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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT March 14, 2017

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

Scope of audit

We have audited the accompanying consolidated balance sheet of Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 26 which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with requirements of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: ____________________
Mufaddal A. Ali
License Number 447

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 4030289002

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	**34,379,773**	30,005,552
Accounts receivable	5	**174,324,793**	178,823,093
Due from a related party	8	**-**	5,713,244
Inventories	6	**175,673,920**	199,298,861
Prepayments and other assets	7	**59,965,549**	101,211,677
		444,344,035	515,052,427
Non-current assets			
Derivative financial instruments	9	**2,715,795**	83,682
Property, plant and equipment	10	**1,104,022,247**	1,071,980,001
Intangible assets	11	**5,581,962**	6,335,584
		1,112,320,004	1,078,399,267
Total assets		**1,556,664,039**	1,593,451,694
Liabilities			
Current liabilities			
Short-term borrowings	12	**198,181,059**	209,068,159
Current maturity of long-term borrowings	13	**112,117,300**	190,962,422
Notes payable		**42,834,538**	2,741,210
Accounts payable		**37,451,982**	46,818,871
Due to related parties	8	**403,899**	326,165
Accrued and other liabilities	14	**33,889,095**	31,637,443
Zakat payable	15	**1,630,533**	1,769,856
		426,508,406	483,324,126
Non-current liabilities			
Long-term borrowings	13	**389,695,972**	427,680,086
Employee termination benefits	16	**27,601,148**	24,442,833
		417,297,120	452,122,919
Total liabilities		**843,805,526**	935,447,045
Shareholders' equity			
Share capital	17	**500,000,000**	500,000,000
Statutory reserve	18	**65,344,763**	57,359,377
Retained earnings		**147,513,750**	100,645,272
Total shareholders' equity		**712,858,513**	658,004,649
Total liabilities and shareholders' equity		**1,556,664,039**	1,593,451,694
Contingencies and commitments	26		

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

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)
Consolidated income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2016	2015
Sales		**634,404,523**	681,170,062
Cost of sales		**(518,416,649)**	(508,313,973)
Gross profit		**115,987,874**	172,856,089
Operating expenses			
Selling and marketing	19	**(39,400,152)**	(40,741,153)
General and administrative	20	**(59,869,352)**	(50,249,575)
Income from operations		**16,718,370**	81,865,361
Other income (expenses)			
Financial charges	12,13	**(28,887,356)**	(21,872,348)
Foreign currency exchange (loss) gain		**(736,905)**	172,256
Fair value gain on derivative financial instruments	9	**2,632,113**	83,682
Net gain on claim for expropriated land and premises	25	**91,963,702**	-
Other, net		**(523,320)**	(3,440,969)
Income before zakat		**81,166,604**	56,807,982
Zakat	15	**(1,312,740)**	(1,690,282)
Net income for the year		**79,853,864**	55,117,700
Earnings per share:	21		
Income from operations		**0.33**	1.64
Net income for the year		**1.60**	1.10
Weighted average number of shares outstanding		**50,000,000**	50,000,000

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

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)
Consolidated cash flow statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2016	2015
Cash flows from operating activities			
Income for the year before zakat		**81,166,604**	56,807,982
Adjustments for non-cash items			
Depreciation and amortization	10,11	**94,690,081**	100,546,032
Financial charges		**28,887,356**	21,872,348
Gain on sale of property and equipment		**(144,729)**	(188,332)
Allowance / (reversal of allowance) for doubtful accounts receivable	5	**1,050,000**	(1,540,243)
Allowance for inventory obsolescence	6	**1,950,000**	2,442,550
Employee termination benefits provided	16	**6,267,936**	4,503,572
Fair value gain on derivative financial instruments		**(2,632,113)**	(83,682)
Net gain on claim for expropriated land and premises	25	**(91,963,702)**	-
Changes in working capital			
Accounts receivable		**3,448,300**	20,416,387
Inventories		**21,674,941**	(65,193,122)
Prepayments and other assets		**10,755,498**	(7,113,761)
Due from a related party		**5,713,244**	1,036,698
Accounts payable		**(9,366,889)**	6,432,926
Due to related parties		**77,734**	(659,474)
Accrued and other liabilities		**5,317,292**	856,380
		156,891,553	140,136,261
Zakat paid	15	**(1,452,063)**	(2,835,660)
Financial charges paid		**(33,269,703)**	(23,521,205)
Employee termination benefits paid	16	**(3,109,621)**	(1,530,925)
Net cash generated from operating activities		**119,060,166**	112,248,471
Cash flows from investing activities			
Additions to property, plant and equipment and intangible assets	10,11	**(124,842,164)**	(147,926,753)
Proceeds from sale of property and equipment		**165,659**	341,520
Proceeds from claim for expropriated land and premises	25	**132,732,970**	-
Legal fees related to claim for expropriated land and premises	25	**(10,278,638)**	-
Net cash utilized in investing activities		**(2,222,173)**	(147,585,233)
Cash flows from financing activities			
Net change in short-term borrowings and notes payable		**29,206,228**	(118,883,354)
Proceeds from long-term borrowings		**201,449,000**	301,561,000
Repayment of long-term borrowings		**(318,119,000)**	(155,041,682)
Dividends paid	22	**(25,000,000)**	-
Net cash (utilized in) provided by financing activities		**(112,463,772)**	27,635,964
Net increase (decrease) in cash and cash equivalents		**4,374,221**	(7,700,798)
Cash and cash equivalents at beginning of year		**30,005,552**	37,706,350
Cash and cash equivalents at end of year	4	**34,379,773**	30,005,552
Supplementary cash flow information			
Financial charges capitalized in property, plant and equipment		**1,157,471**	1,713,552

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

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)
Consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2016		500,000,000	57,359,377	100,645,272	**658,004,649**
Net income for the year		-	-	79,853,864	**79,853,864**
Transfer to statutory reserve	18	-	7,985,386	(7,985,386)	**-**
Dividends	22	-	-	(25,000,000)	**(25,000,000)**
December 31, 2016		**500,000,000**	**65,344,763**	**147,513,750**	**712,858,513**
January 1, 2015		500,000,000	51,847,607	51,039,342	602,886,949
Net income for the year		-	-	55,117,700	55,117,700
Transfer to statutory reserve	18	-	5,511,770	(5,511,770)	-
December 31, 2015		500,000,000	57,359,377	100,645,272	658,004,649

The accompanying notes from 1 to 26 form an integral part of these consolidated financial statements.

H.S

Chief Financial Officer

Chief Executive Officer

Authorized Member of Board

(All amounts in Saudi Riyals unless otherwise stated)

1. General information

Middle East Company for Manufacturing and Producing Paper (the "Company") and its subsidiaries (collectively the "Group") are engaged in production and sale of container board and industrial paper. The registered office of the Company is P.O. Box 32913, Jeddah 21438, Kingdom of Saudi Arabia. The Company's principal place of business is in Jeddah.

The Company was a limited liability company registered on Rajab 3, 1421H (December 31, 2000) under commercial registration number 4030131516 issued at Jeddah.

During 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce and Investment 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).

The Company has investments in the following subsidiaries:

Subsidiary name	Country of incorporation	Principal business activity	Ownership interest (%) at December 31 2016	2015
Waste Collection and Recycling Company Limited ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	**97 directly 3 indirectly**	97directly 3 indirectly
Special Achievements Company Limited ("SACO")	Saudi Arabia	Whole and retail sales of used papers, carton and plastic products	**97 directly 3 indirectly**	97directly 3 indirectly

These consolidated financial statements were approved by the Board of Directors of the Company on March 14, 2017.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting as modified by revaluation of derivative financial instruments to fair value and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

Effective 1 January 2017, the Group's consolidated financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon adoption of IFRS, the Group will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods commencing January 1, 2017. In preparing the opening consolidated financial statements under IFRS, the Group will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS.

2.2 Critical accounting estimates and judgments

The preparation of consolidated 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. Estimates and judgments 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. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that could potentially but not necessarily always have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

2. Summary of significant accounting policies (continued)

(a) Allowance for doubtful accounts receivable

An allowance for impairment of account receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group provides an amount as allowance for doubtful accounts receivable on a monthly basis and reassesses the closing balance at each reporting date based on ageing of receivables and the detailed analysis of receivable from each customers on a case to case basis and adjusts the closing balance of the allowance accordingly.

(b) Allowance for inventory obsolescence

An allowance for slow moving inventories is maintained at a level considered adequate to provide for potential loss on inventory items. 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 amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

(c) Useful lives of property, plant and equipment

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

During the first quarter ended March 31, 2016, the Group reviewed and revised the useful lives of machinery and equipment after the completion of the major overhaul that took place during 2015. See Note 2.9 for the original and revised useful lives and Note 10 for the impact on the consolidated financial statements.

2.3 Investments

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

Inter-company transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

(a) Business segment

A business segment is a 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 a 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. Summary of significant accounting policies (continued)

2.5 Foreign currency translations

(a) Reporting currency

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

(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 at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) Group companies

The functional and presentation currency of the subsidiaries is Saudi Riyals. Therefore, the Group does not have any currency translation reserve as a separate component of equity.

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.

2.7 Accounts receivable

Accounts receivable are carried at original invoice amount less allowance for accounts receivable. An allowance against accounts receivable 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. Such allowances are charged to the consolidated income statement and reported under “General and administrative expenses”. When account receivable is uncollectible, it is written-off against the allowance for doubtful accounts receivable. Any subsequent recoveries of amounts previously written-off are credited against “General and administrative expenses” in the consolidated income statement.

2.8 Inventories

Inventories are carried 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. Inventories in transit are valued at cost.

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

2.9 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation except construction work in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives (See Note 2.2(c)):

	Number of years (Previously used)	**Number of years (Revised)**
• Buildings and mobile cabinets	6 - 33	No change
• Machinery and equipment	5 - 20	2 - 30
• Furniture and fixtures	5 - 20	No change
• Motor vehicles	4 - 5	No change

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

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

2. Summary of significant accounting policies (continued)

2.10 Intangible assets

Intangible assets are carried at cost less accumulated amortization. Costs to acquire intangible assets having identifiable future benefits are capitalized and amortized using the straight-line method over the useful lives of the assets. The Group's intangible assets comprise of software and Enterprise Resource Planning (ERP) system development cost and are amortized over five years from the implementation date.

2.11 Derivative financial instrument

Derivative financial instrument, principally representing profit rate swap, is 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 recognized in the consolidated income statement as they arise and the resulting positive and negative fair values are reported under assets and liabilities, respectively, in the consolidated balance sheet.

2.12 Impairment of non-financial assets

Non-financial assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested for impairment annually. 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-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss is subsequently reversed, 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 does 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 consolidated income statement. Impairment losses recognized on goodwill are not reversible.

2.13 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs and upfront fee (deferred financial charges) incurred on borrowings. 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 consolidated income statement.

2.14 Accounts payable and accruals

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

2.15 Provision

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.16 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"). Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the consolidated income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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

2.17 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated income statement. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2. Summary of significant accounting policies (continued)

2.18 Revenues

Sales are recognized when the risk and rewards of the goods sold are transferred to the customers based on the agreed shipment terms. Revenues are shown net of discounts after eliminating sales within the Group.

2.19 Selling, marketing, general and administrative expenses

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

2.20 Operating leases

Rental expenses under operating leases are charged to the consolidated income statement over the period of the respective lease.

3. Financial instrument and 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.

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk, liquidity risk and fair value and cash flow interest rate risks.

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts receivable, due a from related party, other receivables, derivative financial instrument, short-term and long-term borrowings, notes payable, due to related parties, accounts payable and accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each significant item.

Financial asset and liability are offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 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 does not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and to a limited extent Euros. Saudi Riyal is pegged to US Dollar. Management monitors its exposure on Euro transactions on a regular basis and takes necessary action to minimize exposure.

3.2 Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group has no significant exposure to price risk at year end, as it has no financial instruments for which the fair value depends on a market price.

3.3 Fair value and cash flow interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in prevailing market interest rates on the Group financial positions and cash flows.

The interest rate risk arises mainly from borrowings which are at floating interest rates which are subject to repricing on a regular basis. The Group manages its cash flow interest rate risk by monitoring changes in profit rate risk in the currency in which its borrowings are denominated. The Company also has entered into profit rate swap agreements to swap its floating rate borrowings to fixed rate borrowings to mitigate the cash flow interest rate risk.

(All amounts in Saudi Riyals unless otherwise stated)

3. Financial instrument and risk management (continued)

3.4 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. Sales made during the year ended December 31, 2016 and accounts receivables balance as at December 31, 2016 from one of the Group's customers comprise of 19.5% and 11.7% (2015: 24.5% and 17.3%), respectively of the total sales and accounts receivable balance of the Group. The Group's management believes that the concentration of credit risk is mitigated, as the Group has a long standing relationship and an established track record of collection. Accounts receivable are carried net of provision of doubtful debts and are stated at their estimated realizable values. Cash is placed with banks with sound credit ratings.

3.5 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.

3.6 Capital risk management

The Company manages its capital to maintain an appropriate capital structure and maximize returns. The capital structure may be adjusted by increasing or decreasing the amount of borrowing and dividend distributions.

3.7 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Differences can arise between the book values and fair value estimates of financial instruments except for derivative financial instrument which is carried at fair value. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4. Cash and cash equivalents

	2016	**2015**
Cash at banks	**29,833,697**	25,952,009
Cash in hand	**4,546,076**	4,053,543
	34,379,773	30,005,552

5. Accounts receivable

	2016	**2015**
Trade receivables	**179,198,695**	182,934,212
Less: Allowance for doubtful accounts receivable	**(4,873,902)**	(4,111,119)
	174,324,793	178,823,093

Movement in allowance for doubtful accounts receivable is as follows:

	2016	**2015**
January 1	**4,111,119**	5,651,362
Allowance / (reversal of allowance) for the year	**1,050,000**	(1,540,243)
Write-off during the year	**(287,217)**	-
December 31	**4,873,902**	4,111,119

(All amounts in Saudi Riyals unless otherwise stated)

6. Inventories

	2016	2015
Spare parts and supplies - not held for sale	**64,904,041**	58,687,077
Raw materials	**79,643,351**	96,758,443
Finished goods	**19,701,180**	33,002,718
Goods in transit	**15,226,251**	14,276,223
	179,474,823	202,724,461
Less: Allowance for inventory obsolescence	**(3,800,903)**	(3,425,600)
	175,673,920	199,298,861

Movement in allowance for inventory obsolescence is as follows:

	2016	2015
January 1	**3,425,600**	3,091,190
Charge for the year	**1,950,000**	2,442,550
Write-off during the year	**(1,574,697)**	(2,108,140)
December 31	**3,800,903**	3,425,600

7. Prepayments and other receivables

	Note	**2016**	2015
Advances to suppliers and other receivables		**40,843,613**	51,093,342
Prepaid expenses		**10,217,178**	9,064,358
Advances to employees		**4,507,298**	6,150,644
Retentions		**900,743**	958,212
Other		**3,496,717**	1,648,100
Prepaid contribution for training institute		**-**	1,806,391
Receivable from National Water Company against expropriated land and premises	25	**-**	30,490,630
		59,965,549	101,211,677

8. Related party matters

8.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	2016	2015
Sales	**3,478,325**	9,420,111
Purchases	**5,024,878**	5,090,201
Key management personnel compensation	**9,992,060**	12,412,012
Board of Directors attendance allowances	**340,100**	413,880

8.2 Related party balances

(a) Due from a related party

	2016	2015
United Mining Industries	**-**	5,713,244

(b) Due to related parties

	2016	2015
Industrial Cities Development and Operating Company	**342,811**	4,052
Masdar Building Materials	**61,088**	235,360
Al-Muhaidib Technical Supplies Company	**-**	80,185
A.Abunayyan Electric Corp.	**-**	6,568
	403,899	326,165

(All amounts in Saudi Riyals unless otherwise stated)

9. Derivative financial instruments

The Company entered into interest rate swap (IRS) agreements with commercial banks to convert floating rate interest to fixed rate interest arrangement. At December 31, 2016 the positive fair value of the IRS agreements was Saudi Riyals 2,715,795 (2015: Saudi Riyals 83,682). The total contracts' amount is Saudi Riyals 300 million (2015: Saudi Riyal 200 million) out of which the outstanding value is Saudi Riyals 260 million at December 31, 2016 (2015: Saudi Riyals 200 million).

10. Property, plant and equipment

	January 1, 2016	Additions	Disposals	Transfers	December 31, 2016
Cost					
Land	66,770,400	-	-	-	**66,770,400**
Buildings and mobile cabinets	160,188,157	7,683,676	-	1,594,397	**169,466,230**
Machinery and equipment	1,282,376,832	18,980,167	(688,100)	85,788,248	**1,386,457,147**
Furniture and fixtures	25,584,026	2,164,097	(39,507)	-	**27,708,616**
Motor vehicles	41,421,057	1,832,483	(688,225)	-	**42,565,315**
Capital work-in-progress	73,336,544	95,224,670	-	(87,382,645)	**81,178,569**
	1,649,677,016	125,885,093	(1,415,832)	-	**1,774,146,277**
Accumulated depreciation					
Buildings and mobile cabinets	35,578,573	5,442,991	-	-	**41,021,564**
Machinery and equipment	492,237,300	82,083,222	(688,000)	-	**573,632,522**
Furniture and fixtures	18,932,378	2,812,277	(39,500)	-	**21,705,155**
Motor vehicles	30,948,764	3,483,427	(667,402)	-	**33,764,789**
	577,697,015	93,821,917	(1,394,902)	-	**670,124,030**
Net book value	1,071,980,001				**1,104,022,247**

	January 1, 2015	Additions	Disposals	Transfers	December 31, 2015
Cost					
Land	66,770,400	-	-	-	66,770,400
Buildings and mobile cabinets	158,063,189	1,361,630	-	763,338	160,188,157
Machinery and equipment	1,095,141,101	26,078,552	-	161,157,179	1,282,376,832
Furniture and fixtures	22,155,143	3,088,353	(62,709)	403,239	25,584,026
Motor vehicles	35,430,362	7,069,300	(1,078,605)	-	41,421,057
Capital work-in-progress	127,814,048	107,846,252	-	(162,323,756)	73,336,544
	1,505,374,243	145,444,087	(1,141,314)	-	1,649,677,016
Accumulated depreciation					
Buildings and mobile cabinets	30,287,775	5,290,798	-	-	35,578,573
Machinery and equipment	403,624,912	88,612,388	-	-	492,237,300
Furniture and fixtures	16,361,351	2,578,916	(7,889)	-	18,932,378
Motor vehicles	28,299,154	3,629,847	(980,237)	-	30,948,764
	478,573,192	100,111,949	(988,126)	-	577,697,015
Net book value	1,026,801,051				1,071,980,001

Capital work-in-progress at December 31, 2016 principally relates to the ongoing projects for plant and machinery. The projects are expected to complete during 2017. See also Note 26 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 and to a commercial bank as a second degree pledge (see Note 13).

During the first quarter ended March 31, 2016, the Group reviewed and revised the useful lives of machinery and equipment after the completion of the major overhaul that took place during 2015. See Note 2.9 for the original and revised useful lives. Had there been no revision in the useful lives, the depreciation for the year ended December 31, 2016 would have been higher and the net income for the year then ended would have been lower by Saudi Riyals 14,371,142.

11. Intangible assets

Computer software and ERP

	2016	2015
Cost		
January 1	**6,769,667**	2,573,449
Additions during the year	**114,542**	4,196,218
December 31	**6,884,209**	6,769,667
Accumulated amortization		
January 1	**(434,083)**	-
Charge for the year	**(868,164)**	(434,083)
December 31	**(1,302,247)**	(434,083)
Intangible assets	**5,581,962**	6,335,584

12. Short-term borrowings

The Group has short-term credit facilities from commercial banks comprising of short-term loans and guarantees. These borrowings bear financing charges at the prevailing market rates (Saudi Inter Bank Offer Rate). These facilities include certain financial covenants which require the Group to maintain certain levels of current ratio and leverage ratio. The Group is in compliance with these debt covenants at December 31, 2016.

13. Long-term borrowings

	Note	2016	2015
SIDF loan principal amount	(a)	**146,560,000**	139,111,000
Commercial bank loans principal amount	(b)	**361,881,000**	486,000,000
Less: deferred financial charges		**(6,627,728)**	(6,468,492)
		501,813,272	618,642,508
Current maturity shown under current liabilities		**(112,117,300)**	(190,962,422)
		389,695,972	427,680,086

(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 semiannual installments ending November 2017.

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. Out of this loan agreement, Saudi Riyals 99.7 million was drawn as of December 31, 2016 (2015: Saudi Riyals 48.3 million). The loan is repayable in unequal semiannual installments up to September 2021.

Upfront fees were deducted at the time of receipt of the loans. These fees are amortized over the periods of respective loans. The loans bear a follow up fee to be paid on periodic basis. During the year ended December 31, 2016, the Group capitalised finance charges in property, plant and equipment amounting to Saudi Riyals 1.2 million (2015: Saudi Riyals 1.7 million).

Under the terms of the SIDF loan agreement, the Company's property, plant and equipment are pledged as collateral to SIDF. See also Note 10.

(b) The Company has also obtained long-term credit facilities from commercial banks. These loans bear financial charges based on prevailing market rates (Saudi Inter Bank Offer Rates). One of the loan facilities from a commercial bank is also secured by a second class mortgage on the Company's property, plant and equipment.

Upfront fees were deducted at the time of receipt of loans from commercial banks which are amortized over the period of the respective loans. The loans are repayable up to the year 2022. See also Note 10.

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 Company is in compliance with these debt covenants at December 31, 2016. The loans are denominated in Saudi Riyals.

(All amounts in Saudi Riyals unless otherwise stated)

13. Long-term borrowings (continued)

The scheduled maturities of the long-term borrowings outstanding at December 31 were as follows:

	Loans' principal	Deferred financial charges	Net loan amount
2016			
Year ending December 31:			
2017	**114,789,000**	**(2,671,700)**	**112,117,300**
2018	**103,000,000**	**(2,319,569)**	**100,680,431**
2019	**104,000,000**	**(1,358,714)**	**102,641,286**
2020	**96,000,000**	**(235,630)**	**95,764,370**
2021	**84,560,000**	**(42,115)**	**84,517,885**
2022 and thereafter	**6,092,000**	**-**	**6,092,000**
	508,441,000	**(6,627,728)**	**501,813,272**

	Loans' principal	Deferred financial charges	Net loan amount
2015			
Year ending December 31:			
2016	193,000,000	(2,037,578)	190,962,422
2017	276,000,000	(2,032,010)	273,967,990
2018	56,000,000	(1,679,879)	54,320,121
2019	60,111,000	(719,025)	59,391,975
2020	40,000,000	-	40,000,000
	625,111,000	(6,468,492)	618,642,508

14. Accrued and other liabilities

	2016	2015
Employee related accruals	**17,837,695**	15,229,310
Accrued rent expenses	**5,175,698**	2,405,922
Accrued financial charges	**2,919,884**	5,985,524
Accrued transportation expenses	**2,313,241**	2,900,660
Advances from customers	**1,693,106**	1,850,387
Accrued sales services expenses	**1,496,760**	61,812
Accrued legal and consultancy fees	**832,562**	1,248,790
Other	**1,620,149**	1,955,038
	33,889,095	31,637,443

15. Zakat

15.1 Components of zakat base

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

15.2 Provision for zakat

	2016	2015
January 1	**1,769,856**	2,915,234
Provisions		
- Provision for current year	**1,630,533**	1,769,856
- Adjustment related to prior years	**(317,793)**	(79,574)
Payments	**(1,452,063)**	(2,835,660)
December 31	**1,630,533**	1,769,856

(All amounts in Saudi Riyals unless otherwise stated)

15. Zakat (continued)

15.3 Status of final assessments

The zakat position for the Group is finalized till December 31, 2008. During the year, the Company has received additional zakat assessments amounting Saudi Riyals 16.5 million for the years 2009 to 2012. The Company has submitted the objection against such assessments to GAZT which is currently under review. The zakat declarations of the Company for the years 2013 to 2015 are filed with the GAZT and unrestricted zakat certificates have been obtained.

The zakat declarations of WASCO and SACO for the years 2009 to 2015 are currently under review by the GAZT.

16. Employee termination benefits

	2016	**2015**
January 1	**24,442,833**	21,470,186
Provision for the year	**6,267,936**	4,503,572
Payments during the year	**(3,109,621)**	(1,530,925)
December 31	**27,601,148**	24,442,833

17. Share capital

The share capital of the Company as of December 31, 2016 and 2015 was comprised of 50,000,000 shares at Saudi Riyals 10 per share.

18. Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

19. Selling and marketing expenses

	2016	**2015**
Transportation and shipping	**29,773,729**	29,991,953
Salaries and related benefits	**3,721,351**	4,118,438
Sales services expenses	**1,919,374**	2,017,217
Sales commission	**1,733,100**	1,762,775
Credit insurance	**536,467**	757,706
Depreciation	**238,737**	260,211
Repair and maintenance	**58,280**	865,379
Others	**1,419,114**	967,474
	39,400,152	40,741,153

20. General and administrative expenses

	2016	**2015**
Salaries and related benefits	**40,109,626**	35,252,190
Depreciation	**5,673,306**	4,641,020
Bank charges	**2,246,536**	1,737,284
Consultation fee	**1,815,175**	1,525,978
Government fee	**1,341,615**	1,325,979
Insurance	**1,079,208**	1,280,369
Allowance / (reversal of allowance) for doubtful debts	**1,350,000**	(1,540,243)
Repair and maintenance	**843,177**	1,129,606
Travel expenses	**758,319**	967,752
Communication	**751,840**	926,006
Professional fees	**752,558**	728,023
Training	**704,993**	359,720
Stationery	**103,446**	148,396
Others	**2,339,553**	1,767,495
	59,869,352	50,249,575

(All amounts in Saudi Riyals unless otherwise stated)

21. Earnings per share

Earnings per share from income from operations and net income have been calculated by dividing income from operations and net income for the year, respectively over the weighted average number of shares outstanding during the year.

Total weighted average number of shares outstanding during the year 2016 and 2015 are 50,000,000 shares.

22. Dividends

During the year ended December 31, 2016, the General Assembly of the Company approved dividends of Saudi Riyals 25 million (2015: Nil). The dividends were paid in July 2016.

23. Segment information

The Group operates principally in two business segments. One segment is involved in the manufacturing of cardboard and industrial paper (Manufacturing segment), whereas the other segment is involved in wholesale and retail sales of paper, carton and plastic waste (Trading segment). Certain financial information classified under these two business segments are as follows:

	Manufacturing segment	Trading segment	Eliminations	Total
As at December 31, 2016				
Total assets	1,501,249,894	153,186,011	(97,771,866)	**1,556,664,039**
Property, plant and equipment	1,031,990,908	72,031,339	-	**1,104,022,247**
Intangible assets	3,038,582	2,543,380	-	**5,581,962**
For the year ended December 31, 2016				
Additions to property, plant and equipment	95,965,157	29,919,936	-	**125,885,093**
Additions to intangible assets	-	114,542	-	**114,542**
Sales	591,497,239	240,869,786	(197,962,502)	**634,404,523**
Gross profit	101,058,696	14,632,741	296,437	**115,987,874**
Financial charges	27,273,156	1,614,200	-	**28,887,356**
Depreciation and amortization	83,992,347	10,697,734	-	**94,690,081**
Net income (loss) for the year	79,853,864	(11,730,646)	11,730,646	**79,853,864**

	Manufacturing segment	Trading segment	Eliminations	Total
As at December 31, 2015				
Total assets	1,524,379,627	151,768,549	(82,696,482)	1,593,451,694
Property, plant and equipment	1,019,167,479	52,812,522	-	1,071,980,001
Intangible assets	3,906,746	2,428,838	-	6,335,584
For the year ended December 31, 2015				
Additions to property, plant and equipment	129,964,398	15,479,689	-	145,444,087
Additions to intangible assets	1,767,380	2,428,838	-	4,196,218
Sales	634,562,341	259,945,064	(213,337,343)	681,170,062
Gross profit	142,722,344	30,694,354	(560,609)	172,856,089
Financial charges	21,037,053	835,295	-	21,872,348
Depreciation and amortization	89,252,173	11,293,859	-	100,546,032
Net income for the year	55,117,700	5,402,148	(5,402,148)	55,117,700

During the year ended December 31, 2016 the trading segment made sales amounting to Saudi Riyals 210.3 million (2015: Saudi Riyals 220.5 million), to the manufacturing segment.

The Group makes sales in local market and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the year ended December 31, 2016 amounted to Saudi Riyals 273.5 million (2015: Saudi Riyals 263.2 million).

(All amounts in Saudi Riyals unless otherwise stated)

24. Operating leases

The Group has various operating leases for its buildings, warehouses and employees' accommodation. Rental expenses for the year ended December 31, 2016 amounted to Saudi Riyals 11.6 million (2015: Saudi Riyals 8.7 million).

Future rental commitments under such leases at December 31 are as follows:

Years ending December 31:	**2016**	2015
2016	**-**	1,991,322
2017	**2,066,133**	6,716,090
2018	**4,325,838**	4,325,838
2019	**2,737,576**	2,737,576
2020	**2,528,292**	2,528,292
2021 and onwards	**24,338,094**	24,338,094
	35,995,932	42,637,211

25. Net gain on claim for expropriated land and premises

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

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

The above transaction is summarized as follows:

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

26. Contingencies and commitments

(i) At December 31, 2016, the Group had outstanding letters of credit of Saudi Riyals 4.5 million (2015: Saudi Riyals 19.6 million) and letters of guarantee of Saudi Riyals 3.7 million (2015: Saudi Riyals 7.8 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, 2016 were approximately Saudi Riyals 8.4 million (2015: Saudi Riyals 30.0 million), which mainly related to the plant and machinery.