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

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018
AND REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018

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Report on review of interim financial information

To the Shareholders of Middle East Company for Manufacturing and Producing Paper:
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Middle East Company for Manufacturing and Producing Paper as of March 31, 2018 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34), as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

May 8, 2018

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محاسبون قانونيون
ترخيص ٣٢٣/١١/٢٥/١
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MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of financial position
As at March 31, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	5	**1,052,381,266**	1,064,989,269
Intangible assets		**4,753,107**	5,143,778
Derivative financial instruments		**1,941,911**	1,357,238
Total non-current assets		**1,059,076,284**	1,071,490,285
Current assets			
Inventories		**171,090,885**	180,172,467
Trade receivables		**242,187,934**	209,617,581
Prepayments and other receivables		**12,523,791**	12,189,151
Other current assets		**41,745,515**	44,037,269
Investment at fair value through profit or loss		**514,581**	512,303
Cash and cash equivalents		**36,384,484**	31,015,660
Total current assets		**504,447,190**	477,544,431
Total assets		**1,563,523,474**	1,549,034,716
Equity and liabilities			
Equity			
Share capital		**500,000,000**	500,000,000
Statutory reserve		**76,470,837**	73,663,228
Retained earnings		**173,985,443**	148,716,962
Total equity		**750,456,280**	722,380,190
Liabilities			
Non-current liabilities			
Long-term borrowings	6	**343,017,083**	358,354,589
Employees' end of service benefits		**36,202,298**	35,330,773
Total non-current liabilities		**379,219,381**	393,685,362
Current liabilities			
Zakat payable		**3,712,702**	3,006,659
Current portion of long-term borrowings	6	**125,166,009**	124,333,703
Short-term borrowings		**205,816,725**	223,253,221
Trade and other payables		**94,673,997**	77,688,708
Other current liabilities		**4,478,380**	4,686,873
Total current liabilities		**433,847,813**	432,969,164
Total liabilities		**813,067,194**	826,654,526
Total equity and liabilities		**1,563,523,474**	1,549,034,716

The accompanying notes from 1 to 12 form an integral part of this condensed consolidated interim financial information.

M.S

Chief Financial Officer

Chief Executive Officer

Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of comprehensive income
For the three-month period ended March 31, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Note	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Sales		**225,010,958**	166,499,616
Cost of sales		**(162,906,717)**	(134,829,927)
Gross profit		**62,104,241**	31,669,689
Selling and distribution expenses		**(9,974,893)**	(9,563,003)
General and administrative expenses		**(17,688,139)**	(11,039,186)
Fair value gain (loss) on derivative financial instruments		**584,673**	(802,883)
Other income, net		**60,517**	468,650
Operating profit		**35,086,399**	10,733,267
Finance costs		**(6,304,266)**	(7,378,231)
Profit before zakat		**28,782,133**	3,355,036
Zakat expense		**(706,043)**	(102,369)
Profit for the period		**28,076,090**	3,252,667
Other comprehensive income items that will never be reclassified to profit or loss:			
Actuarial losses		-	-
Total comprehensive income		**28,076,090**	3,252,667
Earnings per share			
Basic and diluted earnings per share	7	**0.56**	0.07

The accompanying notes from 1 to 12 form an integral part of this condensed consolidated interim financial information.

Chief Financial Officer   Chief Executive Officer   Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
A Saudi Joint Stock Company)
Condensed consolidated interim statement of changes in equity
For the three-months period ended March 31, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at January 1, 2018 (Audited)	**500,000,000**	**73,663,228**	**148,716,962**	**722,380,190**
Profit for the period	-	-	**28,076,090**	**28,076,090**
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	**28,076,090**	**28,076,090**
Transfer to statutory reserve	-	**2,807,609**	**(2,807,609)**	-
Balance as at March 31, 2018 (Unaudited)	**500,000,000**	**76,470,837**	**173,985,443**	**750,456,280**
Balance as at January 1, 2017 (Audited)	500,000,000	66,850,116	126,615,343	693,465,459
Profit for the period	-	-	3,252,667	3,252,667
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	3,252,667	3,252,667
Transfer to statutory reserve	-	325,267	(325,267)	-
Balance as at March 31, 2017 (Unaudited)	500,000,000	67,175,383	129,542,743	696,718,126

The accompanying notes from 1 to 12 form an integral part of this condensed consolidated interim financial information.

M.S

Chief Financial Officer

Chief Executive Officer

Authorized Member of Board

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Condensed consolidated interim statement of cash flows
For the three-month period ended March 31, 2018
(Expressed in Saudi Riyals unless otherwise stated)

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Cash flows from operating activities		
Profit before zakat	**28,782,133**	3,355,036
Adjustments for:		
Depreciation and amortization	**21,557,994**	21,844,851
Finance costs	**6,304,266**	7,378,231
Gain on sale of property and equipment	**-**	(100,746)
Allowance for impairment of trade receivables	**900,000**	(565,711)
Allowance for slow moving inventories	**900,000**	900,000
Employees' end of service benefits provision	**1,319,662**	1,240,954
Fair value (gain)/ loss on derivative financial instruments	**(584,673)**	802,883
Fair value gain on investment at fair value through profit or loss	**(2,278)**	-
Changes in working capital:		
Inventories	**8,181,582**	556,849
Trade receivables	**(33,470,353)**	4,794,015
Prepayments and other receivables	**(334,640)**	(880,755)
Other current assets	**2,291,754**	(3,031,072)
Trade and other payables	**17,002,723**	9,965,712
Other current liabilities	**(208,493)**	7,318,074
Cash generated from operations	**52,639,677**	53,578,321
Finance costs paid	**(4,749,620)**	(5,697,344)
Zakat paid	**-**	(25,841)
Employees' end of service benefit paid	**(448,137)**	(384,569)
Net cash inflow from operating activities	**47,441,920**	47,470,567
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	**(8,346,818)**	(39,823,189)
Acquisition of investment at fair value through profit or loss	**-**	(55,000,000)
Proceeds from sale of property and equipment	**-**	114,051
Net cash outflow from investing activities	**(8,346,818)**	(94,709,138)
Cash flows from financing activities		
Net change in short term borrowings	**(17,934,420)**	25,270,610
Proceeds from long term borrowings	**-**	35,848,000
Repayments of long term borrowings	**(15,791,858)**	(20,848,000)
Net cash (outflow) inflow from financing activities	**(33,726,278)**	40,270,610
Net change in cash and cash equivalents	**5,368,824**	(6,967,961)
Cash and cash equivalents at beginning of period	**31,015,660**	34,379,773
Cash and cash equivalents at end of period	**36,384,484**	27,411,812

The accompanying notes from 1 to 12 form an integral part of this condensed consolidated interim financial information.

M.S.

Chief Financial Officer

Chief Executive Officer

Authorized Member of 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 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, (December 31, 2000). During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated Safar 14, 1433H (January 8, 2012). The Company's application for its initial public offering was accepted by the Capital Market Authority (CMA) on Jumad-ul-Awal 25, 1436H (March 16, 2015). The Company was converted to Saudi Joint Stock Company on Rajab 14, 1436H (May 3, 2015).

At March 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	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	97% Directly 3% indirectly Effectively 100%
Special Achievements Company Limited	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	97% Directly 3% indirectly Effectively 100%

2 Basis of preparation

2.1 Statement of compliance

This condensed consolidated interim financial information of the Company has been prepared in compliance with IAS 34 "Interim Financial Reporting" as endorsed by Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom of Saudi Arabia as well as other standards and pronouncements issued by SOCPA.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2017. IAS 34 states that the condensed interim financial information is intended to provide an update on the latest complete set of annual financial statements. Hence, IAS 34 requires less disclosure in interim financial information than IFRS requires in annual financial statements.

2.2 Accounting convention / Basis of measurement

The condensed consolidated interim financial information has been prepared on a historical cost basis except for derivative financial instruments and investment at fair value through profit or loss which are measured at fair value. This condensed consolidated interim financial information is presented in Saudi Arabian Riyals (Saudi Riyals).

2.3 New and ammended standards adopted by the Group

The Group has initially adopted IFRS 15 Revenue from contracts with customers (see A below) and IFRS 9 Financial Instruments (see B below) 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 initially applying this standard recognized 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). The application of IFRS 15 does not have any impact on the condensed consolidated interim financial information of the Group.

(b) IFRS 9 - Financial Instruments

IFRS 9 replaces the provisions of IAS 39 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 initially applying this standard recognized 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 did not have any significant impact on the measurement and recognition of the financial instruments on the condensed consolidated interim financial information except for the change in the classification of the financial instruments as listed below.

(Expressed in Saudi Riyals unless otherwise stated)

The following table shows changes in classification and measurement in accordance with the original IAS 39 and the new IFRS 9 for the Group's financial assets and financial liabilities as of 1 January 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	Financial assets at amortized cost	Amortized cost	Amortized cost	209,617,581	209,617,581
Other current assets	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	16,954,131	16,954,131
Cash and cash equivalent	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost	31,015,660	31,015,660
Derivatives	At fair value through profit or loss	Financial assets 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	Financial assets 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 results in no additional impairment allowance.

The accounting policies relating to revenue from contracts with customers and classification and measurement of financial assets and financial liabilities, impairment of financial assets are disclosed in Note 3.

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

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

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRS 16 – Leases	IFRS 16 proposes a lease classification that would be based on the nature of asset that was the subject of the lease. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Annual reporting periods beginning on or after January 1, 2021, early adoption is permitted	IFRS 17 – Insurance contracts	IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRIC 23 – Uncertainty over income tax treatments	IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The Group is currently assessing the implications of adopting the above standards and interpretations on the Group's consolidated financial information.

2.5 Use of judgments and estimates

Preparation of the Group's condensed consolidated interim financial information 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 condensed consolidated interim financial information 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.

3 Significant accounting policies

The accounting policies adopted by the Company for the preparation of the condensed consolidated interim financial information are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for accounting policies related to the new standards adopted by the Gorup effective as of January 1, 2018. (see Note 2.3).

3.1 Financial instruments

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

(i) Financial assets

(a) Classification

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL) on the basis of its business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

(b) 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

For purposes of subsequent measurement, financial assets are classified in two categories:

- Debt instruments at amortised cost
- Equity instruments at FVPL

Debt instruments

A 'debt instrument' is measured at the 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.

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 the profit or loss. The losses arising from impairment are recognised in the profit or loss. This category generally applies to trade and other receivables, bank balances, security deposits, advances to employees.

Equity investments

All equity investments in scope of IFRS 9 are measured at fair value. Equity instruments which are held for trading are classified as at FVPL. For all other equity instruments, the Group decides to classify the same either as at FVOCI or FVPL. The Group makes such election on an instrument-by-instrument basis. The classification is made on initial recognition and is irrevocable. If the Group decides to classify an equity instrument as at FVOCI, all fair value changes on the instrument, excluding dividends, are recognized in the other comprehensive income. There is no recycling of the amounts from other comprehensive income to profit or loss, even on sale of investment. However, the Group may transfer the cumulative gain or loss within equity. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Equity instruments included within the FVPL category are measured at fair value with all changes recognized in the profit or loss.

<u>Derecognition</u>

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 of financial assets

In accordance with IFRS 9, the Group applies 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 balance. For recognition of impairment loss on financial assets and risk exposure, the Group determines that whether there has been a significant increase in the credit risk since initial recognition.

The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables resulting from transactions within the scope of IFRS 9, if they do not contain a significant financing component. The application of simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition. Lifetime ECL are the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

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

(ii) Financial liabilities

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

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 into the '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 effective interest method. Non-derivative financial liabilities of the Group comprises of borrowings and trade and other payables.

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. 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.

(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 swap, are initially recorded at cost and re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instrument, as it does not qualify for hedge accounting, are recognised in profit or loss as part of "Fair value (loss)/gain on derivative financial instruments" as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated statement of financial position.

3.2 Revenue

The Group recognizes revenue to depict the transfer of promised goods to customers. The Group recognizes revenue from the following major sources:

a) Sale of container board and industrial paper
b) Whole and retail sales of paper, carton and plastic waste

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Under IFRS 15 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 the benefits from the goods or services).

Customers obtain control when goods are delivered to and have been accepted by them as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time. Invoices are usually payable within credit period agreed with the customer which may vary from customer to customer.

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.

(Expressed in Saudi Riyals unless otherwise stated)

4. Operating segments

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

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management. The following table presents segment information for the three months period ended March 31, 2018:

	Manufacturing	**Trading**	**Elimination**	**Total**
Operating segment results for the three-months ended March 31, 2018 (Unaudited)				
Revenues	219,218,859	72,348,557	(66,556,458)	**225,010,958**
External revenues	219,218,859	5,792,099	-	**225,010,958**
Segment profit (loss) before zakat	28,782,133	(5,742,679)	5,742,679	**28,782,133**
Financial charges	6,304,266	-	-	**6,304,266**
Depreciation and amortization	18,882,928	2,675,066	-	**21,557,994**
Operating segment results for the three months ended March 31, 2017 (Unaudited)				
Revenues	150,785,737	75,522,345	(59,808,466)	166,499,616
External revenues	150,785,737	15,713,879	-	166,499,616
Segment profit (loss) before zakat	3,355,036	(1,035,980)	1,035,980	3,355,036
Financial charges	7,019,428	358,803	-	7,378,231
Depreciation and amortization	18,964,649	2,880,202	-	21,844,851
As of March 31, 2018 (Unaudited)				
Total assets	1,521,457,672	129,651,999	(87,586,197)	**1,563,523,474**
Total liabilities	771,001,392	70,887,159	(28,821,357)	**813,067,194**
As of December 31, 2017 (Audited)				
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 and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three months period ended March 31, 2018 amounted to Saudi Riyals 91.01 million (three months period ended March 31, 2017: Saudi Riyals 82.77 million). Local external sales in Saudi Arabia, during the three months period ended March 31, 2018 amounted to Saudi Riyals 134 million (three months period ended March 31, 2017: Saudi Riyals 83.73 million).

(Expressed in Saudi Riyals unless otherwise stated)

5. Property, plant and equipment

	Land	Buildings and mobile cabinets	Machinery and equipment	Furniture and fixtures	Motor vehicles	Capital work-in-progress	Total
At January 1, 2018							
Cost	97,870,400	179,449,401	1,379,805,776	28,181,711	43,015,391	31,796,433	1,760,119,112
Accumulated depreciation	-	46,228,962	590,014,652	24,181,565	34,704,664	-	695,129,843
Net book value	97,870,400	133,220,439	789,791,124	4,000,146	8,310,727	31,796,433	1,064,989,269
Three months period ended March 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	-	20,000	1,878,102	133,849	112,200	6,415,169	8,559,320
Depreciation charge	-	(1,452,145)	(18,565,095)	(433,736)	(716,347)	-	(21,167,323)
Closing net book value	**97,870,400**	**131,788,294**	**773,104,131**	**3,700,259**	**7,706,580**	**38,211,602**	**1,052,381,266**
At March 31, 2018							
Cost	97,870,400	179,469,401	1,381,683,878	28,315,560	43,127,591	38,211,602	1,768,678,432
Accumulated depreciation	-	47,681,107	608,579,747	24,615,301	35,421,011	-	716,297,168
Net book value	**97,870,400**	**131,788,294**	**773,104,131**	**3,700,259**	**7,706,580**	**38,211,602**	**1,052,381,266**

During the three month period ended March 31, 2018, finance costs amounting to Saudi Riyals 0.21 million were capitalized as part of property, plant and equipment (2017: Nil).

Capital work-in-progress as of March 31, 2018 includes costs incurred related to the ongoing projects for plant and machinery. The projects are expected to complete during first quarter of 2019. See also Note 9 for capital commitments.

All land, buildings and mobile cabinets, machinery, equipment, furniture and fixtures relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first degree pledge (see Note 6).

6. Long-term borrowings

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Saudi Industrial Development Fund (SIDF)	**136,946,062**	135,622,655
Islamic banking facilities (Tawarruq)	**331,237,030**	347,065,637
Long-term borrowings	**468,183,092**	482,688,292
Less: current portion shown under current liabilities	**(125,166,009)**	(124,333,703)
Long term borrowings shown under non-current liabilities	**343,017,083**	358,354,589

(a) The Company signed a loan agreement with SIDF amounting to Saudi Riyals 255 million in 2012 to partially finance the construction of manufacturing lines within the Company's production facility. This loan was fully utilized as of December 31, 2015. The loan is repayable in unequal semi-annual instalments ending in May 2018.

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

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

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

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2021.

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.

(Expressed in Saudi Riyals unless otherwise stated)

7. Earnings per share

The Group presents basic and diluted earnings per share (EPS) 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.

	March 31, 2018 (Unaudited)	**March 31, 2017 (Unaudited)**
Net profit for the period	**28,076,090**	3,252,667
Weighted average number of shares	**50,000,0000**	50,000,0000
Basic and diluted earnings per share	**0.56**	0.07

8. 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 communicated by the fund manager.

The fair values under Level 2 were as follows:

	March 31, 2018 (Unaudited)	**December 31, 2017 (Audited)**
Level 2		
Derivative financial instruments	**1,941,911**	1,357,238
Investment at fair value through profit or loss	**514,581**	512,303

During the 3 months period ended March 31, 2017, there were no movements between the levels.

9. Contingencies and commitments

i. At March 31, 2018, the Group had outstanding letters of credit amounting to Saudi Riyals 4.97 million (December 31, 2017: Saudi Riyals 5.06 million) and letters of guarantee amounting to Saudi Riyals 1.69 million (December 31, 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 March 31, 2018 was approximately Saudi Riyals 33.18 million (March 31, 2017: Saudi Riyals 7.83 million).

(Expressed in Saudi Riyals unless otherwise stated)

10. Related party transactions

10.1 Related party transactions

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

Related party	**Description of transaction**	**Relationship**	**March 31, 2018 (Unaudited)**	**March 31, 2017 (Unaudited)**
MASDAR Building Materials	Purchase of materials / services	Common shareholders	**15,330**	166,702

10.2 Related party balances

There are no outstanding related party balances as at March 31 2018, and December 31, 2017.

11. Dividends

The Board of Directors in their meeting held on March 4, 2018 proposed dividends of Saudi Riyals 37.5 million (2017: Saudi Riyals 37.5 million) to the shareholders (representing Saudi Riyals 0.75 per share) which was approved by General Assembly held on April 22, 2018.

12. Authorization of financial information

This condensed consolidated interim financial information was authorized for issue by the Company's Board of Directors on May 8, 2018.