

**SAUDI PAPER MANUFACTURING COMPANY
AND SUBSIDIARIES
(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS FOR THE THREE-MONTH AND
SIX-MONTH PERIODS ENDED JUNE 30, 2014
AND LIMITED REVIEW REPORT**

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

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LIMITED REVIEW REPORT

July 21, 2014

To the shareholders of Saudi Paper Manufacturing Company:
(A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Paper Manufacturing Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2014 and the related interim consolidated income statement for the three-month and six-month periods ended June 30, 2014, and the interim consolidated statement of cash flows for the six-month period then ended and the related notes which form an integral part of the interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in Saudi Arabia.

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SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | June 30, 2014 (Unaudited) | June 30, 2013 (Unaudited) |
|---|------|---------------------------------|---------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 25,850,075 | 14,345,949 |
| Accounts receivable | | 292,828,529 | 295,043,232 |
| Inventories | | 213,736,347 | 203,285,812 |
| Investments | | 24,947,388 | 24,847,388 |
| Prepayments and other receivable | | 237,009,887 | 209,372,270 |
| | | <u>794,372,226</u> | <u>746,894,651</u> |
| Non-current assets | | | |
| Investment in an associate | | 10,400,000 | 10,400,000 |
| Property, plant and equipment | | 908,220,302 | 922,917,173 |
| Intangible assets | | 23,009,648 | 22,595,712 |
| | | <u>941,629,950</u> | <u>955,912,885</u> |
| Total assets | | <u>1,736,002,176</u> | <u>1,702,807,536</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Short-term borrowings | | 371,730,469 | 439,641,206 |
| Current maturity of long-term borrowings | | 87,385,032 | 57,213,988 |
| Accounts payable | | 194,138,772 | 183,450,884 |
| Accrued and other liabilities | | 22,874,516 | 13,980,024 |
| Zakat payable | | 7,717,765 | 4,538,470 |
| | | <u>683,846,554</u> | <u>698,824,572</u> |
| Non-current liabilities | | | |
| Long-term borrowings | | 331,444,610 | 322,743,416 |
| Employee termination benefits | | 22,497,960 | 21,057,983 |
| | | <u>353,942,570</u> | <u>343,801,399</u> |
| Total liabilities | | <u>1,037,789,124</u> | <u>1,042,625,971</u> |
| Equity | | | |
| Equity attributable to shareholders of the Company: | | | |
| Share capital | 1 | 450,000,000 | 375,000,000 |
| Statutory reserve | | 68,016,530 | 64,849,342 |
| Retained earnings | | 179,091,946 | 215,431,236 |
| Currency translation differences | | (3,131,993) | (15,965) |
| Total shareholders' equity | | <u>693,976,483</u> | <u>655,264,613</u> |
| Non-controlling interests | | <u>4,236,569</u> | <u>4,916,952</u> |
| Total equity | | <u>698,213,052</u> | <u>660,181,565</u> |
| Total liabilities and equity | | <u>1,736,002,176</u> | <u>1,702,807,536</u> |
| Contingencies and commitments | 4 | | |

The notes from 1 to 4 form an integral part of these interim consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For three-month periods ended June 30, | | For six-month periods ended June 30, | |
|--|------|---|------------------|---|-------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Sales | 3 | 204,497,934 | 212,773,171 | 409,993,110 | 419,446,465 |
| Cost of sales | | (151,400,107) | (158,286,837) | (310,729,403) | (328,700,554) |
| Gross profit | | 53,097,827 | 54,486,334 | 99,263,707 | 90,745,911 |
| Operating expenses | | | | | |
| Selling and marketing | | (17,986,517) | (18,709,362) | (34,251,202) | (33,534,426) |
| General and administrative | | (14,114,962) | (11,779,029) | (27,821,968) | (27,157,497) |
| Income from operations | | 20,996,348 | 23,997,943 | 37,190,537 | 30,053,988 |
| Other expenses, net | | | | | |
| Financial charges, net | | (8,664,665) | (5,334,198) | (16,279,991) | (12,112,392) |
| Other | | 987,418 | (8,010,859) | 1,771,204 | (6,197,222) |
| Income before zakat and non-controlling interests | | 13,319,101 | 10,652,886 | 22,681,750 | 11,744,374 |
| Zakat | | (1,100,000) | (1,206,681) | (2,200,000) | (1,528,745) |
| Income before non-controlling interests | | 12,219,101 | 9,446,205 | 20,481,750 | 10,215,629 |
| Non-controlling interests | | (164,834) | (111,529) | (297,253) | (187,147) |
| Net income for the period | | 12,054,267 | 9,334,676 | 20,184,497 | 10,028,482 |
| Earnings per share (Saudi Riyals): | 2.21 | | | | |
| • Operating income | | 0.47 | 0.53 | 0.83 | 0.67 |
| • Net income for the period | | 0.27 | 0.21 | 0.45 | 0.22 |

The notes from 1 to 4 form an integral part of these interim consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Interim consolidated cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

| | For six-month periods ended June 30, | |
|---|---|----------------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| Cash flow from operating activities | | |
| Net income for the period | 20,184,497 | 10,028,482 |
| <u>Adjustments for non-cash items</u> | | |
| Provision for doubtful accounts receivable | 4,200,000 | 1,650,000 |
| Depreciation and amortization | 22,613,682 | 24,023,058 |
| Impairment | - | 11,192,049 |
| Income applicable to non-controlling interests | 297,253 | 187,147 |
| <u>Changes in working capital</u> | | |
| Accounts receivable | (9,346,736) | (11,903,655) |
| Inventories | 8,174,418 | 26,445,206 |
| Prepayments and other receivable | 11,310,013 | (9,901,949) |
| Accounts payable | (24,814,842) | 45,744,273 |
| Accrued and other current liabilities | 11,502,593 | 10,686,183 |
| Zakat payable | 2,140,032 | (547,975) |
| Employee termination benefits | (1,188,001) | 1,057,619 |
| Net cash generated from operating activities | 45,072,909 | 108,660,438 |
| Cash flow from investing activity | | |
| Purchase of property, plant and equipment | (23,550,164) | (8,058,341) |
| Cash flow from financing activities | | |
| Change in short-term borrowings | 8,186,856 | (2,521,981) |
| Repayments of long-term borrowings | (37,519,049) | (150,609,634) |
| Dividends paid | - | (56,250,000) |
| Dividends paid by subsidiaries to non-controlling interests | (1,266,806) | - |
| Net cash utilized in financing activities | (30,598,999) | (209,381,615) |
| Net decrease in cash and cash equivalents | (9,076,254) | (108,779,518) |
| Cash and cash equivalents at beginning of period | 34,926,329 | 123,125,467 |
| Cash and cash equivalents at end of period | 25,850,075 | 14,345,949 |

The notes from 1 to 4 form an integral part of these interim consolidated financial statements.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-month and six-month periods ended June 30, 2014 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Saudi Paper Manufacturing Company (the "Company" or "SPM") and its subsidiaries (collectively the "Group") consist of the Company and its various Saudi Arabian and foreign subsidiaries. The Group is principally engaged in manufacturing of tissue paper rolls, converting tissue paper rolls into facial, kitchen and toilet tissue papers and collecting, sorting, transporting and pressing waste papers.

The Company is a joint stock company, registered in the Kingdom of Saudi Arabia, operating under Commercial Registration No. 2050028141 issued in Dammam on 10 Muharram 1415 AH (June 20, 1994). The registered address of the Company is P.O. Box 8863, Second Industrial Area, Dammam 31492, the Kingdom of Saudi Arabia.

During the three-month period ended June 30, 2014, the Company's shareholders resolved to increase the share capital of the Company to Saudi Riyals 450.0 million through issuance of 7,500,000 bonus shares by a transfer of Saudi Riyals 75.0 million from the retained earnings. Legal formalities related to such increase have been completed.

Certain of the foreign subsidiaries in the accompanying consolidated financial statements are in process of development of manufacturing facilities which are expected to be completed during 2015.

The accompanying interim consolidated financial statements were approved by the Company's management on July 21, 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 Basis of preparation

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Group for preparing such interim consolidated financial statements are consistent with the accounting policies described in the 2013 annual audited consolidated financial statements of the Group.

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three and six-month periods ended June 30, 2014 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2013.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Investments

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-month and six-month periods ended June 30, 2014 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "Intangible assets" in the balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses.

Inter-company transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Unrealized losses are also eliminated.

(b) Associates

Associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting and is initially recognized at cost. The Group's investment in an associate includes goodwill identified on acquisition, which is adjusted subsequently for impairment loss, if any.

(c) Other investments

Other investments are initially recognized at cost and subsequently measured at the fair value, where applicable.

2.4 Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:

- (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.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.5 Foreign currencies

(a) Reporting currency

These interim consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in the income statement.

(c) Group companies

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries into Saudi Riyals are reported as a separate component of equity.

Dividends received from subsidiaries are translated at the exchange rate in effect at the transaction date.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-month and six-month periods ended June 30, 2014 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

2.8 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except construction in progress which is stated at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.10 Deferred charges

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the balance sheet, include certain indirect construction costs and pre-operating expenses which are amortized over periods which do not exceed seven years.

2.11 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on goodwill are not reversible.

2.12 Borrowings

Borrowings are recognized at the proceeds received, net of transaction Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the income statement.

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.14 Zakat and tax

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT").

Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the interim consolidated financial statements

For the three-month and six-month periods ended June 30, 2014 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

The Company and its Saudi Arabian subsidiaries withhold tax on certain transactions with non-resident parties, including dividend payments to foreign shareholders of the Saudi Arabian subsidiaries, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income tax in their respective countries of domicile which are charged to the income statement.

Deferred income tax are recognized on all major temporary differences between financial income and taxable income during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2.15 Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement.

The foreign subsidiaries provide currently for employee termination and other benefits as required under the laws of their respective countries of domicile.

2.16 Revenues

Sales are recognized upon delivery of products. Revenues are shown net of discounts and rebates and after eliminating sales within the Group.

2.17 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.18 Dividends

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

2.19 Operating leases

Rental expense under operating leases is charged to the income statement over the period of the respective lease.

2.20 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of their net income to a statutory reserve until such reserve equals 50% of share capital. Allocation to the statutory reserve is made for the interim period considering the net income for such period which is adjusted at the year-end considering the net income for the year. The statutory reserve in the accompanying interim consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

2.21 Earnings per share

Earnings per share for the three-month and six-month periods ended June 30, 2014 and June 30, 2013 has been computed by dividing the operating income and net income for the periods by weighted average number of 45,000,000 shares outstanding during such periods.

2.22 Reclassification

Certain amounts in the accompanying 2013 interim consolidated financial statements have been reclassified to conform to 2014 presentation.

SAUDI PAPER MANUFACTURING COMPANY AND SUBSIDIARIES**(A Saudi Joint Stock Company)****Notes to the interim consolidated financial statements****For the three-month and six-month periods ended June 30, 2014 (Unaudited)****(All amounts in Saudi Riyals unless otherwise stated)****3 Segment information**

The Group operates principally in the following business segments:

- (i) Manufacturing; and
- (ii) Trading, transporting and other.

Selected financial information as of June 30, 2014 and 2013 and for the six-month periods then ended, summarized by the above business segments, was as follows:

| | Manufacturing | Trading, transporting and other | Total |
|-------------------|----------------------|--|---------------|
| 2014 | | | |
| Sales | 191,677,694 | 218,315,416 | 409,993,110 |
| Net income (loss) | 34,836,890 | (14,652,393) | 20,184,497 |
| Total assets | 1,188,445,638 | 547,556,538 | 1,736,002,176 |
| 2013 | | | |
| Sales | 194,079,896 | 225,366,569 | 419,446,465 |
| Net income (loss) | 31,108,509 | (21,080,027) | 10,028,482 |
| Total assets | 1,096,077,080 | 606,730,456 | 1,702,807,536 |

The Group's operations are conducted in Saudi Arabia, other Gulf Cooperation Council (GCC) countries and certain other countries. Selected financial information as of June 30, 2014 and 2013 and for the six-month periods then ended, summarized by geographic area, were as follows:

| | Saudi Arabia | GCC countries | Other countries | Total |
|-------------------------------|---------------------|----------------------|----------------------------|--------------|
| 2014 | | | | |
| Sales | 378,310,011 | 23,622,327 | 8,060,772 | 409,993,110 |
| Non-current assets: | | | | |
| Property, plant and equipment | 832,707,213 | 20,486,496 | 55,026,593 | 908,220,302 |
| Other non-current assets | 14,397,687 | 18,114,400 | 897,561 | 33,409,648 |
| 2013 | | | | |
| Sales | 381,369,520 | 30,238,801 | 7,838,144 | 419,446,465 |
| Non-current assets: | | | | |
| Property, plant and equipment | 852,420,747 | 21,886,790 | 48,609,636 | 922,917,173 |
| Other non-current assets | 14,881,312 | 18,114,400 | - | 32,995,712 |

4 Contingencies and commitments

- (i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to Saudi Riyals 10.1 million at June 30, 2014.
- (ii) The capital expenditure contracted by the Group but not yet incurred till June 30, 2014 was approximately Saudi Riyals 18.8 million.