MEPCO

Middle East Paper Company

PLANET PEOPLE PRODUCT

A 360° APPROACH TO SUSTAINABLE BUSINESS

ANNUAL REPORT 2018

TABLE OF CONTENTS

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

Since it was founded in 2000, MEPCO has had a strong story to tell. 2018 has been the latest chapter in our success – we achieved our highest ever consolidated sales revenue of SAR 833.6 million. With a net profit margin at 12.1% and an EBIDTA margin at 25.9%, we're proud to report a record year.

In addition to these performance milestones, we've been active in key areas relating to the Government's flagship Saudi Vision 2030. As the region's largest producer of containerboard and paperboard products, we take very seriously our leadership role in supporting non-petrochemical sectors – acting as a beacon of best practice in many areas.

Throughout this annual report, you will see how MEPCO has contributed to a vibrant society, thriving economy and ambitious nation – all while positioning the company to capitalise on market trends.

And with this comes our continued commitment to shareholder value.

As you know, we pride ourselves on our governance. From auditing and monitoring to investor relations and communications, we are increasingly held up as a standard in KSA.

In January, we were proud to accept the Best Corporate Governance Leadership Award – Saudi Arabia from Capital Finance International (CFI). CFI recognises achievements worldwide, seeking out organisations that contribute significantly to the convergence of economies and add value for all stakeholders.

With our experienced management team, committed staff and network of valued customers, partners and suppliers, MEPCO has shown that sustainability, innovation and talent are powerful drivers of long-term growth.

On behalf of the Board of Directors, I'd like to extend sincere thanks and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince and the Saudi Government for their patronage of the private sector. And I'd like to end by thanking you, our shareholders, for your ongoing trust and support.

Emad Abdulkadir Al Muhaidib
Chairman

MESSAGE FROM THE CEO

Dear Shareholders,

Our solid operational and financial results in 2018 are thanks to the firm foundation we've established, driving growth in Saudi Arabia's burgeoning non-petrochemical segments. We've been well positioned to leverage the rising market demand for containerboard products – capitalising on trends such as e-commerce – and to diversify our non-conventional product mix.

Increased demand, increased diversification

In 2018, we've seen demand for containerboard and paperboard increase across sectors – from packaging to consumer goods to construction materials. As a business-to-business manufacturer, we have worked hard to nurture relationships with our customers as we streamline our supply chain and operations.

Diversification has been central to our strategy. Our development of non-conventional products has helped us increase our market share in new segments. For example, MEPCO is now the only Middle East producer of containerboard and paperboard products for use in construction applications. In 2018, 36.3% of sales came from non-conventional grades. Our teams have also focused on enhancing material properties so products from recycled materials are of a standard with those from virgin materials. This also opened up new opportunities for our products.

These developments helped drive global expansion in 2018, giving us a sustainable presence on 5 continents. We are MENA's largest paper exporter and have in-depth knowledge of market dynamics, underpinning our ambition to become a bigger, more integrated manufacturer. Our operational achievements this year support this strategy – with efforts across production processes, IT, recruitment, training and health and safety boosting both profitability and efficiency.

Sustainability: the beating heart of our business model

We are proud that MEPCO and its wholly-owned sister company WASCO have long been environmental champions in the Middle East and North Africa. We have overseen key changes in perceptions of recycling, and are delighted with the direction outlined in Saudi Vision 2030. To boost recycling nationwide, the Vision has announced a blueprint for best-practice environmental regulation and the creation of a national recycling giant in partnership with industry. From energy efficiency to water treatment, we are pioneers regionally as well as globally – and offer our ongoing support to the Government in this area.

A platform for growth

We are delighted that 2018 has finished with MEPCO in a strong position. Our 2018 efforts to deleverage our capital structure mean MEPCO now has its lowest net debt-to-equity ratio since 2012. We're poised for future growth, and the record financial performance is testament to the business' dedication to quality, sustainability and flexibility.

I'd also like to thank the Custodian of the Two Holy Mosques, the Crown Prince and the Saudi Government for supporting the private sector. And our success is not possible without the commitment of our talented staff, as well as the support of our valued customers and suppliers.

I look forward to working with you as we continue our mission.

Sami Al Safran
Chief Executive Officer

MEPCO AT A GLANCE

Founded in 2000, MEPCO is the largest producer of containerboard and paperboard products in the Middle East and North Africa – and the only listed paper manufacturer in the region. Our wholly-owned sister company, WASCO, is MENA's largest waste management specialist. Backward integration underpins our strong performance and competitive position in this evolving, global market.

PRODUCTS

6

Containerboard products

10

SPECIALTY PAPER PRODUCTS

MARKETS

26%

KSA market share

41 countries

On 5 continents (Asia, Africa, Europe, South America and North America) import MEPCO products

3 industries

Use MEPCO products in their manufacturing: furniture, construction and packaging for a wide variety of applications, including e-commerce, household goods and electronics

OPERATIONS

3

Paper machines

475 Thousand Tonnes

Annual installed capacity

10 km

From Jeddah Port in the Red Sea, allowing rapid export delivery and easy material import

SUSTAINABILITY

80%

Of MEPCO's raw material is collected domestically though WASCO

50%

Of KSA's recyclable materials are handled by WASCO

100%

Of our energy needs are met by our own power generation capacity

PEOPLE

45%

Saudisation rate

11%

Of our Saudi workforce is women

116

Students graduated from our Higher Institute for Paper & Industrial Technologies in 2018

2018 HIGHLIGHTS

Performance

2018 has been a year of record profit – with a keen eye on long-term, sustainable growth. After all, MEPCO has consistently generated a profit through its lifetime, and we value our reputation both for innovation and financial strength.

	2018	Change from 2017
Sales Revenue	833,614	8.1%
Gross Profit	235,674	26.6%
Gross Profit %	28.3%	4.1 bps
EBIDTA	215,028	15.3%
EBIDTA %	25.8%	1.6 bps
Net Profit	99,444	46.0%
Net Profit %	11.9%	3.1 bps
Earnings Per Share (SAR)	2.00	64.0%

Global Containerboard Market Growth

	Global	Middle East	GCC	Saudi Arabia
2018	190,867	3,864	1,503	1,080
Change from 2017	3.4%	2.9%	2.1%	0.9%

Recognition

Our vision is to be the leading integrated paper and packaging player in the region, delivering outstanding quality at optimal costs. Various organisations recognised our achievements as an employer, innovator, environmental pioneer and growth driver.

Our vision is to be the leading integrated paper and packaging player in the region, delivering outstanding quality at optimal costs. In 2018, various organisations have recognised our achievements as an employer, innovator, environmental pioneer and growth driver.

2018

- Best Arab Award: Best 100 Arabic CEO Award.
- Best Arab Awards: Best Arab Company.
- Middle East Waste & Recycling Awards: Paper Recycling Company of the Year.
- MEPCO has shortlisted for 2 categories (Sustainable Business Model and Water / Waste Management) by Gulf Sustainability and CSR Awards.
- MEPCO has shortlisted in (Global CEO of the Year) by Pulp and Paper International Awards (PPI Awards).

2017

- Best Workplace Award 2017 by Great Place to Work Awards – Saudi Arabia.
- Best Arab Award: Best 100 Arabic CEO Award.
- Best Corporate Governance Leadership Award: Saudi Arabia by Capital Finance International (CFI).
- Responsible Competitiveness Award by King Khalid Foundation and Saudi Arabian General Investment Authority.

2016

- Local Supplier Award by King Khalid Foundation and Saudi Arabian General Investment Authority.

2015

- Mill Manager of the Year Award by Pulp and Paper International Awards (PPI Awards).
- Responsible Competitiveness Award by King Khalid Foundation and Saudi Arabian General Investment Authority.
- Best CSR Integrated Organization Award CSR Saudi Arabia.

2013

Water Efficiency Award by Pulp and Paper International Awards (PPI Awards).

2011

Best Product and Service Innovation Award by King Khalid Foundation and Saudi Arabian General Investment Authority.

Certifications

STRATEGIC REVIEW

Stable, robust containerboard prices and ongoing product diversification underpinned our record 2018 performance.

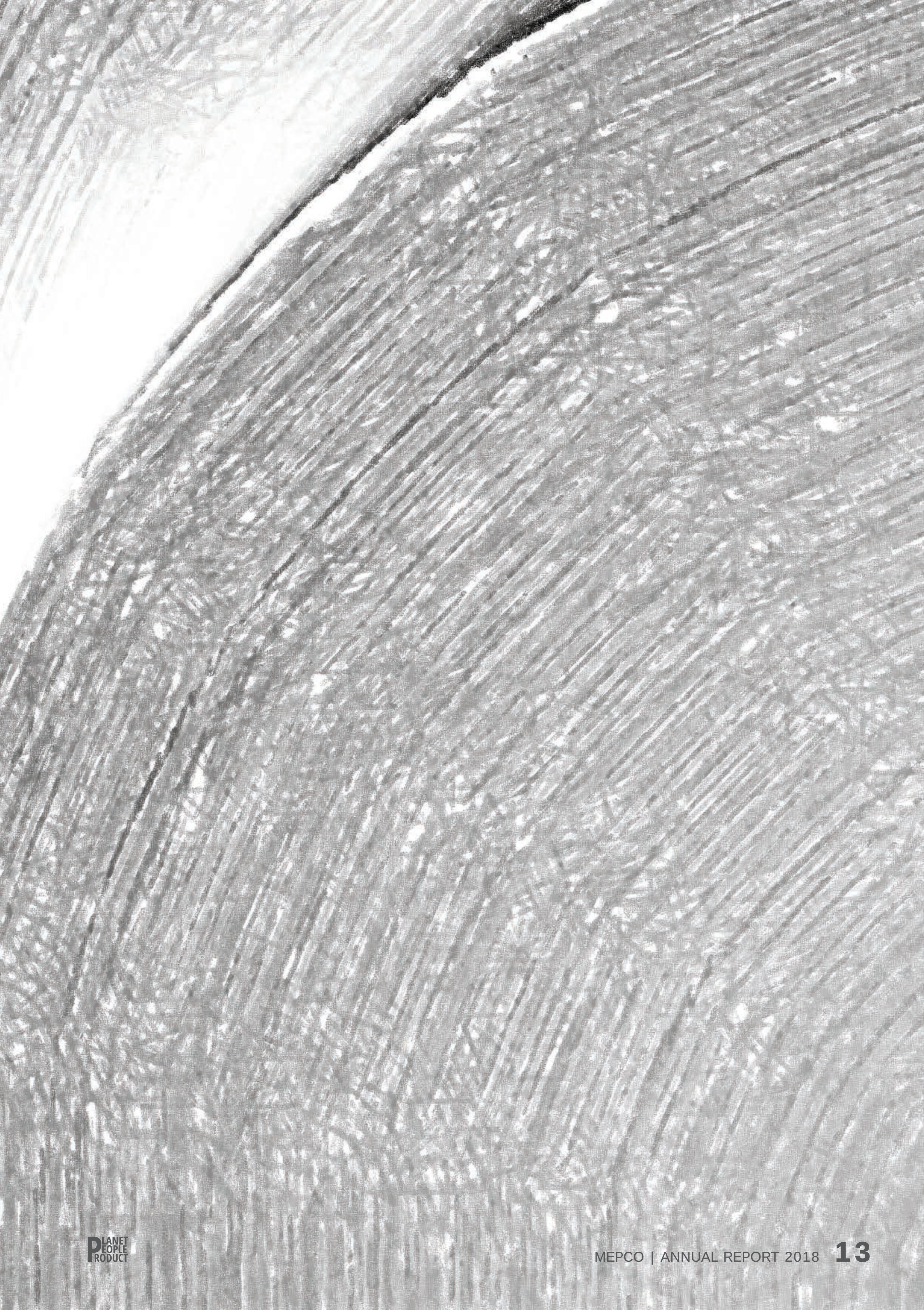
In 2018, we maintained a laser focus on intelligent growth, focusing on 3 pillars: people, product and planet.

Long-term success relies on access to talent. Not only have we increased training and development opportunities within our workforce, but we've redoubled our efforts to inject vital industrial skills into the Saudi economy. This includes our Higher Institute for Paper & Industrial Technologies, as well as initiatives to increase Saudisation and bring in more women at all levels.

We continually analyse the production process to find better ways of working. As a result, we're able to scale efficiently while keeping costs lower than our international peers. This approach has driven our successful global expansion, including in fast-growing Asian, African and South American economies. It has also given us the agility to adapt sales based on demand, an operational model that allows us to benefit from both local and export markets. Overall in 2018, we allocated 55.7% of sales to local markets and 44.3% for export.

MEPCO continues to benefit from backward integration with our wholly-owned sister company WASCO. WASCO, MENA's largest waste management specialist, ensures a consistent and cost-effective supply of raw material. Our role as a sustainability pioneer – which extends across water and energy as well as recycling – is key to how we deliver value to shareholders, customers, supply chains, communities and the wider region.

Our work across the pillars of people, product and planet give us a strong foundation, helping us compete and grow in light of the trends shaping the industry.



CAPITALISING ON TRENDS IN THE PAPER INDUSTRY

Not only are we the largest producer of containerboard and paperboard products in the Middle East and North Africa, but we export to 41 countries on 5 continents.

Containerboard remains one of the strongest and consistently growing segments in the paper industry. The major factors affecting its global growth include rising populations and GDP per capita; growing industrial output in the developing world; increasing international trade of consumer goods; further expansion of fresh fruit and vegetable trade; sustainability focus; and distribution system upgrades for both wholesale and retail goods driven by e-commerce.

As we hone our competitive advantage, we're actively working to capitalise on trends and opportunities – regionally and internationally.

E-commerce & Point-of-sale Packaging

The rise in online and mobile shopping has created new demand for containerboard, with retailers worldwide needing cost-effective, sustainable material to meet their burgeoning packaging requirements. The positive correlation between e-commerce and containerboard demand has led to a 3% boost for the sector globally, and e-commerce represents 10% of the trade in the Middle East. The Middle East has lagged behind Europe and North America in terms of e-commerce adoption but is catching up, and the region is now experiencing higher growth rates than the rest of the world.

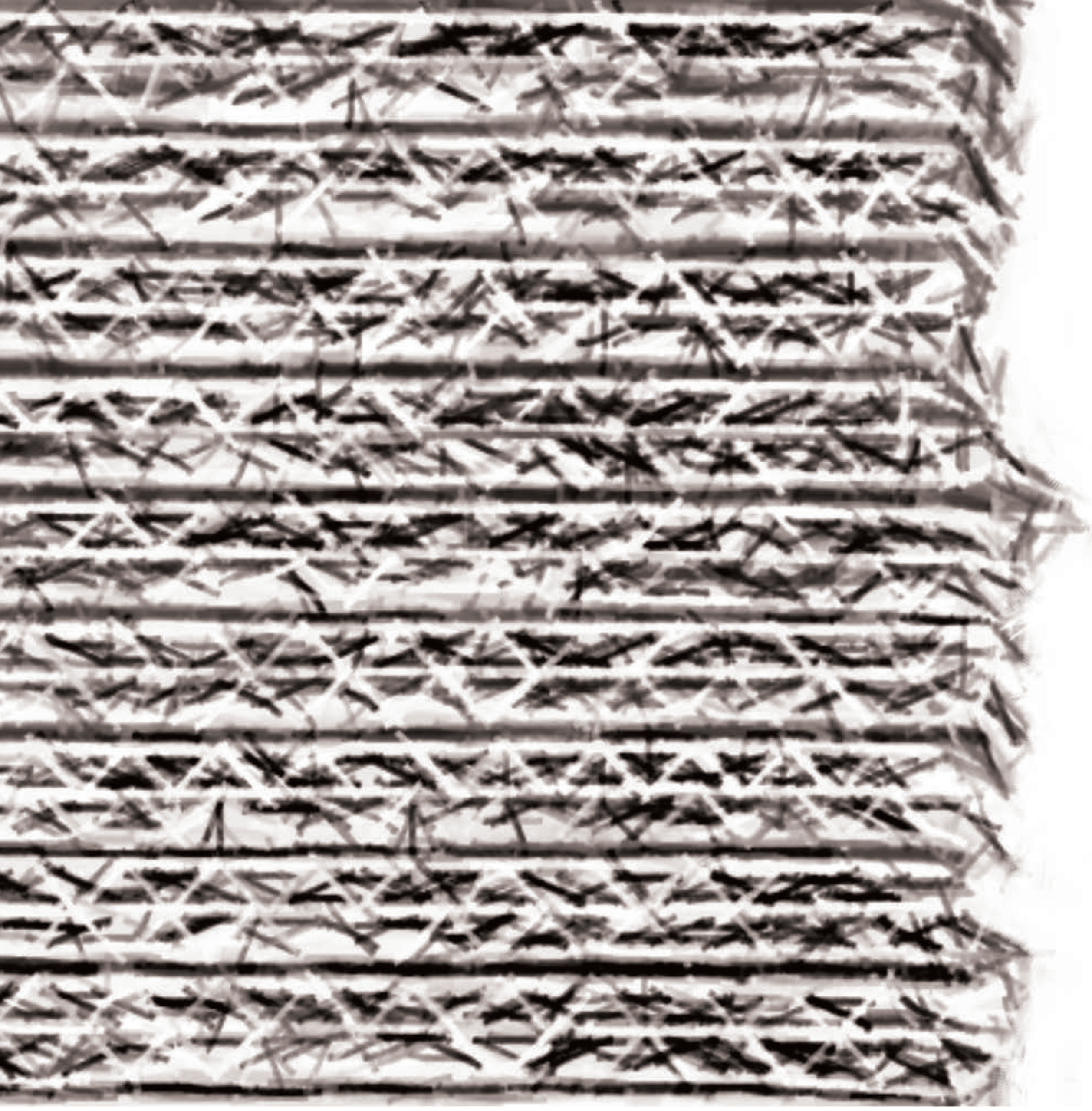
We're also seeing an increase in demand for point-of-sale (POS) packaging, with companies using more sophisticated products and digital print techniques to stand out on the shelf. 2018 continued the upward trend in demand for non-conventional products, which are ideally suited to this application.

10%

Of containerboard trade in the Middle East is for e-commerce

"Part of Saudi Vision 2030 is creating value from the environment, and that's exactly what MEPCO is doing. MEPCO is reclaiming an average of 500,000 tonnes of waste paper from landfill each year and creating value out of it. Another aspect of the Vision is enhancing local employees to create work opportunities, which we're actively doing through training at our Higher Institute for Paper & Industrial Technologies. And we're contributing to the Saudi economy, having exported SAR 250 million worth of goods in 2018."

Sami Al Safran, CEO, MEPCO



Saudi Vision 2030

Saudi Vision 2030 is a ground-breaking plan to make Saudi Arabia the heart of the Arab and Islamic worlds, an investment powerhouse and a hub connecting 3 continents. It's a blueprint for diversifying revenues outside of the petrochemical sector, leveraging local talent and KSA's strategic location to help the country realise its potential.

The Vision is built around 3 themes: a vibrant society, a thriving economy and an ambitious nation.

- **Vibrant society**

  Our continuous efforts to promote recycling and environmental awareness are helping people live in beautiful, sustainable surroundings. The working environment standards we're setting are empowering a diverse workforce and supporting families.

- **Thriving economy**

  As a growing non-petrochemical business, we're working actively in line with the Vision. Our business model is designed to balance regional and international demand. We exported 44.3% of goods in 2018, helping expand KSA's global footprint. Our Higher Institute for Paper & Industrial Technologies is delivering education based on market needs and creating economic opportunities for ambitious young Saudis.

- **Ambitious nation**

  This pillar underpins KSA's dedication to applying efficiency and responsibility at all levels. We're committed to the highest levels of corporate responsibility and investor relations, working openly and transparently with all stakeholders.

Environmental Regulation

WASCO currently operates in line with global best practice even though there's not yet formal environmental regulation in KSA. However, as part of Saudi Vision 2030, the Government has outlined plans to implement regulation in line with international standards.

Plans also include a Public Investment Fund (PIF) in partnership with industry to create a national recycling giant. This will help boost household recycling rates, increasing the volume of raw materials available domestically. WASCO is MENA's largest waste management specialist and is standing by to support the Government with this initiative.

1 million tonnes

Waste paper generated in KSA annually

500,000 tonnes

The amount of waste paper WASCO collects in KSA annually – 40% of the market

Raw Material Prices & Global Trade Dynamics

The global containerboard market grew 3.4% in 2018. China is the largest user of old corrugating casing (OCC) material in the world. Its 2017 change to import regulations created significant change in the market. Prices remained higher in 2018, although they showed signs of stabilisation towards the end of the year.

MEPCO has been largely insulated from the effects of Chinese regulation. We had not been exporting heavily to China. The Middle East has been one of the fastest growing regions for containerboard during the last 5 years, with a growth rate of 5.9% in 2018. The Saudi Arabian market grew by 0.9% in 2018. However, the market is currently fragmented, and MEPCO is the main regional player with a 26% market share.

Our business is designed to adapt to market dynamics, with the agility to shift exports to local and specific international markets quickly based on demand. Our location – just 10 km from Jeddah Port – puts us at the heart of international trade routes. Our global footprint over MEPCO's lifetime spans more than 50 countries. Not only have we expanded our geographical reach across the GCC, but we have a growing presence in Latin and Central America, South Asia and Europe.

This flexibility extends to material supply as well. In 2018, MEPCO sourced 80% of our raw material domestically from WASCO, our wholly-owned sister company. WASCO operates at arm's length from MEPCO, but this backward integration helps insulate MEPCO from price fluctuation and ensure security of supply. However, MEPCO has the ability to source from any supplier based on price dynamics.

80%

Of MEPCO's raw material comes domestically from sister company WASCO, insulating the business from global price fluctuation

In 2017,MEPCO took the lead in bringing an anti-dumping case against Spanish and Polish uncoated paper,paperboard and containerboard imports. The GCC Technical Secretariat office responsible for combating harmful international trade practices (GCC-TSAIP) ruled in MEPCO's favour. On 1 May 2019,it imposed duties of 24.6-34% on relevant products of 5 years.

" We are overjoyed at the outcome of the anti-dumping case. The GCC containerboard industry will now have reasonable protecttion against harmful practices- and a fair opportunity to thrive. Thanks to the team that managed this process, and to shareholders for their continued trust in MEPCO."

Sami Al Safran, CEO, MEPCO

HOW WE'RE WORKING TO DELIVER VALUE

PLANET

HOW WE'RE WORKING TO DELIVER VALUE: PLANET

At MEPCO, sustainability isn't an afterthought or a talking point – it is at the core of

what we do every day.

As a company that works with recycled material, we're at the forefront when it comes to

sustainable business practices. 2018 was a successful year for our programmes across

water, energy and recycling.

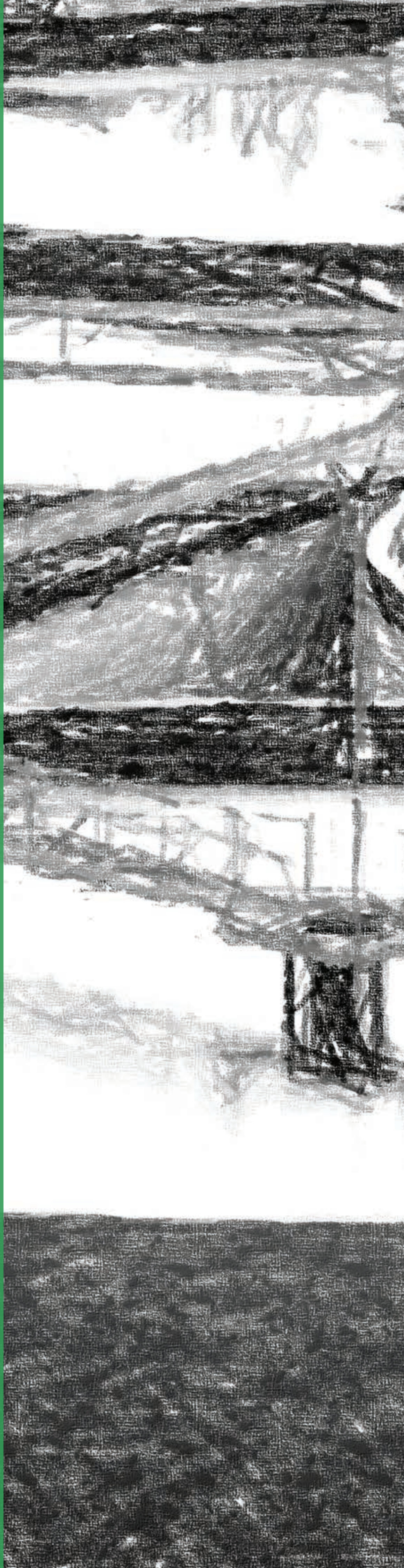
WATER

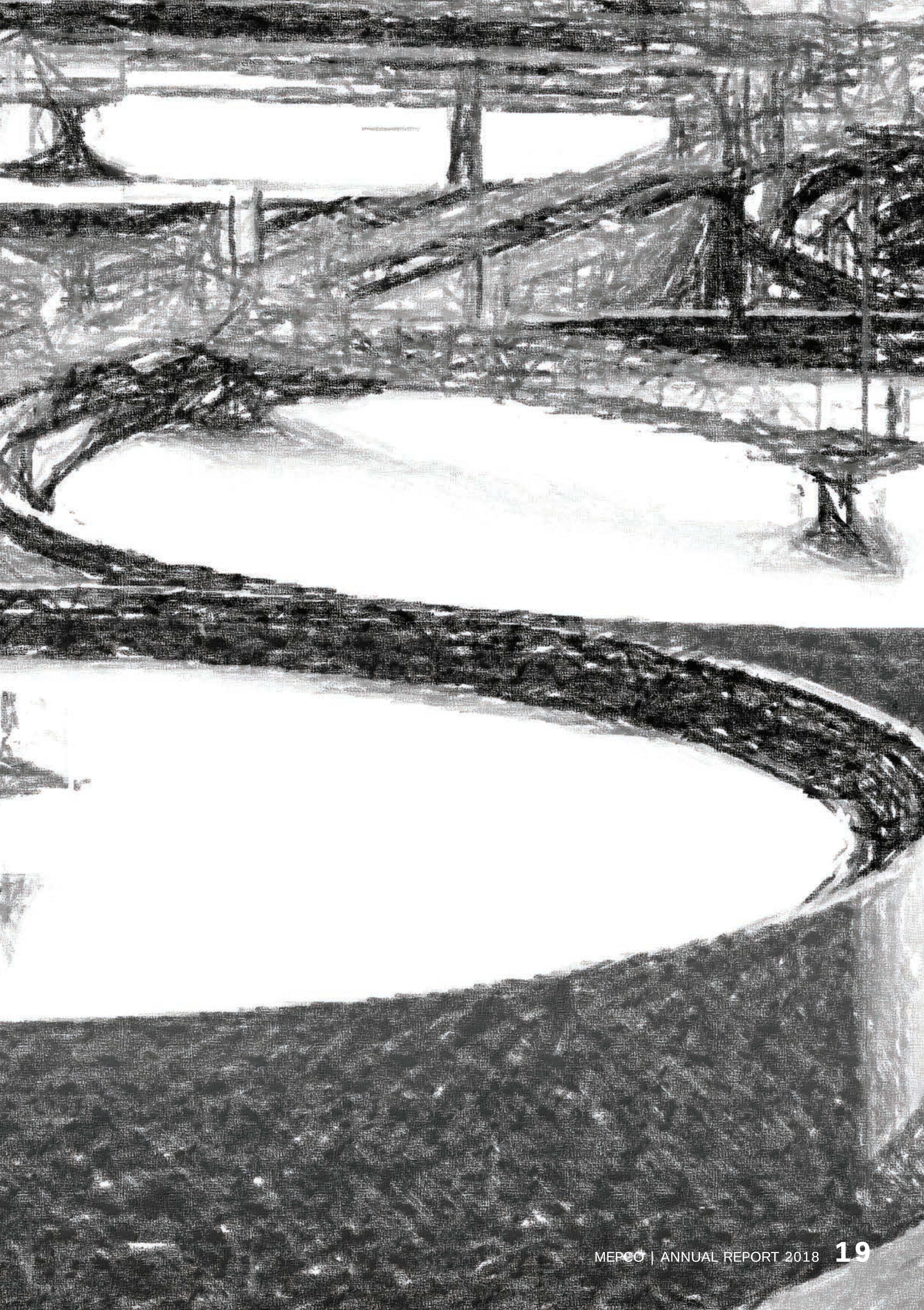
Water scarcity is a key strategic challenge in Saudi Arabia and across MENA. We have long pioneered innovation in industrial water cleaning and usage (back in 2013 we won the Water Efficiency Award from Pulp & Paper International, the leading magazine for pulp, paper and paperboard manufacturers worldwide). Now our technology is increasingly being adopted across the region.

MEPCO recycles 70% of water used in production, and we invested in our effluent treatment planet to increase this. In 2018, we began implementing new wastewater treatment technology. This is boosting our reclamation and treatment efficiency, allowing us to use more recycled water and reducing the overall cost of water consumption despite the financial impact of water scarcity in KSA.

70%

Of water used in production was recycled





HOW WE'RE WORKING TO DELIVER VALUE

PLANET

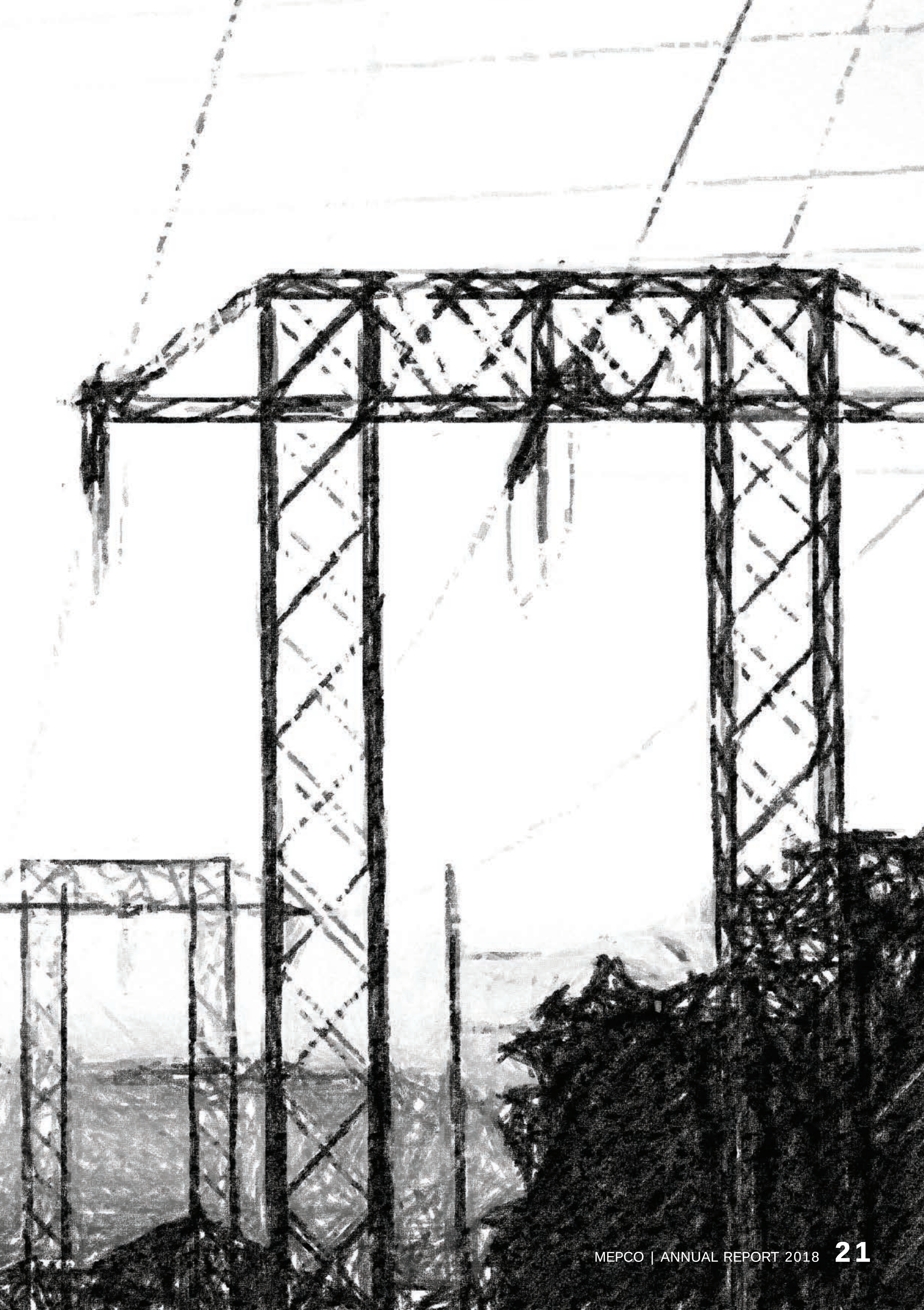
ENERGY

We produce 100% of our own power at our dedicated generation facility, which has a capacity of up to 49MW per hour. As a result, our power costs are 35% below grid price. Not only does this ensure a sustainable, secure supply, but it also means we are continuously optimising the cost of this input.

Our internal energy conservation team, created in 2017, has continued to manage our capacity, optimise process parameters, reduce idle times and reduce consumption across operations.

100%

Of our energy needs are met through our own power generation



HOW WE'RE WORKING TO DELIVER VALUE

PLANET

RECYCLING

Through our sister company WASCO, we continue to be a regional leader in recycling. In 2018, WASCO handled 50% of KSA's recyclable materials across 26 sites. It is a cornerstone of Saudi efforts to reduce waste going to landfill and increase both domestic and commercial recycling. Between 2004 and 2018, WASCO collected 4 million tonnes of paper, 100,000 tonnes of plastic and 25,000 tonnes of metal.

We are continuing our work to change perceptions around recycling, to increase participation in household schemes and to improve the quality of products manufactured from recycled material.

As a result, we increased the share of recycled material we use. In 2018, our raw material was 90% recycled and 10% virgin, helping protect forests and deliver a more cost-effective, sustainable supply.

Our work in this area has been recognised, including winning Paper Recycling Company of the Year at the Middle East Water & Recycling Awards in Dubai.

6 million trees saved

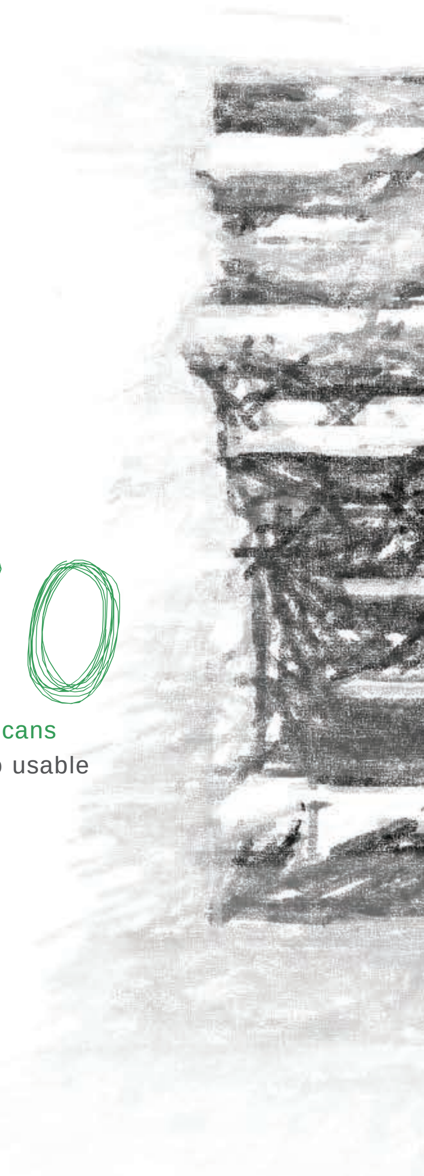
Each year thanks to WASCO's paper recycling

630 million plastic bottles saved

From being dumped into the sea each year thanks to WASCO's plastic recycling

270 million aluminium cans

Recycled back into usable goods each year



HOW WE'RE WORKING TO DELIVER VALUE

PEOPLE

Our track record of performance, profitability and innovation is rooted in the dedication and creativity of our people. In 2018, we invested in recruitment, human resources and training – and were proud to be recognised in the top 20 at the renowned Great Place to Work Awards.

The Great Place to Work Awards have become an internationally-recognised standard for Saudi businesses, celebrating excellence when it comes to working environment and employment processes. The March ceremony was a fitting tribute to the work MEPCO staff at all levels have put into continuous improvement.

Our efforts in 2018 have covered 3 key areas: training and development, Saudisation and women in the workforce.

Training & Development

Not only are we committed to nurturing the 663 people who work across the business, but we're also dedicated to creating a sustainable pipeline of talent for us and the wider Saudi economy.

The Higher Institute for Paper & Industrial Technologies (HIPIT) is a cornerstone in this regard. We established it in 2013 as an independent, not-for-profit technical training centre for mainly high school graduates, giving them the skills to make their mark on KSA's burgeoning industrial sector and become future leaders.

2018 has been a landmark year for HIPIT. 116 students graduated with qualifications. The 2-year diploma in paper technology is helping fuel our vision to make Saudi Arabia into one of the world's foremost paper producers. In 2018, 37 graduates came to work directly for MEPCO, with the rest bringing their newfound knowledge to other leading companies in Saudi Arabia.

We've also worked to improve our internal HR and training processes in line with international best practice and objective standards.

Highlights include:

- **Updated performance appraisal system**

  The system now integrates SMART (specific, measurable, achievable, relevant, time-based) key performance indicators to help support more effective evaluation and development.

- **New e-archive HR system**

  We implemented a cloud-based document management system that simplifies compliance and enhances data security.

- **Enriched training programmes**

  We moved to a programme in which 55% of sessions are outsourced to experts. This freed up internal capacity for value-added work and training focused on health and safety as well as Integrated Management System updates.

95% employee retention rate	19th in Saudi Arabia	5.1 training hours	55% of training outsourced
Up 2.9 bps from 2017	In the renowned Great Place to Work Awards covering the public, private and non-profit sectors	Per employee per year, on average	To bring in key external skills and free up internal capacity for value-added work and training

HOW WE'RE WORKING TO DELIVER VALUE

PEOPLE

Saudisation

We remain committed to maintaining our platinum level under the Nitaqat programme. In 2018, we continued to exceed the 20% benchmark, ending the year at 45.2%. Not only are we focusing recruitment on the Saudi workforce, but our ongoing work with the Higher Institute of Paper & Industrial Technologies is providing the knowledge transfer required to build national expertise for the long term.

45.2%

Saudisation rate

"We are proud of our efforts to empower local talent. Saudisation is not only key to MEPCO's strategy, but is a pillar of Saudi Vision 2030. Working in line with the Vision, we continue in our efforts to engage Saudi staff at all levels."

Sami Al Safran, CEO, MEPCO

HOW WE'RE WORKING TO DELIVER VALUE

PEOPLE

Women in the Workforce

Our efforts to boost women representation continue to bear fruit. 2018 saw the ratio of women staff increase 7 bps from 2017 to reach 11.1% of our total Saudi workforce.

Women are represented at all levels of the business, and we support and empower them with training and benefits, including allowances.

7

bps increase

In ratio of Saudi female staff from 2017

"MEPCO has a strong culture, helping women across the business to thrive. From the colleagues you work with every day to HR and management, the company provides support and training that make it a fun, encouraging and dynamic place to work."

Mrs Mashael Al-Jahdali, HR Manager, MEPCO

HOW WE'RE WORKING TO DELIVER VALUE

PRODUCT

In 2018, we progressed initiatives to improve product quality and processes, leading to record production levels.

We produced 406,000 tonnes in 2018, up from 386,000 in 2017. Research and development activity has yielded further innovation to boost product quality. And ongoing cost optimisation has had a positive effect on performance across the manufacturing cycle.

406,000 tonnes

Total 2018 production, up 5.2% from 2017

10%+

Average increase in selling price from 2017

Conventional vs Non-conventional Grades

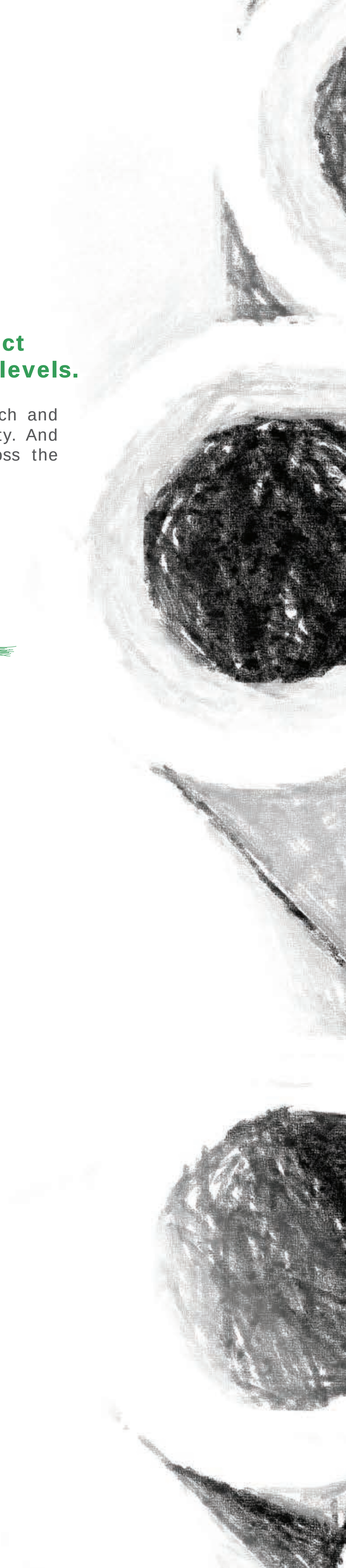
Diversification gives us, as well as our customers, access to more end users, which helps broaden the market for our products. Agility is therefore one of our competitive advantages, and our commercial division is constantly optimising the sales mix to maximise profitability and utilisation rates while minimising disruption to production processes

63.7%

Of 2018 revenue was from containerboard sales

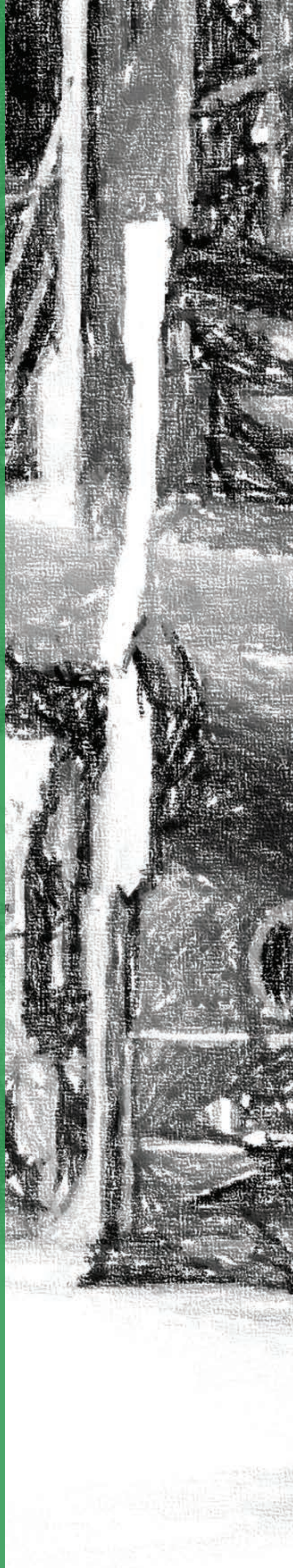
36.3%

Of 2018 revenue was from other paper products



HOW WE'RE WORKING TO DELIVER VALUE

PRODUCT



Material Innovation

We continue to be regional leaders when it comes to innovation, delivering significant environmental and economic benefits to stakeholders while adding value to our customers. Our teams work continuously to improve the quality of recycled material and non-conventional paper grades to keep MEPCO at the cutting edge in a world increasingly focused on sustainable paper solutions.

Ongoing efforts have helped boost the standard of recycled material to bring it closer to products manufactured from virgin inputs. Our customised chemical composition, developed in-house, has boosted product quality while optimising costs. We have also found ways to increase fibre strength and quality in the pulping process. Since installing our drum pulper in 2015, our laboratory team has made further strides in enhancing our fibre's physical properties, cleanliness and strength while reducing input costs. They have also optimised the drum pulper to minimise fibre loss, power and chemical consumption, maintenance time and costs.

"MEPCO has invested heavily in developing a wide range of high-quality, innovative products for our loyal partners and customers. We continuously employ new methods while focusing on a sustainable supply chain and maintaining a strong cost position compared to peers. This means we continued delivering strong performance in 2018, with our key performance indicators showing significant and ongoing improvement."

Ahmed Fazary

Chief Commercial Officer, MEPCO

HOW WE'RE WORKING TO DELIVER VALUE

PRODUCT

Operational Efficiency

Ongoing cost optimisation and IT infrastructure investment across the manufacturing process have supported performance improvements. 2018 developments included introducing SAP across our verticals and subsidiaries, as well as moving our servers to the cloud. We also implemented a materials requirement planning (MRP) system to streamline reordering and a new preventative maintenance system to minimise unplanned shutdowns. Integrating our weight bridge scale link with SAP and completing our barcoding project have introduced new levels of automation and accuracy. The ease with which we can now share information and access data has increased the profitability and efficiency of production processes.

Our successful partnership with ANDRITZ, the global industrial equipment specialist, continued in 2018. Our technical and maintenance teams use best-in-class materials to maximise uptime and maintain machinery.

In October, we announced a debt restructuring that reduces borrowing levels and financing costs. We now have a net debt-to-equity ratio of 0.78, our lowest since 2012. This puts us in a strong position for future capex to meet growing demand at home and abroad.

"2018 benefited from our initiatives around cost reduction, production efficiency and innovation. These efforts contributed to the operating and financial performance records MEPCO achieved in 2018."

Wadia Malibari, COO, MEPCO

CORPORATE SOCIAL RESPONSIBILITY

Our commitment to the community is intrinsic to our mission of becoming MENA's leading integrated paper and packaging player. As an employer, education champion and regional sustainability pioneer, we're active locally and nationally to make a positive social impact.

To align our efforts with value creation, MEPCO's corporate social responsibility initiatives focus on 2 pillars: education and environment. Here are the 2018 highlights.

Education & Empowerment

- As a founder and lead partner of the Higher Institute for Paper & Industrial Technologies, we know the importance of fostering the skills and enthusiasm of young Saudi citizens. HIPIT helps Saudi youth gain qualifications in all areas of manufacturing using the latest techniques. Our work to provide world-class training and deliver much-needed skills for the KSA economy continued in 2018, with 332 students matriculating and 477 total students graduating. 279 of this year's graduates have come to work for MEPCO.
- In January 2018, we signed a partnership agreement with King Abdulaziz University and WASCO to launch a new leadership programme focusing on environmental education, the first training course for 70 trainees was launched.
- In May 2018, we signed a partnership agreement with Jeddah University and the Human Resources Development Fund to support 100 Saudi trainees seeking jobs.

> "The Higher Institute for Paper & Industrial Technologies is playing a key role in knowledge transfer, helping educate Saudis and, in turn, helping companies boost their Saudisation rates. This has overall benefits in line with Saudi Vision 2030, fostering vital skills, creating work opportunities and boosting the economy."
>
> **Sami Al Safran, CEO, MEPCO**

Environment

As you have seen throughout this report, sustainability is central to MEPCO's everyday operations and culture. In addition to ongoing innovation and optimisation of our sustainable practices, we're active in the community and wider industry promoting environmental awareness. 2018 initiatives included

- Our popular Friends of the Environment Convoys Initiative in partnership with King Abdulaziz University and our sister company WASCO works to create recycling sorting centres across Jeddah. In 2018, we held 3 recycling programmes, each lasting 10 days and offering a dozen sorting locations across the city.
- In November 2018, we signed an agreement with Jeddah Municipality and the Association of Neighbourhood Centres in Makkah to help build the Al-Mulaissa Gardens. Located in south Jeddah, these gardens will provide a beautiful community space for recreation and learning about the importance of the environment.
- As pioneers in water recycling – we recycle 70% of the water we use with our on-site reclamation and treatment facility – we're active in sharing our expertise. In 2018, we were honoured to speak on water treatment best practices at a key conference sponsored by the Ministry of Environment, Water and Agriculture and the General Authority of Meteorology & Environmental Protection.
- In July 2018, we held a Recycling Event with WASCO to promote awareness of household recycling and the role individuals play in helping preserve the planet and vital resources.
- MEPCO is supporting a NABTA youth awareness programme called A Paper Story, which teaches the environmental and social benefits of recycling. 70 sessions were held in 2018, and a total of 4,386 children attended.
- Through the MEPCO tree planting initiative, we encourage staff and visitors to make their own contribution to the environment. In 2018, 200 trees were planted through the programme.

CONSOLIDATED FINANCIAL STATEMENTS

Independent auditor's report to the shareholders of Middle East Paper Company

Report on the audit of the consolidated financial statements

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (together the "Group") as at December 31, 2018, 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, 2018;
- 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 matters

- Implementation of International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS15)
- Implementation of International Financial Reporting Standard 9 Financial Instruments (IFRS 9)

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 matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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
Implementation of IFRS 15 The Group adopted IFRS 15 with effect from January 1, 2018 and which supersedes International Accounting Standard 18 Revenue (IAS 18) and certain other standard and interpretations. Management performed a detailed analysis of its revenue contracts to identify differences between the requirements of the new and previous standards, assess the changes required to be made to the accounting policies, determine the transition adjustments and to assess the additional disclosures required under the new standard in the accompanying consolidated financial statements. Management also determined and implemented the consequential changes to processes and controls required particularly in connection with the separation of different performance obligations that may exist within a given contract and allocation of transaction price to the performance obligations. We considered this as a key audit matter as revenue is a key financial statement item and performance metric and the application of IFRS 15 may require use of assumptions and judgment. Refer to Note 2.3(a) which explains the impact of the adoption of the new accounting standard and Note 3.12 for the accounting policy in the accompanying consolidated financial statements.	**We performed the following procedures in relation to implementation of IFRS 15:** • Reviewed management's detailed analysis of its revenue contracts and the impact of the requirements of the new accounting standard; • Gained an understanding of management's approach towards implementation of any changes to the accounting policy; • Obtained an understanding of nature of revenue contracts and, tested a sample of representative revenue contracts to confirm our understanding and evaluated whether management's application of the new standard was in accordance with the requirements of IFRS 15; • Understood and evaluated relevant processes and controls established by management to ensure appropriate recognition of revenue; and • Reviewed adequacy of disclosures with respect to the impact of adoption of the new accounting standard included in Note 2.3(a) and Note 3.12 to the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
Implementation of IFRS 9 The Group adopted IFRS 9 with effect from January 1, 2018 and this new standard supersedes International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 addresses classification and measurement of financial assets and financial liabilities and introduces new requirements for impairment of financial assets and hedge accounting. Management has determined that the most significant impact of the new standard on the accompanying consolidated financial statements is with respect to determination of impairment of trade receivables. Management elected to apply the simplified Expected Credit Loss ("ECL") model under the requirements of IFRS 9 to determine impairment of trade receivables. The ECL model involves use of various assumptions such as macro-economic factors, probability of default and subsequent loss on default, study of historical trends with respect to the collection of trade receivables and forward looking information. We considered this as a key audit matter due to the judgements and estimates involved in the application of ECL model. Refer to Note 2.3(b) which explains the impact of the adoption of the new accounting standard, Note 3.7 for the accounting policy and Note 9 for the related disclosure in the accompanying consolidated financial statements.	**We performed the following procedures in relation to implementation of IFRS 9:** • Reviewed management's assessment of the impact of IFRS 9 with respect to classification and measurement of its financial assets and liabilities. We also evaluated management's conclusion that the main area of impact was in respect of impairment of trade receivables, based on our experience with the Group and the industry in which the Group operates; • Assessed the reasonableness of the methodology adopted by the management with respect to the ECL model based on requirements of IFRS 9 and acceptable best practices. We also tested the arithmetical accuracy of the ECL model and logical integrity of the underlying calculations; • Evaluated key assumptions, such as probability of default and subsequent loss on default, in comparison to historical data. We also assessed the reasonableness of forward looking factors considered by management on the ECL model; • Involved our accounting subject matter specialists to evaluate the reasonableness of methodology and assumptions used and to check accuracy of computations in the ECL model; and • Reviewed adequacy of disclosures included in Note 2.3(b), Note 3.7 and Note 9 to the accompanying consolidated financial statements.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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 10, 2019

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2018 (Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Assets			
Non-current assets			
Property, planet and equipment	5	1,040,868,466	1,064,989,269
Intangible assets	6	3,580,821	5,143,778
Derivative financial instruments	7	2,064,063	1,357,238
Total non-current assets		**1,046,513,350**	**1,071,490,285**
Current assets			
Inventories	8	213,933,195	180,172,467
Trade receivables	9	156,877,366	209,617,581
Prepayments and other receivables	10	15,046,939	12,189,151
Other current assets	11	43,948,837	44,037,269
Financial asset at fair value through profit or loss	12	524,256	512,303
Cash and cash equivalents	13	28,842,546	31,015,660
Total current assets		459,173,139	477,544,431
Total assets		**1,505,686,489**	**1,549,034,716**
Equity and liabilities			
Equity			
Share capital	14	500,000,000	500,000,000
Statutory reserve	15	83,607,622	73,663,228
Treasury shares	16	(6,816,812)	-
Retained earnings	17	174,522,254	148,716,962
Total equity		**751,313,064**	**722,380,190**
Liabilities			
Non-current liabilities			
Long-term borrowings	18	360,361,646	358,354,589
Employees' end of service benefits	19	39,912,063	35,330,773
Total non-current liabilities		**400,273,709**	**393,685,362**
Current liabilities			
Zakat payable	20	4,020,197	3,006,659
Current portion of long-term borrowings	18	128,352,211	124,333,703
Short-term borrowings	21	128,301,031	223,253,221
Trade and other payables	22	90,097,948	77,688,708
Other current liabilities	23	3,328,329	4,686,873
Total current liabilities		**354,099,716**	**432,969,164**
Total liabilities		**754,373,425**	**826,654,526**
Total equity and liabilities		**1,505,686,489**	**1,549,034,716**

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

Chief Financial Officer **Chief Executive Officer** **Chairman of the Board**

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2018 (Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Revenue	4	833,613,856	771,008,091
Cost of revenue	24	(597,939,514)	(584,898,147)
Gross profit		**235,674,342**	**186,109,944**
Selling and distribution expenses	25	(44,107,432)	(34,634,837)
General and administrative expenses	26	(61,714,260)	(56,083,861)
Impairment losses on financial assets	9	(1,394,492)	(620,376)
Fair value gain / (loss) on derivative financial instruments		706,825	(1,358,557)
Other operating (expenses) / income - net	27	(934,689)	2,421,167
Operating profit		**128,230,294**	**95,833,480**
Finance costs - net	28	(26,013,446)	(26,288,287)
Profit before zakat		**102,216,848**	**69,545,193**
Zakat expense	20	(2,772,913)	(1,414,078)
Profit for the year		**99,443,935**	**68,131,115**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses on re-measurement of employee benefit obligations	19	**(1,194,249)**	(1,716,384)
Total comprehensive income		**98,249,686**	66,414,731
Earnings per share :			
Basic and diluted	30	2.00	1.36

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

Chief Financial Officer **Chief Executive Officer** **Chairman of the Board**

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2018 (Expressed in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Treasury shares	Retained earnings	Total
Balance as at January 1, 2018		500,000,000	73,663,228	-	148,716,962	722,380,190
Profit for the year		-	-	-	99,443,935	99,443,935
Other comprehensive loss for the year		-	-		(1,194,249)	(1,194,249)
Total comprehensive income for the year		-	-	-	98,249,686	98,249,686
Transfer to statutory reserve	15	-	9,944,394	-	(9,944,394)	-
Purchase of treasury shares	16	-	-	(6,816,812)	-	(6,816,812)
Dividends	34	-	-	-	(62,500,000)	(62,500,000)
Balance as at December 31, 2018		500,000,000	83,607,622	(6,816,812)	174,522,254	751,313,064
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	15	-	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

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

Chief Financial Officer **Chief Executive Officer** **Chairman of the Board**

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2018 (Expressed in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Cash flows from operating activities			
Profit before zakat		102,216,848	69,545,193
Adjustments for:			
Depreciation and amortization	5,6	86,797,813	90,650,381
Finance costs	28	26,013,446	26,288,287
Loss/(gain) on disposal of property and equipment	27	526,421	(431,492)
Allowance for impairment of trade receivables	9	1,394,492	620,376
Allowance for slow moving inventories	8	3,067,797	1,900,000
Employees' end of service benefits	19	5,630,936	5,255,361
Fair value (gain) / loss on derivative financial instruments		(706,825)	1,358,557
Fair value gain on financial asset at fair value through profit or loss	12	(11,953)	(212,303)
Changes in operating assets and liabilities:			
Inventories		(36,828,525)	(6,398,547)
Trade receivables		51,345,723	(35,913,164)
Prepayments and other receivables		(2,857,788)	2,425,487
Other current assets		88,432	1,313,642
Trade and other payables		12,511,678	10,509,503
Other current liabilities		(1,358,544)	2,681,669
Cash generated from operations		**247,829,951**	**169,592,950**
Finance costs paid		(23,875,071)	(25,686,475)
Zakat paid	20	(1,759,375)	(37,952)
Employees' end of service benefits paid	19	(2,243,895)	(1,478,942)
Net cash inflow from operating activities		**219,951,610**	**142,389,581**
Cash flows from investing activities			
Acquisition of property and equipment	5	(60,484,680)	(67,103,633)
Proceeds on disposal of property and equipment		139,951	565,998
Acquisition of investment at fair value through profit or loss	12	-	(300,000)
Net cash outflow from investing activities		**(60,344,729)**	**(66,837,635)**
Cash flows from financing activities			
Net change in short-term borrowings		(94,244,433)	(19,092,952)
Proceeds from long-term borrowings	18	162,000,000	110,340,753
Repayments of long-term borrowings	18	(160,218,750)	(132,663,860)
Purchase of treasury shares		(6,816,812)	-
Dividends paid	34	(62,500,000)	(37,500,000)
Net cash outflow from financing activities		**(161,779,995)**	**(78,916,059)**
Net change in cash and cash equivalents		**(2,173,114)**	**(3,364,113)**
Cash and cash equivalents at beginning of period		31,015,660	34,379,773
Cash and cash equivalents at end of period	**13**	**28,842,546**	**31,015,660**

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

Chief Financial Officer **Chief Executive Officer** **Chairman of the Board**

1. GENERAL INFORMATION

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

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

At December 31, 2018, 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 ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	100%
Special Achievements Company Limited ("SACO")	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	97% directly, 3% indirectly, effectively 100%

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia ("IFRS") and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Accounting convention / Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the measurement of derivative financial instruments and financial assets at fair value through profit or loss which are measured at fair value, and the defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method.

2.3 New and ammended standards adopted by the Group

The Group has adopted International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15) and International Financial Reporting Standard 9 Financial Instruments (IFRS 9) from January 1, 2018.

(a) IFRS 15 - Revenue from contracts with customers

The Group has adopted IFRS 15 using the modified retrospective method with the effect of applying this standard at the date of initial application (i.e. January 1, 2018). Accordingly, information stated for 2017 has not been restated (i.e. it is presented, as previously reported under IAS 18 - Revenue). The application of IFRS 15 was not material and did not require any adjustments to the retained earnings as at January 1, 2018.

The accounting policies relating to revenue from contracts with customers are disclosed in Note 3.12.

(b) IFRS 9 - Financial instruments

IFRS 9 replaces the provisions of IAS 39 - Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has adopted IFRS 9 with the effect of applying this standard at the date of initial application (i.e. January 1, 2018). The Group has taken an exemption not to restate the comparative information for prior periods with respect to the classification and measurement (including impairment) requirements. The adoption of IFRS 9 resulted in certain change in classification of financial assets, however, it did not have any significant impact on the measurement and recognition of the financial instruments.

The following table shows changes in classification and measurement in accordance with IAS 39 and IFRS 9 for the Group's financial assets and financial liabilities as of January 1, 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original measurement under IAS 39	New measurement under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets						
Trade receivables	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	209,617,581	209,617,581
Other current assets	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	16,954,131	16,954,131
Cash and cash equivalents	Loans and receivables	At amortized cost	Amortized cost	Amortized cost	31,015,660	31,015,660
Derivative financial instruments	At fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	1,357,238	1,357,238
Investment at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	512,303	512,303
Financial liabilities						
Borrowings	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	705,941,513	705,941,513
Trade and other payables	Other financial liabilities at amortized cost	Financial liabilities at amortized cost	Amortized cost	Amortized cost	77,688,708	77,688,708

Impact of the new impairment model

The Group has determined that the application of IFRS 9's impairment requirements at January 1, 2018 has not resulted in a material difference to the impairment allowance.

The accounting policies relating to classification and measurement of financial assets and financial liabilities and impairment of financial assets are disclosed in Note 3.7.

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

The following are the new standards and interpretations, which are either not yet effective or early adopted up to the date of issuance of the Group's consolidated financial information or applicable in preparing the consolidated financial information.

IFRS 16 – Leases

The Group intends to apply the standard from its mandatory adoption date of January 1, 2019.

Under IFRS 16, a lessee is required to:

- Recognize all right-of-use (RoU) assets and lease liabilities, with the exception of short term (under twelve months) and low value leases, on the statement of financial position. The liability is initially measured at the present value of future lease payments for the lease term. RoU assets reflects the lease liability, initial direct cost, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provisions for dismantling and restoration;
- Recognize the depreciation of the RoU assets and interest on lease liabilities in the consolidated statement of profit or loss over the lease term; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and an interest portion (which the Group presents in operating activities) in the consolidated statement of cash flows.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for a consideration.

Currently the Group is in the final stages of its IFRS 16 impact assessment process, and has not yet determined the expected impact on assets, liabilities, and equity with sufficient certainty to disclose amounts at this stage.

At the end of 2018, the following main policy choices have been made and form the basis for the Group's IFRS 16 implementation and application work:

IFRS 16 transition choices:

- IFRS 16 will be implemented with the cumulative effect of initially recognizing the standard as an adjustment to the opening consolidated retained earnings at the date of initial application, and without restatement of prior periods' reported figures (the "modified retrospective method").
- Contracts already classified either as leases under IAS 17 - Leases or as non-lease service arrangements will maintain their respective classifications upon the implementation of IFRS 16.
- Leases with a less than 12 months remaining lease term at year-end 2018 will not be reflected as leases under IFRS 16.
- RoU assets will for most contracts initially be reflected at an amount equal to the corresponding lease liability.
- Short term leases (less than 12 months) and leases of low value assets will not be reflected in the consolidated statement of financial position, but will be expensed as incurred.
- Non-lease components within lease contracts will be accounted for separately for all underlying classes of assets, and reflected in the relevant expense category as incurred.

There are no other relevant standards, amendments or interpretations issued IFRS Interpretation Committee interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

2.5 Functional and presentation currency

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

2.6 Use of judgments and estimates

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

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

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

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

(a) Allowance for impairment of financial assets

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

(b) Allowance for inventory obsolescence

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

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

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

(d) Employee benefits – defined benefit plan

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the preparation of these consolidated financialstatements.

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, planet and equipment

(a) Recognition and measurement

Items of property, planet 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, planet and equipment have different useful lives, they are accounted for as separate items (major components) of property, planet 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, planet 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, planet 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, planet and equipment. Land and capital work in progress are not depreciated.

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

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

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

3.3 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets comprise software, which have finite lives and are amortised over five years from the implementation date. The amortization expense on intangible assets is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. These are tested for impairment whenever there is an indication that the intangible may be impaired. The amortization period and the amortization method for an intangible asset, with a finite useful life, is reviewed at least annually. Any change in the estimated useful life is treated as a change in accounting estimate and accounted for prospectively.

3.4 Inventories

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

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

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

3.5 Cash and cash equivalents

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

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

3.6 Foreign currency

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

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

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

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

3.7 Financial instruments

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

(i) Financial assets

Classification

On initial recognition, a financial asset is classified in the following categories:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit and loss ("FVPL").

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

Debt instruments

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

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

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

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

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Debt instruments subsequently measured at amortised cost

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

Debt instruments subsequently measured at fair value

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

(b) Derecognition

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

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

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

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

(c) Impairment

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

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

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

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

(ii) Financial liabilities

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

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

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

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

(iii) Offsetting

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

(iv) Derivative financial instruments

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

3.8 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.

3.9 Impairment of assets

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

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

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

3.10 Employee benefits

Short term employee benefits

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

Post-employment benefits

Defined benefit plans

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

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

Proposed Employee Share Option Scheme (ESOP)

The Company has a proposed ESOP scheme for which required approvals were still in progress as of December 31, 2018. See also Note 3.18.

3.11 Provisions

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

3.12 Revenue

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

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

The Group recognizes revenue from the following major sources:

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

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

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

- Transportation of goods

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

Sale of goods directly to the customers

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

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

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

Rendering of services – transportation of goods to customers

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

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

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

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

The Group recognizes a trade receivable for the sale and delivery of the promised goods when the goods, delivered to the loading port, are loaded on to the vessel as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. However, the trade receivable related to the transportation service are recognized over time, if material, based on the stage of completion of service which is assessed at the end of each reporting period.

The disaggregation between separate performance obligations is done based on the standalone selling price.

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

3.13 Borrowings

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

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

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

3.14 Zakat

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

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

3.15 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.

3.16 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.

3.17 Share capital

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

3.18 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost. Treasury shares are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium or discount which is presented in equity. These treasury shares are purchased in advance for the proposed Employee Share Option Programme (“ESOP”) for which required approvals were still in progress as of December 31, 2018.

3.19 Dividends

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

4. SEGMENT INFORMATION

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

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

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

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, 2018				
Revenues	811,635,826	293,697,265	(271,719,235)	833,613,856
External revenues	811,635,826	21,978,030	-	833,613,856
Segment profit before zakat	102,211,667	(10,247,450)	10,252,631	102,216,848
Zakat	2,767,732	5,181	-	2,772,913
Financial costs	25,603,718	409,728	-	26,013,446
Additions to property and equipment	57,017,625	4,762,800	-	61,780,425
Depreciation and amortization	76,784,893	10,012,920	-	86,797,813
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 (loss) before zakat	69,527,328	1,202,477	(1,184,612)	69,545,193
Zakat	1,396,213	17,865	-	1,414,078
Financial costs	25,366,179	922,108	-	26,288,287
Additions to property and equipment	53,764,371	13,542,902	-	67,307,273
Additions to intangible assets	-	929,217		929,217
Depreciation and amortization	79,221,762	11,428,619	-	90,650,381
As of December 31, 2018				
Total assets	1,468,929,782	113,672,108	(76,915,401)	1,505,686,489
Total liabilities	717,616,718	59,767,370	(23,010,663)	754,373,425
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

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, 2018 amounted to Saudi Riyals 359.16 million (2017: Saudi Riyals 315.69 million). Local external sales during the year ended December 31, 2018 amounted to Saudi Riyals 474.45 million (2017: Saudi Riyals 455.31).

5. PROPERTY, PLANET AND EQUIPMENT

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
At January 1, 2017							
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**
Year ended December 31, 2018							
Opening net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Additions	150,000	555,985	22,844,564	659,650	1,532,200	36,038,026	61,780,425
Transfers							
- Cost	-	391,756	14,817,242	15,550	880,000	(16,104,548)	-
- Accumulated depreciation	-	-	-	-	-	-	-
Disposals							
- Cost	-	-	(781,466)	-	(907,975)	-	(1,689,441)
- Accumulated depreciation	-	-	206,661	-	816,408	-	1,023,069
Depreciation charge	-	(6,201,413)	(74,808,823)	(1,469,317)	(2,755,303)	-	(85,234,856)
Closing net book value	**98,020,400**	**127,966,767**	**752,069,302**	**3,206,029**	**7,876,057**	**51,729,911**	**1,040,868,466**
At December 31, 2018							
Cost	98,020,400	180,397,142	1,416,686,116	28,856,911	44,519,616	51,729,911	1,820,210,096
Accumulated depreciation	-	(52,430,375)	(664,616,814)	(25,650,882)	(36,643,559)	-	(779,341,630)
Net book value	**98,020,400**	**127,966,767**	**752,069,302**	**3,206,029**	**7,876,057**	**51,729,911**	**1,040,868,466**

During 2018, finance costs of Saudi Riyals 1.3 million is capitalized as part of property, planet and equipment (2017: Saudi Riyals 1.1 million).

Capital work-in-progress at December 31, 2018 includes costs incurred related to the ongoing projects for planet and machinery. The projects are expected to complete during 2019. 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).

6. INTANGIBLE ASSET

Computer software and ERP

At January 1, 2017	
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
Year ended December 31, 2018	
Opening net book value	5,143,778
Amortization	(1,562,957)
Closing net book value	**3,580,821**
At December 31, 2018	
Cost	7,813,426
Accumulated amortization	(4,232,605)
Net book value	**3,580,821**

7. DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2018	December 31, 2017
Interest rate swaps - Positive fair value	2,064,063	1,357,238

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 (2017: Saudi Riyal 300 million) out of which the outstanding value is Saudi Riyals 180 million at December 31, 2018 (2017: Saudi Riyals 220 million).

8. INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	69,502,782	74,829,577
Finished goods	82,374,970	31,620,531
Goods in transit	5,885,777	8,956,901
Work-in-progress	2,281,262	1,746,119
Consumable spare parts	57,297,579	64,334,726
	217,342,370	181,487,854
Less: Allowance for slow moving inventories	(3,409,175)	(1,315,387)
	213,933,195	**180,172,467**

During 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 prior period ended December 31, 2017.

Movement in allowance for slow moving inventories is as follows:

	December 31, 2018	December 31, 2017
January 1	1,315,387	3,800,903
Additions	3,067,797	1,900,000
Write-offs	(974,009)	(4,385,516)
December 31	3,409,175	1,315,387

During the year Saudi Riyals 3.07 million (2017: Saudi Riyals 1.90 million) were recognized as an expense under cost of sales for inventory carried at net realizable value.

9. TRADE RECEIVABLES

	December 31, 2018	December 31, 2017
Trade receivables - gross	163,613,838	214,959,561
Allowance for impairment	(6,736,472)	(5,341,980)
	156,877,366	209,617,581

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

	December 31, 2018	December 31, 2017
January 1	5,341,980	4,873,902
Additions	1,394,492	620,376
Write-offs	-	(152,298)
December 31	6,736,472	5,341,980

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Before accepting any new credit customer, the Group uses an internal credit review system to assess the potential customer's credit quality and defines credit limits by customer.

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

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

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

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

The Group considers the held to collect business model to remain appropriate for all other trade receivables and hence continues measuring them at amortised cost.

10. PREPAYMENTS AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Prepaid expenses	9,725,764	9,303,124
Net Value Added Tax (VAT) receivables	2,748,069	-
Deposits with suppliers	533,998	792,743
Others	2,039,108	2,093,284
	15,046,939	12,189,151

11. OTHER CURRENT ASSETS

	Note	December 31, 2018	December 31, 2017
Advances to suppliers		28,459,059	27,083,138
Receivable from Higher Institute for Paper and Industrial Technology (HIPIT)	(a)	9,727,398	11,135,035
Advances to employees		5,762,380	5,819,096
		43,948,837	44,037,269

(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.

12. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2017, the Company acquired the units of an unlisted open-ended mutual fund. As at December 31, 2018, the fair value of the investment is Saudi Riyals 524,256 (2017: 512,303).

Fair value gains of Saudi Riyals 11,953 (2017: 212,303) have been recognized in profit or loss.

13. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash in hand	4,502,278	5,691,387
Cash at bank	24,340,268	25,324,273
	28,842,546	31,015,660

14. SHARE CAPITAL

At 31 December 2018, the Company’s issued share capital of Saudi Riyals 500 million (2017: Saudi Riyals 500 million) consists of 50 million (2017: 50 million) fully paid shares of Saudi Riyals 10 each.

	December 31, 2018	December 31, 2017
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.

15. 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.

16. TREASURY SHARES

Treasury shares are shares bought back by the Company in advance for the purpose of issuing shares under the proposed ESOP for which required approvals were still in progress as of December 31, 2018. The Company purchased 300,000 shares at prevailing market rates during the current year.

17. RETAINED EARNINGS

Other comprehensive loss accumulated in retained earnings.

	December 31, 2018	December 31, 2017
Actuarial losses on re-measurements of defined benefits liability	7,089,697	5,895,448

18. LONG-TERM BORROWINGS

	December 31, 2018	December 31, 2017
Saudi Industrial Development Fund (SIDF)	106,379,698	135,622,655
Islamic banking facilities (Tawarruq)	382,334,159	347,065,637
Long-term borrowings	488,713,857	482,688,292
Less: Current portion shown under current liabilities	(128,352,211)	(124,333,703)
Long term borrowings shown under non-current liabilities	360,361,646	358,354,589

Reconciliation of cash movement of borrowings	December 31, 2018	December 31, 2017
Balance at the beginning of year	482,688,292	503,573,147
Disbursements	162,000,000	110,340,753
Repayment of principal instalments	(160,218,750)	(132,663,860)
Movement in accrued financial charges	1,758,388	(1,186,313)
Movement in deferred financial charges	2,485,927	2,624,565
Balance at end of year	488,713,857	482,688,292

(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 was fully repaid during the year 2018.

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

Upfront fees were deducted at the time of receipt of the loans. These fees are amortised over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. Under the terms of the SIDF loan agreement, the Company's property, planet 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 year end 2023.

During the year ended December 31, 2018, the Company capitalised finance charges in property, planet and equipment amounting to Saudi Riyals 1.3 million (2017: Saudi Riyals 1.1 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 Group is in compliance with these debt covenants at December 31, 2018. The loans are denominated in Saudi Riyals and US Dollars as follows:

Long term borrowings	December 31, 2018	December 31, 2017
Saudi Riyals	**452,989,475**	432,813,292
US Dollars	**35,724,382**	49,875,000
Total	**488,713,857**	482,688,292

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

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

2017

Year ending December 31:

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**

19. EMPLOYEES' END OF SERVICE BENEFITS

The Group operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

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

	December 31, 2018	December 31, 2017
At the beginning of the year	**35,330,773**	29,837,970
Current year charge:		
- Current service cost	**4,457,050**	4,123,613
- Interest cost	**1,173,886**	1,131,748
	5,630,936	5,255,361
Re-measurement losses:		
Financial assumptions	**99,206**	44,270
-Demographic assumptions	**(1,162,073)**	
Experience adjustment	**2,257,116**	1,672,114
	1,194,249	1,716,384
Payments	**(2,243,895)**	(1,478,942)
At the end of the year	**39,912,063**	35,330,773

Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	4.00 % to 4.20 %	3.40 % to 3.60 %
Future salary growth	4.60 % to 4.95 %	4.00 % to 4.35 %
Mortality rate	0.11 % to 0.25%	0.11 % to 0.25%

Sensitivity Analysis

	December 31, 2018		December 31, 2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,602,354)	1,727,826	(458,272)	2,457,235
Future salary growth (1% movement)	1,882,199	(1,776,454)	2,592,959	(610,130)
Future mortality (1 year change in mortality age)	6,974	(6,921)	949,399	940,067

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

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

	December 31, 2018	December 31, 2017
Less than a year	7,026,753	6,693,903
Between 1 – 5 years	20,219,512	17,087,766
Over 5 years	20,623,480	17,401,764

20. ZAKAT

20.1 Components of zakat base

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

20.2 Provision for zakat

	December 31, 2018	December 31, 2017
At the beginning of the year	3,006,659	1,630,533
Provisions		
- Provision for current year	4,020,197	3,006,659
- Adjustment related to prior years	(1,247,284)	(1,592,581)
Payments	(1,759,375)	(37,952)
At the end of the year	4,020,197	3,006,659

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 2017 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2017 are currently under review by the GAZT.

21. SHORT-TERM BORROWINGS

	December 31, 2018	December 31, 2017
Islamic banking facilities (Tawarruq)	126,499,317	217,236,875
Notes payable	1,178,895	4,685,770
Accrued financial charges	622,819	1,330,576
	128,301,031	223,253,221

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, 2018. The loans are denominated in Saudi Riyals, US Dollars and Euro as follows:

	December 31, 2018	December 31, 2017
Short-term borrowings		
Saudi Riyals	120,800,221	191,733,462
US Dollars	7,500,810	24,836,680
Euro	-	6,683,079
Total	128,301,031	223,253,221

22. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade payables - third parties	62,983,468	49,542,221
Employees related accruals	19,679,301	15,678,734
Accrued transportation expenses	2,992,154	4,180,240
Accrued sales services expenses	1,939,651	875,234
Accrued rent expense	325,762	288,013
Accrued legal and consultancy fees	212,072	1,483,663
Accrued directors' remuneration	258,583	210,667
Others	1,706,957	5,429,936
	90,097,948	77,688,708

23. OTHER CURRENT LIABILITIES

	December 31, 2018	December 31, 2017
Advances from customers	2,984,484	4,481,543
Deferred rent payables	343,845	205,330
	3,328,329	4,686,873

24. COST OF REVENUE

	December 31, 2018	December 31, 2017
Material and employees cost	431,996,647	413,201,406
Depreciation and maintenance cost	112,976,370	124,453,146
Transportation cost	14,604,181	18,025,498
Rent	11,246,001	9,305,586
Other overheads	27,116,315	19,912,511
	597,939,514	584,898,147

25. SELLING AND DISTRIBUTION EXPENSES

	December 31, 2018	December 31, 2017
Transportation and shipping	32,705,899	27,303,329
Salaries and related benefits	5,013,787	3,552,611
Sales commission	2,100,840	1,398,475
Sales services expenses	1,395,871	359,793
Credit insurance	260,506	466,988
Depreciation and amortization	197,715	255,343
Repair and maintenance	89,387	17,804
Others	2,343,427	1,280,494
	44,107,432	34,634,837

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	December 31, 2018	December 31, 2017
Salaries and related benefits		42,931,614	38,489,890
Training		3,220,073	3,645,833
Depreciation and amortization		2,605,720	2,639,479
Directors' remuneration	33	2,391,196	2,410,748
Bank charges		1,869,313	1,658,585
Consultation fee		1,316,442	2,086,063
Government fee		1,296,791	527,869
Insurance expenses		945,210	946,681
Travel expenses		707,733	517,685
Professional fee		549,760	762,725
Communication		467,742	370,234
Repairs and maintenance		430,758	496,998
Others		2,981,908	1,531,071
		61,714,260	56,083,861

27. OTHER OPERATING (EXPENSES) / INCOME - NET

	December 31, 2018	December 31, 2017
Foreign currency exchange (loss) / gain	(1,663,841)	111,180
(Loss) / gain on disposal of property and equipment	(526,421)	431,492
Scrap sales	674,579	1,026,793
Others	580,994	851,702
	(934,689)	2,421,167

28. FINANCE COSTS

	Note	December 31, 2018	December 31, 2017
Finance costs on long-term borrowings:	18		
Tawarruq		13,074,979	11,139,384
SIDF charges		2,732,002	2,784,000
Amortisation of deferred financial charges		2,485,927	2,624,565
Interest rate swap settlements		(6,738)	1,051,922
Finance costs on short-term borrowings:	21		
-Tawarruq		7,727,276	8,688,416
		26,013,446	26,288,287

29. OPERATING LEASES

The Group has various operating leases for its buildings, warehouses and employees' accommodation. Rental expenses for the year ended December 31, 2018 amounted to Saudi Riyals 10.9 million (2017: Saudi Riyals 10.1 million). Future rental commitments under such leases at December 31 are as follows:

Undiscounted value

	December 31, 2018	December 31, 2017
Less than a year	9,869,217	6,552,629
Between 1 – 5 years	23,283,080	10,839,094
Over 5 years	27,069,930	19,322,554
	60,222,227	36,714,277

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, 2018	December 31, 2017
Net profit for the year	99,443,935	68,131,115
Weighted average number of shares	49,817,130	50,000,000
Basic and diluted earnings per share	2.00	1.36

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) Financial assets subsequently measured at amortised cost:

	Note	December 31, 2018	December 31, 2017
Trade receivables	9	156,877,366	209,617,581
Other current assets			
(Advances to employees and receivable from HIPIT)	11	15,489,778	16,954,131
Cash and cash equivalents	13	28,842,546	31,015,660
		201,209,690	257,587,372

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

	Note	December 31, 2018	December 31, 2017
Derivative financial instrument – interest rate swaps	7	2,064,063	1,357,238
Investments at fair value through profit or loss	12	524,256	512,303
		2,588,319	1,869,541

(c) Financial liabilities at amortised cost:

	Note	December 31, 2018	December 31, 2017
Borrowings	18, 21	617,014,888	705,941,513
Trade and other payables	22	90,097,948	77,688,708
		707,112,836	783,630,221

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, 2018	December 31, 2017
Level 2		
Derivative financial instruments	**2,064,063**	1,357,238
Investments at fair value through profit or loss	**524,256**	512,303

During the year ended December 31, 2018, there were no movements between the levels.

32. COMMITMENTS AND CONTINGENCIES

i. At December 31, 2018, the Group had outstanding letters of credit of Saudi Riyals 11.51 million (2017: Saudi Riyals 5.06 million) and letters of guarantee of Saudi Riyals 1.62 million (2017: Saudi Riyals 1.96 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, 2018 was approximately Saudi Riyals 45.1 million (2017: Saudi Riyals 15.1 million).

33. RELATED PARTIES' MATTERS

33.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	December 31, 2018	December 31, 2017
Short term benefits	12,084,511	10,312,017
Post-employment benefits	280,321	276,787
Termination benefits	571,583	546,158
	12,936,415	11,134,962

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

33.2 Related parties' transactions

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

Related party	Description of transaction	Relationship	December 31, 2018	December 31, 2017
MASDAR Building Materials	Purchase of materials / services	Subsidiary of a significant shareholder	**15,330**	245,235
Directors	Directors remuneration	Directors	**2,391,196**	2,410,748

33.3 Related parties' balances

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

Related party	December 31, 2018	December 31, 2017
Accrued directors remuneration	**258,583**	210,667
Advances to key management personnel	**1,194,089**	948,906

34. DIVIDENDS

On April 22, 2018, the General Assembly of the Company approved a dividend of Saudi Riyals 0.75 per share (2017: Saudi Riyals 0.75 per share) aggregating to Saudi Riyals 37.5 million (2017: Saudi Riyals 37.5 million). The dividend was paid in June 2018 (2017: June 2017).

Further, the Company has distributed an interim dividend based on General Assembly authorization to the Board of Directors for the first half of financial year ended December 31, 2018 of Saudi Riyals 0.50 per share aggregating to Saudi Riyals 25 million. The dividend was paid in November 2018.

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.

35.1 Market risk

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

35.2 Interest rate risk

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

At December 31, 2018, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans (excluding loans hedged through interest rates swaps arrangements) will increase/decrease by Saudi Riyals 3,278,985 (2017: Saudi Riyals 3,444,587).

35.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year and accordingly the Group has no significant exposure to other foreign currencies at the year ended December 31, 2018 and 2017. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk. Exposure to Euro at the end of 2017 was immaterial.

35.4 Credit risk

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

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees. As at December 31, 2018, the Group has assigned credit insured trade receivables of Saudi Riyals 31.82 million (2017: Nil) to a commercial bank as the Group transferred all risks and rewards related to those receivable balances.

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

	December 31, 2018	December 31, 2017
Financial assets		
Trade receivables	**156,877,366**	209,617,581
Other current assets (*)	**15,489,778**	16,954,131
Cash and cash equivalents	**28,842,546**	31,015,660
Short term investments	**524,256**	512,303
Derivative financial instrument – interest rate swaps	**2,064,063**	1,357,238
	203,798,009	259,456,913

(*) Other current assets comprise of advances to employees and receivable from HIPIT (see Note 11).

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.

35.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at December 31, 2018. 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 2018				
Non derivative financial liabilities				
Borrowings	278,395,419	386,830,661	-	**665,226,080**
Trade and other payables	90,097,948	-	-	**90,097,948**
	368,493,367	386,830,661	-	**755,324,028**
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**

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 capital gearing ratio is as follows:

	December 31, 2018	December 31, 2017
Borrowings	617,014,888	705,941,513
Trade and other payables	90,097,948	77,688,708
Other current liabilities	3,328,329	4,686,873
Total debt	710,441,165	788,317,094
Cash and cash equivalents	28,842,546	31,015,660
Net debt	681,598,619	757,301,434
Share capital	500,000,000	500,000,000
Statutory reserve	83,607,622	73,663,228
Treasury shares	(6,816,812)	-
Retained earnings	174,522,254	148,716,962
Equity	751,313,064	722,380,190
Capital gearing ratio - %	**1.102**	**0.954**

37. POST BALANCE SHEET DATE EVENT

Based on General Assembly's authorisation to the Board of Directors, the Company's Board of Directors, in their meeting held on March 7, 2019, resolved to distribute a dividend of Saudi Riyals 25 million for the second half of the financial year ended December 31, 2018 as cash dividends (Saudi Riyal 0.5 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 7, 2019.

GOVERNANCE

BOARD OF DIRECTORS

MEPCO's Board of Directors is elected by the General Assembly and is the body authorised to manage and run the company. The board is aware of its legal responsibilities and the fact that it has a duty to shareholders.

MEPCO's corporate governance regulations cover the board's formation, committees, jurisdiction, responsibilities and meetings, as well as members' rights and responsibilities. These regulations highlight the principle of members' active involvement in decision making, and they strictly regulate conflicts of interests between members and the company. The principles of honesty, integrity and due diligence define the board's foundation and approach. MEPCO's bylaws determine the number of board members, their rewards and remuneration, their specialties and authorities, how they're appointed and how their appointments end – taking into consideration the size and nature of MEPCO's business and the scope of expertise required.

The Board of Directors consists of 8 members, 3 of whom are independent. It was elected during the General Assembly meeting in November 2016 and is in session for 3 calendar years. It's possible to re-elect the Board of Directors for several sessions.

COMMUNICATION WITH SHAREHOLDERS & INVESTORS

MEPCO's Board of Directors is committed to providing complete, clear and correct information so shareholders can exercise their rights to the fullest extent. The company has intensified its efforts to communicate with shareholders and engage with a wider range of investors, so as to expand its investor base over the long term.

In 2018, MEPCO participated in 6 conferences, striking an ideal balance across local and international investment events. The Investor Relations Department has enhanced the data and content it provides. Relevant information is made available to the public after it has been disclosed to shareholders.

We held a press conference to discuss Q1 results, providing an opportunity for investors and financial analysts to discuss the results with management.

The Investor Relations Department regularly reports to the Board of Directors on its activities, keeping it informed on shareholder and investor views and questions. It also organises visits for shareholders and investors, so they can have a close look at MEPCO facilities and understand operations in depth.

In 2018, we partnered with Closir, an electronic platform that facilitates access to special types of global investors. We were the first Saudi company to work with Closir, demonstrating our commitment to using the latest investor relations technology. We have held many meetings in London as a result of using the Closir platform, increasing investor awareness of the company and the Saudi economy. These meetings have resulted in investment in MEPCO shares, as well as Saudi Fransi Bank initiating analyst coverage.

DUTIES & RESPONSIBILITIES

The Board of Directors' duties and responsibilities are to:

- Develop the company's plans, policies, strategies and objectives, and to review them regularly and oversee their implementation
- Ensure the required human and financial resources are available to implement such policies and strategies
- Oversee the company's financial management, including cash flow, as well as financial and credit relations with other parties
- Prepare and approve interim and annual financial statements, including the proposed dividend distribution
- Prepare the Board of Directors report and approve it before publication
- Develop policies and procedures that ensure MEPCO complies with laws and regulations and its disclosure commitments to shareholders and stakeholders
- Ensure the accuracy and validity of disclosed information in accordance with applicable disclosure and transparency policies and regulations
- Develop effective communication channels that keep shareholders regularly informed about MEPCO's various activities, as well as any related material updates

STRUCTURE & MEMBERSHIP CLASSIFICATION

Name	Title	Membership Status
Mr Emad Abdulkadir Al Muhaidib	Chairman	Non-Executive
Eng Abdula Abdulrahman Al-Muammar	Vice Chairman	Non-Executive
Mr Abdel-Ilah Abdullah Abunyyan	Member	Non-Executive
Mr Khaled Saleh Al-Khataf	Member	Non-Executive
Mr Tarek Mutlaq Al Mutlaq	Member	Non-Executive
Mr Ahmed Mubarak Al-Dabbasi	Member	Independent
Mr Walid Ibrahim Shukri*	Member	Independent
Mr Musaab Seiliman Al-Muhaidib	Member	Independent

* Mr Walid Ibrahim Shukri was appointed on 23 May 2018 to replace Mr Faisal Al-Saqqaf

Performance Assessment System

The board's performance assessment system is an important governance element because the board is at the top of the organisational structure.

Each year, the board approves mechanisms for evaluating its performance as well as the performance of members, committees and executive management. These include measurable indicators linked to the company's strategic objectives, risk management, internal control systems and others related to the strengths and weaknesses.

The Remuneration & Nomination Committee carried out the annual assessment of the board and its committees in accordance with the approved policy. It then presented the results to the board.

Other Interests

Here we list board members' other interests. These include companies where they've served on previous or current boards or hold a management position.

Board member **Mr Emad Abdulkadir Al Muhaidib**

Company	Location	Legal Entity	Company	Location	Legal Entity
Commercial Generations Funds	Inside KSA	Limited liability	United Sugar Co	Inside KSA	Limited liability
Mayar Foods Limited	Inside KSA	Limited liability	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	Mayar Foods Limited	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	Savola Group	Inside KSA	Limited liability
Al Massira International Company	Inside KSA	Limited liability	Al Muhaidib Contracting Co (Thabat Co)	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 Co	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	Inside KSA	Closed joint stock	United Mining Industries	Inside KSA	Closed joint stock
Masdar Building Materials	Inside KSA	Closed joint stock	United Mining Investments Co	Inside KSA	Limited liability

Board member **Eng Abdula Abdulrahman Al-Muammar**

Company	Location	Legal Entity	Company	Location	Legal Entity
Al Massira International Company	Inside KSA	Limited liability	Saudi Paper Manufacturing Company Ltd	Inside KSA	Listed joint stock
United Feed Company	Inside KSA	Limited liability	Saudi Printing & Packaging Company	Inside KSA	Listed joint stock
Waste Collection and Recycling Company (WASCO)	Inside KSA	Limited liability	United Feed Manufacturing Company	Inside KSA	Limited liability
Specialized Achievement Company	Inside KSA	Limited liability			

Board member **Mr Abdel-Ilah Abdullah Abunyyan**

Company	Location	Legal Entity	Company	Location	Legal Entity
Burj Rafal Company	Inside KSA	Closed joint stock	Qatar Alpha Beton Readymix Concrete Company	Outside KSA	Limited liability
Ithraa Capital Company	Inside KSA	Closed joint stock	RAFAL Real Estate Development Company	Inside KSA	Closed joint stock
Al-Hassan Ghazi Ibrahim Shaker Company	Inside KSA	Listed joint stock	L.G. Shaker Company	Inside KSA	Limited liability
Lafana Holding Company	Inside KSA	Closed joint stock	Abdel-Ilah Abdullah Abunyyan Company	Inside KSA	Limited liability
Abunyyan Group	Inside KSA	Limited liability	Communications Solutions Co	Inside KSA	Limited liability

Board member **Mr Ahmed Mubarak Al-Dabbasi**

Company	Location	Legal Entity	Company	Location	Legal Entity
Saudi Steel Pipe Company	Inside KSA	Listed joint stock	Saudi Steel Pipe Company	Inside KSA	Listed joint stock
Titanium and Steel Manufacturing Company	Inside KSA	Limited liability	3D Systems Company	Inside KSA	Limited liability

Board member **Mr Musaab Seiliman Al-Muhaidib**

Company	Location	Legal Entity	Company	Location	Legal Entity
Masdar Building Materials	Inside KSA	Closed 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	Closed joint stock	Al Latifiya Contracting Company	Inside KSA	Closed joint stock
Dur Hospitality Company	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	Asala Real Estate Development	Inside KSA	Closed joint stock
Dar Al Ebda Investment & Development	Inside KSA	Closed joint stock			

Qualifications & Experience

Name	Title	Qualification	Experience
Board of Directors			
Mr Emad Abdulkadir Al Muhaidib	Chairman	Bachelor's in commerce Honorary PhD	Co-founder and Chairman of MEPCO's Board of Directors. Has more than 35 years' experience in commerce, business management and investment, and has served as a manager and board director at numerous companies.
Eng Abdula Abdulrahman Al-Muammar	Vice Chairman, Chairman of the Executive Committee and Member of the Remuneration & Nomination Committee	Bachelor's in industrial engineering Master's in business administration	Co-founder and Vice Chairman of MEPCO. Has more than 25 years' experience in the paper industry. Was Deputy Manager and General Manager of Saudi Paper Manufacturing Company.
Mr Abdel-Ilah Abdullah Abunyyan	Board Member, Member of the Executive Committee	Bachelor's in economics	Has held leadership and executive roles in public and private commercial and industrial companies. These have given him vast knowledge and extensive experience in corporate governance, strategy, sales and marketing. He has excellent leadership, communication and interpersonal skills, and is highly qualified in all aspects of management and planning.
Mr Khaled Saleh Al-Khataf	Board Member, Member of the Executive Committee, Chairman of the Audit Committee	Bachelor's in accounting Master's in financial management and accounting from the University of Colorado, USA CPA Diploma in applied economics	CEO of Lafana Holding Company and a member of several joint stock company boards. CEO and Managing Director of Nomura Saudi Arabia, which offers advisory services in risk management, international securities, trade finance and M&A. Previously served as CFO of the Saudi Stock Exchange (Tadawul), the Saudi Arabian Monetary Authority Investment Department, and the World Bank's Multilateral Investment Guarantee Agency (MIGA) Treasury Department in Washington, DC.
Mr Musaab Seiliman Al-Muhaidib	Board Member, Member of the Executive Committee and the Audit Committee	Bachelor's in business administration from Miami University, USA Master's in business administration from Liverpool University, UK	Board member for several companies inside and outside KSA. Has vast experience in strategic business development, sales and marketing, as well as project management and real estate operations.
Mr Ahmed Mubarak Al-Dabbasi	Board Member, Chairman of the Remuneration & Nomination Committee	Bachelor's in business administration from Temple University, USA	35 years' experience working with industrial companies. Member of several boards, including Saudi Steel Pipe Company, Titanium and Steel Manufacturing Company and Space Structures Company Ltd.
Mr Walid Ibrahim Shukri	Board Member, Member of the Audit Committee	Bachelor's in industrial management accounting King Fahd University of Petroleum and Minerals Certified Public Accountant in Saudi Arabia and USA	Board member for several companies inside and outside KSA, including serving on audit committees and risk management committees. Has extensive experience in planning, organising and supervising audit-related activities. Previous experience includes Al-Jared & Co, PricewaterhouseCoopers, Deloitte & Touche Saudi Arabia and Ernst & Young. Is a former member of the Eastern Province Chamber of Commerce for SMEs. Represented Saudi Arabia in the Gulf Cooperation Council Accounting and Auditing Organisation.
Mr Tarek Mutlaq Al Mutlaq	Board Member	Bachelor's in business administration from American University, USA	General Manager of Al Mutlaq Furniture Company; Vice Chairman of Local Investment and Real Estate Development and the Public Investment Fund. Previously Regional General Manager of NAPCO; Chairman of Shuaa Capital Saudi Arabia; Chairman of Al-Waha Petrochemical Company; and Board Chairman of Qassim Cement. Served on the board of Sahara Petrochemical Company, Arab Insurance Company, National Finance House, National Installment Company and Oryx Saudi Arabia.

Name	Title	Qualification	Experience
Non-Board Committee Members			
Eng Omar Mohammed Siraj	Member of the Remuneration & Nomination Committee	Bachelor's in systems engineering Master's in industrial engineering Master's in business administration and management	Saudi Aramco – engineering and drilling technology; Saudi Airlines – industrial engineering and performance optimisation; 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.
Senior Executives			
Eng Sami Ali Yousuf Al Safran	CEO	Bachelor's in industrial chemistry	CEO of MEPCO since 2012. From 2005-2012 served as MEPCO's General Manager, and from 2004-2005 as Deputy General Manager. Before joining MEPCO, was a technical manager and a project manager at a Saudi paper manufacturing company, and a technical consultant at Saudi NALCO.
Dr Mohamed Saleh Darweesh	CFO	Bachelor's in commerce Master's in accounting, Egypt PhD in financial business administration American fellowship in accounting and auditing	Has experience in external auditing, financial analysis, cost analysis, feasibility studies and M&A. Has worked as CFO in several industrial, commercial and real estate companies including Qassim Cement Co, Dubai-based Ishraqah Investment, Dubai-based Khamas Group of Investments and Egypt-based Delta Gases Group. He was also an auditor at Egypt-based Hashish Auditing Company.
Eng Mohammed Wadih Malibari	COO	Bachelor's in industrial chemistry	COO of MEPCO since 2011. Prior to that, was General Manager of subsidiary WASCO. Was also Head of Procurement and Deputy General Manager of Amiantit Company, Head of the Amiantit Fiberglass Factory, and Head of Procurement and Head of Quality at Amiantit Companies.
Eng Naguib Fakih Mohamed	Chairman – WASCO	Bachelor's in chemical engineering	15 years' experience at MEPCO subsidiary WASCO. Past roles include General Manager of Dubai-based Duplas Al Sharq, Vice President of Packaging at Safola Group, Project Supervisor at United Engineers in Jeddah; Production Manager at Clorox in Jeddah.
Eng Abdul Aziz Bashir Al Jazzar	General Manager	Bachelor's in systems engineering	15 years' experience at MEPCO subsidiary WASCO. Previously served as Assistant Director for Arab Bank's Jeddah branch.

Board Meetings & Attendance

Name	2018 Board Meetings				Attendance (%)
	4 March	7 May	30 September	2 December	
Mr Emad Abdulkadir Al Muhaidib	Attended	Attended	Attended	Attended	100%
Eng Abdula Abdulrahman Al-Muammar	Attended	Attended	Attended	Didn't attend	75%
Mr Abdel-Ilah Abdullah Abunyyan	Attended	Attended	Attended	Attended	100%
Mr Khaled Saleh Al-Khataf	Attended	Attended	Attended	Attended	100%
Mr Musaab Seiliman Al-Muhaidib	Attended	Attended	Attended	Attended	100%
Mr Faisal Omar Al-Saqqaf*	Attended	Didn't attend	N/A	N/A	50% (for period of appointment)
Mr Ahmed Mubarak Al-Dabbasi	Attended	Attended	Attended	Attended	100%
Mr Walid Ibrahim Shukri*	N/A	N/A	Attended	Attended	100% (for period of appointment)
Mr Tarek Mutlaq Al Mutlaq	Attended	Attended	Attended	Attended	100%

* Mr Faisal Omar Al-Saqqaf resigned from the board and Walid Ibrahim Shukri was appointed to replace him on 23 May 2018. The last board meeting was held on 2 December 2018. The last General Assembly meeting was held on 29 October 2018.

BOARD COMMITTEES

Committees help the board play an active management role when it comes to optimising performance and championing shareholder interests.

The board forms the Executive Committee and the Remuneration & Nomination Committee, and the General Assembly forms the Audit Committee.

The board sets the procedures for forming committees, including roles, session duration, remit and supervision levels. Committees submit reports and recommendations to the board. The board then conducts annual rules reviews to update where necessary. Non-executive committee members are appointed for tasks where there's a conflict of interest, such as ensuring the integrity of financial and non-financial reports, reviewing related-party transactions, reviewing board nominations, appointing senior executives and determining remuneration. Committee chairmen and members are committed to upholding company and shareholder interests.

AUDIT COMMITTEE

The Audit Committee consists of 3 board members and 2 independent members, all of whom have finance and accounting experience. It's responsible for supervising MEPCO's business activities and ensuring the accuracy and integrity of its financial reports, statements and internal control systems. It supports the board's overall supervision, including compliance with applicable laws and regulations.

The Audit Committee's main responsibilities are to:

- Review interim and annual financial statements before presenting them to the Board of Directors – and to provide feedback and recommendations to ensure their integrity, fairness and transparency
- Review any significant or unusual matters in the financial reports
- Investigate thoroughly any issues raised by the CFO, those acting in the CFO's capacity, the Compliance Officer or the Auditor
- Give professional feedback – as requested by the board – regarding the fairness, consistency and clarity of the Board of Directors report and MEPCO's financial statements
- Study and review MEPCO's internal and financial control systems, risk management systems, as well as internal audit reports – and to ensure corrections and changes are implemented
- Give the board recommendations for appointments of the Head of the Internal Audit Department and the Compliance Officer, as well as to propose the appropriate remuneration
- Review the results of regulatory reports and ensure MEPCO complies with laws and regulations
- Review contracts and transactions proposed with related parties and provide recommendations to the board

Committee Members & Meeting Attendance

Name	Title	2018 Committee Meetings					Attendance (%)
		4 March	3 May	29 July	28 October	2 December	
Mr Khaled Saleh Al-Khataf	Committee Chairman	Attended	Attended	Attended	Attended	Attended	100%
Mr Faisal Omar Al-Saqqaf*	Committee Chairman	Didn't attend	Didn't attend	N/A	N/A	N/A	0%
Mr Walid Ibrahim Shukri	Member	Attended	Didn't attend	Attended	Attended	Attended	80%
Mr Musaab Seiliman Al-Muhaidib	Member	Attended	Attended	Attended	Attended	Attended	100%

* The committee was changed on 23 May 2018, with the resignation of Chairman Mr Faisal Omar Al-Saqqaf and the appointment of Mr Walid Ibrahim Shukri. Mr Khaled Saleh Al-Khataf served as chairman from that time on.

REMUNERATION & NOMINATION COMMITTEE

This committee supports with nominating MEPCO board members and senior executives. It also ensures the company's strategy on remuneration, rewards and incentives is adhered to.

The committee's key duties are to:

- Help develop remuneration policies for the board and executive management, as well as to demonstrate how remuneration is related to policies
- Conduct regular remuneration policy reviews, evaluating its effectiveness in achieving desired goals
- Provide recommendations on remuneration for board members, committee members and senior executive management
- Propose clear policies and criteria for board membership and executive management
- Recommend the nomination and re-nomination of board members in line with policies – and to ensure the continued integrity of the board
- Prepare descriptions of the skills and qualifications required for board and executive management positions
- Determine the amount of time board members should dedicate to performing their duties
- Conduct an annual review and determine the skills and qualifications needed for positions on the board and executive management team
- Review the board and executive management organisational structures and recommend any changes
- Investigate the independence of independent board members on an annual basis, ensuring there are no conflicts of interest
- Prepare job descriptions for executive, non-executive and independent board members, as well as senior executives
- Develop procedures for vacancies on the board or senior executive team

Committee Members & Meeting Attendance

Name	Title	2018 Committee Meetings			Attendance (%)
		6 May	30 September	2 December	
Mr Ahmed Mubarak Al-Dabbasi	Committee Chairman	Attended	Attended	Attended	100%
Eng Abdula Abdulrahman Al-Muammar	Member	Attended	Attended	Attended	100%
Eng Omar Mohammed Siraj	Member	Attended	Attended	Attended	100%

EXECUTIVE COMMITTEE

This Executive Committee assists the board with supervising MEPCO's operational and administrative activities. This includes supervising executive management, providing recommendations, reviewing strategic decisions and overseeing general objectives and investments. The committee generally works continuously, including between board meetings, to ensure quick responses to business issues and help the wider board perform its duties.

The Executive Committee's responsibilities are to:

- Discuss and make decisions on issues requiring quick action
- Follow up on the preparation and implementation of long-, mid-, and short-term strategic plans – and to update and review the plans on a regular basis
- Meet with sector heads and all employees responsible for MEPCO's operational and financial performance
- Nominate senior executives, in coordination with the Remuneration & Nomination Committee
- Follow up on the implementation of the estimated budget, analyse any performance deviations and make recommendations
- Conduct periodic reviews of actual capital expenses and match those expenses with board-approved budgets
- Recommend new/greenfield investments and industrial projects, as well as develop existing activities both horizontally and vertically

Committee Members & Meeting Attendance

Name	Title	2018 Committee Meetings				Attendance (%)
		1 March	31 May	26 September	23 December	
Eng Abdula Abdulrahman Al-Muammar	Committee Chairman	Attended	Attended	Attended	Attended	100%
Mr Abdel-Ilah Abdullah Abunyyan	Member	Attended	Attended	Attended	Attended	100%
Mr Khaled Saleh Al-Khataf	Member	Attended	Attended	Attended	Attended	100%
Mr Musaab Seiliman Al-Muhaidib	Member	Attended	Attended	Attended	Attended	100%

INTERESTS IN COMPANY SHARES

We are committed to complete transparency regarding board member and senior executive interests in MEPCO shares.

This table shows interests in shares and debt instruments during 2018.

Name	Beginning of 2018		End of 2018		Net Change During 2018	Change (%)
	Equity	Debt Instruments	Equity	Debt Instruments		
Board Members – and their spouses and minor children, if any						
Mr Emad Abdulkadir Al Muhaidib	2,476,000	-	1,000	-	2,475,000	2,475%
Eng Abdula Abdulrahman Al-Muammar	4,750,000	-	4,750,000	-	-	-
Mr Abdel-Ilah Abdullah Abunyyan	1,000	-	1,000	-	-	-
Mr Walid Ibrahim Shukri	1,000	-	1,000	-	-	-
Mr Ahmed Mubarak Al-Dabbasi	1,000	-	22,765	-	21,765	227%
Mr Tarek Mutlaq Al Mutlaq	1,000	-	-	-	-	-
Mr Khaled Saleh Al-Khataf	1,000	-	1,000	-	-	-
Mr Musaab Seiliman Al-Muhaidib	1,000	-	1,000	-	-	-
Senior Executives – and their spouses and minor children, if any						
Eng Sami Ali Yousuf Al Safran	177,027	-	249,027	-	72,000	41%
Noha Ibrahim Al Khofi (CEO's spouse)	7,370	-	19,870		12,500	170%

REMUNERATION & COMPENSATION POLICY

We define remuneration as amounts, allowances, dividends and periodic or annual bonuses linked to performance or long- or short-term incentive plans.

The term also covers any other in-kind benefits except reasonable expenses and fees MEPCO incurs to enable board members to perform their duties.

General Remuneration Criteria

The Remuneration & Nomination Committee has prepared a remuneration policy for board members, board committee members and senior executives. The General Assembly approved the policy on 5 December 2017.

Without prejudice to the provisions of the Companies Law, the Capital Markets Law and their implementing regulations – as well as MEPCO's bylaws – the remuneration policy shall:

- Be consistent with MEPCO's strategy and objectives, as well as with the magnitude, nature and level of risk it faces
- Provide remuneration with the aim of encouraging board members and executive management to achieve success and develop the company long term, for example by making the variable part of remuneration linked to long-term performance
- Determine remuneration based on job level, duties, responsibilities, qualifications, practical experience, skills and performance
- Take into consideration the remuneration practices of other companies and avoid comparisons leading to unjustifiable increases
- Attract talented professionals and retain and motivate them
- Support the Remuneration & Nomination Committee with appointments
- Take into consideration situations where remuneration should be suspended or reclaimed if it was set based on inaccurate information from a board member or executive manager, so as to prevent power being abused to obtain unmerited remuneration
- Regulate the granting of company shares (newly issued or purchased by the company) to board members and executive managers

Board member and committee member remuneration was determined and awarded in line with the policy approved by the General Assembly and the following criteria:

- Remuneration was in line with MEPCO bylaws on board member remuneration, and no member's remuneration exceeds the amount set out in the Companies Law and associated regulations. Board committee regulations determined remuneration and attendance allowances
- Remuneration was proportionate to the number of meetings members attended and their participation in board/committee activities
- Remuneration was fair and proportionate to the objectives for the financial year
- Remuneration was based on the Remuneration & Nomination Committee's recommendations
- Remuneration for non-independent board members may be a percentage of the company's profit as long as the percentage doesn't exceed 10%, and it's awarded in accordance with the Companies Law and Regulations as well as MEPCO's bylaws
- Remuneration was reasonably adequate to attract qualified and experienced board and committee members
- Remuneration may vary depending on members' experience, expertise, duties, independence and meetings attended, in addition to other considerations
- Remuneration for independent board members cannot be a percentage of the company's profit, nor can it be based directly or indirectly on profitability
- Board members were remunerated for being on the Audit Committee and for any additional executive, administrative, technical or advisory positions they were assigned – under a licence – in the company. This was in addition to the remuneration received as a member of the board and any board committees, in accordance with the Companies Law and MEPCO bylaws
- If the General Assembly suspends a board member for not attending 3 consecutive meetings without a valid excuse, that member receives no remuneration for the period following the last attended meetings. All remuneration received for that period must be returned

Executive management's remuneration was determined and awarded in accordance with the policy approved by the General Assembly and the following criteria:

- Remuneration was based on the Remuneration & Nomination Committee's recommendations
- Senior executives received performance-based remuneration in addition to the salaries and allowances in their contracts, as well as remuneration in the form of MEPCO shares (without prejudice to regulatory controls and procedures issued for the implementation of the Companies Law)
- Key performance indicators at the company level included short- and long-term objectives, such as profitability, solvency, liquidity and growth indicators. Performance management ensured the proper sequencing of objectives across all levels, business units and employees
- Performance criteria affecting remuneration were constantly reviewed and monitored
- Remuneration aimed to create a competitive environment to attract and retain qualified staff and maintain the high level of skills and talent MEPCO needs

Board Remuneration

	Fixed Remuneration (SAR)						
	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 Ahmed Mubarak Al-Dabbasi	200,000	12,000	15,000	-	-	-	221,000
Mr Walid Ibrahim Shukri	100,000	6,000	3,000	-	-	-	115,000
Mr Musaab Seiliman Al-Muhaidib	200,000	12,000	-	-	-	-	239,000
Total for Independent Members	**500,000**	**30,000**	**18,000**	**-**	**-**	**-**	**592,000**
Mr Emad Abdulkadir Al Muhaidib	200,000	12,000		-	-	50,000	262,000
Eng Abdula Abdulrahman Al-Muammar	200,000	9,000	21,000	-	-	-	230,000
Mr Abdel-Ilah Abdullah Abunyyan	200,000	12,000	12,000	-	-	-	224,000
Mr Khaled Saleh Al-Khataf	200,000	12,000	27,000	-	-	-	239,000
Mr Tarek Mutlaq Al Mutlaq	200,000	12,000	-	-	-	-	212,000
Total for Non-Executive Members	**1,000,000**	**57,000**	**60,000**	**-**	**-**	**50,000**	**1,167,000**

Committee Member Remuneration

Name	Fixed Remuneration (excluding allowance for attending board meetings) (SAR)	Allowance for Attending Board Meetings (SAR)	Total (SAR)
Mr Ahmed Mubarak Al-Dabbasi	50,000	9,000	59,000
Mr Walid Ibrahim Shukri	122,500	9,000	131,500
Mr Musaab Seiliman Al-Muhaidib	100,000	27,000	127,000
Total for Independent Members	**272,500**	**45,000**	**317,500**
Eng Abdula Abdulrahman Al-Muammar	100,000	21,000	121,000
Mr Abdel-Ilah Abdullah Abunyyan	50,000	12,000	62,000
Mr Khaled Saleh Al-Khataf	150,000	27,000	177,000
Eng Omar Mohammed Najjar (From outside the Board of Directors)	100,000	4,500	104,500
Total for Non-Executive Members	**400,000**	**64,500**	**464,500**

* Nothing was paid in relation to percentage of profit, periodic bonus, short- or long-term incentive plans, bonus shares, end-of-service bonus or expense allowance.

Senior Executive Remuneration

		Fixed Remuneration				Variable Remuneration							
	Salaries	Allowances	Medical Benefits	In-Kind Benefits	Total	Periodic Bonus	Short-Term Incentive Plans	Long-Term Incentive Plans	Value of Granted Shares	Total	End-of-Service Award	Board Subtotal	Aggregate Amount
Total paid to the 5 senior executives who received the highest remuneration and compensation, including the CEO and CFO	5,368,000	3,438,000	497,000	9,303,000	2,519,000	2,519,000	543,000	-	-	3,062,000	572	-	12,937,000

Penalties, Cautions or Restrictions

Here are the penalties, cautions or reserve restrictions imposed on MEPCO in 2018.

Penalty	Causes	Authority	Rectification
Reduced financial penalty	Invalid environmental licence	General Authority of Meteorology & Environmental Protection	Renewed environmental licence – treatment of excess gas emissions

Investments & Reserves

Each year, we provide a statement of value for any investments or reserves created for employees' benefit.

In 2018, 300,000 company shares were purchased at a value of SAR 6,816,812 following General Assembly approval. They were allocated to the employee share programme after being converted from treasury shares.

2018 ACKNOWLEDGEMENTS IN ACCORDANCE WITH CMA REGULATIONS

	Article	Acknowledgement
1	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 had an Internal Audit Department since 2013.	Not applicable
2	Audit Committee recommendations that conflict with board resolutions or recommendations which the board disregards relating to the appointment, dismissal, assessment or remuneration of an external auditor, as well as justifications for those recommendations and reasons for disregarding them.	Not applicable
3	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 the Listing Rules, together with any change to such interests during the last financial year.	Not applicable
4	A description of the class and number of any convertible debt instruments, contractual securities, pre-emptive rights or similar rights issued or granted by the company during the financial year, as well as stating any compensation obtained by the company in this regard.	Not applicable
5	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
6	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.	Page 17, section V (j)
7	A description of any arrangement or agreement under which a director or a senior executive of the company has waived any remuneration.	Not applicable
8	A description of any arrangement or agreement under which a shareholder of the company has waived any rights to dividends.	Not applicable
Additionally, the Board of Directors acknowledge the following:		
9	a. Account records are correctly kept. b. The internal control system was prepared on sound bases and performed effectively. c. There is no doubt about the company's ability to continue its activities.	
10	There are no material differences from the accountancy standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA).	
11	No recommendation was offered regarding the replacement of the existing auditor during 2018, or before the expiration of the contract period.	
12	The auditor has no reservations about the company's financial statements, according to the auditor's report for the 2018 fiscal year.	
13	The auditor did not provide the company with any consultancy services and received no remuneration for that purpose.	
14	The auditor has not requested that the board convene a General Assembly meeting during the fiscal year 2018.	
15	The Chairman of the Board has received no written requests to convene urgent meetings from 2 or more board members during the fiscal year 2018.	
16	The company confirms it has received no requests from shareholders who hold 5% or more of the capital to convene a General Assembly meeting or to add one or more items to the General Assembly agenda when it was prepared during the fiscal year 2018.	
17	The Chairman of the Board was not notified by any board member regarding interests they may have in transactions with the company. Also, no board members have requested permission/licence to perform business of competitive nature (except what has been disclosed in this report regarding transactions with related parties).	
18	The company confirms that it has implemented no procedures or restrictions that may hinder shareholders' ability to take advantage of all the rights guaranteed in laws and regulations.	
19	The company has offered no cash loans of any sort to board members and has not sponsored/guaranteed any loans between board members and third parties.	
20	The Board of Directors has not exempted any of the company's debtors from their financial commitments during the fiscal year 2018.	

2018 BOARD RECOMMENDATIONS & RESOLUTIONS

The board was active in carrying out its duties in 2018, helping oversee a year of record growth.

Here are its key resolutions and recommendations:

4 March

- Approval of the annual consolidated financial statements for the fiscal year 2017 based on the Audit Committee's recommendation
- Approval of the Annual Report of the Board of Directors and Disclosure Form No. (8) for the 2017 fiscal year
- Board of Directors' recommendation to distribute cash dividends for the year 2017 to shareholders amounting to 75 halalas per share, in line with regulations. The total amount distributed was SAR 37,500,000

7 May

- Approval of the amendment to the company's Corporate Governance Regulations, based on the Audit Committee's recommendation
- Approval of the performance appraisal policy for the board, its committees and executive management, based on the Remuneration & Nomination Committee's recommendation
- Approval of the preliminary financial statements for the first quarter of the 2018 fiscal year, based on the Audit Committee's recommendation

23 May

- Decision to accept the resignation of a member of the Board of Directors and the Audit Committee, the appointment of a new member to replace him and the restructuring of the Audit Committee

30 July

- Approval of the financial statements for the second quarter of the 2018 fiscal year, based on the Audit Committee's recommendation

2 October

- Resolution to invite the General Assembly to vote to authorise the Board of Directors to distribute dividends to the shareholders for the 2018 fiscal year

30 October

- Approval of the financial statements for Q3 2018, based on the Audit Committee's recommendation
- Decision to distribute interim dividends of 50 halalas per share for H1 2018, according to the bylaws and regulations. The total amount distributed was SAR 25,000,000

2 December

- Decision to adopt the third amendment to the matrix of financial and administrative powers, based on the Audit Committee's recommendation
- Decision to approve an amendment to the financial policies, based on the Audit Committee's recommendation

ABOUT MEPCO & ITS SUBSIDIARIES

MEPCO is one of the largest vertically-integrated paper manufacturers in the Middle East and Africa.

It offers a diverse range of paper products to customers worldwide and serves various industries including

- Packaging – cardboard is used to manufacture boxes for foodstuffs, electronics and more; cardboard paper tubes are used in industries such as textiles and paper manufacture
- Furniture – high-soaking paper is used in furniture surfaces for offices, kitchens and doors
- Construction – gypsum paperboard is used for manufacturing gypsum boards used in walls and ceilings

MEPCO is one of the region's leading companies in terms of production capacity and sales footprint. Our Jeddah factory has 3 production lines and boasts a brown paper roll production capacity of 475,000 tonnes annually. Its strategic location near Jeddah Port gives us easy access to key markets across the Middle East, North Africa, the Indian subcontinent, South Asia, Europe and America. We export to more than 50 countries, and exports accounted for 43% of total sales in 2018.

MEPCO invests heavily in research and development to provide a wide range of innovative products to its partners and customers. Our core values are to provide high-quality products, to help protect the environment and to meet market needs. Since our founding, we have adhered to the highest environmental protection standards, including paper and water recycling and water processing. We have been recognised with international certifications such as ISO 9001, ISO 14001, ISO 45001, FSC and ISEGA.

MEPCO's raw materials are sourced from locations across KSA and neighbouring countries through its wholly-owned subsidiary, the Waste Collection and Recycling Company (WASCO). WASCO is one of the region's leading waste management and waste paper collection companies. It has a combined annual capacity of 500,000 tonnes and operates 26 waste collection centres across MENA. It also has investments in other municipal waste sites in KSA. Local content of MEPCO's final products exceeds 80% because it recycles the cardboard WASCO collects.

MEPCO recorded a 2018 Saudisation rate of 43.1% and has maintained its platinum status since 2014. The company is active when it comes to social responsibility and environmental awareness, and has received several awards for its initiatives. It's the official sponsor of the Jeddah-based Higher Institute for Paper & Industrial Technologies, a non-profit organisation that educates and trains Saudi youth in paper production technologies. The Institute is supervised by the Technical and Vocational Training Corporation.

Our other subsidiary is the Specialized Achievement Company.

Subsidiaries

Subsidiary	Capital	Business Activities	Country of Incorporation	Geographic Footprint	MEPCO Ownership (%)
Waste Collection and Recycling Co	SAR 20 million	Collecting and trading waste paper	KSA	KSA and others	100%
Specialized Achievement 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, which specialise in collecting and sorting waste paper, provide MEPCO with the raw materials it needs. They also trade in other products that MEPCO doesn't need. This allows the subsidiaries to profit by selling surplus collected materials in target markets.

Subsidiary Shares & Debt Instruments

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 & Free Float Shares (as at 31 December 2018)	
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**	29,100,641 shares
Paid capital	SAR 500,000,000
Par value per share	SAR 10
Paid-up value of shares	SAR 10

* MEPCO has no premium or preferred shares – whether for shareholders, board 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, in the stock market. The number of free float shares mentioned above was published on the Tadawul website on 1 January 2019.

Substantial Shareholder Ownership

This table provides details of shareholders whose ownership exceeds 5% of company shares as at 31 December 2018.

Name	Balance at Year Start (SAR)	Balance at Year End (SAR)	% Shareholding	% Change in Shareholding During Year
Abdul Qader Al Muhaidib & Sons Co	11,619,500	11,619,500	23.23%	-
Lafana Holding Company	11,619,600	9,219,600	18.44%	4.29%
Abdula Abdulrahman Al-Muammar	4,750,000	4,750,000	9.5%	-

2018 Shareholder Record Requests

Date	Reason for Request
15 March	Data on ownership ratio changes for companies and investment funds
20 March	Data on ownership ratio changes for companies and investment funds
22 April	Shares were registered for the EGM
24 April	Shares were registered for the purpose of dividend distribution
30 September	Data on ownership ratio changes for companies and investment funds
11 October	Data on ownership ratio changes for companies and investment funds
16 October	Data on ownership ratio changes for companies and investment funds
29 October	Shares were registered for the AGM
05 November	Shares were registered for the purpose of dividend distribution
31 December	Ownership data for directors, senior executives and senior shareholders at the end of the year

KEY 2018 EVENTS & RESOLUTIONS

2018 was a year of milestones, with MEPCO setting standards for best practice when it comes to disclosure and stakeholder engagement.

Here's a summary of key events and resolutions during the year.

Date	Event
4 March	Announcement of the annual financial results for the year ended 31 December 2017 (12 months)
4 March	Announcement of the Board of Directors' recommendation to distribute cash dividends to shareholders for the fiscal year 2017
11 April	Invitation to attend the Extraordinary General Assembly Meeting (first meeting)
16 April	Announcement of the commencement date for electronic voting on the Extraordinary General Meeting agenda (first meeting)
23 April	Announcement of the Extraordinary General Meeting outcome (first meeting)
23 April	Announcement of the date and method of dividend distribution to shareholders for the year 2017
9 May	Announcement of preliminary financial results for the period ended 31 March 2018 (3 months)
17 May	Announcement of the start of the share purchase for the employee shares programme (phase 1)
23 May	Announcement of the resignation of a member of the Board of Directors and Audit Committee and the appointment of his replacement
30 May	Announcement of the completion of the share purchase for the employee shares programme (phase 1)
31 July 2018	Announcement of preliminary financial results for the period ending 30 June 2018 (6 months)
6 September 2018	Announcement of the renewal and amendment of a banking agreement (Shariah compliant) with the National Bank of Kuwait
6 September 2018	Announcement of the renewal and amendment of a banking agreement (Shariah compliant) with Saudi British Bank
4 October 2018	Invitation to attend the AGM (first meeting)
16 October 2018	Announcement of the signing of a banking facility agreement (Shariah compliant) with Bank Al-Bilad
30 October 2018	Announcement of the AGM results (first meeting)
30 October 2018	Announcement of the cash dividend for H1 2018
31 October 2018	Announcement of preliminary financial results for the period ended 30 September 2018 (9 months)
4 November 2018	Announcement of the date and method of cash dividend distribution for H1 2018

FUTURE PLANS & COMPANY OUTLOOK

MEPCO seeks to enhance products and increase production capacity to continue meeting local and international demand. We also develop our infrastructure and support services to maintain our position as one of the largest vertically-integrated paper producers in MENA.

The company implements the following strategies to maximise profitability for shareholders:

- Nurture talent, enhance technical skills and provide a working environment that attracts and retains the best people
- Continue to grow retainer customers globally and regionally by offering high-quality services and products
- Support, boost and improve production capacity to expand the business and meet demand
- Focus on operational flexibility and product diversification, including the ability to respond to market trends by introducing new products
- Further optimise raw material quality and costs using the axial paper kneader

CORPORATE SOCIAL RESPONSIBILITY

As you've seen in the Management Review, corporate social responsibility a key part of MEPCO's values and strategy.

This means social responsibility practices are intrinsic to the company's business model and day-to-day activities, and help us deliver greater value to communities, customers and shareholders.

2018 initiatives included:

- Friends of the Environment Convoys Initiative in partnership with King Abdulaziz University to create recycling sorting centres across Jeddah
- Agreement with Jeddah Municipality and the Association of Neighbourhood Centres in Makkah to help build the Al-Mulaissa Gardens
- Recycling event to promote awareness of household recycling and the role individuals play in helping preserve the planet and vital resources
- Partnership agreement with Jeddah University and the Human Resources Development Fund to support 100 Saudi trainees seeking jobs
- Speech on water treatment best practices at a key conference sponsored by the Ministry of Environment, Water and Agriculture and the General Authority of Meteorology & Environmental Protection
- Partnership agreement with King Abdulaziz University to launch a new leadership programme focusing on environmental education
- Ongoing work with the Higher Institute for Paper & Industrial Technologies
- Winning Best Paper Company at the 2018 Arab Awards
- Winning Paper Recycling Company of the Year at the 2018 Middle East Waste & Recycling Awards
- Supporting a NABTA youth awareness programme called A Paper Story, which teaches the environmental and social benefits of recycling
- Tree planting initiative encouraging staff and visitors to make their own contribution to the environment

RISK MANAGEMENT

Like other industrial companies, MEPCO is exposed to risks during the course of its business, so we take all necessary measures and implement policies to mitigate their effect on performance.

MEPCO's activities, financial position, outlook, operational results and cash flow may be negatively and significantly affected by risks, both known and unknown. Our dedicated Risk Management Department oversees policy development, supervision, assessment and reporting as part of an ongoing process that involves everyone across levels and departments.

Risk Management Strategy

The risk management strategy is based on calculated risk taking – it's a systematic method of defining and prioritising risks, and then implementing mitigation strategies. It covers both prevention and early detection. Thanks to the strategy, management are in a strong position to analyse risks and find appropriate ways to avoid or alleviate them.

The MEPCO risk management strategy involves a continuous, 5-step process:

- **Evaluating the environment** – Embedding a risk management philosophy within the company culture by providing rules for how employees view and address risks. We also provide clear objectives for management so they can identify issues that might impact the business.
- **Distinguishing and identifying risks** – We ask 2 questions: What could happen? How will it happen? Internal and external events affect MEPCO's ability to achieve its goals, so management needs to distinguish between risks and opportunities.
- **Analysing risks** – By considering the possibility of a risk occurring and the impact it will have, we can determine how best to manage each issue.
- **Evaluating risks** – Management prioritises risks by estimating their likelihood and impact. Then it can act to avoid, accept or reduce, as appropriate.
- **Discussing and addressing risks** – We identify strategic alternatives to control the risk, and then select and implement the best one.

The Risk Management Department conducts ongoing monitoring and control activities in addition to these 5 steps.

Addressing Risks

Once risks are identified and evaluated, we categorise required action in one or more of these 4 ways:

- **Transfer** – Mitigating the risk via a third party, usually through contracts or financial prevention. Insurance is an example of risk transferred through a contract.
- **Avoidance** – Trying to avoid activities that could lead to certain risks. For example, refraining from buying property or engaging in a business to avoid legal consequences. While avoidance seems like a solution for all risks, it could, at the same time, deprive the company of benefits and profits.
- **Reduction** – Looking at ways to mitigate losses resulting from risk, for example having software developers gradually develop solutions that reduce a risk.
- **Acceptance** – Accepting losses when they're incurred. Acceptance techniques are acceptable for minor risks where insurance costs are greater than total losses. War is the best example of acceptance, since property can't be insured against war. All risks we can't avoid or transfer need to be accepted.

Risk Types

Economic & Political Risks

Some countries go through political change that may negatively impact MEPCO's competitiveness or limit our access to a customer segment. Our strategic objectives and risk management policy include accessing new markets to compensate for any market share lost in conflict zones. MEPCO's performance is also affected by local and global economic conditions, and we cannot predict the timing, degree or duration of any future slowdown or recovery.

Operational Risks

- **Key personnel** – A group of highly qualified experts manages MEPCO, and an inability to retain this talent is a key risk to continuity and growth. To avoid this risk, MEPCO and its subsidiaries are keen to create a working environment that encourages creativity and innovation, supports staff, and provides training for people to rise to leadership positions.
- **Availability of raw materials and related price instability** – The revenue and profit of MEPCO and its subsidiaries are affected by prevailing commodity and raw material prices. This is particularly true when it comes to waste paper and its availability in markets prone to sudden and large-scale fluctuation. To help mitigate this risk, MEPCO supports its subsidiary WASCO and aims to boost its competitiveness so it can continue meeting its raw material requirements at suitable prices.
- **Energy supply** – MEPCO relies on a fuel supply contract with Saudi Aramco. Fuel prices may rise, and we may not be able to increase our own product prices to reflect those changes. This will negatively affect the company's business and outlook. To help mitigate this risk, MEPCO produces 100% of its own electricity. It also supports internal cost-cutting initiatives, which help reduce the effects of any energy price increases.
- **Location** – MEPCO's factory is located in the Al Khumrah area of Jeddah. It occupies a plot of wholly-owned land in a private industrial zone. MEPCO has all necessary licences to carry out its activities at its current location and ensures timely renewals. Should any new laws 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.)

- **Unforeseen production downtime** – MEPCO's factory consists of several production lines and paper manufacturing machines. Any technical problems (power, energy or water supply cuts) or accidents that impact business continuity will significantly affect operational and financial results. We take all appropriate back-up measures to mitigate these risks. MEPCO owns and operates a power generation plant to cover its electricity needs, and we have contracts and long-term agreements with several water suppliers. Production lines work completely independently so disruption on one has no impact on the others. The company also has insurance that compensates for production disruption.
- **Transportation** – MEPCO relies on external transportation service providers who deliver our products to customers. Any disruption to these services may temporarily affect our ability to supply products, and therefore negatively affect business performance and results. To ensure service continuity at competitive prices and quality, MEPCO builds strategic partnerships and signs agreements with several suppliers.

Market Risks

- **Product prices** – MEPCO's future performance is influenced by its ability to maintain good prices for its products, and to shift any production cost increases by increasing its prices. The ability to do this isn't guaranteed because final product prices are affected by supply and demand in local and international markets.
- **Sector focus and specialisation** – MEPCO focuses on one aspect of paper production: the production of recycled brown paper. There are many positive and negative factors that influence this production, including growth of industrial and agricultural production, higher expenditure per capita, evolving paper packaging techniques, and a rising awareness of the importance of recycling. Any negative changes to these factors will affect MEPCO's operations. To this end, the company is constantly working to improve and diversify its products to keep up with the packaging industry and downstream operations.
- **Competitive environment** – MEPCO operates in a highly competitive environment prone to being flooded with cheaper products by external competitors. This could lead to lower prices for MEPCO products, which would affect its results. Our competitive advantage is based on providing higher quality products at reasonable prices. We cannot guarantee that existing or potential competitors will not introduce competitive quality products at even better prices.

Financial Risks

- **Insurance** – MEPCO maintains cover with several types of insurance. However, it's still possible that the value of insurance claims may exceed the limit or that any damage may not be fully covered. Such incidents may negatively affect the company's business as well as its operational and financial results.
- **Availability of additional financing** – MEPCO's financing needs depend on its capital, financial position, operational results, cash flow and financing secured from institutions. The company may still require additional financing in the future. Delay or failure to secure such financing – or securing financing at unfavourable conditions or high costs – may negatively affect the business as well as its operational and financial results. We hedge these risks with continuous cash flow monitoring, ensuring we can obtain necessary funding through our credit facilities.
- **Credit** – These are risks of incurring financial losses due to customers' failure to meet their financial obligations. Our 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 our business results and outlook. We regularly monitor credit risk in order to hedge appropriately.
- **Interest rates, exchange rates and financing costs** – MEPCO is exposed to the risk of foreign currency exchange rates, and any significant, unpredicted fluctuations will adversely affect financial performance. Increased financing costs would also adversely affect MEPCO's future profitability. Most of our transactions are denominated in Saudi riyals and US dollars. We protect against interest rate risks by monitoring rates and entering into derivative contracts (for profit/loss) with banks to hedge against rate fluctuations on term loans.
- **Liquidity** – This is the risk that the company will have difficulty raising funds to obligations associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at a fair value. We manage this risk on a regular basis by ensuring sufficient funds are available through a credit facility. MEPCO has no significant concentration of liquidity risk.
- **Dividend distribution** – Dividend distribution depends on several factors, including the company's ability to generate profit, its financial position, financial reserves, lender requirements, credit limits, overall economic conditions and other factors subject to the Board of Directors' discretion and recommendations. Any significant change to these factors may affect the company's ability to distribute dividends. Dividend distribution will always be subject to the requirements set out in MEPCO's bylaws and other applicable laws and regulations.

Risks Related to Laws, Regulations, Permits & Licences

- **Laws and regulations** – MEPCO and its activities in the fields of paper manufacturing, waste collection and recycling are subject to supervisory authorities that implement KSA laws and regulations. Should any of the existing laws or regulations be amended – or should any relevant new laws and regulations be issued – MEPCO may be forced to adjust its operations, service offering or products to ensure compliance. This means the company would incur additional and unexpected expenses, and its operations could be significantly affected. This would have an adverse effect on financial results and profitability. MEPCO renews all industrial and trade licences in a timely manner and seeks to adjust its operations in accordance with the new regulatory requirements. The Governance & Compliance Department is responsible for making sure MEPCO and its subsidiaries abide by all applicable laws and regulations.
- **Health, safety and the environment** – The business operations of MEPCO and its subsidiaries involve certain risks related to environmental and safety laws. Any future requirements to implement more stringent environmental or safety standards will increase expenses and affect business results. MEPCO puts great emphasis on protecting the environment and maintaining health and safety. It implements standards of occupational, fire and hazardous material safety. It also conducts field safety checks to ensure readiness for emergencies and accidents. MEPCO's safety teams conduct regular staff training and ensure safety standards are implemented across divisions and locations.

FINANCIAL INFORMATION

MEPCO has prepared its consolidated annual financial statements for the fiscal year ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted in the Kingdom of Saudi Arabia.

Our statements are also prepared in accordance with other standards issued by the Saudi Organisation for Certified Public Accountants.

Business Results

All figures are in SAR '000.

	2014	2015	2016	2017	2018
Sales	826,427	681,170	634,405	771,008	833,614
Cost of sale	591,715	508,313	503,122	584,898	597,940
Gross profit	243,713	172,856	131,283	186,110	235,674
Operating profit	141,988	81,865	33,892	95,833	128,230
Net profit	111,339	55,118	94,907	68,131	99,444

Assets & Liabilities

All figures are in SAR '000.

	2014	2015	2016	2017	2018
Current assets	473,352	515,053	444,344	477,544	459,173
Noncurrent assets	1,032,946	1,078,316	1,095,397	1,071,491	1,046,513
Total assets	1,506,297	1,593,469	1,539,741	1,549,035	1,505,686
Current liabilities	558,390	483,324	426,413	432,969	354,100
Noncurrent liabilities	345,020	452,123	419,863	393,685	400,274
Total liabilities	754,373	826,654	846,276	935,447	903,410

Significant Differences in Operating Results, 2018 vs 2017

All figures are in SAR '000.

Income Statement Indicators	2018	2017	Change	Change (%)	Reason for Change
Sales	833,614	771,008	62,606	8%	High average selling prices
Cost of sale	597,940	584,898	130,041	2%	High average raw material prices
Total income	235,674	186,110	49,564	27%	Sales increased at a higher rate than sales costs
Other operating expenses	108,151	92,698	15,453	17%	Increases in sales and marketing expenses, as well as administrative and general expenses
Other operating revenues	707	2,421	-1,714 -	71%	Decrease in other income
Operating profit	128,230	95,823	32,397	34%	High gross profit because sales increased at a higher rate than sales costs

Main Activities

MEPCO's main activity is the manufacture and production of packaging and industrial paper.

Its subsidiaries' main activity is the collection and recycling of paper and waste, and the trading of that recycled paper and waste.

Contribution to Business & Financial Results

Activity	Revenue from Activity (SAR '000)	%
Paper manufacturing and production (manufacturing)	811,636	97%
Paper and waste collection and recycling (trade)	21,978	3%

Revenue Analysis by Geography

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

All figures are in SAR '000.

	KSA	GCC	Other Countries	Total Revenue
MEPCO	452,905	52,298	306,433	811,636
Subsidiaries	21,978	-	-	21,978
Total	474,883	52,298	306,433	833,614

Loans

The following information applies to loans taken out by MEPCO and its subsidiaries.

All figures are in SAR '000.

Mid-Term Loans & Facilities

Creditor	Principal Loan / Facilities	Term	Balance at Beginning of Year	Additional Loans During the Year	Repayments During the Year	Balance at Year End
Industry Development Fund	139,500	5 years	139,500	-	33,000	106,500
Samba Bank	50,000	5 years	-	25,000	-	25,000
Arab Bank	200,000	5 years	160,000	-	36,190	123,810
French bank	150,000	5 years	105,000	-	45,000	60,000
National Bank of Kuwait	150,000	4 years	49,875	37.000	14,286	72,589
Bank SABB	150,000	4 years	31,743	100,000	31,743	100,000
Total	839,500		486,118	162,000	160,219	487,899
Deferred finance charges	-		(3,429)	-	-	815
Total	839,500		482,689	162,000	160,219	488,714

Short-Term Loans & Facilities (Revolving Loans)

Creditor	Principal 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	31,160	189,002	220,162	-
Kuwait National Bank	50,000	1 year	49,613	94,000	123,613	20,000
Bank Albilad	100,000	1 year	-	88,000	12,000	76,000
Al Rajhi Bank	50,000	1 year	-	53,500	26,000	27,500
Bank SABB	60,000	1 year	58,061	11,930	69,990	-
Saudi Fransi Bank	210,000	1 year	73,403	49,103	119,508	2,999
Total	**620,000**		**212,237**	**485,535**	**571,273**	**126,499**
Due notes payable	-		5,918	-	-	1,802
Total	**620,000**		**218,155**	**485,535**	**571,273**	**128,301**
Total mid- and short-term	**1,459,500**		**700,844**	**647,535**	**731,492**	**617,015**

WASCO Short-Term Loans (Revolving Loans)

Creditor	Principal 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	5,000	-	5,000	-
Total	**20,000**		**5,000**	**-**	**5,000**	**-**
Total (MEPCO & WASCO)	**1,479,500**	-	**705,844**	**647,535**	**736,492**	**617,015**

International Standard Categorisation

Figures show total loans for each category in SAR '000.

Category	2018	2017
Short-term loans and facilities	128,301	223,253
Rolling portion of long-term loans	128,352	124,334
Long-term loans	360,362	358,355
Total	**617,015**	**705,942**

Related Party Contracts & Transactions

This table shows contracts and transactions the company has entered into with related parties. Related parties can represent interests of board members, senior executives or anyone related to them.

Nature of Contract	Counterparty	Purpose	Contract Commencement	Term	Transaction Value During 2018 (SAR)	Board Member / Senior Executive / Related Person
Supply of cardboard pipes	NAPCO Multipurpose Packaging (NAPCO Multi Pack)	Supply of cardboard pipes	2018	Valid until terminated by one of the parties	138,583	Mr Tarek Mutlaq Al Mutlaq
Purchase of the company's products	NAPCO Multipurpose Packaging (NAPCO Multi Pack)	Purchase of the company's products	2018	Valid until terminated by one of the parties	2,762,651	Mr Tarek Mutlaq Al Mutlaq
Purchase of the company's products	Eastern Carton Company (Eastern Pack)	Purchase of the company's products	2018	Valid until terminated by one of the parties	2,346,450	Mr Tarek Mutlaq Al Mutlaq
Purchase of the company's products	United Mining Company	Purchase of the company's products	2010	Valid until terminated by one of the parties	4,060,294	Mr Emad Abdulkadir Al Muhaidib
Supply of water for the company	Development and Operation of Industrial Cities	Supply of treatment water	2005	Valid until 2025	4,666,674	Mr Emad Abdulkadir Al Muhaidib Mr Abdel-Ilah Abdullah Abunyyan
Purchase of the company's products	Masdar Co	Supply of timber and building materials	Expired in February 2018	Expired in February 2018	15,330	Mr Emad Abdulkadir Al Muhaidib Mr Musaab Seiliman Al-Muhaidib

* In 2018, Mr Tarek Al Mutlaq expressed interest in transacting with the company.

Statutory Payments

- **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 operating 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 came into 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 the company incurs for visas, labour recruitment and business visits.
- **Ministry of Labour fees** – Costs of obtaining labour licences and career change licences.

All figures are in SAR '000.

	Due	Paid	Reason
Zakat	2,768	1,759	According to resolution
Tax	6,971	6,970	VAT and tax for external suppliers
Social insurance (GOSI)	5,614	5,624	As due
Visa and passport fees	831	847	Recruitment, business visits, visa renewals and new visas
Ministry of Labour fees	8,066	6,427	Employment fees and work permits
Total	**24,266**	**21,611**	

Distributed & Proposed Cash Dividends in 2018

- The Board of Directors, in its meeting held on 4 March 2018, recommended the distribution of cash dividends to shareholders for the 2017 fiscal year amounting to SAR 37.5 million (7.5% of capital) at 75 halalas per share. The Extraordinary General Assembly Meeting voted in favour of this recommendation on 22 April 2018, and the dividend distribution began on 8 May 2018.
- The General Assembly, in its meeting on 29 October 2018, authorised the Board of Directors to distribute cash dividends to shareholders for H1 2018 amounting to SAR 25 million at 50 halalas per share. Distribution began on 14 November 2018.

Dividend Distribution Policy

Cash Dividend Distribution

In accordance with procedures stipulated in the Companies Law and MEPCO bylaws, the company's annual net profit shall be distributed to shareholders after the deduction of all general expenses and charges.

- 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 paid-up capital.
- The ordinary General Assembly may, following a recommendation from the Board of Directors, set aside a certain percentage of net profit to form a reserve for a specific purpose or purposes. Such reserves 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 they achieve the company's interests or guarantee steady distribution of profit to shareholders. The General Assembly may also deduct from net profit amounts to establish social organisations for the benefit of employees, or to support existing organisations of this nature.
- From the remaining net profit, there is a first dividend payment equal to 5% of the paid-up capital.
- Without prejudice to the provisions of Article 21 of the company's bylaws and Article 76 of the Companies Law, a maximum of 10% of the remaining profit is allocated as the Board of Directors' allowance if the allowance is a specific percentage of the company's profit. Allowances should be proportional to each board member's meeting attendance.
- Upon meeting the requirements set by the relevant authority, the company may distribute periodic dividends to shareholders on a semi-annual or quarterly basis.

Bonus Share Distribution

- The company may distribute dividends in the form of bonus shares for shareholders. This is with the aim of increasing capital by issuing bonus shares at the share's nominal value. The share's nominal value is removed from the remaining profit and added to the capital. Increasing the company's capital requires the CMA's approval and then the Extraordinary General Assembly's approval.
- Shareholders shall be eligible to receive dividends – be they cash dividends or bonus shares – pursuant to a General Assembly resolution or a 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

On 24 April 2018, the Securities Commission Authority Board amended the Corporate Governance Regulations. We then reviewed MEPCO's own system, regulations and policies. The Board of Directors approved the relevant changes on 7 May 2018, and they continue to provide a robust framework for excellence.

MEPCO complies with best corporate governance practices. We consider this commitment to be a material factor in our success and have continued to develop our corporate governance system alongside our other process and product optimisation initiatives.

Our corporate governance system aims to create a work environment based on responsibility, control and commitment. It also takes into account the principles of clarity and transparency for determining the company's goals and strategic and trading plans, as well as in the way we work with suppliers, financial institutions, customers and control authorities. Our internal systems work alongside national legislation, helping us achieve our objectives effectively and impartially.

MEPCO's corporate governance system focuses on:

- Engaging shareholders and helping them exercise their rights
- Achieving transparency, integrity and fairness across the company and in transactions
- 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 building their expertise to support better decision-making mechanisms
- Enhancing mechanisms for control and accountability
- Developing the framework for dealing with stakeholders and guaranteeing their rights
- Improving the efficiency of supervision and internal control systems, including providing the necessary tools
- Raising employee awareness of professional conduct and encouraging them work in a fair, responsible way

Key Corporate Governance Principles	
Responsibility	Effectively performing all tasks to the best of one's ability
Control and accountability	Monitoring actions and conduct and holding decision makers accountable, ensuring they can explain and justify their actions
Equality	Committing to fair, equal and unbiased treatment of all parties
Transparency	Ensuring information is clear and available to everyone through timely, accurate disclosure
Ethics	Acting in accordance with the professional and moral code of conduct – treating all parties honestly, equally and professionally
Sustainable value	Fostering a long-term future vision that ensures sustainability, growth and benefits to society

Bylaws

Bylaws comprise the rules and regulations that define the company, govern its affairs and purposes, determine the manner of its management and the convention of its meetings. Bylaws also detail shareholder rights, describe the manner of supervising and monitoring the company's activities and authorities in terms of borrowing, explain the purchase of its shares, and define its policies from the date of establishment to the date of termination.

Shareholder Rights

MEPCO's Corporate Governance Regulations give particular importance to shareholder rights. They promote active participation in General Assembly meetings, educating shareholders about voting procedures and rules as well as their right to fair and unbiased treatment. Shareholders also have the right to access information that allows them to exercise their legal rights fully, receive their share of profit and receive a portion of the company's assets in case of liquidation.

The regulations grant shareholders the right to attend all shareholder assembly meetings, take part in their discussions, and vote on their resolutions. Shareholders enjoy the right to dispose of their shares, request to view the company's books and documents, monitor performance and board activities, and request information without prejudice to the company's interests, the Financial Market Law or its implementing regulations. The bylaws also grant shareholders the right to file liability lawsuits against board members and appeal for nullification of resolutions of shareholder assemblies.

The bylaws also grant and emphasise the rights of other stakeholders.

Internal Control System

The Board of Directors adopted an internal control system based on the Audit Committee's recommendation. The internal control system evaluates risk management policies and procedures, implements approved governance rules and ensures compliance with relevant laws and regulations. It submits its reports to the Audit Committee and the Board of Directors.

MEPCO has enhanced the role of governance by establishing the following departments.

Internal Audit Department

This independent department operates under the supervision of the Audit Committee. It follows clear procedures for evaluating and enhancing efficiency so it can help the company achieve its goals and protect its assets.

Its responsibilities include

- Analysing the adequacy and effectiveness of the company's internal control system
- Ensuring management adopts the internal control systems – and that those systems provide a reasonable guarantee the company will meet its objectives
- Regularly reviewing activities across the company and its subsidiaries in accordance with the audit plan
- Informing department heads about audit results to ensure necessary measures are taken to correct any shortcomings
- Supervising the implementation of observations and recommendations in audit reports
- Giving the Audit Committee regular reports on work carried out

Governance & Compliance Department

This independent body works in collaboration with the Internal Audit Department and is supervised by the Board of Directors and the Audit Committee. Its main responsibilities are to:

- Follow up on all amendments issued by regulatory and supervisory bodies relating to laws, regulations and instructions for joint stock companies – and to update our internal systems accordingly
- Ensure compliance with all relevant laws and regulations imposed by regulatory and supervisory bodies
- Respond to inquiries and correspondence sent by such regulatory and supervisory bodies and to participate in training courses conducted by these bodies to build trust between them and the company
- Monitor compliance with MEPCO policies and internal systems and ensure compliance with applicable external laws
- Ensure the implementation of the company's corporate governance regulations as approved by the Board of Directors and the General Assembly, and to ensure regulations are updated in line with changes in applicable laws and regulations
- Keep executive management informed about non-compliance risks that may lead to penalties, disciplinary action, financial loss or reputation damage – these can be due to failing to uphold systems, rules and regulations as well as applicable moral and behavioural values
- 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
- Conduct an annual review of all instructions listed in policy and procedural guides to ensure conformity and compliance with rules and regulations – and to ensure proper implementation and timely updates as required.
- Monitor compliance with laws and regulations in the company's dealings with external entities
- Monitor compliance of company divisions with corporate governance policies and internal regulations – and support the Internal Audit Department in its supervisory duties

Risk Management Department

This department works in collaboration with both the Internal Audit Department and the Governance & Compliance Department under the supervision of the Audit Committee. Its main responsibilities are to:

- Implement the risk management strategy and prepare emergency plans
- Monitor any potential risks the company might face
- Identify emerging risks and propose corrective steps to help control and limit them
- Evaluate the company's tolerance for risks and the frequency of its risk exposure

- Develop effective policies and procedures that help define, evaluate, measure, control and limit risks
- Promote risk awareness and a risk management culture
- Ensure all employees are aware of work environment risks and their personal responsibilities
- Coordinate with senior management to ensure the company's risk management system is effective
- Provide periodic reports with information supporting effective risk management, including making recommendations to the CEO and Audit Committee

In 2018, the Audit Committee recommended the appointment of a Risk Management Consultant to enhance risk management procedures and effectiveness.

INTERNAL CONTROL SYSTEM ANNUAL REVIEW

Every year, we review our internal control system. This is part of our commitment to continuous improvement – and ensures we have a robust system for maintaining high standards across all departments and operations.

The Internal Audit Department submits reports to the Audit Committee on all activities performed by the company and its subsidiaries. This reporting ensures:

- Complete compliance with applicable laws and regulations
- The internal control system's adequacy and efficiency
- Procedures covering administrative, financial, operational and marketing activities are evaluated
- Accuracy of information in financial and periodic reports
- The company can proactively determine and mitigate operational risks

The Audit Committee monitors compliance with the internal control system. It discusses internal audit plans as well as annual results, which are submitted as a report from the Head of Internal Audit. This ensures that the company's internal audit team has fulfilled its duties. The committee also examines the performance of all MEPCO divisions, departments and subsidiaries.

The Audit Committee is also responsible for ensuring the internal audit team is completely independent from executive management. The internal audit team reports directly to the Audit Committee. In 2018, the Internal Audit Department fulfilled its responsibilities by:

- Focusing on high- and medium-risk activities and enhancing operational efficiency and profitability
- Ensuring executive management took all necessary measures to address the content and observations of audit reports
- Coordinating with the Risk Management Department, the Governance & Compliance Department and the external auditor

Internal Audit Report Key Takeaways

Here are the main observations and measures covered in the 2018 internal control system review:

Civil Defence Licence Renewal

The company completed all the recommendations from the civil defence authorities and was approved by an authorised consultant. The official inspection was conducted in February 2019, and we're waiting for the licence to be issued.

Surveillance Cameras

The inspections showed that some warehouses have no surveillance cameras monitoring operations, which may affect accident reporting in those areas. Camera installations have commenced, with works scheduled to be completed in July 2019.

Inventory Insurance

The inspections found that external warehouses MEPCO leases had no civil defence licences, which meant their inventory wasn't insured. We initiated procedures to obtain insurance coverage for these warehouses.

WASCO Key Performance Indicators

We found that WASCO was missing some key performance indicators (KPIs), which could have affected how its performance was evaluated against objectives. The department began developing KPIs to cover the missing areas.

WASCO Preventative Maintenance

Inspections showed that some WASCO machinery lacked preventative maintenance plans. This could have resulted in unplanned downtime and associated financial loss. Management have promised to put the necessary plans in place.

WASCO Policies & Procedures

The inspection flagged the absence of approved policies and work procedures. These have now been formulated and will be adopted soon.

Audit Committee Conclusion

The Internal Audit Department has implemented the approved annual plan for evaluating the internal control system. Their review covered the control environment, risks, policies, procedures, tasks and information systems. It was conducted based on a sample in line with best practice, and therefore doesn't purport to verify the entire system. The report showed that internal control systems are being applied and gave reasonable assurance about its effectiveness and efficiency. It also provided reasonable assurance as to the preparation and accurate presentation of financial statements, as well as compliance with applicable rules and regulations.

The external auditor evaluated the internal control system as part of their review of final financial statements. They have given their reasonable assurance that 2018 financial statements are free from material misstatement, in accordance with KSA's International Standards on Auditing.

The Audit Committee recommends that management continues to implement the report's recommendations and observations, and that it takes relevant corrective action without delay. It has urged management to continue strengthening the internal control system by enhancing resource planning as well as audit, risk, governance and human resources efforts – all of which contribute to the company's performance.

2018 SHAREHOLDER GENERAL ASSEMBLY MEETINGS

Shareholder General Assembly meetings are an important way for the board to communicate with shareholders and understand their interests.

Here's the attendance information for the 2 meetings held in 2018.

Name	Attendance	
	First Meeting 22 April	Second Meeting 29 October
Mr Emad Abdulkadir Al Muhaidib	Attended	Attended
Eng Abdula Abdulrahman Al-Muammar	Attended	Attended
Mr Abdel-Ilah Abdullah Abunyyan	Did not attend	Did not attend
Mr Khaled Saleh Al-Khataf	Attended	Attended
Mr Musaab Seiliman Al-Muhaidib	Did not attend	Attended
Mr Faisal Omer Al-Saqqaf	Attended	Resigned
Mr Ahmed Mubarak Al-Dabbasi	Did not attend	Did not attend
Mr Tariq Mutlaq Al-Mutlaq	Did not attend	Did not attend
Mr Walid Ibrahim Shukri (board member as of 23 May 2018)	N/A	Did not attend
Eng Omar Mohammed Najjar (Remuneration & Nomination Committee member)	N/A	Attended on behalf of the committee chair

CORPORATE GOVERNANCE REGULATIONS

MEPCO implemented all the obligatory articles of the Corporate Governance Regulations issued by the CMA Board on 13 February 2017, as well as subsequent amendments.

Only the following articles were excluded, and they included guiding provisions.

Article #	Article	Reason 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.	The company was not notified of any matters that shareholders wished to add to the agenda of General Assembly meetings during 2018.
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 company's activities.	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 60	a) 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. b) The company's General Assembly, as per the board recommendation, issues regulations for the Remuneration Committee, including its procedure, duties and rules for selecting its members, the term of their membership and their remuneration.	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.	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 of 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 Department and Governance & Compliance Department, under the supervision of the Audit Committee.
Article 72	The Risk Management Committee shall convene periodically at least once every 6 months, as may be necessary.	The company has not formed a dedicated committee for risk management.

Article #	Article	Reason for not Implementing the Article
Article 85 (paragraphs 1, 2, 3)	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's 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.	The company 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.	Not 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 stipulated in Article 94 of these Regulations. Such a 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 has not formed 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, under the supervision of the Audit Committee and the Board of Directors.

In conclusion, the Board of Directors extends its sincere thanks and appreciation to the Saudi Government and the Custodian of the Two Holy Mosques for their continued support of the private sector, including initiatives to implement Saudi Vision 2030.

The board also extends its sincere thanks and appreciation to all customers, banks and suppliers, as well as executive management and employees. And we thank you, our shareholders, for your continued support and trust. We call on God the Almighty to deliver further prosperity – and look forward to continued achievements in 2019, God willing.

Emad Abdulkadir Al Muhaidib
Chairman of the Board of Directors

www.mepco.biz