Arab Bank's Jeddah branch.

f. Board meetings and attendance

Name	2017 Board Meetings Timeline				Attendance (%)
	18 Jan.	14 March	23 May	30 Oct.	
Mr. Emad Abdulkadir Al Muhaidib	Attended	Attended	Attended	Attended	100%
Eng. Abdullah Abdul Rahman Almoammar	Attended	Attended	Absent	Attended	75%
Mr. Abdul-Ilah Abdullah Abunayyan	Attended	Absent	Attended	Attended	75%
Mr. Khaled Saleh Al-Khattaf	Attended	Attended	Attended	Attended	100%
Mr. Mussab Sulaiman Al-Muhaidib	Attended	Attended	Attended	Attended	100%
Mr. Faisal Omer Al-Sakkaf	Attended	Attended	Absent	Attended	75%
Mr. Ahmed Mubarak Al-Debasi	Attended	Attended	Attended	Attended	100%
Mr. Tariq Mutlaq Al-Mutlaq	Attended	Absent	Attended	Attended	75%

* No Board Meetings were held since 5 December 2017, the date of the last General Assembly Meeting.

Board committees

In order to ensure the Company's optimal performance and help the Board of Directors play an active role in the Company's management, the Board of Directors formed the Remuneration and Nomination Committee, and the Executive Committee. The General Assembly was assigned the formation of the Audit Committee – whose structure and formation was approved on 10 November 2016. The Board of Directors sets the procedures related to the formation of Board Committees, including the roles of each committee, the duration of its session, authorities and powers, and the manner of the Board's supervision over it. Committee reports and recommendations are submitted to the Board of Directors, which also conducts an annual review for committee's rules, and updates them where necessary.

a. Audit committee

The Audit Committee is responsible for the supervision of the Company's business activities, and ensuring the correctness and integrity of its financial reports, statements and internal control systems. The Committee ensures the Company's compliance with applicable laws and regulations, supports the Board of Directors' supervision of the Company. The following are among the Audit Committee's main responsibilities:

- To review interim and annual financial statements before presenting them to the Board of Directors. To provide feedback and recommendations in this regard to ensure integrity, fairness and transparency of the Company's financial statements
- To review any significant or unusual matters included in the financial reports
- To investigate any issues raised by the CFO thoroughly, those acting in the CFO's capacity, the Compliance Officer or the Company's Auditor
- To give professional feedback – as requested by the Board – regarding the fairness, consistency and clarity of the Board of Directors report and the Company's financial statements
- To study and review the Company's internal and financial control systems, risk management systems, as well as internal audit reports. To follow-up on the implementation of corrections and observations added to the aforementioned systems/reports
- To recommend the appointment of the head of internal audit department to the Board of Directors, and the compliance officer, as well as to propose the appropriate remuneration for these positions
- To review the results of regulatory reports and ensure the Company's compliance to laws and regulations
- Reviewing the contracts and proposed Related Party transactions, and providing its recommendations to the Board in connection therewith

Committee members and meeting attendance

Name	Title	2017 Committee Meetings Timeline						Attendance (%)
		18 Jan.	14 March	9 May	30 July	26 Sep.	22 Oct.	
Mr. Faisal Omer Al-Sakkaf	Chairman of Committee	Attended	Attended	Attended	Attended	Attended	Attended	100%
Mr.Khaled Saleh Al-Khattaf	Member	Attended	Attended	Attended	Attended	Attended	Attended	100%
Mr. Mussab Sulaiman Al-Muhaidib	Member	Attended	Attended	Attended	Attended	Attended	Attended	100%

b. The remuneration and nomination committee

This Committee aims to support the Board of Director's role of nominating Board Members and senior executives. The Committee also aims to ensure the integrity of the Company's strategy on remuneration, rewards and incentives. The following are some of the Committees key duties:

- To participate in developing remuneration policies of the Board of Directors, Board Committees and Executive Management, as well as demonstrate how remuneration is related to such policies
- To conduct regular reviews of the remuneration policy and evaluate its effectiveness in achieving desired goals
- To recommend to the Board of Directors the remuneration of Board members, Board Committees and Senior Executive Management, based on the adopted policy.
- To propose clear policies and criteria for the membership of the Board of Directors and the Executive Management
- To recommend to the Board of Directors the nomination and re-nomination of its Members, in accordance with adopted policies and criteria, taking into consideration that persons previously in breach of honesty may not be nominated
- To prepare a description of the skills and qualifications required for positions in the Board of Directors and the Executive Management
- To determine the amount of time a Board Member should dedicate to perform Board duties
- To conduct an annual review and determine the needed skills and appropriate qualifications for positions in the Board of Directors and the Executive Management
- To review the Board of Directors and Executive Management organisational structures, and to recommend possible changes
- To investigate the independence of independent Board Members on an annual basis and ensure the absence of any conflicts of interest in case the Member has memberships in other companies' Boards
- To prepare the job description for executive, non-executive and independent Board Members, as well as senior executives
- To develop the necessary procedures in case a vacancy should occur in the Board of Directors or among senior executives
- To determine the strengths and weaknesses in the Board of Directors and to propose solutions to remedy the weaknesses in a way that aligns with the Company's best interests

Committee members and meeting attendance

Name	Title	2017 Committee Meetings Timeline			Attendance
		14 May	30 Oct.	5 Dec.	
Mr. Ahmed Mubarak Al-Debasi	Chairman of Committee	Attended	Attended	Attended	3
Mr. Emad Abdulkadir Al Muhaidib	Member	Attended	Attended	---	2
Eng. Abdullah Abdul Rahman Almoammar	Member	Attended	Attended	Attended	3
Mr. Abdul-Ilah Abdullah Abunayyan	Member	Absent	Absent	---	--
Eng. Omar Mohammed Siraj*	New Member	---	Attended	Attended	2

* The Committee's formation was altered on 30 October 2017, upon recommendation by the Committee. The Board of Directors resolved to appoint a new member from outside the Board, and to reduce the number of Committee members from 4 to 3 members.

c. Executive committee

This Committee was formed with the aim to assist the Board of Directors in supervising the Company's operational and administration activities, as well as supervise the Company's Executive Management, provide recommendations, review decision related to strategic aspects and the Company's general objectives and investments. In general, the Committee maintains a continuous presence of the Board of Directors, in between Board meetings, to ensure quick response in emergencies and to help the Board perform its duties effectively. The Executive Committee performs the following duties:

- To discuss and make decisions related to emergencies requiring quick action and decision-making
- To follow up on the preparation and implementation of the Company's long-, mid-, and short-term strategic plans, and to update and review such plans on a regular basis
- To meet with the heads of sectors and all employees responsible for the supervision of the Company's operational and financial performance
- To follow up on the implementation of the Company's financial, administration and supervisory policies and regulations, and to propose amendments to the Board, as appropriate
- To nominate senior executives in coordination with the Remuneration and Nominations Committee
- To follow up on the implementation of the Company's estimated budget, analyse any performance deviations – if any – and offer recommendations in this regard
- To conduct periodic reviews of actual capital expenses and match such expenses with Board-approved budgets
- To recommend investing in new/greenfield investment and industrial projects, as well as developing existing activities both horizontally and vertically
- To select and commission consultants, as deemed necessary for the Company, and to perform any other duties assigned to it by the Board of Directors

Committee members and meeting attendance

Name	Title	2017 Committee Meetings Timeline					Attendance (%)
		6 Jan.	8 March	14 May	17 Oct.	26 Dec.	
Eng. Abdullah Abdul Rahman Almoammar	Chairman of Committee	Attended	Attended	Attended	Attended	Attended	100%
Mr. Abdul-Ilah Abdullah Abunayyan	Member	Attended	Attended	Absent	Attended	Attended	75%
Mr. Khaled Saleh Al-Khattaf	Member	Attended	Attended	Attended	Attended	Attended	100%
Mr. Mussab Sulaiman Al-Muhaidib	Member	Absent	Absent	Attended	Attended	Attended	75%

Interests in company shares

No	Name	Beginning of 2017		End of 2017		Net change during 2017	Percentage of change
		Shares	Debt Instruments	Shares	Debt Instruments		
Board members, their spouses and minor children – if any							
1	Mr. Emad Abdulkadir Al Muhaidib	2,476,000	-	2,476,000	-	-	-
2	Eng. Abdullah Abdul Rahman Almoammar	5,000,000	-	4,750,000	-	250,000	0.5%
3	Mr. Abdul-Ilah Abdullah Abunayyan	1,000	-	1,000	-	-	-
4	Mr. Faisal Omer Al-Sakkaf	1,000	-	1,000	-	-	-
5	Mr. Ahmed Mubarak Al-Debasi	1,000	-	1,000	-	-	-
6	Mr. Tariq Mutlaq Al-Mutlaq	1,000	-	1,000	-	-	-
7	Mr. Khaled Saleh Al-Khattaf	1,000	-	1,000	-	-	-
8	Mr. Mussab Sulaiman Al-Muhaidib	1,000	-	1,000	-	-	-
Senior Executives, their spouses and minor children – if any							
1	Sami Ali Yousuf Al Safran	-	-	177,027	-	177,027	100%
2	Noha Ibrahim Al Khofi (CEO's spouse)	-	-	7,370	-	7,370	100%

Remuneration and allowances policy

a. Definition of remunerations:

The amounts, allowances, dividends and the like, periodic or annual bonuses linked to performance, long- or short-term incentive plans and any other in-kind benefits except the actual reasonable expenses and fees incurred by the company to enable the Board Member to perform his duties.

b. General criteria for remuneration:

The Remuneration and Nomination Committee has prepared a policy for remuneration of Board Members and Board Committee Members as well the Company's Senior Executives. This policy was approved by the General Assembly, held on 5 December 2017. Without prejudice to the provisions of the Companies Law and the Capital Markets Law and their implementing regulations, as well as the Company's by-laws, the remuneration policy shall:

- Be consistent with the Company's strategy and objectives, as well as with the magnitude, nature and level of risks faced by the Company;
- Provide remunerations with the aim of encouraging the Board Members and Executive Management to achieve the success of the Company and its long-term development, by for example making the variable part of the remuneration linked to the long-term performance;
- Determine remuneration based on job level, duties and responsibilities, educational qualifications, practical experience, skills and level of performance;
- take into consideration the practices of other companies in respect of the determination of remunerations, and avoid the disadvantages of such comparisons in leading to unjustifiable increases in remunerations and compensations;
- attract talented professionals and retain and motivate them without exaggeration;
- be prepared in coordination with the Nomination Committee in respect of new appointments;
- Take into consideration situations where remunerations should be suspended or reclaimed if it is determined that such remunerations were set based on inaccurate information provided by a member of the Board or the Executive Management, to prevent abuse of power to obtain unmerited remunerations; and
- Regulating the grant of Company's shares to the Board members and the Executive Management, whether newly issued or purchased by the Company.
- **Board Members and Board committee Members' remunerations were determined and awarded in accordance with the policy approved by the general assembly, and in accordance with the following criteria:**
  - In accordance with the Company's by-laws related to Board Members' remuneration, and provided that any member's remuneration does not exceed the amount determined in the Companies Law and Regulations. Board Committees regulations determine the remunerations and attendance allowances of Committee members
  - Remunerations shall be proportionate to the number of meetings attended by the Board or committee member, and the member's participation in activities related to the Board or Committee responsibilities
  - Remunerations shall be fair and proportionate to the Board or Committee Member's activities carried out and responsibilities borne by the board or committees members, in addition to the objectives set out by the board to be achieved during the financial year
  - Remunerations shall be based on the Remunerations and Nominations Committee's recommendations
  - Remunerations of non-independent Board Members may represent a percentage of the Company's profits, provided that this percentage does not exceed 10%, and that it is awarded in accordance with the Companies Law and Regulations as well as with the Company's by-laws

- Remunerations shall be reasonably adequate to attract qualified and experienced Board and Committee Members
- Remunerations may vary depending on the members' experience, expertise, duties, independence and the number of attended meetings, in addition to other considerations
- Remuneration of independent Board Members shall not be a percentage of the profits that are realised by the Company, nor shall it be based directly or indirectly on the Company's profitability
- A Board Member may receive remuneration in return for membership in the Audit Committee, formed by the General Assembly, or in return for any additional executive, administrative, technical or advisory position the Member is assigned – under a license – in the Company, in addition to the remuneration received as a Board Member and member of committees formed by the Board, in accordance with the Companies' Law and the Company's by-laws
- In case the General Assembly decided to suspend the membership of a Board Member who has been absent for three consecutive Board meetings with no valid excuse, this member receives no remuneration for the period following the last attended meetings, and all remunerations received for that period shall be returned

- **Executive management's remunerations were determined and awarded in accordance with the policy approved by the general assembly, and in accordance with the following criteria:**
  - Remuneration shall be based on the Remuneration and Nominations Committee's recommendations
  - Senior Executives receive remunerations that are performance-based, in addition to salaries and allowances determined under their contracts, as well as remuneration offered in the form of Company shares, without prejudice to regulatory controls and procedures issued for the implementation of the Companies' Law
  - Key Performance Indicators, on the Company level, include a set of short- and long-term objectives, including profitability, solvency, liquidity and growth indicators. Performance Management ensures the proper sequencing of objectives across all Company levels, up to the relevant business units and employees
  - Performance criteria, based on which remunerations are awarded to Senior Executives, as well as the suitability of these criteria to awarded remunerations, are constantly reviewed and monitored
  - Remunerations aim to create a competitive environment that helps attract and retain qualified staff and maintain the high level of skills and talents that the Company requires

c. Board remuneration (SAR)

	Fixed remunerations						
	Specific amount	Allowance for attending Board meetings	Total attendance allowance	In-kind benefits	Remuneration for technical, managerial and consultative work	Remuneration of the Chairman, Managing Director or Secretary, if a Member	Total
Mr. Faisal Omer Al-Sakkaf	160,000	12,000	15,000	-	-	-	187,000
Mr. Ahmed Mubarak Al-Debasi	200,000	15,000	3,000	-	-	-	218,000
Mr. Tariq Mutlaq Al-Mutlaq	160,000	12,000	-	-	-	-	172,000
Total for Independent Members	**520,000**	**39,000**	**18,000**	**-**	**-**	**-**	**577,000**

Mr. Emad Abdulkadir Al Muhaidib	200,000	15,000	3000	-	-	-	218,000
Eng. Abdullah Abdul Rahman Almoammar	160,000	12,000	18,000	-	-	-	190,000
Mr. Abdul-Ilah Abdullah Abunayyan	160,000	12,000	12,000	-	-	-	184,000
Mr. Khaled Saleh Al-Khattaf	200,000	15,000	30,000	-	-	-	245,000
Mr. Mussab Sulaiman Al-Muhaidib	200,000	15,000	27,000	-	-	-	242,000
Total for Non-Executive Members	**920,000**	**69,000**	**90,000**	**-**	**-**	**-**	**1,079,000**

* No amounts were paid off in correspondence with the following: (Percentage of profits – regular bonus – short or long-term incentive plans – bonus shares – End of service gratuity – Expense allowance)

d. Committee members remuneration (SAR)

Name	Fixed Remuneration (Except for Allowance for attending Board meetings)	Allowance for attending Board meetings	Total
Mr. Faisal Omer Al-Sakkaf	100,000	15,000	127,000
Mr. Ahmed Mubarak Al-Debasi	25,000	3000	43,000
Total for Independent Members	**125,000**	**18,000**	**170.000**
Mr. Emad Abdulkadir Al Muhaidib	25,000	3000	43,000
Eng. Abdullah Abdul Rahman Almoammar	75,000	18,000	105,000
Mr. Abdul-Ilah Abdullah Abunayyan	40,000	12,000	64,000
Mr. Khaled Saleh Al-Khattaf	100,000	30,000	145,000
Mr. Mussab Sulaiman Al-Muhaidib	90,000	27,000	132,000
Total for Non-Executive Members	**330,000**	**90,000**	**489,000**

* No amounts were paid off in correspondence with the following: (Percentage of profits – regular bonus – short or long-term incentive plans – bonus shares – End of service gratuity – Expense allowance)

e. Senior executives remuneration (SAR'000)

Five of the Senior Executives who received the highest remunerations and compensation, including the CEO and CFO	Fixed Remuneration				Variable Remuneration					End-of-service award	Total remuneration for Board executives, if any	Aggregate amount
	Salaries	Allowances	In-kind benefits	Total	Periodic remuneration	Short-term incentive plans	Long-term incentive plans	Value of granted shares	Total			
Total Paid Amounts	**4,956**	**3,172**	**-**	**8,128**	**2,210**	**250**	**-**	**-**	**2,460**	**571**	**-**	**11,134**

Board of Directors' acknowledgements in accordance with CMA regulations for 2017

No.	Article	Acknowledgement
1	Any punishment, penalty, precautionary procedure or preventive measure imposed on the Company by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future.	Not applicable
2	The Audit Committee's recommendation on the need for appointing an internal auditor for the Company, if there is no internal auditor. The Company has an Internal Audit Department since 2013.	Not applicable
3	The Audit Committee's recommendation that conflicts with Board resolution or those recommendations which the Board disregards relating to the appointment, dismissal, assessment or determining the remuneration of an external auditor, as well as justifications for those recommendations and reasons for disregarding them.	Not applicable
4	A description of any interest in a class of voting shares held by persons (other than the Company's Board Members, Senior Executives and their relatives) who have notified the company of their holdings pursuant to Article 45 of Listing Rules, together with any change to such interests during the last fiscal year.	Not applicable
5	A description of the class and number of any convertible debt instruments, contractual securities, pre-emptive right or similar rights issued or granted by the company during the fiscal year, as well as stating any compensation obtained by the company in this regard.	Not applicable
6	A description of any conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the company.	Not applicable
7	A description of any redemption, purchase or cancellation by the company of any redeemable debt instruments and the value of such securities outstanding, distinguishing between those listed securities purchased by the company and those purchased by its subsidiaries.	Not applicable
8	A description of any arrangement or agreement under which a Director or a Senior Executive of the company has waived any remuneration.	Not applicable
9	A description of any arrangement or agreement under which a shareholder of the company has waived any rights to dividends.	Not applicable
10	A statement as to the value of any investments made or any reserves set up for the benefit of the employees of the company.	Not applicable

Additionally, the Board of Directors acknowledge the following:	
11	a. proper books of account have been maintained; b. the system of internal control is sound in design and has been effectively implemented; and c. there are no significant doubts concerning the company's ability to continue its activity.
12	That there are no material differences from the accountancy standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).
13	That no recommendation was offered regarding the replacement of the existing auditor during 2017, and before the expiration of the contract period.
14	That the auditor has no reservations about the Company's financial statements, according to the auditor's report on the fiscal year 2017.
15	That the auditor provided the Company with no consultation services and has received no remuneration for that purpose.
16	That the auditor has not requested the Board to convene the General Assembly meeting during the fiscal year 2017.
17	That the Chairman of the Board has received no written requests to convene urgent meetings from two or more Board members during the fiscal year 2017.
18	The Company confirms that it has received no requests from shareholders, who hold 5% or more of the Capital, to convene the General Assembly meeting or to add one or more items to the General Assembly agenda when it was prepared during the fiscal year 2017.
19	That the Chairman of the Board was not notified by any Board member regarding interests they may have in transactions with the Company. Also, that no Board members have requested permission/license to perform businesses of competitive nature (except what has been disclosed in this report regarding transaction with related parties).
20	The Company confirms that it has implemented no procedures or restrictions that may hinder the Shareholders ability to take advantage of all the rights guaranteed in accordance with laws and regulations.
21	That the Company has offered no cash loans of any sort to members of the Board of Directors and has not sponsored/guaranteed any loans between Board members and others.
22	That the Board of Directors has not exempted any of the Company's debtors from their financial commitments during the fiscal year 2017.

Board of Directors' key recommendations and resolutions during 2017

Timeline of key Board of Directors' Resolutions during 2017
• Pursuant to recommendations by the Audit Committee, the Board resolution to approve the Governance, Risk and Compliance Framework, and the Compliance Management Charter on 18 January 2017
• Pursuant to recommendations by the Audit Committee, the Board resolution to approve the consolidated financial statements for the fiscal year 2016, on 14 March 2017
• The Board resolution to approve the Board of Directors' annual report and disclosure form no. (8) for fiscal year 2016, on 14 March 2017
• Pursuant to recommendations by the Audit Committee, the Board resolution to approve the preliminary financial statements for the 1st quarter of fiscal year 2017, on 10 May 2017
• The Board resolution to approve the new structure of the Remuneration and Nomination Company, to consist of four members and be chaired by an independent Board Member, on 14 March 2017
• Pursuant to recommendations by the Audit Committee, the Board resolution to approve the preliminary financial statements for the 2nd quarter of fiscal year 2017, on 30 July 2017
• Pursuant to recommendations by the Audit Committee, the Board resolution to approve the preliminary financial statements for the 3rd quarter of fiscal year 2017, on 22 October 2017
• Pursuant to recommendations by the Audit Committee and the Remuneration and Nomination Committee, the Board resolution to approve the Corporate Governance Regulations, and the accompanying regulations, on 30 October 2017
• Pursuant to recommendations by the Remuneration and Nomination Committee, the Board resolution to appoint a non-Board member as a member of the Remuneration and Nomination Committee, and to reform the Committee to consist of three members and be chaired by an independent Board Member, on 30 October 2017
Key Board of Directors' Recommendations during 2017
• In its meeting on 14 March, 2017, the Board of Directors recommended that cash dividends for the fiscal year 2016 be distributed to Shareholders who own the Company shares by the end of trading sessions on the day of the Extraordinary General Assembly meeting (due date) and are registered in the Company's shareholders record, held at the Securities Depository Centre, by the end of the second trading day following the due date. Total distributed cash dividends amounted to SAR 37,500,000
• In its meeting on 23 May 2017, the Board of Directors recommended the amendment of the Company's governance system, and the accompanying regulations, in order to comply with Corporate Governance Regulations issued by CMA on 13 February 2017, under the supervision of the Audit Committee and the Remuneration and Nomination Committee. Amendments were approved on 30 October 2017
• During the General Assembly Meeting on 5 December 2017, the Board of Directors recommended the voting on the following matters: The Audit Committee and the Remuneration and Nomination Committee's action lists, Board of Directors membership policy and procedures, the amended policy on remuneration and compensation for Board members, Board Committee members and the Executive Management and the amended policy on corporate social responsibility
• The Board of Directors recommendation for the appointment of a consultant to oversee the Company's activities in relation to Shareholder affairs, and another consultant to oversee the Company's plans in preparation to apply the value added tax (VAT) in 2018. Both consultants were contracted pursuant to the Board recommendation, and the Company collaborated with them during 2017
• The Board of Directors recommended to the Extraordinary General Assembly Meeting, held on 23 May 2017, the launch of the Executive Stock Program, delegate the Board of Directors to amend the programme - when necessary - and to complete the purchase, on single or several phases, or as it deems fit, within 12 months from the EGM approval of the recommendation. The programme was not activated until 31 December 2017

About MEPCO and its subsidiaries

- MEPCO is one of the largest vertically-integrated paper manufacturers in the Middle East and Africa region, offering a diverse range of paper products to customers around the world, and meeting the needs of various industries within the packaging sector, including constructions and large-scale furniture production. The Company's innovative approach to doing business enables it to deliver significant environmental and economic benefit to its home market. MEPCO exports its products from Saudi Arabia to the GCC and wider Middle East & Africa region, as well as South Asia, the Americas and Europe
- MEPCO's raw materials are sourced from locations across the Kingdom and neighbouring countries, through its wholly-owned subsidiary, the Waste Collection and Recycling Company "WASCO", which is one of the leading waste management and waste paper collection companies
- The company produces a diverse range of CONTAINERBOARD grades (High Performance Fluting, Test Liner, Semi-Chemical Fluting) along with other grades of INDUSTRIAL PAPER (Core board, Plasterboard Liner, & Absorbent Kraft). The Company observes the highest quality standards that take environment protection into consideration
- One of the leading companies in the region, in terms of production capacity and sales footprint, MEPCO boasts a brown paper roll production capacity of 475,000 tonnes, annually
- The local content of MEPCO's final products exceeds 80%, as the Company recycles cardboard collected by its subsidiary WASCO, and produces a final product, which is used, in turn, in brown paper and packaging productions
- MEPCO recorded a Saudization rate of 45% and has maintained its Platinum status since 2014
- MEPCO exports more than 40% of its production abroad to Africa, Europe, South America and East Asia markets
- MEPCO is the official sponsor of Jeddah-based Higher Institute for Paper and Industrial Technologies; a non-profit organisation that aims to educate and train Saudi youth in paper production technologies, who can later join MEPCO. The Institute is supervised by the Technical and Vocational Training Corporation
- MEPCO is active in the fields of social responsibility and environmental awareness and has received several awards
- MEPCO observes the highest quality standards and environmental requirements in its operations, such as paper and water recycling, and water processing before disposal
- MEPCO owns a subsidiary specialised in waste collection and recycling – WASCO, which invests in several landfills owned by local municipalities. With a collection capacity of half a million tonnes annually, WASCO provides the raw material required for MEPCO production operations

a. Subsidiaries

Subsidiary	Capital	Business Activities	Country of Incorporation	Footprint	Percentage of ownership
Waste Collection and Recycling Co.	SAR 20m	Collecting and trading waste paper	KSA	KSA, GCC, others	100%
Alanjazat Specialized Company	SAR 100,000	Collecting and trading waste paper	KSA	KSA	100%

All subsidiaries are limited liability companies, working in collaboration with the Parent Company. The Subsidiaries, specialised in collecting and sorting waste paper, provide MEPCO's factory with the required raw materials, while also trading other products that MEPCO does not need, to achieve profits by selling the surplus collected materials in target markets.

b. Details of shares and debt instruments issued by subsidiaries

- All shares and debt instruments are issued in the name of the Middle East Paper Company (MEPCO). The subsidiaries are wholly-owned by MEPCO
- Capital and free-float shares as at 31/12/2017

• Authorised Capital	SAR 500,000,000
• Issued shares (all MEPCO shares are ordinary shares)*	50,000,000 shares
• Free Float shares according to Tadawul records**	24,049,470 shares
• Paid Capital	SAR 500,000,000
• Par value per share	SAR 10
• Paid-up value of shares	SAR 10

* **Acknowledgement:** The Company owns no premium or preferred shares – whether owned by shareholders, Board of Directors members or Company employees. All MEPCO shares are ordinary shares of equal par value, equal in voting rights and other rights, in accordance with the Law.

** The number of free float shares varies from time to time based on daily share activity, whether selling or buying activity, in the stock market. The number of free float shares mentioned above was published on Tadawul website on 3 January 2018.

c. Substantial shareholders ownership, exceeding 5% of company shares as at 31/12/2017

#	Name	Balance at year start	Balance at year end	Percentage	Change%
1	Abdulkadir Al Muhaidib and Sons Company	11,619,500	11,619,500	23.23%	--
2	LAFANA Holding Company	11,619,600	11,619,600	23.23%	--
3	Abdullah Abdul Rahman Almoammar	5,000,000	4,750,000	9.5%	-00%

d. Number of requests in shareholders records during 2017

#	Date	Reason of Request
1	10 April, 2017	Information about of companies and investment funds ownership movements
2	23 May, 2017	Extraordinary General Assembly Meeting
3	25 May, 2017	Shares record – for the purpose of dividends distribution
4	15 June, 2017	Information about of companies and investment funds ownership movements
5	14 September, 2017	Information about of companies and investment funds ownership movements
6	9 October, 2017	Information about of companies and investment funds ownership movements
7	29 November, 2017	Information about of companies and investment funds ownership movements
8	05 December, 2017	General Assembly Meeting
9	31 December 2017	Information about ownership of Board Members and Senior Executives by year end

Key events and resolutions during fiscal year 2017

#	Event	2017
1	Announcement of preliminary financial results for the period ending 31/12/2016 (12 months).	19 January
2	Announcement of significant impact on the Company's financial statements resulting from the adoption of IFRS. Preparation of the first financial statement in accordance with the international standards.	30 January
3	Announcement of renewal of the Sharia-compliant credit facilities agreement with Banque Saudi Fransi.	20 February
4	Announcement of financial results for the year ended 31/12/2016.	15 March
5	Announcement of Board of Directors' recommendation regarding the distribution of cash dividends to shareholders for the fiscal year 2016.	15 March
6	Announcement of a fire that broke out in one of its paper warehouses.	17 April
7	Announcement of Shareholders invitation to attend the Extraordinary General Assembly Meeting (first meeting).	4 May
8	Announcement of the results/outcomes of the Extraordinary General Assembly Meeting (first meeting).	24 May
9	Announcement of the date and method of distributing profits for the fiscal year 2016.	29 May
10	Announcement of signing a Sharia-compliant credit facilities agreement with Kuwait National Bank.	31 July
11	Announcement of preliminary financial results for the period ending 30/6/2017 (6 months).	31 July
12	Announcement of the Permanent Committee for the Prevention of Harmful Practices in International Trade's decision to accept the anti-dumping complaint submitted by MEPCO.	1 August
13	Announcement of preliminary financial results for the period ending 30/9/2017 (9 months).	23 October
14	Announcement of Shareholders invitation to attend the General Assembly Meeting (first meeting).	14 November
15	Announcement of the results/outcomes of the General Assembly Meeting (first meeting).	6 December
16	Celebrating MEPCO's win of King Khalid's Award on Responsible Competitiveness for 2017 (3rd place).	11 December

Future plans and company outlook

MEPCO continuously seeks to enhance its products and production lines, increase its production capacity to support its success, as well as maintain its leading position and continue to meet local and international market demand. MEPCO also develops its infrastructure production-supportive services to maintain the lead as one of the largest vertically-integrated paper producers in the MENA region. By implementing the following strategies, MEPCO aims to maximise shareholders profitability:

1) Build human capacities, enhance technical skills through training, and the provision of working environment that attracts and maintains talents
2) Continue to grow and maintain MEPCO's retainer clients, both globally and regionally, by offering high-quality services and products that meet client expectations
3) Support, boost and improve production capacity to expand its business and meet clients demand
4) Focus on operational flexibility and product diversification, as well as develop the Company's response to market trends by introducing new products
5) Further optimization of raw material, which was previously difficult to use, by using the "A (horizontal) drumpulper" to cut costs

Corporate Social Responsibility activities

Corporate Social Responsibility represents a key part of MEPCO's values and framework. It aims to contribute to the fulfilment of sustainable development objectives in the communities in which it operates, reflecting MEPCO's continuous commitment to ethical, responsible and transparent business conduct that strengthens its competitive position. To this end, MEPCO integrates social responsibility practices within its business model and the Company's day-to-day activities. It also translates its commitment towards social responsibility through specific objectives that are included in the Company's policies, procedures and future outlook.

MEPCO is committed to create sustainable business practices that meet its current requirements without compromise to the wellbeing of future generations. The Company pledges to develop strategies that will enable and support its progress towards sustainability and greater value for its customers.

During 2017, MEPCO has made a second amendment to its Corporate Social Responsibility policy to reflect best practices. The Company participated in several activities related to environment protection and CSR in general, including:

- MEPCO joined efforts with its CSR partner Al Nabta Organisation, to raise social and environmental awareness among the youth about waste recycling and environment protection, highlighting the benefits of recycling to both environment and communities. MEPCO participated in many awareness programmes that addressed various community segments. Those included "The Story of Waste workshop", which was attended by 1006 young girls, in addition to training 46 trainers to lead the same workshop
- MEPCO sponsored events held under the "#Sort_It" initiative; an environmental awareness initiative that aims to spread awareness and instil the values of sustainability by involving citizens in community campaigns in accordance with the National Transformation Vision 2030, raising awareness about the damage caused by solid waste accumulation, educating communities about the importance of sorting waste, and encouraging them to sort waste inside and outside their households. The event included several environmental and entertainment activities for all age groups
- MEPCO participated in Jeddah Historical Festival by distributing special waste bins for the different kinds of waste, to educate festival goers about waste sorting. A group of young volunteers helped by guiding visitors towards the suitable bins to sort their waste into paper, plastic and cans. Approximately 5 tonnes of paper were collected during this event
- MEPCO partnered with "Aytamona" (an organisation for orphan care and their initiative "Mawakeb Al Ajer") to collect paper waste through coordination with the CSR team present in a collection centre within the organisation. Collected paper waste was later sold to WASCO, and the proceeds given to Aytamona.
- MEPCO held several partnerships with educational and business institutions, including its partnership with King Abdulaziz University's Scientific Endowment for a project that targets occupants of the university campus under the theme "Endowment, Not Waste"
- MEPCO participated in an initiative called "Imagine"; an interactive environmental activity by "Awalem" Company for the manufacturing of cardboard boxes as part of efforts to raise environmental awareness among children
- MEPCO took part in an initiative by the Ministry of Environment, Water and Agriculture, that aims to plant a total of 4 million trees by 2020
- MEPCO was awarded the King Khalid's Award on Responsible Competitiveness for 2017 (3rd place), under the patronage of His Majesty the Guardian of the Two Holy Mosques King Salman
- MEPCO approved an agreement with Al Taif University for raising awareness as well as collecting and sorting waste
- MEPCO received King Khalid Foundation's award for highest Local Supplier's standards
- MEPCO received the "Mill Manager of the Year Award" by PPI Awards

Risks related to MEPCO's business activities, subsidiaries and operations

The Company's activities, its financial position, outlook, operation results and cash flow may be negatively and significantly affected if any of the following risks took place, or if any other risks, currently undefined, took place. As any other industrial entity, the Company is prone to these risks during the course of practicing its activities. MEPCO takes all necessary measures, implements policies and offers support and adequate information to its Risks and Compliance Department, with the aim to mitigate the effects of these risks on its performance. In line with plans to support its internal control system, MEPCO established the Risk Department in 2017, and added it to its organisational structure. The department is responsible for risk management and continuous guidance on the implementation of risk management policy. This is achieved by ensuring control and supervision, restricting risky practices in business activities, assessing and addressing challenges and risks, and reporting.

1. MEPCO's risk management strategy

- Risk management strategy is based on calculated risk taking, and is a systematic method of defining and prioritising risks, and implementing risk-mitigation strategies. This includes both potential risk prevention, and early detection of actual issues. Risk management is an ongoing process in which human resources across all Company levels take part
- A well-prepared risk management strategy enables the Management to realise the risk and appropriately analyse it, and then find a suitable solution to remove or mitigate the risk
- The key steps towards building a risk management strategy can be summarised in an ongoing cycle of 5 steps:
  Evaluating the environment – By developing rules that describe how Company employees view and address risks. This ensures that the Company defines its philosophy of risk management. On the other hand, identifying clear objectives by the Management enables it to distinguish events that could potentially impact its business
  Distinguishing/identifying risks – By answering the following two questions: What could happen? How will it happen? Internal and external events impact the realisation of Company goals, which is why the Management needs to distinguish between risks and opportunities
  Analysing risks – By taking into consideration the possibility of the risk occurring, and the extent of its impact on the Company's goals. By doing this, the Company can identify a clear basis on how to manage the evaluated risks
  Evaluating risks – The Management estimates potential risks and selects its reaction: Avoiding, accepting or reducing the risks. Based on its selection, the Management then develops activities that help prioritise the risks
  Discussing/addressing risks – At this point the Company identifies potential strategic alternatives to control the risk and selects the best alternative. In light of its selection, the Company develops plans and means to address the risk
- These five steps are accompanied by ongoing monitoring and control performed by the Risks Management Department, by monitoring and amending as necessary. Such monitoring activities could be implemented separately or collectively for each of the above-mentioned five steps

2. Techniques for addressing risks

When risks are identified and duly evaluated, all the techniques that can be implemented to address such risks fall under one or more of the following four key categories:

Risk transfer. These are techniques that enable accepting the risk by a third party, usually through contracts or financial prevention. Insurance is an example of risks transferred through a contract.

Risk avoidance: This means that the Company tries to avoid activities that could lead to certain risks. An example of this technique is to refrain from buying property or engage in a business to avoid legal consequences. While avoidance seems like a solution for all risks, it could, at the same time, deprive a company from the benefits and profits that could have otherwise be achieved.

Risk reduction: This technique includes ways to mitigate the losses resulting from the risk. An example of this would be software developers who gradually develop software to reduce relevant risks.

Risk acceptance: This means accepting losses when they are incurred. This technique is acceptable in the cases of minor risks, where the cost of insurance against the risk is larger than the total losses over time. Thus, all risks that cannot be avoided or transferred need to be accepted. Wars are the best example of such a technique, since property cannot be insured against wars.

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

a. Economic and political fluctuations:

Some countries in the region go through political fluctuations that may negatively impact MEPCO's competitiveness and limit its access to a segment of its clients. Access to new markets to compensate the market share lost in conflict zones is part of the Company's strategic objective and its risk management policy. MEPCO's performance is also affected by local and global economic conditions, and it cannot predict the timing, degree or duration of any future economic slowdown or recovery.

b. Risks related to the Company's activities, subsidiaries and operations:

1) **Risks related to relying on key personnel:** A select group of highly qualified experts manages MEPCO, and its inability to maintain these talents poses one of the key risks to its continuity and advancement. To avoid this risk, MEPCO and its subsidiaries are keen to create a working environment that encourages creativity and innovation, support its team and provide them with the necessary skills to help carry out their responsibilities and take over the leadership of the Company, when needed.
2) **Risk related to the unavailability of raw materials and the instability of their prices:** The revenues and profits of MEPCO and its subsidiaries are affected by the prevailing prices of commodities and raw materials, especially waste paper, as well as their availability in markets that are prone to sudden and large-scale fluctuations. To help mitigate this risk, MEPCO supports its subsidiary WASCO in the face of competition, and aims to boost its competitiveness as MEPCO's strategic arm that provide its requirements of raw materials at suitable prices.
3) **Risks related to energy supplies:** MEPCO relies on fuel supply contract with Saudi Aramco to power its facilities. Prices of fuel, supplied by Aramco, may rise without the Company being able to raise its own product prices reflecting the increase in fuel prices. This will negatively affect the Company's business and outlook. To help mitigate this risk, MEPCO supports internal initiatives focusing on cost cutting, which help reduce the effects of increasing energy prices, should they occur.
4) **Risks related to the Company's geographic location:** MEPCO's factory is located in Al Khumrah area, Jeddah. It occupies a plot of land, wholly-owned by the Company, in a private industrial zone. MEPCO has acquired all necessary licenses to carry out its activities at its current location and ensures timely renewal of such. Should any new laws by issued to ban the presence of factories outside Modon's industrial zones, MEPCO's business and financial position will be negatively affected. (Modon is the Saudi Industrial Property Authority).
5) **Operational risks and the unforeseen halt of**

business: MEPCO's factory consists of several production lines and paper manufacturing machines. Should any incident occur that would negatively affect the course of business, including technical problems (power, energy or water supply cuts) or unfortunate accidents that impacts the continuity of business – such matters will significantly impact the Company's operational and financial results. MEPCO takes all back-up measures that help mitigate these risks. Those include a power generation plant owned by MEPCO to cover its needs, contracts and long-term agreements with several suppliers of water required for the production, insurance coverage that covers compensation for production disruption. Additionally, MEPCO's production lines work completely independently from each other, so that the disruption of one production line does not impact the others.

6) **Risks related to transportation:** MEPCO relies on external suppliers of transportation services who deliver its products to clients. Any disruption in these services may temporarily affect the Company's ability to supply its products, thus negatively affecting its business performance/results. To ensure the continuity of said services at competitive prices and quality, MEPCO focuses on building strategic partnerships and signing agreements with several suppliers of transportation services.

c. Risks related to the market and wider sector:

1) **Risks related to product prices:** MEPCO's future performance is influenced by its ability to maintain good prices for its products, and to shift any production cost increase to be incurred by its customers by increasing its prices. This is not a certain approach because a product's final price relies on supply and demand in local and international markets.

2) **Risks related to the focus and specialisation of sectors:** MEPCO focuses on one aspect of paper production, namely the production of recycled brown paper. There are many key factors that influence this production both negatively and positively such as: growth of industrial and agricultural production, a higher expenditure rates per capita, the evolving methods and techniques of paper packaging, and a rising awareness of the importance of paper recycling. Any negative changes to these factors will in turn affect MEPCO's operations. To this end, the Company seeks to constantly improve and diversify its products to keep up with the relevant packaging industry and downstream operations.

3) **Risks related to the competitive environment:** The company operates in a highly competitive environment and can be dumped with cheap products from external competitors. The company can face a decline in the prices of its products as a result of this competition. This will negatively impact the results of the company. The company's competitive ability to distinguish its products from the other products on the market depends on while providing high-quality products at reasonable prices. The Company cannot guarantee that current or potential competitors will not offer quality products at competitive prices better than those offered by them.

d. Financial risks

1) **Risks related to inadequate insurance coverage:** MEPCO maintains an insurance coverage that includes several types of insurance. It is still possible that the value of insurance claims submitted by MEPCO in case of losses or damage, may exceed the limit of its insurance, or that the damage it suffers may not be fully covered by the insurer. Such incidents may negatively affect the Company's business as well as its operational and financial results.

2) **Risks related to the future availability of additional financing:** MEPCO's financing needs depend on its capital, financial position, operational results, cash flows and the financing

it secures from financial institutions. The Company may still require additional financing in the future, which means that delay, or failure, to secure such financing, or securing financing at unfavourable conditions or high costs, may negatively affect the Company's business as well as its operational and financial results.

3) **Credit risks:** These are risks of incurring financial losses due to customers' failure to meet their financial obligations. The Company's credit risks are mainly linked to trade receivables. Some customers may face unfavourable economic situations that prevent them from fulfilling their financial obligations to MEPCO, thus negatively affecting the Company's business results and outlook.

4) **Risks related to fluctuations in interest rates, currency exchange rates and financing costs:** MEPCO is exposed to the risk of foreign currency exchange rates and any significant, unpredicted fluctuations in exchange rates will adversely affect its financial performance. Increased financing costs will also lead to high financing costs incurred by the Company, which will adversely affect their future profitability.

5) **Risks related to the distribution of dividends:** The distribution of dividends depend on several factors, including the Company's ability to make profits, its financial position, financial reserves, lenders requirements, available credit limits, overall economic conditions and other factors that are subject to the Board of Directors' discretion and recommendations. Any significant change to these factors may affect the Company's ability to distribute dividends, which will be subject to the requirements of the Company's by-laws, and other applicable laws and regulations.

e. Risks related to laws, regulation, permits and licenses

1) **Laws, legislation and the regulatory environment:** MEPCO, and its business activities in the fields of paper manufacturing and waste collection and recycling are subject to supervisory authorities that implement KSA laws and regulations. Should any of the existing laws and regulations be amended, or should any new laws and regulations be issued in relation to the production of paper or the collection and recycling of waste, MEPCO may be forced to adjust its operations or service offerings, or adjust its products and product lines, to ensure compliance with said regulations. This means the Company will incur additional and unexpected expenses, and its operations may be significantly impacted. This will consequently affect MEPCO's financial results and profitability, adversely. The Company ensures renewal of all industrial and trade licenses in a timely manner, and seeks to adjust its operations in accordance with the new regulation requirements. To achieve this, the Company has established a Governance and Compliance Section whose responsibility is to make sure MEPCO and its subsidiaries abide by all applicable laws and regulations.

2) **Risks related to safety and the environment:** The business operations of MEPCO and its subsidiaries involves certain risks related to environmental and safety laws. In case the Company was obliged to implement more stringent environmental, preventive and safety standards in the future, this will increase its expenses, and consequently affect its business results. MEPCO puts great emphasis on protecting the environment and maintaining health and safety throughout its operations. It implements standards of occupational safety, fire safety and hazardous material safety. It also conducts field safety checks to ensure its readiness to address any emergencies and accidents. Additionally, MEPCO's safety teams conduct regular safety training for its personnel, and ensures that safety standards are implemented across its divisions and locations.

Financial information

MEPCO has prepared its first consolidated annual financial statements for the fiscal year ended 31/12/2017 in accordance with the International Financial Reporting Standards (IFRS) as adopted in the Kingdom of Saudi Arabia, as well as in accordance with other standards issued by the Saudi Organization for Certified Public Accountants. When preparing the consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as at 1/1/2016, which reflects the date in which the Group has switched to IFRS.

a. Business results (SAR '000)

Statement	2017	2016	2015	2014	2013
Sales	771,008	634,405	826,428	681,170	634,405
Cost of Sales	584,898	503,122	507,430	412,669	503,122
Gross Profit	186,110	131,283	318,998	268,501	131,283
Net Profit	68,131	94,907	111,339	55,118	94,907

b. Assets and liabilities (SAR '000)

Statement	2017	2016	2015	2014	2013
Current Assets	477,544	444,344	515,053	473,352	509,557
Noncurrent Assets	1,071,491	1,095,397	1,078,316	1,032,946	945,613
Total Assets	**1,549,035**	**1,539,741**	**1,593,469**	**1,506,297**	**1,455,170**
Current Liabilities	432,969	426,413	483,324	558,390	450,583
Noncurrent Liabilities	393,685	419,863	452,123	345,020	472,039
Total Liabilities	**826,654**	**846,276**	**935,447**	**903,410**	**922,622**

C. Income statement indicators (SAR '000)

	2017	2016	Difference	Difference Percentage (%)
Sales	771,008	634,405	136,603	22%
Cost of Sales	584,898	503,121	81.777	16%
Total Income	186,110	131,283	54,827	86%
Operating revenues - Other	2,421	2,632	- 211	-8%
Operating expenses - Other	92,698	100,022	-7,324	-7%
Operating Profit	95,833	33.893	61,940	183%

- Reasons of difference in operating results:
  Sales: The main reason behind the increase value of sales is the increase of sales volume and the average sale price.
  Cost of sales: The main reason behind the rising cost of sales is the increase of sales volume accordingly, and the higher average price of raw material (used paper).
  Total income: The main reason is the increase in total income and the volume and value of sales, as a result of a higher average of sale price and the increase in sales of other high-profit products, despite a slight increase in the average price per ton.
  Other operating revenues: The main reason behind the decline of other revenues is a decline in the fair value of financial derivatives.
  Operating expenses: The main reason behind the decrease in operating expenses is the decline in sales and marketing expenses, as well as a decline in administrative and general expenses.
  Operating profit: The main reason behind the increase in the operating profit is the rise in sales volume and value as a result of an increase in average sale prices, a decrease in administrative and general expenses as well as sales and marketing expenses.

* A non-recurring profit of SAR 91.96m was recorded in 2016, resulting from the compensation for expropriation land and premises.

d. Description of MEPCO's and its subsidiaries main activities

a. The main activity of the Company is the manufacturing and production of packaging and industrial paper
b. The main activity of the Subsidiaries is the collection and recycling of paper and waste, and the trading of such.

Activities contribution to MEPCO's business and financial results (SAR '000)

Activity	Revenue from activity	Percentage %
Paper manufacturing and production (Manufacturing)	729,575	95
Paper and waste collection and recycling (Trade)	41,433	5

e. MEPCO and its subsidiaries revenue analysis by geographic footprint

MEPCO and its subsidiaries practice their activities in the Kingdom of Saudi Arabia, the GCC, North and East Africa as well as other regions.

The geographic analysis of revenues is as follows (SAR '000):

Statement	2017	2017	2017	2017
MEPCO	413,880	58,547	257,148	729,575
Subsidiaries	41,433	-	-	41,433
Total	**455,313**	**58,547**	**257,148**	**771,008**

f. Information related to MEPCO and its subsidiary WASCO loans:

1. Mid-term Loans and Facilities (SAR '000)

Creditor	Principle Loan/ Facilities	Loan/ Facilities Term	Balance at beginning of year	Additional loans during the year	Repayments during the year	Balance at year end
Saudi Industrial Development Fund	451,000	5 Years	146,560	24,940	32,000	139,500
Bank Alahli NCB	76,000	2 Years	26,881	-	26,881	-
Arab Bank	400,000	5 Years	200,000	-	40,000	160,000
Banque Fransi	150,000	5 Years	135,000	-	30,000	105,000
Kuwait National Bank	50,000	5 Years	-	49,875	-	49,875
SABB	50,000	5 Years	-	35,526	3,783	31,743
Total	**1,177,000**	**-**	**508,441**	**110,341**	**132,664**	**486,118**
Deferred Finance Fees	-	-	(6,706)	-	-	(4.082)
Total	**1,177,000**	**-**	**501,735**	**110,341**	**132,664**	**482,036**

2. Short-term loans (revolving loans) (SAR '000)

Creditor	Principle Loan/ Facilities	Loan/ Facilities Term	Balance at beginning of year	Additional loans during the year	Repayments during the year	Balance at year end
Arab Bank	150,000	1 Year	63,751	183,935	216,526	31,160
Kuwait National Bank	50,000	1 Year	-	49,613	-	49,613
Bank AlJazira	60,000	1 Year	-	-	-	-
Al Rajhi Bank	50,000	1 Year	-	-	-	-
SABB	60,000	1 Year	49,939	99,208	91,087	58,061
Banque Saudi Fransi	210,000	1 Year	54,991	165,202	146,789	73.403
Total	**580,000**	**-**	**168,681**	**497,958**	**454,402**	**212,237**
Outstanding Payment sheets	-	-	42,835	-	-	4,686
Total	**580,000**	**-**	**211,516**	**497,958**	**454,402**	**216,923**
Total mid and short-term	**1,757,000**	**-**	**713,250**	**608,299**	**587,066**	**698,959**

3. WASCO short-term loans (revolving loans) (SAR '000)

Creditor	Principle Loan/ Facilities	Loan/ Facilities Term	Balance at beginning of year	Additional loans during the year	Repayments during the year	Balance at year end
Arab Bank	20,000	1 Year	20,000	25,000	40,000	5,000
AlAhli NCB	15,000	1 Year	9,500	-	9,500	-
Bank AlJazira	25,000	1 Year	-	-	-	-
Total	**60,000**	**-**	**29,500**	**25,000**	**49,500**	**5,000**
Total(MEPCO&WASCO)	**1,817,000**	**-**	**742,750**	**633,299**	**636,566**	**703,959**

4. Total loans categorisation in terms of International Standards (SAR '000)

Category	2017	2016
Short-term loans and facilities	221,923	241,016
Current portion of long-term loans	123,682	111,710
Long-term loans	358,355	390,024
Total	**703,959**	**742,750**

g. Details of contracts and transactions signed by the Company with related parties, which also represent an interest for some Board members or the CEO or any related persons:

#	Nature of Contract	Counterparty	Purpose of Contract	Contract commence-ment	Contract/ Transaction term	Value of Transaction (SAR) during 2017	Name of Board member/ Senior Executive or any person related to any of them
1	Procurement of material for the Company	Masdar Building Materials	Supplying timber and building materials	2009	Valid until terminated by either party	245,235	Emad Abdulkadir Al Muhaidib,
2	Procurement of products for the Company	United Mining Industries	Procurement of products for the Company	2010	Valid until terminated by either party	4,598,384	Emad Abdulkadir Al Muhaidib
3	Supplying water to the Company	Industrial Cities Development & Operating Co.	Supplying treated water	2005	Valid until 2025	4,155.376	Emad Abdulkadir Al Muhaidib

h. Statement of due statutory payments, and a short description of each:

Zakat: MEPCO abides by the laws of the General Authority of Zakat and Tax in KSA. Zakat is calculated on an accrual basis. MEPCO's subsidiaries that operate outside the KSA are subject to the tax system applicable in the countries of operations.

Taxes: MEPCO and its Subsidiaries have registered in KSA's value added tax (VAT) system, which will be in effect in January 2018.

Social insurance: MEPCO is subject to the provisions of the Social Insurance Law. Social insurance fees are calculated on an accrual basis. Fees are paid on a monthly basis for the previous month.

Visa and passport fees: Costs incurred by the Company for the issuance of visas, labour recruitment and business visits.

Ministry of Labour fees: Costs of issuing labour licenses and career change licenses.

Figures (SR '000)

Statement for FY 2017	Due	Paid	Reasons
Zakat	1,414	38	According to resolution
Tax	84	87	External services
GOSI	3,625	4,714	As due
Visa and Passport fees	833	1,117	Recruitment and business visits
Ministry of Labour fees	2,391	2,015	Labour and license fees
Total	**8,397**	**7,971**	**7,971**

i. Distributed and proposed cash dividends for 2017

- During 2017: The Board of Directors, in its meeting held on 14 March 2017, recommended the distribution of cash dividends to Shareholders for 2016 valued at SAR 37.5m (7.5% of capital) at SR 0.75 per share. The Extraordinary General Assembly Meeting voted in favour of this recommendation on 23 May 2017, and the distribution of dividends to Shareholders commenced on 6 June 2017.
- During 2018 and before this report was published, the Board of Directors recommended to the General Assembly, in its meeting on 4 March 2018, the distribution of cash dividends to Shareholders for 2017 valued at SAR 37.5m (7.5% of capital) at SAR 0.75 per share. The General Assembly will vote on this recommendation during its upcoming meeting.

j. Distribution of dividends policy

1. Distribution of cash dividends:

In accordance with the procedures stipulated in the Companies Law and the by-laws, the annual net profit of the Company shall be distributed to Shareholders after the deduction of all general expenses and charges, as follows:

- 10% of the net profit shall be set aside to form the statutory reserve. The ordinary General Assembly may discontinue such setting aside when the statutory reserve amounts to 30% of the Company's capital
- The General Assembly may following a recommendation by the Board of Directors, set aside a certain percentage of the net profits to form a reserve for a specific purpose or purposes. Such reserve may not be utilised except under a resolution by the Extraordinary General Assembly
- The Ordinary General Assembly may resolve to form other reserves to the extent that achieves the interests of the Company, or guarantees steady distribution of profits to shareholders. The General Assembly may also deduct from net profits amounts to establish social organisations for the benefit of employees, or to support existing organisation of this nature
- From the remaining net profits, a first dividend payment equal to 5% of the paid-up capital to the Shareholders
- Without prejudice to the provisions of Article 21 of the Company's by-Laws, and Article 76 of the Companies Law, a maximum of 10% of the remaining profits is allocated as the Board of Directors allowance, in case the allowance was a specific percentage of the Company's profits. Eligibility of the allowance should be proportional to the Board member's attendance of meetings
- Upon meeting the requirements set by the relevant authority, the Company may distribute periodic dividends to the Shareholders on a semi-annual or quarterly basis

2. Distribution of bonus shares

- The Company may resolve to distribute profits in the form of bonus shares for shareholders, with the aim to increase its capital by issuing bonus shares at the share's nominal value. The share's nominal value is removed from the remaining profits and added to the Capital. Increasing the Company's capital requires obtaining CMA's approval and then the approval of the Company's Extraordinary General Assembly
- The shareholders shall be eligible to receive dividends – whether cash dividends or bonus shares - pursuant to a General Assembly resolution adopted in that regard, or the Board of Directors' resolution on the distribution of interim profits. The resolution shall state the entitlement and distribution dates. Shareholders eligible to receive dividends shall be those whose names appear on Shareholder Registers at the end of the entitlement date

Corporate governance

a. MEPCO's corporate governance

CMA board has issued its resolution on 13/2/2017, approving the new Corporate Governance Regulations. Consequently, MEPCO has reviewed its own Corporate Governance system, regulations and policies, and its Board of Directors approved amendments by the end of October 2017. The Board of Directors directed the General Assembly to vote on the updated regulations, as required by the Law. The General Assembly approved all regulations on 5 December 2017.

MEPCO complies with the best corporate governance practices, constantly adjusting and updating them to keep up with latest developments, considering this to be a material factor in its success so far. Accordingly, the company has developed its own corporate governance and system, in line with its commitment to quality in all of its processes and products.

This system aims to achieve the optimal investment of the corporate capabilities and resources through creating a work environment based on responsibility, control and commitment. It also takes into account the principles of clarity and transparency in determining the company's goals and strategic and trading plans, as well as stating the rights and obligations of each party, besides managing its relationship with suppliers, financiers, consumers and control authorities. This environment interacts with the national legislation system, through which the Company works and integrates to achieve its objectives effectively and impartially.

MEPCO's corporate governance system focuses on the following aspects:

- Engaging the Company's Shareholders and facilitate the exercise of their rights
- Achieving transparency, integrity and fairness across the Company, and in its transactions, and promoting a culture of disclosure
- Providing effective and consistent tools for addressing conflicts of interest
- Defining the authorities and responsibilities of the Company's Board of Directors and Executive Management
- Engaging and involving the Board of Directors and its Committees, and improve their expertise to support better decision-making mechanisms in the Company
- Enhance the mechanisms of control and accountability
- Outlining the framework for dealing with the Company's stakeholders and guaranteeing their rights
- Improving the efficiency of supervision and internal control, while providing the necessary tools to achieve that
- Raising employees' awareness of professional conduct, and encouraging them to adopt a fair and responsible conduct while performing their duties

Key principles of MEPCO Corporate Governance	
Responsibility:	Ensuring effective performance of all tasks to the best of one's abilities.
Control and Accountability:	Monitoring actions and conduct and holding decision-makers accountable to ensure their ability to explain and justify their actions.
Equality:	Fair, equal and unbiased treatment of all parties.
Transparency:	Clear and accurate disclosure, ensuring that all the Company's operations and information are clear and available to everyone.
Morality:	Acting in accordance with the professional and moral code of conduct. Treating all parties honestly, equally and professionally.
A vision to create a sustainable value:	A long-term future vision that ensures sustainability, growth and benefits to society.

b. By-laws

A Company's by-laws consist of the Company's rules and regulations that define the Company, govern its affairs and purposes, determine the manner of its management and the convention of its meetings. By-laws also detail Shareholders rights, describes the manner of supervising and monitoring the Company's activities and authorities in terms of borrowing, explain the purchase of its shares, and defines its policies from the date of its establishment to the date of its termination. The Extraordinary General Assembly approved the Company's by-laws amendment in November 2016, in accordance with the Saudi Companies Law, issued by Ministerial Resolution No. 18379 in 1437H/2015G.

c. Shareholders rights

The Corporate Governance Regulations gives particular importance to Shareholders' rights. It promotes their active participation in the Company's General Assembly meetings, educating them about the voting procedures and rules, as well as their right in fair and unbiased treatment. Shareholders also have the right to access information that allow them to exercise their legal rights fully, receive their share of profits and receive a portion of the Company's assets in case of liquidation. The regulations grant the Shareholder's right attend all shareholder assembly meetings, take part in their discussions, and vote on their resolutions. A Shareholder enjoys the right to dispose of their shares, request viewing the books and documents of the Company, monitor the performance of the Company and the activities of the Board, and to enquire and request information without prejudice to the interests of the Company or breach of the Companies Law its regulations. The Company's by-laws also grant the Shareholder's right to file liability lawsuits against Board members, and appeal for nullification of the resolutions of the Shareholders Assemblies.

Rights of other stakeholders are also granted and emphasised in the Company's by-laws.

d. Internal control system

The Board of Directors approved the Company's Internal Control System, which aims to evaluate risk management policies and procedures, implement the Company's approved governance rules, and ensure compliance with relevant laws and regulations. This system consists of the Internal Audit Department, the Governance and Compliance Department and the Risk Management Department. The Company also employs an internal committee for governance, risk and compliance, whose responsibility is to coordinate the efforts of the Internal Control System and Executive Management – under supervision of the Board committees.

MEPCO has enhanced the role of governance by establishing:

a. An Internal Audit Department: An independent department, operating under the supervision of the Audit Committee. The department's responsibilities will be addressed in the Annual Audit Report.
b. The Governance and Compliance Department: An independent body operation in collaboration with the Internal Audit Department, under the supervision of the Board of Directors and the Audit Committee. Its main responsibilities are:

    - To follow-up on all amendments issued by regulatory and supervisory bodies, in relation to laws, regulations and instructions for joint-stock companies. And to update the Company's internal systems accordingly
    - To ensure the Company's compliance with all laws and regulations imposed by regulatory and supervisory bodies, in relation with the Company's activities

- To respond to enquiries and correspondence sent by such regulatory and supervisory bodies. To participate in training courses conducted by these bodies with the aim to build trust between them and the Company
- To monitor compliance with the Company's policies and internal systems, to ensure compliance with external applicable laws
- To ensure the implementation of the Company's corporate governance regulations, as approved by the Board of Directors and the General Assembly, and to ensure updating the regulations in line with changes in applicable laws and regulations
- To keep the Executive Management informed about non-compliance risks, which may result in penalties and disciplinary actions, financial losses or reputation damage due to failing to uphold the systems, rules and regulations, as well as moral and behavioural values applicable in the Company's area of operation
- To respond to claims against the rules, systems, policies, procedures and codes of moral conduct, by evaluating the situation and recommending the launch of an investigation
- To conduct an annual review of all instructions listed in policy and procedural guides, implemented by the Company, to ensure conformity and compliance with the requirements of rules and regulations. To ensure proper implementation and timely update according as required
- To monitor the Company's compliance with laws and regulations in its dealings with external entities. To monitor the compliance of Company's divisions with its corporate governance policies and internal regulations. To support the Internal Audit Department in its supervisory duties

c. The Risk Management Department: Works in collaboration with both the Internal Audit Department and the Governance and Compliance Department, under the supervision of the Audit Committee. Its main responsibilities are:

- To implement the risk management strategy and prepare emergency plans
- To monitor any potential risks the Company might face
- To develop effective policies and procedures to manage risks that help define, evaluate, measure, control and limit risks
- To identify emerging risks and propose the corrective steps that help control and limit them
- To evaluate the Company's tolerance for risks and the frequency of its risk exposure.
- To ensure that all employees are aware of work environment risks and their personal responsibilities
- To coordinate with Senior Management to ensure the effectiveness of the Company's risk management system
- To provide periodic reports about relevant information, including recommendations to the CEO and Audit Committee, which support effective risk management

Results of the annual review of internal control system procedures

1. Principles of internal control, and implementation of control processes in the Company

The Audit Committee reviews internal control reports submitted by the Internal Control Department on a regular basis, addressing monitoring activities that cover all activities performed by the Company and its Subsidiaries, to ensure the following:

- Complete compliance with applicable laws and regulations
- The adequacy and efficiency of the Internal Control System
- Conducting and evaluation for the policies and procedures related to administrative, financial, operational and marketing activities in the Company and its branches
- Ensuring the accuracy of the information in the financial and periodic reports of the Company and its Subsidiaries
- The ability to proactively determine and mitigate operational risks

The Audit Committee monitors the compliance with the internal control system approved by the Board of Directors, in order to monitor the operational performance of the Company and its branches. The Committee discusses internal audit plans as well as their annual results, through reports submitted by the Head of Internal Audit. This ensures that the Company's internal audit team has fulfilled the duties assigned to it during 2017. The Committee also examines the performance of all divisions and departments in the Company and its Subsidiaries.

It is also among the Audit Committee's responsibilities to ensure that the work of the Company's internal audit team is completely independent from the activities of the Executive Management. The internal audit team reports directly to the Audit Committee.

In order to fulfil its responsibilities, the internal audit department took the following steps:

- The Internal Audit Department has directed its activities toward high and medium-risk activities and toward enhancing the operational efficiency and the Company's profitability
- It has taken all necessary measures to address the contents and observations included in audit reports
- It worked in close coordination and in a satisfactory and efficient manner with the Audit Committee and the external auditor

2. Internal audit department's scope of work

The Internal Audit Department has adopted an orderly approach to evaluate and enhance the efficiency of internal control, in order to achieve the Company's objectives and protect its assets. The Department's scope of work covers examining the adequacy and effectiveness of the Company's internal control system, examining the quality of management to ensure that the adopted internal control systems provide a reasonable guarantee for the fulfilment of the Company's objectives.

Its scope of work included the following:

- To regularly review of all activities performed by the departments of the Company and its subsidiaries
- To inform the heads of the various examined departments of the results of these audits, to ensure that the necessary measures are taken to correct any shortcomings detected during the audit
- To supervise the implementation of observations and recommendations in the audit report, and to submit to the Audit Committee regular reports regarding the updates and steps taken

Below are the main observations and measures included in the 2017 internal audit report:

- **Budget control:**
  - Lack of regular recording of some actual capital expenses corresponding to the approved budget was observed
  - The Management started implementing measures that ensure variance analysis and the comparison of actual capital expenses incurred with the approved budget

- **Not scraping or disposing of spare parts that are removed from production lines:**
  - It was observed that the record of fixed assets does not match that of replaced spare parts, where some old and replaced spare parts, categorised under the factory's fixed assets, were not deleted
  - The Management started identifying and removing old and replaced original spare parts from its record of fixed assets

- **Safety and the environment (MEPCO)**
  - Changes in civil defence requirements and in the environment meant that the Company needed more time to make the necessary amendments that ensure compliance with the new requirements, and enable renewal of its civil defence license
  - The Management started the procedure of meeting the new requirements and renewing its licenses

- **Accumulation of scrap in the yard**
  - The accumulation of scrap material inside and outside dedicated areas represents safety risks and could lead to a delay in renewing the Company's civil defence license
  - The Company started implementing steps to manage the storage of scrap material, in accordance with Civil Defence requirements

- **Quality control (MEPCO):**
  - Some complaints from customers were received concerning the quality of product in comparison with international specifications
  - The Management started the necessary procedure to resolve quality issues by ensuring the quality of products in order to meet international specifications

- **Safety (WASCO):**
  - Changes in civil defence requirements and in the environment meant that the Company needed more time to make the necessary amendments that ensure compliance with the new requirements, and enable renewal of its civil defence license
  - The Management started the procedure of meeting the new requirements and renewing its licenses

- **Operational performance at WASCO collection centres:**
  - Operational performance of collection centres showed significant contrast in trucks productivity in terms of collection
  - The Management started implementing the necessary steps to closely monitor productivity and ensure resource optimisation
  - The Executive Management has committed to taking the necessary corrective measures and to follow-up on the Committee's recommendations

Audit committees report on the effectiveness of internal control in the company and its subsidiaries

The Company's internal control system was prepared on sound and strong foundations, and is applied and monitored by departments specialised in the fields of auditing, internal control, governance and compliance, and risk management. These activities are performed according to an annual plan, and implemented on a regular and ongoing basis in order to ensure its efficiency and ability to protect the Company's assets, evaluate business risks and measure performance adequacy. The effectiveness of this system is supported by the presence of the Audit Committee, which helps establish best governance practices, and support the independency of the internal auditor who reports regularly to the Audit Committee regarding the audited units and activities. The adequacy and effectiveness of the internal audit system is regularly reviewed, where significant observations about internal control activities are addressed in order to strengthen the system. The external auditor evaluates the system as part of their review of the final financial statements, during which they have access to all reports by the Board of Directors and its Committees, as well as Internal Audit Department reports regarding the audited financial period.

Shareholders general assembly meetings during 2017

#	Name	Attendance	
		First Meeting 23 May 2017	Second Meeting 5 December 217
1	Mr. Emad Abdulkadir Al Muhaidib	Attended	Attended
2	Eng. Abdullah Abdul Rahman Almoammar	Did not attend	Attended
3	Mr. Abdul-Ilah Abdullah Abunayyan	Did not attend	Did not attend
4	Mr. Khaled Saleh Al-Khattaf	Attended	Did not attend
5	Mr. Mussab Sulaiman Al-Muhaidib	Attended	Attended
6	Mr. Faisal Omer Al-Sakkaf	Did not attend	Attended
7	Mr. Ahmed Mubarak Al-Debasi	Attended	Attended
8	Mr. Tariq Mutlaq Al-Mutlaq	Did not attend	Did not attend

Implemented articles from the corporate governance regulations

The Company implemented all the obligatory articles of corporate governance regulations in the kingdom of Saudi Arabia, issued by the CMA Board on 13/02/2017 until the end of 2017, with the exception of the following articles, which include guiding provisions:

Article No.	Article	Reasons for not implementing the article
Article 14 (a)	When preparing the General Assembly's agenda, the Board shall take into consideration the matters that the shareholders wish to list. Shareholders holding no less than (5%) of the Company's shares are entitled to add one or more items to the agenda upon its preparation.	The Company was not notified of any matters that shareholders wish to add to the agenda of General Assembly meetings during 2017
Article 39 (paragraph 2)	Developing the necessary mechanisms for Board Members and the Executive Management to continuously enrol in training programmes and courses in order to develop their skills and knowledge in the fields related to the activities of the Company.	The Company only implemented The first paragraph of this Article. The Board is regularly updated about the Company's business progress during its meetings.
Article 41 (all paragraphs)	The Board shall develop, based on the proposal of the nomination committee, the necessary mechanisms to annually assess the performance of the Board, its members and committees and the Executive Management, using key performance indicators linked to the extent to which the strategic objectives of the Company have been achieved, the quality of the risk management and the efficiency of the internal control systems, among others, provided that weaknesses and strengths shall be identified and a solution shall be proposed for the same in the best interest of the Company.	The necessary mechanisms to assess the performance of the Board, its members and committees were not identified during 2017. The Remuneration and Nomination Committee is considering a future mechanism for assessment.
Article 60	i. The Company's Board shall, by resolution thereof, set up a committee to be named "remuneration committee". Members of the committee shall not be Executive Directors, provided that there shall be at least one Independent Director among them. ii. The Company's General Assembly, as per the Board recommendation, issues a regulation for the remuneration committee including its procedure, duties and rules for selecting its members, the term of their membership and their remunerations.	The Remuneration Committee and Nomination Committee were merged into one committee.
Article 63	The remuneration committee shall convene periodically at least once a year, as may be necessary.	Not applicable because the Company merged the Remuneration and Nomination committees into one committee
Article 64	a. The Company's Board shall, by resolution thereof, form a committee to be named the "nomination committee". Members of the committee shall not be Executive Directors, provided that there shall be at least one Independent Director among them. b. The Company's General Assembly, as per the Board recommendation, issues a regulation for the nomination committee including its procedure, duties and rules for selecting its members, the term of their membership and their remunerations.	Not applicable because the Company merged the Remuneration and Nomination committees into one committee
Article 67	The nomination committee shall convene periodically at least once a year, as may be necessary.	Not applicable because the Company merged the Remuneration and Nomination committees into one committee

Article 70	The Company's Board shall, by resolution therefrom, form a committee to be named the "risk management committee". Chairman and majority of its members shall be Non-Executive Directors. The members of that committee shall possess an adequate level of knowledge in risk management and finance.	The Company did not form a dedicated committee for risk management. The Risk officer is responsible for following up on risk management and the implementation of risk management policy in coordination with the Internal Audit and Compliance department, and under the supervision of the audit committee.
Article 72	The risk management committee shall convene periodically at least once every six months, as may be necessary.	The Company did not form a dedicated committee for risk management.
Article 85	The Company shall establish programmes for developing and encouraging the participation and performance of the Company's employees. The programmes shall particularly include the following: 1. Forming committees or holding specialised workshops to hear the opinions of the Company's employees and discuss the issues and topics that are subject to important decisions 2. Establishing a scheme for granting Company shares or a percentage of the Company profits and pension programmes for employees and setting up an independent fund for such programmes. 3. Establishing social organisations for the benefit of the Company's employees.	Partially non-applicable. Please note that the Company plans to implement a scheme to grant Company shares to some of its employees. It also provides communication channels that enable employees to share their opinions, suggestions and complaints. The Company conducts career satisfaction surveys through an independent third party and organises training courses for its staff both inside and outside the Company.
Article 88 (paragraph 1)	Establishing indicators that link the Company's performance with its social initiatives and comparing it with other companies that engage in similar activities	Non-applicable because this is a guiding article, and because of the difficulty of implementing this provision, especially the part concerning comparison with other companies that conduct similar activities, due to limited information
Article 95	If the Board forms a corporate governance committee, it shall assign to its competences stipulate in Article (94) of these Regulations. Such committee shall oversee any matters relating to the implementation of governance and shall provide the Board with its reports and recommendations at least annually.	The Company did not form a dedicated committee for corporate governance. It has a dedicated department for governance and compliance, which is responsible for monitoring and supervising the implementation of the Company's governance system in coordination with the internal audit department, and under the supervision of the audit committee and the Company's Board of Directors.

In conclusion, the Board of Directors would like to extend our sincere gratitude to the wise leadership of the Custodian of the Two Holy Mosques and the Saudi Government, for their continuous support to the private sector. We would like to thank all stakeholders, including MEPCO customers, banks and suppliers. Special thanks go to our esteemed shareholders for their trust and continuous support, praying to Allah that we can meet their trust with more success and progress. We also thank the Executive Management and all employees at MEPCO, for their dedication and superb efforts. We look forward to more success and achievements during 2018.

With our heartfelt wishes to everyone for more success

Chairman

Financial Statements

Independent auditor's report

To the shareholders of Middle East Company for Manufacturing and Producing Paper Limited

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 Limited (the "Company") and its subsidiaries (together the "Group") as at December 31, 2017, 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, 2017;
- 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

- First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia

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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.

Key audit matter

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. These matters were 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 these matters.

Key audit matter	How our audit addressed the Key audit matter
First time adoption of International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia For all periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with generally accepted accounting principles as issued by SOCPA ("previous GAAP"). The Group prepared its first annual consolidated financial statements for the year ended December 31, 2017 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing the consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 2016, which is the Group's date of transition to IFRS. We considered the transition from previous GAAP to IFRS, that are endorsed in the Kingdom of Saudi Arabia, as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of measurement and disclosure. Refer to Note 2 for basis of preparation and adoption of IFRS, Note 3 for accounting policies adopted by the Group and Note 4 for the transition adjustments and other details in connection with transition from previous GAAP to IFRS.	We performed the following procedures: • Obtained an understanding of the transition differences identified by the management between the previous GAAP and IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness; • Assessed the competence, objectivity and independence of the management's experts involved in the IFRS transition process; • Evaluated the key decisions made by the Group with respect to accounting policies, estimates and judgements in relation to transition to IFRS, that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations; • Tested the adjustments made as part of the transition process based on the differences identified; and • Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia

Other information

Management is responsible for the other information. The other information comprises the information included in the annual 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 annual report, 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 management determines 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.

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.

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

Ali A. Alotaibi
License Number 379

March 4, 2018

Consolidated statement of Financial position

As at December 31, 2017

(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Assets				
Non-current assets				
Property, plant and equipment	6	1,064,989,269	1,087,099,482	1,040,353,369
Intangible assets	7	5,143,778	5,581,962	6,335,584
Derivative financial instruments	8	1,357,238	2,715,795	83,682
Total non-current assets		**1,071,490,285**	**1,095,397,239**	**1,046,772,635**
Current assets				
Inventories	9	180,172,467	175,673,920	199,298,861
Trade receivables	10	209,617,581	174,324,793	184,536,337
Prepayments and other receivables	11	12,189,151	14,614,638	13,477,061
Other current assets	12	44,037,269	45,350,911	87,734,616
Investments at fair value through profit or loss	13	512,303	-	-
Cash and cash equivalents	14	31,015,660	34,379,773	30,005,552
Total current assets		**477,544,431**	**444,344,035**	**515,052,427**
Total assets		**1,549,034,716**	**1,539,741,274**	**1,561,825,062**
Equity and Liabilities				
Equity				
Share capital	15	500,000,000	500,000,000	500,000,000
Statutory reserve	16	73,663,228	66,850,116	57,359,377
Retained earnings	17	148,716,962	126,615,343	67,599,140
Total equity		**722,380,190**	**693,465,459**	**624,958,517**
Liabilities				
Non-current liabilities				
Long-term borrowings	18	358,354,589	390,024,783	427,644,708
Employees' end of service benefits	19	35,330,773	29,837,970	26,625,198
Total non-current liabilities		**393,685,362**	**419,862,753**	**454,269,906**
Current liabilities				
Zakat payable	20	3,006,659	1,630,533	1,769,856
Current portion of long-term borrowings	18	124,333,703	113,548,364	194,236,262
Short-term borrowings	21	223,253,221	242,070,059	213,654,589
Trade and other payables	22	77,688,708	67,158,902	71,020,893
Other current liabilities	23	4,686,873	2,005,204	1,915,039
Total current liabilities		**432,969,164**	**426,413,062**	**482,596,639**
Total liabilities		826,654,526	846,275,815	936,866,545
Total equity and liabilities		1,549,034,716	1,539,741,274	1,561,825,062

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

Consolidated statement of comprehensive income

For the year ended December 31, 2017

(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Sales		771,008,091	634,404,523
Cost of sales	24	(584,898,147)	(503,121,781)
Gross profit		**186,109,944**	**131,282,742**
Selling and distribution expenses	25	(34,634,837)	(39,370,626)
General and administrative expenses	26	(56,704,237)	(59,391,336)
Fair value (loss)/gain on derivative financial instruments		(1,358,557)	2,632,113
Other income/(expenses)	27	2,421,167	(1,260,225)
Operating profit		**95,833,480**	**33,892,668**
Net gain on claim for expropriated land and premises	28	-	91,963,702
Finance costs		(26,288,287)	(29,636,242)
Profit before zakat		**69,545,193**	**96,220,128**
Zakat expense	20	(1,414,078)	(1,312,740)
Profit for the year		**68,131,115**	94,907,388
Other comprehensive income items			
that will never be reclassified to profit or loss:			
Actuarial losses	19	(1,716,384)	(1,400,446)
Total comprehensive income		**66,414,731**	93,506,942
Earnings per share :			
Basic and diluted	30	**1.36**	1.90

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

Consolidated statement of changes in equity

For the year ended December 31, 2017

(Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2017		**500,000,000**	**66,850,116**	**126,615,343**	**693,465,459**
Profit for the year		-	-	**68,131,115**	**68,131,115**
Other comprehensive loss for the year		-	-	**(1,716,384)**	**(1,716,384)**
Total comprehensive income for the year		-	-	**66,414,731**	**66,414,731**
Transfer to statutory reserve	16	-	6,813,112	**(6,813,112)**	**-**
Dividends	34	-	-	**(37,500,000)**	**(37,500,000)**
Balance as at December 31, 2017		**500,000,000**	**73,663,228**	**148,716,962**	**722,380,190**
Balance as at January 1, 2016		500,000,000	57,359,377	67,599,140	624,958,517
Profit for the year		-	-	94,907,388	94,907,388
Other comprehensive loss for the year		-	-	(1,400,446)	(1,400,446)
Total comprehensive income for the year		-	-	93,506,942	93,506,942
Transfer to statutory reserve	16	-	9,490,739	(9,490,739)	-
Dividends	34	-	-	(25,000,000)	(25,000,000)
Balance as at December 31, 2016		500,000,000	66,850,116	126,615,343	693,465,459

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

Consolidated statement of cash flows

For the year ended December 31, 2017

(Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2017	December 31, 2016
Cash flows from operating activities			
Profit before zakat		69,545,193	96,220,128
Adjustments for:			
Depreciation and amortization	6, 7	90,650,381	79,986,214
Finance costs		26,288,287	29,636,242
Gain on sale of property and equipment	27	(431,492)	(144,729)
Allowance for impairment of trade receivables	10	620,376	1,050,000
Allowance for slow moving inventories	9	1,900,000	1,950,000
Employees' end of service benefits provision	19	5,255,361	4,921,947
Fair value loss (gain) on derivative financial instruments		1,358,557	(2,632,113)
Net gain on claim for expropriated land and premises	28	-	(91,963,702)
Changes in working capital:			
Inventories		(6,398,547)	21,674,941
Trade receivables		(35,913,164)	9,161,544
Prepayments and other receivables		2,425,487	(1,137,577)
Other current assets		1,313,642	11,893,075
Trade and other payables		10,509,503	(3,814,582)
Other current liabilities		2,681,669	90,165
Cash generated from operations		**169,805,253**	156,891,553
Finance costs paid		(25,686,475)	(33,269,703)
Zakat paid	20	(37,952)	(1,452,063)
Employees' end of service benefit paid	19	(1,478,942)	(3,109,621)
Net cash inflow from operating activities		**142,601,884**	119,060,166
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	6, 7	(67,103,633)	(124,842,164)
Proceeds from sale of property and equipment		565,998	165,659
Acquisition of investment at fair value through profit or loss	13	(512,303)	-
Net proceeds on claim against expropriated land and premises	28	-	122,454,332
Net cash outflow from investing activities		**(67,049,938)**	(2,222,173)
Cash flows from financing activities			
Net change in short-term borrowings		(19,092,952)	29,206,228
Proceeds from long-term borrowings	18	110,340,753	201,449,000
Repayments of long-term borrowings	18	(132,663,860)	(318,119,000)
Dividends paid		(37,500,000)	(25,000,000)
Net cash outflow from financing activities		**(78,916,059)**	(112,463,772)
Net change in cash and cash equivalents		**(3,364,113)**	4,374,221
Cash and cash equivalents at beginning of period		34,379,773	30,005,552
Cash and cash equivalents at end of period	14	**31,015,660**	34,379,773

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

Notes to the consolidated financial statements

For the year ended December 31, 2017

(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 December 31, 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, 2017, the Company had investments in the following subsidiaries (collectively referred to as "Group")

Subsidiary name	Country of incorporation	Principal business activity	Ownership interest
Waste Collection and Recycling Company Limited	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	97% directly 3% indirectly Effectively 100%
Special Achievements Company Limited	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	97% directly 3% indirectly Effectively 100%

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements issued by SOCPA.

For all periods up to and including the year ended December 31, 2016 the Group has prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in KSA issued by the Saudi Organization for Certified Public Accountants (SOCPA) ("previous GAAP") and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

These are the Group's first consolidated financial statements prepared in accordance IFRS 1 First-time Adoption of International Financial Reporting Standards. In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 the Group's date of transition to IFRS. An explanation of how the transition to IFRSs has affected the reported financial position, statement of comprehensive income and cash flows of the Group is provided in Note 4.

2.2 Accounting convention / Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value.

2.3 Changes in accounting policies

Following are the new standards and interpretation, which are not, yet effective up to the date of issuance of these Group consolidated financial statements and earlier application is permitted, however, the Group has not early adopted them in preparing these Consolidated Financial Statements.

Effective for annual periods beginning on or after	Standard, amendment or Interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 9 – Financial instruments	IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 15 – Revenue from contracts with customers	IFRS 15 establishes a five step model for all types of revenue contracts, accordingly revenue can either be recognised at appoint in time or over a period of time. The standard replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate and IFRIC 18 Transfer of Assets from Customers.
Annual reporting periods beginning on or after 1 January 2019, early adoption is permitted	IFRS 16 – Leases	IFRS 16 proposes a lease classification that would be based on the nature of asset that was the subject of the lease. Accordingly, all leases would be classified as Type A or Type B leases. The standard features a right of use (ROU) model that would require lessees to recognize most leases on the statements of financial position as lease liabilities with corresponding right of use assets.
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRS 17 – Insurance contracts	IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRIC 22 – Foreign currency transactions and advance consideration	IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRIC 23 – Uncertainty over income tax treatments	IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

As per its initial assessment, the followings is the possible implications related to the standards, which are effective for annual periods beginning on or after 1 January 2018;

IFRS 9 – Financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The current and prospective classification and measurement of financial assets and financial liabilities is as follows:

	IAS 39 (Current presentation)		IFRS 9	
	Classification	Measurement	Classification	Measurement
Financial assets				
Trade and other receivables Cash and cash equivalent	Loans and receivables	Amortized cost	At amortized cost	Amortized cost
Derivatives Investment at fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss
Financial liabilities				
Trade and other payables Borrowings	Other financial liabilities at amortized cost	Amortized cost	At amortized cost	Amortized cost

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group's management has assessed that adoption of IFRS 9 will not have any material impact on impairment assessment.

IFRS 15 – Revenue from contracts with customers

There is not going to be a significant impact on the Group's revenue recognition policy because the Group's existing policy already meets the requirements of the new standard, as the Group records its sales at a point in time when control is transferred on inventories sold and upon completion of promises in sales orders with customers.

The Group is currently assessing the implications of adopting the other standards and interpretations on the Group's consolidated financial statements on adoption.

2.4 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.

2.5 Use of judgments and estimates

The preparation of 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 trade receivables
An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group provides an amount as allowance for doubtful trade receivables on a monthly basis and at each reporting date adjusts the closing balance of the allowance by reassessing the ageing of receivables and the detailed analysis of receivable from each customer, based on probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired.

(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. Management reviews the useful lives and residual value annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

(d) Employee benefits – defined benefit plan
Employee benefits present 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 projects and unit credit method. The present value of 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 term approximating the terms of the related obligation. Where there is no deep market in such bonds, then market rates on government bonds are used or the rates from international bond market are used which are adjusted for 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 of 100 basis points. 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements and in preparing the opening statement of financial position at January 1, 2016 for the purposes of transition to IFRS, except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of transition adjustments are disclosed in Note 4.

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.

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, and 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:

Share Information	Years
Buildings and mobile cabinets	6 – 33
Machinery and equipment	2 – 30
Furniture and fixtures	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 3.10.

3.3 Intangible assets

Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. 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

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average method, and includes expenditure incurred in bringing them to their existing location and condition. 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.

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.

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

3.7.1 Non- derivative financial instruments

(a) Financial assets

(i) Classification
The Group classifies its financial assets, to the extent applicable, in the following categories:

- financial assets at fair value through profit or loss (FVTPL)
- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets (AFS)

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(ii) Reclassification
The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition
The Group initially recognises financial assets on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Financial assets 'at fair value through profit or loss' are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss within other income or other expenses.

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) 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 derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. 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 effective interest method. Non-derivative financial liabilities of the group comprises of borrowings and trade and other payables.

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.

3.7.2 Derivative financial instruments

Derivative financial instruments, principally representing profit rate swap, are initially recorded at cost and re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instrument, as it does not qualify for hedge accounting, are recognised in profit or loss as part of "Fair value (loss)/gain on derivative financial instruments" 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

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the asset or assets subject to the lease arrangement. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

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 any 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.

3.9 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'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. Remeasurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. 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.

3.10 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.

3.11 Revenue

Sale of goods is recognised when the significant risks and rewards of ownership has been transferred to the customer, and the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the Group. Revenue is measure net of returns, trade discounts and volume rebates. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

3.12 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 cost 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.

3.13 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 amounts payable, if any, at the finalization of final assessments are accounted for in the period in which these are determined.

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.

3.14 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.

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.

3.15 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.

3.16 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.

4. First time adoption of IFRS

These consolidated financial statements for the year ended December 31, 2017 are the first consolidated financial statements the Group has prepared in compliance with International Financial Reporting Standards ("IFRS") and other pronouncements an issued by SOCPA in the Kingdom of Saudi Arabia under the guidelines provided in IFRS "First time adoption of International Financial Reporting Standards". For periods up to and including the year ended December 31, 2016, the Group prepared its consolidated financial statements in accordance with the previous GAAP.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS as endorsed by SOCPA as at and for the year ended December 31, 2017, together with the comparative statement of financial position as of and for the year ended December 31, 2016. In preparing the consolidated financial statements, the Group's opening statement of financial position was prepared as at January 1, 2016 which is the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP financial statements.

4.1 Reconciliation of equity as at January 1, 2016 (date of transition to IFRS)

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Assets				
Non-current assets				
Property, plant and equipment	a	1,071,980,001	(31,626,632)	1,040,353,369
Intangible assets		6,335,584	-	6,335,584
Derivative financial instruments		83,682	-	83,682
Total non-current assets		1,078,399,267	(31,626,632)	1,046,772,635
Current assets				
Inventories		199,298,861	-	199,298,861
Trade receivables		184,536,337	-	184,536,337
Prepayments and other receivables		13,477,061	-	13,477,061
Other current assets		87,734,616	-	87,734,616
Cash and cash equivalents		30,005,552	-	30,005,552
Total current assets		**515,052,427**	**-**	**515,052,427**
Total assets		**1,593,451,694**	**(31,626,632)**	**1,561,825,062**
Equity and liabilities				
Equity				
Share capital		500,000,000	-	500,000,000
Statutory reserves		57,359,377	-	57,359,377
Retained earnings		100,645,272	(33,046,132)	67,599,140
Total equity		**658,004,649**	**(33,046,132)**	**624,958,517**
Liabilities				
Non-current liabilities				
Long-term borrowings	b	427,680,086	(35,378)	427,644,708
Employees' end of service benefits	c	24,442,833	2,182,365	26,625,198
Total non-current liabilities		**452,122,919**	**2,146,987**	**454,269,906**
Current liabilities				
Zakat payable		1,769,856	-	1,769,856
Current portion of long-term borrowings	b	195,028,401	(792,139)	194,236,262
Short-term borrowings	b	213,654,589	-	213,654,589
Trade and other payables		71,020,893	-	71,020,893
Other current liabilities	d	1,850,387	64,652	1,915,039
Total current liabilities		**483,324,126**	**(727,487)**	**482,596,639**
Total liabilities		**935,447,045**	**1,419,500**	**936,866,545**
Total equity and liabilities		**1,593,451,694**	**(31,626,632)**	**1,561,825,062**

4.2 Reconciliation of equity as at December 31, 2016

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Assets				
Non-current assets				
Property, plant and equipment	a	1,104,022,247	(16,922,765)	1,087,099,482
Intangible assets		5,581,962	-	5,581,962
Derivative financial instruments		2,715,795	-	2,715,795
Total non-current assets		1,112,320,004	(16,922,765)	1,095,397,239
Current assets				
Inventories		175,673,920	-	175,673,920
Trade receivable		174,324,793	-	174,324,793
Prepayments and other receivables		14,614,638	-	14,614,638
Other current assets		45,350,911	-	45,350,911
Cash and cash equivalents		34,379,773	-	34,379,773
Total current assets		444,344,035	-	444,344,035
Total assets		1,556,664,039	(16,922,765)	1,539,741,274
Equity and liabilities				
Equity				
Share capital		500,000,000	-	500,000,000
Statutory reserves		65,344,763	1,505,353	66,850,116
Retained earnings		147,513,750	(20,898,407)	126,615,343
Total equity		712,858,513	(19,393,054)	693,465,459
Liabilities				
Non-current liabilities				
Long-term borrowings	b	389,695,972	328,811	390,024,783
Employees' end of service benefits	c	27,601,148	2,236,822	29,837,970
Total non-current liabilities		417,297,120	2,565,633	419,862,753
Current liabilities				
Zakat payable		1,630,533	-	1,630,533
Current portion of long-term borrowings	b	113,955,806	(407,442)	113,548,364
Short-term borrowings	b	242,070,059	-	242,070,059
Trade and other payables		67,158,902	-	67,158,902
Other current liabilities	d	1,693,106	312,098	2,005,204
Total current liabilities		426,508,406	(95,344)	426,413,062
Total liabilities		843,805,526	2,470,289	846,275,815
Total equity and liabilities		1,556,664,039	(16,922,765)	1,539,741,274

4.3 Reconciliation of statement of comprehensive income for the year ended December 31, 2016.

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Sales		634,404,523	-	634,404,523
Cost of sales	a,c,d	(518,416,649)	15,294,868	(503,121,781)
Gross profit		115,987,874	15,294,868	131,282,742
Selling and distribution expenses	c	(39,400,152)	29,526	(39,370,626)
General and administrative expenses	c	(59,869,352)	478,016	(59,391,336)
Fair value gain on derivative financial instruments		2,632,113	-	2,632,113
Other expenses, net		(1,260,225)	-	(1,260,225)
Operating profit		18,090,258	15,802,410	33,892,668
Net gain on claim for expropriated land and premises		91,963,702	-	91,963,702
Finance costs	b	(28,887,356)	(748,886)	(29,636,242)
Profit before zakat		81,166,604	15,053,524	96,220,128
Zakat expense		(1,312,740)	-	(1,312,740)
Profit for the period		**79,853,864**	**15,053,524**	**94,907,388**
Other comprehensive income items that will never be reclassified to profit or loss				
Actuarial losses	c	-	(1,400,446)	(1,400,446)
Total comprehensive income		79,853,864	13,653,078	93,506,942

4.4 Notes to the reconciliations

(a) Componentization of property, plant and equipment

Under the previous GAAP, the Group has not analyzed property, plant and equipment into major components with different useful lives, as there is no specific requirements to do so by under the previous GAAP. However, under IFRS, such componentization exercise is mandatory which resulted in decrease in net book value of Saudi Riyals 31.63 million at the date of transition. This adjustment was recognised in the opening retained earnings.

In the subsequent periods presented, the Group has not recognised depreciation on these fixed assets.

(b) Re-measurement of loan

Under the previous GAAP, the Group measured the outstanding amount of loan at amortized cost using the straight line method. The Group has re-measured the outstanding amount of loan at amortized cost using effective interest rate method under IFRS at the date of transaction. The change of Saudi Riyals 0.83 million at the date of transition due to re-measurement is recognised in the opening retained earnings at the date of transition as financial charges.

In the subsequent periods presented, the Group has recognised unwinding of discounted value.

(c) Re-measurement of employee defined benefits obligation

Under previous GAAP, the Group recognised costs related to its employees' defined benefits as current value of vested benefits to which the employee is entitled whereas under IFRS, such obligation is recognised by discounting the future expected payments using projected unit credit method based on actuarial assumptions. The change of Saudi Riyals 2.18 million at the date of transition between the current provision and provision based on actuarial valuation is recognised in the opening retained earnings.

In the subsequent periods presented, current services and interest costs are recognised in the profit or loss whereas actuarial gains / losses are recognised in the other comprehensive income.

(d) Deferred rent

Under the previous GAAP, the Group accounted for lease rentals payable as and when accrued. Upon transition to IFRS, the Group accounts for the lease rentals on a straight line basis over the period of lease. As at transition date, an amount of Saudi Riyals 0.06 million is recognised as deferred rent payable.

(e) Statement of cash flows

The transition from previous GAAP to IFRS did not have a material impact on the presentation of consolidated statement of cash flows.

5. 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 top management (Chairman of the Board of Directors, 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.

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, 2017				
Revenues	729,574,867	323,357,754	(281,924,530)	771,008,091
External revenues	729,574,867	41,433,224	-	771,008,091
Segment profit before zakat	69,527,328	1,202,477	(1,184,612)	69,545,193
Zakat	1,396,213	17,865	-	1,414,078
Financial charges	25,366,179	922,108	-	26,288,287
Acquisition of property and equipment	53,764,371	13,542,902	-	67,307,273
Acquisition of intangible assets	-	929,217		929,217
Depreciation and amortization	79,221,762	11,428,619	-	90,650,381
Results for the year ended December 31, 2016				
Revenues	591,497,239	240,869,786	(197,962,502)	634,404,523
External revenues	591,497,239	42,907,284	-	634,404,523
Segment profit (loss) before zakat	95,754,431	(11,264,950)	11,730,646	96,220,128
Zakat	1,634,588	(321,848)	-	1,312,740
Financial charges	28,022,042	1,614,200	-	29,636,242
Acquisition of property and equipment	95,965,157	29,919,936	-	125,885,093
Acquisition of intangible assets	-	114,542	-	114,542
Depreciation and amortization	69,349,303	10,636,911	-	79,986,214
As of December 31, 2017				
Total assets	1,513,201,448	135,738,321	(99,905,053)	1,549,034,716
Total liabilities	790,821,258	71,230,801	(35,397,533)	826,654,526
As of December 31, 2016				
Total assets	1,483,116,261	153,246,835	(96,621,822)	1,539,741,274
Total liabilities	789,650,801	89,463,692	(32,838,678)	846,275,815
As of January 1, 2016				
Total assets	1,491,751,882	150,019,153	(79,945,973)	1,561,825,062
Total liabilities	866,793,365	74,356,432	(4,283,252)	936,866,545

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, 2017 amounted to Saudi Riyals 315.69 million (2016: Saudi Riyals 273.48 million). Local external sales during the year ended December 31, 2017 amounted to Saudi Riyals 455.31 million (2016: Saudi Riyals 360.92).

6. 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, 2016			`				
Cost	66,770,400	160,188,157	1,203,105,768	25,584,026	41,421,057	73,336,544	1,570,405,952
Accumulated depreciation	-	35,578,573	444,592,868	18,932,378	30,948,764	-	530,052,583
Net book value	66,770,400	124,609,584	758,512,900	6,651,648	10,472,293	73,336,544	1,040,353,369
Year ended December 31, 2016							
Opening net book value	66,770,400	124,609,584	758,512,900	6,651,648	10,472,293	73,336,544	1,040,353,369
Additions	-	7,683,676	18,980,167	2,164,097	1,832,483	95,224,670	125,885,093
Transfers							
- Cost	-	1,594,397	85,788,248	-	-	(87,382,645)	-
- Accumulated depreciation	-	-	-	-	-	-	-
Disposals							
- Cost	-	-	(688,100)	(39,507)	(688,225)	-	(1,415,832)
- Accumulated depreciation	-	-	688,000	39,500	667,402	-	1,394,902
Depreciation charge	-	(5,101,357)	(67,975,504)	(2,912,011)	(3,129,178)	-	(79,118,050)
Closing net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	1,087,099,482
At December 31, 2016							
Cost	66,770,400	169,466,230	1,307,186,083	27,708,616	42,565,315	81,178,569	1,694,875,213
Accumulated depreciation	-	40,679,930	511,880,372	21,804,889	33,410,540	-	607,775,731
Net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	1,087,099,482
Year ended December 31, 2017							
Opening net book value	66,770,400	128,786,300	795,305,711	5,903,727	9,154,775	81,178,569	1,087,099,482
Additions	31,100,000	323,481	13,680,759	450,198	759,950	20,992,885	67,307,273
Transfers							
- Cost	-	9,659,690	59,127,934	22,897	1,564,500	(70,375,021)	-
- Accumulated depreciation	-	-	-	-	-	-	-
Disposals							
- Cost	-	-	(189,000)	-	(1,874,374)	-	(2,063,374)
- Accumulated depreciation	-	-	188,997	-	1,739,871	-	1,928,868
Depreciation charge	-	(5,549,032)	(78,323,277)	(2,376,676)	(3,033,995)	-	(89,282,980)
Closing 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
At December 31, 2017							
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

During 2017, finance costs of Saudi Riyals 1.1 million is capitalized as part of property, plant and equipment (2016: Saudi Riyals 1.2 million).

Capital work-in-progress at December 31, 2017 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during 2018. See also Note 32 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 18).

7. Intangible asset

Computer software and ERP	
At January 1, 2016	
Cost	6,769,667
Accumulated amortization	(434,083)
Net book value	6,335,584
Year ended December 31, 2016	
Opening net book value	6,335,584
Additions	114,542
Amortization	(868,164)
Closing net book value	5,581,962
At December 31, 2016	
Cost	6,884,209
Accumulated amortization	(1,302,247)
Net book value	5,581,962
Year ended December 31, 2017	
Opening net book value	**5,581,962**
Additions	**929,217**
Amortization	**(1,367,401)**
Closing net book value	**5,143,778**
At December 31, 2017	
Cost	**7,813,426**
Accumulated amortization	**(2,669,648)**
Net book value	**5,143,778**

8. Derivative financial instruments

	December 31, 2017	December 31, 2016	January 1, 2016
Interest rate swaps - Positive fair value	1,357,238	2,715,795	83,682

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 (2016: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 220 million at December 31, 2017 (2016: Saudi Riyals 260 million).

9. Inventories

	December 31, 2017	December 31, 2016	January 1, 2016
Raw materials	74,829,577	79,083,022	96,758,443
Finished goods	31,620,531	28,595,827	41,942,839
Goods in transit	8,956,901	6,331,604	5,336,102
Work-in-progress	1,746,119	560,329	-
Consumable spare parts	64,334,726	64,904,041	58,687,077
	181,487,854	179,474,823	202,724,461
Less: Allowance for slow moving inventories	(1,315,387)	(3,800,903)	(3,425,600)
	180,172,467	175,673,920	199,298,861

On April 17, 2017, a fire broke out in one of the storage yard of used paper. The fire did not affect Company's assets except for certain inventories amounting to Saudi Riyals 1.3 million. The Company has written-off fully the inventories during the corresponding period ended June 30, 2017.

Movement in allowance for slow moving inventories is as follows:

	2017	2016	January 1, 2016
January 1	3,800,903	3,425,600	3,091,190
Additions	1,900,000	1,950,000	2,442,550
Write-offs	(4,385,516)	(1,574,697)	(2,108,140)
December 31	1,315,387	3,800,903	3,425,600

During the year Saudi Riyals 1.90 million (2016: Saudi Riyals 1.95 million) were recognized as an expense under cost of sales for inventory carried at net realizable value.

10. Trade receivables

	December 31, 2017	December 31, 2016	January 1, 2016
Trade receivables - gross	214,959,561	179,198,695	188,647,456
Allowance for impairment	(5,341,980)	(4,873,902)	(4,111,119)
	209,617,581	174,324,793	184,536,337

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

	December 31, 2017	December 31, 2016	January 1, 2016
January 1	4,873,902	4,111,119	5,651,362
Additions	620,376	1,050,000	(1,540,243)
Write-offs	(152,298)	(287,217)	-
December 31	5,341,980	4,873,902	4,111,119

Following is the ageing matrix used by the Group for analysis of trade receivables:

	Neither past due nor impaired	Past due but not impaired				Past due impaired				Total
		Less than 3 months	3 to 6 months	6 to 12 months	Above 12 months	Less than 3 months	3 to 6 months	6 to 12 months	Above 12 months	
Balance	160,276,715	37,335,897	5,494,061	3,973,489	45,867	-	1,498,630	2,820,393	3,514,509	214,959,561
Less: Allowance for impairment loss	-	-	-	-	-	-	(173,659)	(1,981,255)	(3,187,066)	(5,341,980)
December 31, 2017	**160,276,715**	**37,335,897**	**5,494,061**	**3,973,489**	**45,867**	**-**	**1,324,971**	**839,138**	**327,443**	**209,617,581**
December 31, 2016	121,999,672	35,186,337	6,222,746	4,110,942	29,011	2,677,933	3,161,702	870,473	65,977	174,324,793
January 1, 2016	131,384,711	30,968,072	6,329,692	5,354,371	4,880,033	2,894,267	-	-	2,725,191	184,536,337

11. Prepayments and other receivables

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Prepaid expenses		9,303,124	10,217,178	9,064,358
Prepaid contribution to Higher Institute for Paper and Industrial Technology (HIPIT)	12(a)	-	-	1,806,391
Deposits with suppliers		792,743	900,743	958,212
Others		2,093,284	3,496,717	1,648,100
		12,189,151	14,614,638	13,477,061

12. Other current assets

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Advance to suppliers		27,083,138	26,675,167	51,093,342
Advances to employees		5,819,096	4,507,298	6,150,644
Receivable from National Water Company against expropriated land and premises	28	-	-	30,490,630
Receivable from HIPIT	(a)	11,135,035	14,168,446	-
		44,037,269	45,350,911	87,734,616

(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 companies as part of their Corporate Social Responsibility project.

13. Investment 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, 2017, the fair value of investment is Saudi Riyals 512,303 (2016: Nil).

14. Cash and cash equivalents

	December 31, 2017	December 31, 2016	January 1, 2016
Cash in hand	5,691,387	4,546,076	4,053,543
Cash at bank	25,324,273	29,833,697	25,952,009
	31,015,660	34,379,773	30,005,552

15. Share capital

At 31 December 2017, the Company's issued share capital of Saudi Riyals 500 million (2016: Saudi Riyals 500 million) consists of 50 million (2016: 50 million) fully paid shares of Saudi Riyals 10 each.

	December 31, 2017	January 1, 2016
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 until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

17. Retained earnings

Other comprehensive loss accumulated in retained earnings.

	December 31, 2017	December 31, 2016	January 1, 2016
Actuarial losses on re-measurements of defined benefits liability	5,895,448	4,179,064	2,778,618

18. Long-term borrowings

	December 31, 2017	December 31, 2016	January 1, 2016
Saudi Industrial Development Fund (SIDF)	135,622,655	141,838,602	133,518,397
Islamic banking facilities (Tawarruq)	347,065,637	361,734,545	488,362,573
Long-term borrowings	482,688,292	503,573,147	621,880,970
Less: Current portion shown under current liabilities	(124,333,703)	(113,548,364)	(194,236,262)
Long term borrowings shown under non-current liabilities	358,354,589	390,024,783	427,644,708

Reconciliation of cash movement of borrowings	December 31, 2017	December 31, 2016
Balance at the beginning of year	503,573,147	621,880,970
Disbursements	110,340,753	201,449,000
Repayment of principal instalments	(132,663,860)	(318,119,000)
Movement in accrued financial charges	(1,186,313)	(2,227,473)
Movement in deferred financial charges	2,624,565	589,650
Balance at end of year	482,688,292	503,573,147

(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. This loan was fully utilized as of December 31, 2015. The loan is repayable in unequal semi-annual instalments ending in May 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 is also fully utilized as of December 31, 2017 (2016: Saudi Riyals 99.70 million). 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 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 2021.

During the year ended December 31, 2017, the Company capitalised finance charges in property, plant and equipment amounting to Saudi Riyals 1.1 million (2016: Saudi Riyals 1.2 million).

The above loans and facilities include certain financial covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution. The loans are denominated in Saudi Riyals and US Dollars as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Long term borrowings			
Saudi Riyals	432,813,292	503,573,147	621,880,970
US Dollars	49,875,000	-	-
Total	482,688,292	503,573,147	621,880,970

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

2017 Year ending December 31:	Loan's principal	Deferred financial charges	Accrued financial charges	Net loan amount
2018	126,167,438	(2,485,928)	652,193	**124,333,703**
2019	127,167,438	(1,249,131)	-	**125,918,307**
2020	119,167,438	(339,427)	-	**118,828,011**
2021	97,115,579	(7,308)	-	**97,108,271**
2022	16,500,000	-	-	**16,500,000**
	486,117,893	(4,081,794)	652,193	**482,688,292**
2016 **Year ending December 31:**				
2017	114,789,000	(3,079,142)	1,838,506	**113,548,364**
2018	103,000,000	(2,116,965)	-	**100,883,035**
2019	104,000,000	(1,137,790)	-	**102,862,210**
2020	96,000,000	(364,845)	-	**95,635,155**
2021	84,560,000	(7,617)	-	**84,552,383**
2022	6,092,000	-	-	**6,092,000**
	508,441,000	(6,706,359)	1,838,506	**503,573,147**
January 1, 2016				
2016	193,000,000	(2,829,717)	4,065,979	**194,236,262**
2017	276,000,000	(2,455,332)	-	**273,544,668**
2018	56,000,000	(1,476,090)	-	**54,523,910**
2019	60,111,000	(514,874)	-	**59,596,126**
2020	40,000,000	(19,996)	-	**39,980,004**
	625,111,000	(7,296,009)	4,065,979	**621,880,970**

19. Employees' end of service benefits

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

	December 31, 2017	December 31, 2016	January 1, 2016
At the beginning of the year	29,837,970	26,625,198	23,723,453
Current year charge:			
- Current service cost	4,123,613	4,241,767	3,287,083
- Interest cost	1,131,748	680,180	620,236
	5,255,361	4,921,947	3,907,319
Re-measurement losses:			
- Financial assumptions	44,270	143,772	-
- Experience adjustment	1,672,114	1,256,674	525,351
	1,716,384	1,400,446	525,351
Payments	(1,478,942)	(3,109,621)	(1,530,925)
At the end of the year	35,330,773	29,837,970	26,625,198

Actuarial assumptions

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

	December 31, 2017	December 31, 2016	January 1, 2016
Discount rate	3.40% to 3.60 %	3.85 % to 4.10 %	2.50 % to 3.25 %
Future salary growth	4.00 % to 4.35 %	4.35 % to 4.85 %	3.00 % to 4.00 %
Mortality rate	0.11 % to 0.25%	0.11 % to 0.25%	0.11 % to 0.25 %

Sensitivity analysis

	31 December 2017		31 December 2016	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(458,272)	2,457,235	(1,190,212)	1,282,876
Future salary growth (1% movement)	2,592,959	(610,130)	1,397,639	(1,318,528)
Future mortality (1% movement)	949,399	940,067	(4,930)	4,901

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

	December 31, 2017	December 31, 2016	January 1, 2016
Less than a year	6,693,903	5,614,572	4,826,018
Between 1 – 5 years	17,087,766	16,283,870	12,349,348
Over 5 years	17,401,764	25,004,056	13,058,741

20. Zakat

20.1 Components of zakat base

The Company and its subsidiaries file separate zakat declarations which are filed on 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.

20.2 Provision for zakat

	December 31, 2017	December 31, 2016
At the beginning of the year	1,630,533	1,769,856
Provisions		
- Provision for current year	3,006,659	1,630,533
- Adjustment related to prior years	(1,592,581)	(317,793)
Payments	(37,952)	(1,452,063)
At the end of the year	3,006,659	1,630,533

20.3 Status of final assessments

The zakat position for the Group is finalized till 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 submitted the objection against such assessments to GAZT which is currently under review. Management believes that the ultimate outcome of this matter will not result in any material additional liability to the Company as the management has submitted all the underlying information and documents in support of its position. The zakat declarations of the Company for the years 2013 to 2016 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2016 are currently under review by the GAZT.

21. Short-term borrowings

	December 31, 2017	December 31, 2016	January 1, 2016
Islamic banking facilities (Tawarruq)	217,236,875	198,181,059	209,068,159
Accrued financial charges	1,330,576	1,054,462	1,845,220
Notes payable	4,685,770	42,834,538	2,741,210
	223,253,221	242,070,059	213,654,589

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, 2017.

22. Trade and other payables

	Note	December 31, 2017	December 31, 2016	January 1, 2016
Trade payables - third parties		49,542,221	37,794,793	46,829,491
Trade payables - related parties	33	-	61,088	315,545
Employees related accruals		15,678,734	17,837,695	15,229,310
Accrued rent expense		288,013	5,175,698	2,405,922
Accrued transportation expenses		4,180,240	2,313,241	2,900,660
Accrued sales services expenses		875,234	1,496,760	61,812
Accrued legal and consultancy fees		1,483,663	832,562	1,248,790
Accrued directors' remuneration		210,667	-	-
Others		5,429,936	1,647,065	2,029,363
		77,688,708	67,158,902	71,020,893

23. Other current liabilities

	December 31, 2017	December 31, 2016	January 1, 2016
Advances from customers	4,481,543	1,693,106	1,850,387
Deferred rent payables	205,330	312,098	64,652
	4,686,873	2,005,204	1,915,039

24. Cost of sales

	December 31, 2017	December 31, 2016
Material and employees cost	413,201,406	344,493,270
Depreciation and maintenance cost	124,453,146	111,432,549
Transportation cost	18,025,498	14,514,753
Rent	9,305,586	11,141,212
Other overheads	19,912,511	21,539,997
	584,898,147	503,121,781

25. Selling and distribution expenses

	December 31, 2017	December 31, 2016
Transportation and shipping	27,303,329	29,773,729
Salaries and related benefits	3,552,611	3,691,825
Sales commission	1,398,475	1,733,100
Credit insurance	466,988	536,467
Sales services expenses	359,793	1,919,374
Depreciation and amortization	255,343	238,737
Repair and maintenance	17,804	58,280
Others	1,280,494	1,419,114
	34,634,837	39,370,626

26. General and administrative expenses

	Note	December 31, 2017	December 31, 2016
Salaries and related benefits		38,489,890	39,291,510
Training		3,645,833	704,993
Depreciation and amortization		2,639,479	5,673,306
Directors' remuneration	33	2,410,748	340,100
Consultation fee		2,086,063	1,815,175
Bank charges		1,658,585	2,246,536
Insurance expenses		946,681	1,079,208
Professional fee		762,725	752,558
Allowance for doubtful debts		620,376	1,350,000
Government fee		527,869	1,341,615
Travel expenses		517,685	758,319
Repairs and maintenance		496,998	843,177
Communication		370,234	751,840
Stationery		21,650	103,446
Others		1,509,421	2,339,553
		56,704,237	59,391,336

27. Other income/(expenses)

	December 31, 2017	December 31, 2016
Scrap sales	1,026,793	702,713
Gain on sale of property and equipment	431,492	144,729
Foreign currency exchange gain / (loss)	111,180	(736,905)
Amortization of HIPIT contribution	-	(1,806,891)
Others	851,702	436,129
	2,421,167	(1,260,225)

28. Net gain on claim for expropriated land and premises

During 2008, the Ministry of Environment, Water and Agriculture (the "Ministry") (formerly, the General Authority of Water) expropriated a plot of land and premises constructed on the land that belonged to the Company and offered a compensation amounting to Saudi Riyals 28.9 million. The Company contested the compensation offered and raised a claim amounting to what was believed to be the fair value of the expropriated land and premises. During 2008, the Ministry assigned this plot of land and premises to National Water Company ("NWC"). During 2010, the Company obtained a court ruling ordering NWC to pay Saudi Riyals 80.2 million, which was disputed by NWC. During 2015, a new valuation was conducted by a committee that comprised various Saudi Arabian government officials. The committee finalized the valuation and determined the value of the expropriated land and premises to be approximately Saudi Riyals 132.7 million which was accepted by the Company and NWC.

During the fourth quarter of 2016, the Company received the full amount of Saudi Riyals 132.7 million from NWC and the Company, accordingly, transferred the title deed of the expropriated land and premises to NWC.

The above transaction is summarized as follows:

	December 31, 2016
Compensation value of the expropriated land and premises	132,732,970
Receivable earlier recognized for the compensation for expropriated land and premises	(30,490,630)
	102,242,340
Legal fees paid by the Company	(10,278,638)
Net gain on claim for expropriated land and premises	91,963,702

29. Operating leases

The Group has various operating leases for its buildings, warehouses and employees' accommodation. Rental expenses for the year ended December 31, 2017 amounted to Saudi Riyals 10.1 million (2016: Saudi Riyals 11.6 million). Future rental commitments under such leases at December 31 are as follows:

	Undiscounted value	
	December 31, 2017	December 31, 2016
Less than a year	6,552,629	2,066,133
Between 1 – 5 years	10,839,094	11,974,476
Over 5 years	19,322,554	21,955,323
	36,714,277	35,995,932

30. 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.

	December 31, 2017	December 31, 2016
Net profit for the year	68,131,115	94,907,388
Weighted average number of shares	50,000,000	50,000,000
Basic and diluted earnings per share	1.36	1.90

31. 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.

31.1 Financial instruments by category

(a) Loans and receivables

	Note	December 31, 2017	December 31, 2016
Trade receivables	10	209,617,581	174,324,793
Other current assets			
(Advances to employees and receivable from HIPIT)	12	16,954,131	18,675,744
Cash and cash equivalents	14	31,015,660	34,379,773
		257,587,372	227,380,310

(b) Assets at fair value through profit or loss

	Note	December 31, 2017	December 31, 2016
Derivative financial instrument – interest rate swaps	8	1,357,238	2,715,795
Investments at fair value through profit or loss	13	512,303	-
		1,869,541	2,715,795

(c) Other financial liabilities at amortized cost

	Note	December 31, 2017	December 31, 2016
Borrowings	18, 21	705,941,513	745,643,206
Trade and other payables	22	77,688,708	67,158,902
		783,630,221	812,802,108

The carrying amount of financial assets 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.

31.2 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:

	December 31, 2017	December 31, 2016	January 1, 2016
Level 2			
Derivative financial instruments	1,357,238	2,715,795	83,682
Investments at fair value through profit or loss	512,303	-	-

During the year ended December 31, 2017, there were no movements between the levels.

32. Commitments and contingencies

At December 31, 2017, the Group had outstanding letters of credit of Saudi Riyals 5.06 million (2016: Saudi Riyals 4.5 million) and letters of guarantee of Saudi Riyals 1.96 million (2016: Saudi Riyals 3.7 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, 2017 was approximately Saudi Riyals 15.1 million (2016: Saudi Riyals 8.4 million).

33. Related parties' matters

i. Transactions with key management personnel

Key management personnel compensation comprised the following:

	December 31, 2017	December 31, 2016
Short term benefits	10,312,017	9,278,929
Post-employment benefits	276,787	226,342
Termination benefits	546,158	486,789
	11,134,962	9,992,060

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

ii. 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	December 31, 2017	December 31, 2016
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	245,235	529,751
Directors	Directors remuneration	Directors	2,410,748	340,100

iii. Related parties' balances

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

Related party	December 31, 2017	December 31, 2016	January 1, 2016
MASDAR Building Materials	-	(61,088)	(235,360)
Al-Muhaidib Technical Supplies Company	-	-	(80,185)

34. Dividends

During the period ended June 30, 2017, the General Assembly of the Company approved a dividend of Saudi Riyal 0.75 per share (2016: Saudi Riyal 0.5 per share) aggregating to Saudi Riyals 37.5 million (2016: Saudi Riyals 25 million). The dividend was paid in June 2017.

35. 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 uses derivative financial instruments to hedge certain risk exposures.

i. 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.

ii. 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.

At December 31, 2017, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans will increase/decrease by Saudi Riyals 5,644,587 (2016: Saudi Riyals 5,961,902).

iii. 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, 2017. Since the Saudi Riyal is pegged to the US dollar, the Group is not exposed to significant foreign currency risk.

iv. 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.

To reduce exposure to credit risk the Group has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Group has 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. Some customers are also secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2017, 98% of the Group's customers did not have a history of default with the Group (2016: 96%).

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

	December 31, 2017	December 31, 2016	January 1, 2016
Financial assets			
Trade receivables	209,617,581	174,324,793	184,536,337
Other current assets (*)	16,954,131	18,675,744	36,641,274
Cash and cash equivalents	31,015,660	34,379,773	30,005,552
Short term investments	512,303	-	-
Derivative financial instrument – interest rate swaps	1,357,238	2,715,795	83,682
	259,456,913	230,096,105	251,266,845

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

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.

v. 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, 2017. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

	1 year or less	Above 1 year to 5 years	More than 5 years	Total
31 December 2017				
Non derivative financial liabilities				
Borrowings	**369,132,023**	**381,531,776**	**-**	**750,663,799**
Trade and other payables	**77,688,708**	**-**	**-**	**77,688,708**
	446,820,731	**381,531,776**	**-**	**828,352,507**
31 December 2016				
Non derivative financial liabilities				
Borrowings	378,597,311	415,894,114	6,787,000	801,278,425
Trade and other payables	67,158,902	-	-	67,158,902
	445,756,213	415,894,114	6,787,000	868,437,327
January 1, 2016				
Non derivative financial liabilities				
Borrowings	431,248,637	457,909,111	-	889,157,748
Trade and other payables	71,020,893	-	-	71,020,893
	502,269,530	457,909,111	-	960,178,641

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

36. 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 gearing ratio is as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Borrowings	705,941,513	745,643,206	835,535,559
Trade and other payables	77,688,708	67,158,902	71,020,893
Other current liabilities	4,686,873	2,005,204	1,915,039
Total debt	788,317,094	814,807,312	908,471,491
Cash and cash equivalents	31,015,660	34,379,773	30,005,552
Net debt	757,301,434	780,427,539	878,465,939
Share capital	500,000,000	500,000,000	500,000,000
Statutory reserve	73,663,228	66,850,116	57,359,377
Retained earnings	148,716,962	126,615,343	67,599,140
Equity	722,380,190	693,465,459	624,958,517
Capital gearing ratio - %	0.954	0.889	0.711

37. Post balance sheet date event

The Company's Board of Directors in their meeting held on March 4, 2018 resolved to propose a dividend of Saudi Riyals 37.5 million as cash dividends (Saudi Riyal 0.75 per share).

38. Date of authorization for issue

These consolidated financial statements were authorized for issue by the Company's Board of Directors on March 4, 2018.

Middle East Paper Company (MEPCO)

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