

1H2018 Earnings Release

MEPCO achieves 1H net profit increase of 166%, driven by improving demand and increased pricing

Jeddah, Saudi Arabia, 31 July 2018: The Middle East Paper Co. ('MEPCO'), the region's leading vertically-integrated paper manufacturer, has announced its interim financial results for the six months ended 30 June 2018. Net profit of SAR 57 million in the first half increased by 166% on H1 2017.

STRATEGIC HIGHLIGHTS

- Stabilisation of pricing trends since Q3 2017, with global containerboard pricing currently robust.
- Improved demand in global markets, as well as increased product diversification is directly and positively impacting profitability.
- Further cost optimisation measures have continued to positively impact performance.

Eng. Sami Safran, Chief Executive Officer, comments:

"We are pleased to announce continued improvement in year-on-year performance and we are also comfortable with our performance in Q2. On a YTD basis, operating and financial performance is very much on track and according to plan. Improved sales revenues have primarily been driven by stabilized market pricing, which has occurred since Q3 2017, along with a higher level of product diversification, which has positively influenced profitability. Demand for containerboard locally, in MENA and internationally continues to grow. Recently, we have allocated higher volumes¹ to the local market, which is now 59% of total sales as compared with 54% in the first half of 2017."

¹ Refers to MEPCO standalone volumes

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OPERATING REVIEW

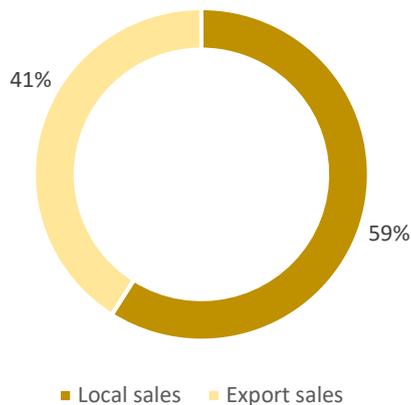
Sales performance

Total sales of SAR 444 million in H1 2018, as compared with SAR 353 million in H1 2017 improved by 25.6% on a year-on-year basis. In Q2 2018, total sales of SAR 219 million declined slightly from SAR 225 million in Q1 2018, representing a decrease of 2.9%. Consolidated sales volumes decreased slightly on a year-on-year and quarterly basis, due to volume decreases for the subsidiary WASCO. Drivers for improved year-on-year sales performance include a stabilized international and regional pricing environment and increased allocation to non-export distribution.

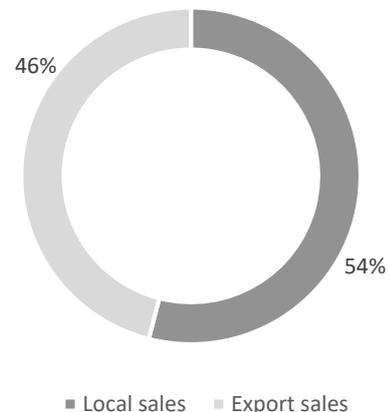
Operational update²

Ongoing cost optimization efforts have continued to positively impact performance across the manufacturing process. Meanwhile, the activation of newly introduced SAP systems across business verticals and subsidiaries has improved the structural and operating efficiency of the company.

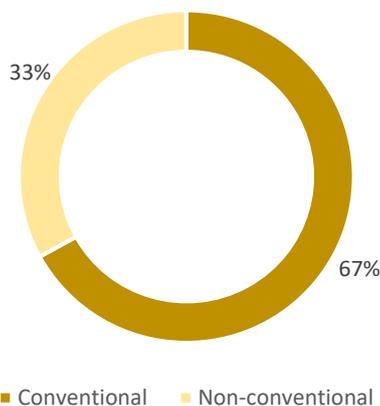
Local vs. Export Sales vol. (%) H1 2018



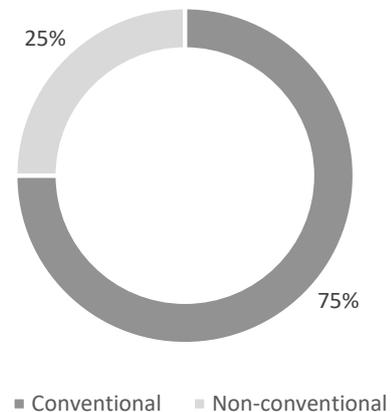
Local vs. Export Sales vol. (%) H1 2017



Sales Vol. by Product (%) H1 2018



Sales Vol. by Product (%) H1 2017



² Refers to MEPCO standalone volumes

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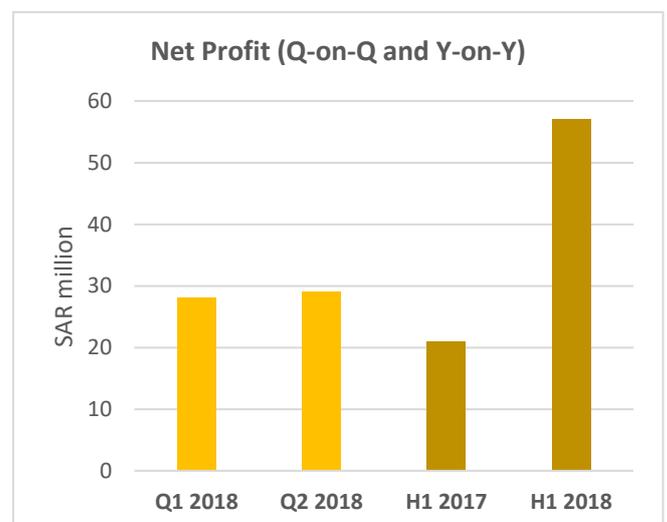
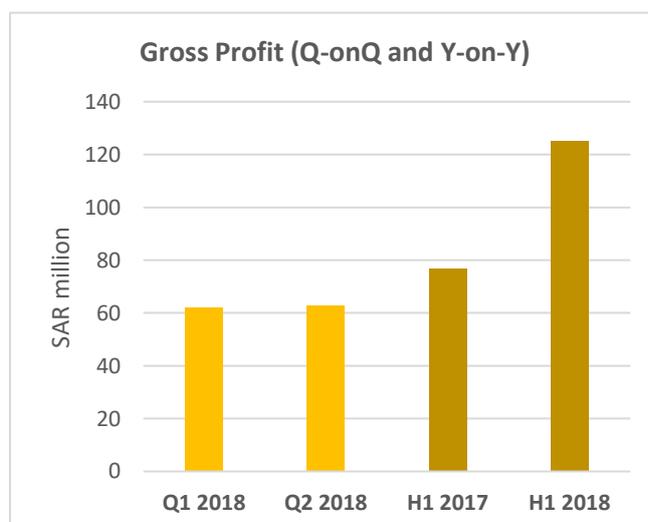
FINANCIAL REVIEW

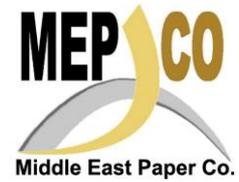
MIDDLE EAST PAPER CO. (MEPCO) INTERIM CONSOLIDATED FINANCIAL RESULTS

For the three/six months ended 30 June 2018; all figures are in SAR '000

ELEMENT	CURRENT HALF	SAME HALF LAST YEAR	% CHANGE	CURRENT QUARTER	PREVIOUS QUARTER	% CHANGE
SALES VOLUME, TONS	206,243	222,043	-7.1%	101,153	105,089	-3.7%
SALES REVENUE	443,579	353,218	25.6%	218,568	225,011	-2.9%
NET PROFIT (LOSS)	56,993	21,428	166.0%	28,917	28,076	3.0%
GROSS PROFIT (LOSS)	125,222	77,088	62.4%	63,118	62,104	1.6%
OPERATIONAL PROFIT (LOSS)	71,581	36,790	94.6%	36,495	35,086	4.0%
EARNINGS PER SHARE, RIYALS	1.14	0.43	165.1%	0.58	0.56	3.6%

Sales revenue of SAR 444 million in H1 2018 increased 25.6% from H1 2017 and decreased slightly by 2.9% on the first quarter. Improved year-on-year performance was driven primarily by increases in prices and adjusted sales mix. Gross profit of SAR 125 million in H1 2018 increased 62.4% from H1 2017 and by 1.6% on the first quarter. Improved performance was driven primarily by successful cost calibration. Operating profit of SAR 72 million in H1 2018 increased by 94.6% from H1 2017 and increased by 4% on the first quarter, mainly due to an increase in non-conventional product sales to constitute 33% of total sales (up from 25% in H1 2017). MEPCO achieved a net profit of SAR 57 million in H1 2018, a steep improvement of 166% on H1 2017 and an increase of 3% on the previous quarter. Basic and diluted earnings per share (EPS) of SAR 1.14 for H1 2018 improved from SAR 0.43 in H1 2017.





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Dr. Mohamed Saleh Darweesh, Chief Financial Officer, comments:

“We are now seeing a tangible impact from our cost optimisation programme. In addition, the restructuring and improved efficiency of our production processes, driven partly by the roll-out of our SAP systems, is directly benefitting financial reporting. In terms of our debt position, we have successfully reduced our borrowing levels by SAR 81 million as compared with H1 2017. This is an important achievement in a rising interest rate environment. We have successfully reduced our cost of financing through favourable lending terms, despite increased average SAIBOR rates. We will continue to work on reducing our debt levels and improving our Debt-to-Equity ratio, which currently stands at 0.91.”

-Ends-

About MEPCO

MEPCO is the leading vertically-integrated paper manufacturer in the Middle East, offering a diverse range of containerboard and specialty paper products serving the packaging, construction, furniture, and paper core industries around the world. MEPCO supplies its products to the local Saudi market, as well as the GCC, Middle East and Africa. Furthermore, the Company has developed a growing presence in South Asia, the Americas, and Europe. The Company’s innovative approach to doing business enables it to deliver a significant environmental and economic benefit to its home market. The use of energy- and water-efficient production processes enables MEPCO to offer environmentally-friendly and recyclable products to the market. Through its wholly-owned subsidiary, WASCO, MEPCO’s raw materials are sourced from locations across the Kingdom, securing business sustainability while providing measurable benefits to the Saudi economy. MEPCO is listed on the Saudi Stock Exchange, under Tadawul symbol ‘MEPCO’. For more information about MEPCO, click [here](#).

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