

**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**  
**WITH INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

(1/5)

To the shareholders of  
Saudi Paper Manufacturing Company  
(A Saudi Joint Stock Company)  
Dammam - Kingdom of Saudi Arabia

### Qualified Opinion

We have audited the consolidated financial statements of Saudi Paper Manufacturing Company (a Saudi Joint Stock Company) ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effect of the matter described in the "Basis of Qualified Opinion" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

### Basis of Qualified Opinion

Management had performed an assessment for the impairment of the Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, was recognised during the year ended December 31, 2019. However, management had not performed an assessment for the impairment of the Group's trade receivables as of December 31, 2018, as required by IFRS 9 - Financial instruments and had not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2018 and in the accumulated losses of the Group as of January 1, 2019. Accordingly, we are unable to determine whether any adjustment to accumulated losses of the Group as of January 1, 2019 and results for the year ended December 31, 2019, is necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics as endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Emphasis of Matters:

We draw attention to:

- 1- Note 4 of these consolidated financial statements which states that the management engaged a third party consultant for the review of impairment assessment of its property, plant and equipment as at December 31, 2020 based on which 0.95 million impairment loss was recognised during the year ended December 31, 2020 (December 31, 2019: nil). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, net realizable value, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of December 31, 2020 will not exceed their recoverable amounts.

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(2/5)

To the shareholders of  
Saudi Paper Manufacturing Company  
(A Saudi Joint Stock Company)  
Dammam - Kingdom of Saudi Arabia

**Emphasis of Matters: (Continued)**

- 2- Note 4 of these consolidated financial statements which states that the management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2020, amounting to SR 29.46 million (December 31, 2019: SR 43.7 million). Based on the results of this assessment, management has concluded that impairment amounting SR 0.6 million was required for these unutilized assets as of December 31, 2020 (December 31, 2019: SR 3.2 million). The assessment includes assumptions related to estimated selling price in ordinary course of business, estimated cost of completion and estimated cost necessary to make the sales of these assets. The outcome of these assumptions is highly dependent on market conditions as estimated by management and achieving its plans in future. Subsequent to the yearend, management has prepared a utilization plan for these assets and has allocated funds in the recent approved budget for restructuring/ refurbishment of these assets in order to utilize them in future. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2020.
- 3- Note 34 of these consolidated financial statements which states that the Company has made an announcement on Tadawul for filling a law suit against Ex-Chief Executive Office (CEO) and Board Member of the Company.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For matter listed below, our description on how our audit have addressed this matter is set below:

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<b><i>Impairment assessment of Property, plant and equipment and Goodwill</i></b>	
<p>As of December 31, 2020, Property, plant and equipment amounted to SR. 567 million which represents 64.7% of the total assets of the Group as of December 31, 2020 and goodwill amounted to SR 12.4 million. Goodwill was recognized on the acquisition of Al-Juthoor Paper Tissue Manufacturing (Kuwait) in 2011.</p> <p>Management has performed an impairment assessment of its property, plant and equipment and goodwill as at December 31, 2020. In preparing these impairment studies, management assesses the future business plan of the respective cash generating units (CGUs) and apply valuation models to determine the expected recoverable amounts of these CGUs for the purpose of impairment assessment.</p> <p>We have considered this matter as a key audit matter because the assessment of the recoverable amount of these CGUs requires a number of judgments and assumptions related to future sales volume, prices, operating assets, growth rates, terminal value, discount rates and other related assumptions.</p> <p>Refer note 3 to the consolidated financial statements for the accounting policy related to impairment of tangible and intangible assets.</p>	<p>We have performed the following procedures for assessing the impairment of property, plant and equipment and goodwill:</p> <ul style="list-style-type: none"> <li>Assessed the management process for the identification of the indicators of impairment of property plant and equipment and evaluated the design and implementation of the process.</li> <li>Evaluated whether the model used by management to calculate the value in use of respective CGUs is in compliance with the requirements of IAS 36.</li> <li>Validated the assumptions used for estimating the future cash flows, the related discount rates and other related assumptions.</li> <li>Analyzed the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic condition and expected future performance.</li> <li>Engaged auditor's expert to assess the application of valuation method to calculate value in use as per IAS 36 "Impairment of assets" and to perform reasonable check of assumptions used in the model.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(3/5)

To the shareholders of  
Saudi Paper Manufacturing Company  
(A Saudi Joint Stock Company)  
Dammam - Kingdom of Saudi Arabia

Key audit matter (continued)	How the matter was addressed in our audit
<b><i>Impairment assessment of Property, plant and equipment and Goodwill (Continued)</i></b>	
	<ul style="list-style-type: none"> <li>• Compared key assumptions against historic trends, business plans and industry benchmarks as applicable. Additionally, we reviewed and assessed the future business plans both from internal and external perspectives, and compared forecast to historical trends.</li> <li>• Checked the accuracy and completeness of the information produced by management, that was used as the basis of impairment assessment; and</li> <li>• Assessed whether the related disclosures are in accordance with the requirements of International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia.</li> </ul>

**Other Information Included in the Group's 2020 Annual Report**

Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, and we conclude that there is material misstatement therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and applicable requirements of Companies regulations, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Directors of the Company are responsible for overseeing the Group's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT (Continued)**

(4/5)

To the shareholders of  
Saudi Paper Manufacturing Company  
(A Saudi Joint Stock Company)  
Dammam - Kingdom of Saudi Arabia

**Auditor's responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## INDEPENDENT AUDITOR'S REPORT (Continued)

(5/5)

To the shareholders of  
Saudi Paper Manufacturing Company  
(A Saudi Joint Stock Company)  
Dammam - Kingdom of Saudi Arabia

### Auditor's responsibilities for the Audit of the Consolidated Financial Statements(Continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies in the Kingdom of Saudi Arabia and the Company's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Al-Bassam & Co.  
P.O. Box 4636  
Al Khobar 31952  
Kingdom of Saudi Arabia

  
Ibrahim Ahmed Al Bassam  
Certified Public Accountant  
License No. 337  
Al Khobar

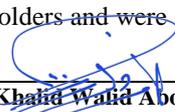


March 25, 2021  
12 Shaban 1442H

**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2020**

	Note	2020 SR	2019 SR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	567,042,496	606,648,966
Intangible assets	5	25,150,103	30,540,861
Investment in an associate	6	22,272,588	21,252,673
<b>Total non-current assets</b>		<b>614,465,187</b>	<b>658,442,500</b>
<b>Current assets</b>			
Inventories	8	108,051,709	89,411,044
Trade receivables	9	118,609,453	137,972,465
Advances, prepayments and other assets	10	20,018,833	37,961,932
Cash and cash equivalents	11	15,722,940	11,959,334
<b>Total current assets</b>		<b>262,402,935</b>	<b>277,304,775</b>
<b>TOTAL ASSETS</b>		<b>876,868,122</b>	<b>935,747,275</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	92,000,000	92,000,000
Statutory reserve		329,858	-
Other reserves	13	(6,136,492)	(7,475,688)
Retained earnings /(accumulated losses)		2,968,719	(11,801,606)
<b>Equity attributable to the shareholders of the Company</b>		<b>89,162,085</b>	<b>72,722,706</b>
Non-controlling interest		1,443,172	1,222,385
<b>Total equity</b>		<b>90,605,257</b>	<b>73,945,091</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Medium and long term loans	14	366,241,351	358,824,347
Employees' end of service benefits	15	18,017,806	19,828,157
Lease liabilities – non current portion	20	7,078,768	7,569,483
<b>Total non-current liabilities</b>		<b>391,337,925</b>	<b>386,221,987</b>
<b>Current liabilities</b>			
Short-term loans	17	119,176,284	140,022,579
Medium and long term loans – current portion	14	151,284,922	206,621,768
Trade payables	16	67,896,961	69,607,261
Accrued expenses and other liabilities	18	40,887,231	42,594,780
Provision for zakat	19	14,226,861	16,208,696
Lease liabilities – current portion	20	1,452,681	525,113
<b>Total current liabilities</b>		<b>394,924,940</b>	<b>475,580,197</b>
<b>Total liabilities</b>		<b>786,262,865</b>	<b>861,802,184</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>876,868,122</b>	<b>935,747,275</b>

These consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 25, 2021.

  
Khalid Walid Abo Hana  
Chief Financial Officer

  
Youssef Abdel Hamid Abdel  
Aziz El Bishry  
Chief Executive Officer

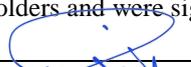
  
Fahad Mohammd Al Dawood  
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

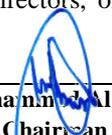
**SAUDI PAPER MANUFACTURING COMPANY**  
(A SAUDI JOINT STOCK COMPANY)  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Note	2020 SR	2019 SR
Revenue	21	532,090,559	527,126,249
Cost of revenue	22, 29	(385,219,010)	(428,126,833)
<b>Gross profit</b>		<b>146,871,549</b>	98,999,416
General and administrative expenses	23, 29	(39,397,154)	(47,650,732)
Selling and distribution expenses	24, 29	(49,048,802)	(52,202,367)
Reversal for impairment of trade receivables	9	2,845,115	31,392,614
<b>Operating profit</b>		<b>61,270,708</b>	30,538,931
Finance charges	25	(33,516,919)	(42,732,486)
Share in profit of an associate	6	3,619,915	3,070,501
Other expenses, net	26	(11,663,469)	(9,952,374)
<b>Net profit (loss) before zakat</b>		<b>19,710,235</b>	(19,075,428)
Zakat	19	(4,051,877)	(8,393,483)
<b>Net profit (loss) for the year</b>		<b>15,658,358</b>	(27,468,911)
<b>Other comprehensive income (loss)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement gain (loss) on employees' end of service benefits	15	2,339,559	(2,832,782)
Change in fair value of equity investments through other comprehensive income	7	-	(1,067,062)
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations and others	13	(1,064,291)	(85,819)
<b>Other comprehensive income (loss) for the year</b>		<b>1,275,268</b>	(3,985,663)
<b>Total comprehensive income (loss) for the year</b>		<b>16,933,626</b>	(31,454,574)
<b>Net profit (loss) attributable to:</b>			
Shareholders of the Company		15,100,183	(27,883,310)
Non-controlling interest		558,175	414,399
<b>Net profit (loss) for the year</b>		<b>15,658,358</b>	(27,468,911)
<b>Total comprehensive income (loss) attributable to:</b>			
Shareholders of the Company		16,439,379	(27,251,269)
Non-controlling interest		494,247	(4,203,305)
<b>Total comprehensive income (loss) for the year</b>		<b>16,933,626</b>	(31,454,574)
<b>Earnings (loss) per share (SR) attributable to shareholders of the company</b>			
Basic and diluted earnings (loss) per share	27	1.64	(3.03)

The consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf shareholders and were signed on their behalf on March 25, 2021.

  
Khalid Walid Abu Hana  
Chief Financial Officer

  
Yousseri Abdel Hamid Abdel  
Aziz El Bishry  
Chief Executive Officer

  
Fahad Mohammed Al Dawood  
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

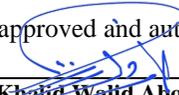
**SAUDI PAPER MANUFACTURING COMPANY**

(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Equity attributable to the shareholders of the Company						Total equity SR
	Share capital SR	Statutory reserve SR	Other reserves SR	Retained earnings /accumulated losses SR	Total SR	Non- controlling interest SR	
<b>As at January 1, 2019 – as previously stated</b>	245,000,000	-	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement	-	-	-	(33,052,515)	(33,052,515)	-	(33,052,515)
<b>As at January 1, 2019 - as restated</b>	245,000,000	-	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
Net (loss) / profit for the year	-	-	-	(27,883,310)	(27,883,310)	414,399	(27,468,911)
Other comprehensive income (loss) for the year	-	-	632,041	-	632,041	(4,617,704)	(3,985,663)
Total comprehensive income (loss) for the year	-	-	632,041	(27,883,310)	(27,251,269)	(4,203,305)	(31,454,574)
Capital reduction (note 1)	(153,000,000)	-	-	153,000,000	-	-	-
<b>As at December 31, 2019</b>	<u>92,000,000</u>	<u>-</u>	<u>(7,475,688)</u>	<u>(11,801,606)</u>	<u>72,722,706</u>	<u>1,222,385</u>	<u>73,945,091</u>
<b>As at January 1, 2020</b>	92,000,000	-	(7,475,688)	(11,801,606)	72,722,706	1,222,385	73,945,091
Net profit for the year	-	-	-	15,100,183	15,100,183	558,175	15,658,358
Other comprehensive income (loss) for the year	-	-	1,339,196	-	1,339,196	(63,928)	1,275,268
Total comprehensive income for the year	-	-	1,339,196	15,100,183	16,439,379	494,247	16,933,626
Transfer to statutory reserve	-	329,858	-	(329,858)	-	-	-
Dividend paid	-	-	-	-	-	(273,460)	(273,460)
<b>As at December 31, 2020</b>	<u>92,000,000</u>	<u>329,858</u>	<u>(6,136,492)</u>	<u>2,968,719</u>	<u>89,162,085</u>	<u>1,443,172</u>	<u>90,605,257</u>

The consolidated financial statements were approved and authorized for issue by the Board of Directors on behalf of shareholders and were signed on their behalf on March 25, 2021.

  
Khalid Walid Abo Hana  
Chief Financial Officer

  
Yousseri Abdel Hamid Abdel  
Aziz El Bishry  
Chief Executive Officer

  
Fahad Mohamed Al Dawood  
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

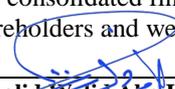
**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

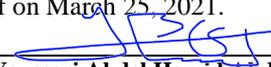
	2020 SR	2019 SR
<b>Cash flow from operating activities</b>		
Net profit (loss) for the year	15,658,358	(27,468,911)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	53,114,266	50,317,043
Impairment loss on property, plant and equipment	1,575,300	3,223,329
Reversal for impairment of trade receivables	(2,845,115)	(31,392,614)
Allowance for slow moving inventories	2,200,000	-
Finance charges	33,516,919	42,732,486
Provision against other receivables	13,654,067	-
Zakat expense	4,051,877	8,393,483
Share in profit of an associate	(3,619,915)	(3,070,501)
Amortization of intangible assets	5,633,537	1,475,488
Gain on sale of property, plant and equipment	(363,928)	(1,215,656)
Loss on disposal of a subsidiary	-	3,237,232
Provision for employees' end of service benefits	2,850,064	3,750,047
	<b>125,425,430</b>	<b>49,981,426</b>
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	22,208,127	56,616,171
Inventories	(23,406,524)	(14,418,772)
Advances, prepayments and other assets	3,444,719	25,028,333
Trade payables	(2,552,210)	(16,869,535)
Accrued expenses and other liabilities	(1,707,549)	(21,189,145)
Cash generated from operating activities	<b>123,411,993</b>	<b>79,148,478</b>
Finance cost paid	(31,087,930)	(38,777,918)
Zakat paid	(6,033,712)	-
Employees' end of service benefits paid	(2,320,856)	(2,296,779)
<b>Net cash generated from operating activities</b>	<b>83,969,495</b>	<b>38,073,781</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	(10,208,684)	(11,353,825)
Dividend received from an associate	2,600,000	1,560,000
Additions to intangible assets	(242,779)	-
Proceeds from disposal of property, plant and equipment	526,566	1,216,453
<b>Net cash flows used in investing activities</b>	<b>(7,324,897)</b>	<b>(8,577,372)</b>
<b>Cash flow from financing activities</b>		
Lease payments	(895,400)	(903,200)
Change in short term loans, net	3,628,952	5,740,290
Receipt of medium and long term loans	24,323,211	-
Repayment of medium and long term loans	(98,839,864)	(45,133,277)
Dividend paid to non controlling interest	(273,460)	-
<b>Net cash used in financing activities</b>	<b>(72,056,561)</b>	<b>(40,296,187)</b>
<b>Net change in cash and cash equivalents</b>	<b>4,588,037</b>	<b>(10,799,778)</b>
Cash and cash equivalents at the beginning of the year	11,959,334	22,844,638
Effect of exchange rate fluctuations	(824,431)	(85,526)
<b>Cash and cash equivalents at the end of the year</b>	<b>15,722,940</b>	<b>11,959,334</b>

**Supplemental cash flow information**

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The consolidated financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on March 25, 2021.

  
Khalid Walid Abo Hana  
Chief Financial Officer

  
Yousseri Abdel Hamid Abdel  
Aziz El Bishry  
Chief Executive Officer

  
Fahad Mohamad Al Dawood  
Chairman

The accompanying notes form an integral part of these consolidated financial statements.

**SAUDI PAPER MANUFACTURING COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Saudi Paper Manufacturing Company (“the Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 2050028141 issued in Dammam on Muharram 10, 1415H (June 20, 1994). The Company’s share capital is SR 92 million divided into 9.2 million shares of SR 10 each.

The principal activities of the Company and its subsidiaries (the “Group”), each of which operates under individual commercial registration, are to manufacture tissue paper rolls, convert tissue paper rolls into facial, kitchen and toilet tissue papers and collect, sort, transport and press waste papers.

The Company’s registered office is P.O. Box 2598, Unit number 2, Dammam 34326-7169, the Kingdom of Saudi Arabia.

The shareholders in their extraordinary general meeting held on November 4, 2019 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 245,000,000 to SR 92,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 24,500,000 to 9,200,000 by way of cancellation of shares and the capital was accordingly reduced to SR 92 million. Following the capital reduction, the Board recommended to increase the share capital of the Company through right issue by SR 150 million in order to strengthen the financial position of the Group and to improve liquidity and working capital needs. On April 28, 2020, the Board of the Directors of the Company resolved to adjust their previous recommendation on increase in share capital, whereby it was agreed to increase the share capital by SR 100 million instead of SR 150 million by way of right issue. Subsequent to the year end, the Company increased its share capital through right issue by SR 100 million by offering 10 million shares which were fully subscribed.

The current liabilities of the Group exceeded its current assets by SR 132.5 million (December 31, 2019: SR 198.3 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 119 million and SR 151.3 million respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its long term loans by SR 4 million as of December 31, 2020 (December 31, 2019: SR 19.9 million), which is rescheduled subsequent to year end. Management believes that the Group will be successful in restructuring of its loans, and avail new ones as and when needed revolving its short term loans as per its past practice and resolving the breach in the near future. Further, subsequent to the year end, the Company has increased its share capital by SR 100 million through right issue. Accordingly, these consolidated financial statements are prepared on going concern basis.

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)**

**Structure of the group**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (“The Group”) as listed below:

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>Ownership percentage at December 31,</b>	
		<b>2020</b>	<b>2019</b>
Saudi Recycling Company	Saudi Arabia	<b>100%</b>	100%
Saudi Paper Converting Company	Saudi Arabia	<b>100%</b>	100%
Saudi Investment and Industrial Development Company	Saudi Arabia	<b>100%</b>	100%
Al Madar Paper Trading (Al Madar)	UAE	<b>100%</b>	100%
Al Madar Paper Trading	Morocco	<b>100%</b>	100%
Al Madar Paper Trading	Jordan	<b>100%</b>	100%
Saudi Paper Converting Company Jordan	Jordan	<b>100%</b>	100%
Al Madar Paper	Algeria	<b>100%</b>	100%
Al - Juthoor Paper Tissue Manufacturing Plant	Kuwait	<b>85%</b>	85%

During the year ended December 31, 2019, based on a “promise to sell agreement” the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale amounting to SR 13.6 million is presented under advances, prepayments and other assets. During the year ended December 31, 2020, the Company has provided SR 13.6 million against this receivable balance based on the recommendation of Board of Director of the Company. Management of the Company has filed a law suit to cancel the sale agreement and made a precautionary seizure of the factory. As of the date of approval of these consolidated financial statements, the legal procedures were still in progress.

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

**2.2 Basis of accounting**

These consolidated financial statements have been prepared on the historical cost convention, except where IFRS requires other measurement basis as disclosed in the applicable accounting policies in note 3 of the consolidated financial statements.

The preparation of these consolidated financial statements in conformity with IFRSs required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the consolidated financial statements. These critical accounting judgements and key sources of estimations are disclosed in note 3.23.

**2.3 Functional and presentation currency**

These consolidated financial statements are presented in Saudi Riyal (SR), which is the Group’s functional and presentation currency.

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**2. BASIS OF PREPARATION** (Continued)

**2.4 Basis of consolidation**

These consolidated financial statements incorporate the financial statements of the “Group” as detailed in note 1. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Consolidated statement of profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and non- controlling interest. Total comprehensive income of subsidiaries is wholly attributed to the shareholders of the Company except the comprehensive income of Al – Juthoor subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**2.5 New standards, amendments to standards and interpretations**

A number of new standards, interpretations and amendments to the standards are effective from January 1, 2020, but they don’t have material effect on the Group’s consolidated financial statements.

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>
IAS 1 and IAS 8	Definition of material	January 1, 2020
IFRS 3	Definition of business	January 1, 2020
The Conceptual Framework for Financial Reporting	Amendments to references to Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020

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**2. BASIS OF PREPARATION** (Continued)

**2.6 New standards, amendments to standards and interpretation that have been issued but are not yet effective**

The Group has not applied the following new and revised IFRSs and amendments that have been issued but are not yet effective.

<b>Amendments to standard</b>	<b>Description</b>	<b>Effective for annual years beginning on or after</b>
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022
	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
IAS 16	Reference to the Conceptual Framework	January 1, 2022
IFRS 3	Insurance Contracts	January 1, 2023
IFRS 17	Classification of Liabilities as Current or Non-current	January 1, 2023
IAS 1	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A
Amendment to IFRS 10 and IAS 28		N/A

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the year of initial application.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies applied by the Group.

**3.1 Property, plant and equipment**

Property, plant and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment (except freehold land and building under construction) are depreciated over its useful lives using the straight line method.

The estimated useful life of the principal classes of assets are as follows:

<b>Class of assets</b>	<b>No of Years</b>
- Buildings and land improvements	25 – 33
- Plant, machinery and equipment	5 – 25
- Furniture, fixtures and office equipment	5 – 15
- Vehicles	4 – 8

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Property, plant and equipment (Continued)**

**I. Capitalization of costs under PPE**

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Capital work in progress represents the accumulated costs incurred by the group in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property, plant and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

**II. Derecognition of property, plant and equipment**

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of profit or loss and other comprehensive income.

**III. Capital Spare Parts (CSP)**

The Group classifies CSPs into critical spare parts (strategic spare parts) and general spare parts using the below guidance:

- A critical spare part is one that is on “stand-by”, i.e. probable to be a major item / part critical to be kept on hand to ensure uninterrupted operation of production. They would normally be used only due to a breakdown, and are not generally expected to be used on a routine basis. Depreciation on critical spares commences immediately on the date of purchase.
- General spare parts are other major spare parts not considered critical and are bought in advance due to planned replacement schedules (in line with prescribed maintenance program) to replace existing major spare parts with new parts that are in operation. Such items are considered to be “available for use” only at a future date, and hence depreciation commences when it is installed as a replacement part. The depreciation period for such general capital spares is over the lesser of its useful life, and the remaining expected useful life of the equipment to which it is associated.

**3.2 Intangible assets**

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets. Intangible assets comprise of goodwill, computer softwares and right of use of leased land. Enterprise resource planning (ERP) system development costs represent costs incurred to implement new system and are amortized over 7-year period from the date it is fully implemented. The right of use of leased land is amortized over the useful life of the buildings using the straight-line method.

Goodwill represents the excess of the cost of a business combination over the Group’s interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instrument issued, plus the amount of any non-controlling interests in the acquire plus. If the business combination is achieved in stages, the fair value of the existing equity interest in the acquire. Contingent consideration is included in the cost at its acquisition date fair value and in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For further details refer to note 5.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.3 Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

**3.4 Investment in associates**

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, includes the Group's share of the profit or loss and Other Comprehensive Income (OCI) of equity accounted investees, until the date on which significant influence ceases.

**3.5 Inventories**

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials, packing material and spare parts at weighted average cost basis; cost comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition.
- Finished goods and work-in-process at weighted average cost basis: these include cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realizable value (NRV) is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Allowance is made for slow moving inventories.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.6 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held with the bank, all of which have maturities of 90 days or less and are available for use by the Group unless otherwise stated. Bank overdraft if any, is shown under line item borrowings.

**3.7 Financial Instruments**

**Classification of financial assets**

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Group classified its investments in unquoted equity securities under fair value through other comprehensive income.

***Financial Asset at amortized cost***

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

***Business model assessment***

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading, if any, and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.7 Financial Instruments** (Continued)

***Assessments whether contractual cash flows are solely payments of principal and profit***

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin. Financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI).

**Financial assets at fair value through other comprehensive income (FVOCI)**

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flow represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

**Financial assets at fair value through profit or loss (FVPL)**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

**Classification of financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

***De-recognition***

**Financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

**Impairment**

The impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The impairment methodology is generally dependent on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach as required by IFRS 9.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.7 Financial Instruments** (Continued)

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

**Effective interest rate method**

The effective interest rate (EIR) method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**3.8 Discontinued operations and non-current assets held for sale**

The results of discontinued operations are presented separately in the statement of profit and loss and other comprehensive income. Non-current assets (or disposal groups) are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This is the case when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and the sale is considered to be highly probable.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan has been initiated. Further, the asset (or disposal group) has been actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one-year from the date that it is classified as held for sale.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of the disposal group continued to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

**3.9 Foreign Currency translations**

Transactions denominated in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items are recognized in the consolidated statement of profit and loss and other comprehensive income in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to consolidated statement of profit or loss on repayment of the monetary items.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9 Foreign Currency translations (Continued)**

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to statement of profit or loss. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in the statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to statement of profit or loss and other comprehensive income.

**3.10 Group entities**

The results and financial position of foreign subsidiaries having reporting currencies other than the presentation currency of the parent company, are translated into functional currency as follows:

- (i) Assets and liabilities for each reporting period presented are translated at the closing exchange rates prevailing at the end of reporting period.
- (ii) Income and expenses from each reporting period are translated at average exchange rates and;
- (iii) Components of the equity accounts are translated at the exchange rates in effect of the dates of the related items originated. Cumulative adjustments resulting from the translations are reported in other comprehensive income and are reported in a separate component of equity as "Currency translation differences".

**3.11 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**3.12 Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over underlying asset's useful life. Right-of-use assets are subject to impairment.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.13 Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Incremental rate is the rate that the individual lessee would pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce constant periodic rate of interest on the remaining balance of the liability of each year.

**Short-term leases and leases of low-value assets**

The Company applies the short-term lease recognition exemption to its short-term leases of rented properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**3.14 Employee benefits**

**I. Short term employees' benefits**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations within accruals in the consolidated statement of financial position.

**II. Employee end of service benefits (EOSB)**

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognized in consolidated statement of financial position in respect of employee benefits is the present value of defined benefits obligation at the end of reporting period.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.14 Employee benefits** (Continued)

Defined benefit costs are categorized as follows:

*Service cost*

Service costs includes current service cost and past service cost are recognized immediately in consolidated statement of profit or loss.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in consolidated statement of profit or loss and other comprehensive income as past service costs.

*Interest cost*

Interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

*Re-measurement gains or losses*

Re-measurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income

**3.15 Revenue from contract with customers**

The Group recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgement of goods, using the five-step model. This includes:

- a) Identification of a contract with a customer, i.e., agreements with the Company that creates enforceable rights and obligations.
- b) Identification of the performance obligations in the contract, i.e., promises in such contracts to transfer products or services.
- c) Determination of the transaction price which shall be the amount of consideration the Company will expect to be entitled to in exchange for fulfilling its performance obligations (and excluding any amounts collected on behalf of third parties).
- d) Allocation of the transaction price to each identified performance obligation based on the relative stand-alone estimated selling price of the products or services provided to the customer.
- e) Recognition of revenue when/as a performance obligation is satisfied, i.e., when the promised products or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described above must also be met before revenue is recognized. Where there are no specific criteria, above policy will apply and revenue is recorded as earned and accrued.

Revenue is recognized upon delivery or shipment of the products in accordance with the contract terms by which the control of the goods/ products is transferred to the customers and the Group has no effective control over or continuing management involvement over these goods.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.16 Other income**

Other income comprises of insurance recoveries and dividends received. Insurance recoveries are recognized in consolidated profit and loss as and when received. Dividend income is recognized in consolidated profit or loss on the date on which the Group's right to receive the payment is established.

**3.17 Borrowing costs**

Borrowing costs are recognised in consolidated profit and loss account in the period in which these are incurred except to the extent of borrowing costs on long term finances that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

**3.18 Zakat and income tax**

The Group is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the kingdom of Saudi Arabia. Moreover, the subsidiaries are subject to the relevant laws relating to income tax in the countries where they conduct their activities. Zakat is calculated on accrual basis. Zakat is calculated on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**3.19 Statutory reserve**

In accordance with regulations for companies in Saudi Arabia and the by-laws of the Company, the Group has established a statutory reserve by the appropriation of 10% of net income, if available after absorption of accumulated losses, until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

**3.20 Dividend**

Dividends are recognized as liability at the time of their approval in the annual general assembly meeting. Interim dividends are recorded as and when approved by the board of directors.

**3.21 Expenses**

Expenses are classified according to their function as part of cost of sales, or the cost of selling and marketing or administrative activities. Selling, distribution, general and administrative expenses include indirect costs not specifically part of production costs as required as per generally accepted accounting principles. Allocations between selling, marketing, general and administrative expenses and production costs, when required are made on a consistent basis.

**3.22 Operating Segment**

**(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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **3.23 Critical accounting judgments and key sources of estimation uncertainty**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

##### ***Impairment of financial assets including trade receivables***

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

##### ***Provision for slow moving inventory items***

The management makes a provision for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration, fluctuations of price or cost directly related to events occurring subsequent to the statement of financial position date to the extent that such events confirm conditions existing at the end of year.

##### ***Provisions and contingencies***

A provision for incurred liabilities is recognized when the Group has a present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resource will be required to settle the obligation and the amount has been reliably estimated.

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or all present obligations arising from past events but not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; assessed at each statement of financial position date and disclosed in the Group's financial statements under contingent liabilities.

##### ***Impairment of non-financial assets***

Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and 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 consolidated statement of profit or loss. Impairment losses recognized on Goodwill are not reversible.

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**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**3.23 Critical accounting judgments and key sources of estimation uncertainty** (Continued)

*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 and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

*Estimation of defined benefit obligation*

The cost of defined benefit obligation and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

*Leases*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity specific estimates.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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**4. PROPERTY, PLANT AND EQUIPMENT**

<u>2020</u>	Lands SR	Buildings and improvements SR	Right of use asset SR	Plant, machinery and equipment SR	Furniture fixtures and office equipment SR	Vehicles SR	Capital work in progress SR	Total SR
<b>Cost:</b>								
As at January 1, 2020	14,731,814	263,245,972	8,650,545	1,090,218,735	16,653,553	23,949,627	7,731,313	1,425,181,559
Additions during the year	-	88,260	2,711,051	3,518,195	743,592	474,000	5,384,637	12,919,735
Spare parts capitalized	-	-	-	2,565,859	-	-	-	2,565,859
Transfers	-	-	-	986,608	228,000	-	(1,214,608)	-
Disposals during the year	-	-	-	(81,739)	(262,896)	(1,660,632)	-	(2,005,267)
Effect of movements in exchange rates	-	2,649	(30,024)	(95,532)	(1,160)	(23,194)	-	(147,261)
As at December 31, 2020	14,731,814	263,336,881	11,331,572	1,097,112,126	17,361,089	22,739,801	11,901,342	1,438,514,625
<b>Accumulated depreciation and impairment:</b>								
As at January 1, 2020	-	(105,700,838)	(745,350)	(674,710,614)	(15,222,343)	(22,153,448)	-	(818,532,593)
Depreciation for the year	-	(8,951,559)	(1,313,530)	(41,810,161)	(455,025)	(583,991)	-	(53,114,266)
Impairment for the year	-	-	-	(1,575,300)	-	-	-	(1,575,300)
Disposals	-	-	-	-	188,570	1,654,059	-	1,842,629
Effect of movements in exchange rates	-	-	-	(70,273)	(1,095)	(21,231)	-	(92,599)
As at December 31, 2020	-	(114,652,397)	(2,058,880)	(718,166,348)	(15,489,893)	(21,104,611)	-	(871,472,129)
<b>Net book value:</b>								
As at December 31, 2020	14,731,814	148,684,484	9,272,692	378,945,778	1,871,196	1,635,190	11,901,342	567,042,496

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**4. PROPERTY, PLANT AND EQUIPMENT (Continued)**

<u>2019</u>	<b>Lands SR</b>	<b>Buildings and improvements SR</b>	<b>Right of use asset SR</b>	<b>Plant, machinery and equipment SR</b>	<b>Furniture fixtures and office equipment SR</b>	<b>Vehicles SR</b>	<b>Capital work in progress SR</b>	<b>Total SR</b>
<b><u>Cost:</u></b>								
As at January 1, 2019- as restated	14,731,814	261,541,542	-	1,082,722,971	16,292,927	35,858,534	3,404,698	1,414,552,486
Additions during the year	-	123,387	-	5,605,388	357,517	348,050	4,919,483	11,353,825
Right of use asset	-	-	8,650,545	-	-	-	-	8,650,545
Assets reclassified from held for sale under IFRS 5	-	1,575,905	-	-	4,147	-	1,303,327	2,883,379
Transfers	-	-	-	1,893,090	-	-	(1,893,090)	-
Effect of movements in exchange rates	-	5,138	-	(1,660)	-	-	(3,105)	373
Disposals	-	-	-	(1,054)	(1,038)	(12,256,957)	-	(12,259,049)
As at December 31, 2019	14,731,814	263,245,972	8,650,545	1,090,218,735	16,653,553	23,949,627	7,731,313	1,425,181,559
<b><u>Accumulated depreciation and impairment:</u></b>								
As at January 1, 2019	-	(97,803,019)	-	(631,476,451)	(14,777,951)	(33,192,385)	-	(777,249,806)
Depreciation for the year	-	(7,897,819)	(745,350)	(40,010,945)	(444,909)	(1,218,020)	-	(50,317,043)
Impairment for the year	-	-	-	(3,223,329)	-	-	-	(3,223,329)
Disposals	-	-	-	111	517	12,256,957	-	12,257,585
As at December 31, 2019	-	(105,700,838)	(745,350)	(674,710,614)	(15,222,343)	(22,153,448)	-	(818,532,593)
<b><u>Net book value:</u></b>								
As at December 31, 2019	14,731,814	157,545,134	7,905,195	415,508,121	1,431,210	1,796,179	7,731,313	606,648,966

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**4. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**4.1 Allocation of depreciation**

	<u>Note</u>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Cost of sales	22	<b>50,826,302</b>	48,436,647
General and administrative expenses	23	<b>2,287,964</b>	1,880,396
<b>Total</b>		<b><u>53,114,266</u></b>	<u>50,317,043</u>

**4.2 Impairment on working plant and machinery**

The management engaged a third party consultant for the review of impairment assessment of its property, plant and equipment as at December 31, 2020 based on which 0.95 million impairment loss was recognised during the year ended December 31, 2020 (December 31, 2019: nil). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, net realizable value, discount rates and other related factors. The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future. Management is confident of its ability to meet its future business plan and believes that the carrying value of property, plant and equipment as of December 31, 2020 will not exceed their recoverable amounts.

**4.3 Impact of unutilized plant and machinery**

The management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2020, amounting to SR 29.46 million (December 31, 2019: SR 43.7 million). Based on the results of this assessment, management has concluded that impairment amounting SR 0.6 million was required for these unutilized assets as of December 31, 2020 (December 31, 2019: SR 3.2 million). The assessment includes assumptions related to estimated selling price in ordinary course of business, estimated cost of completion and estimated cost necessary to make the sales of these assets. The outcome of these assumptions is highly dependent on market conditions as estimated by management and achieving its plans in future. Subsequent to the yearend, management has prepared a utilization plan for these assets and has allocated funds in the recent approved budget for restructuring of these assets in order to utilize them in future. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of December 31, 2020.

**4.4 Security**

At December 31, 2020 and 2019, plant and machinery having a net book value equal to SIDF loan carrying amount are mortgage with SIDF. (Note 14)

**4.5 Leased hold land**

Plant and machinery of the Group in Kingdom of Saudi Arabia is constructed on leased hold land.

**4.6 Right of use**

The Group has right of use for the leased hold land, building and office equipments.

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**5. INTANGIBLE ASSETS**

	<u>Note</u>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
<i>Definite useful life</i>			
Computer softwares	5.1	<b>3,184,848</b>	4,429,697
Right of use lease land	5.2	<b>9,535,591</b>	13,681,500
<i>Indefinite useful life</i>			
Goodwill	5.3	<b>12,429,664</b>	12,429,664
		<b>25,150,103</b>	<b>30,540,861</b>

**5.1** Movement in computer softwares with definite useful life is as follows:

	<u>December 31,</u> <u>2020</u> <u>SR</u>	<u>December 31,</u> <u>2019</u> <u>SR</u>
Opening balance	<b>4,429,697</b>	5,905,185
Additions	<b>242,779</b>	-
Amortization	<b>(1,487,628)</b>	(1,475,488)
Closing balance	<b>3,184,848</b>	4,429,697

**5.2** Movement in right of use leasehold land with definite useful life is as follows:

	<u>December 31,</u> <u>2020</u> <u>SR</u>	<u>December 31,</u> <u>2019</u> <u>SR</u>
Opening balance	<b>13,681,500</b>	13,681,500
Amortization	<b>(4,145,909)</b>	-
Closing balance	<b>9,535,591</b>	13,681,500

**5.3 Goodwill**

This represents goodwill of Saudi Riyals 12.4 million recorded on acquisition of the equity interests in Al-Juthoor in the prior years.

The recoverable amount of the CGU was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The discount rate was estimated based on the weighted-average cost of capital, at a rate of 5.6%.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Budgeted EBITDA was estimated taking into account past experience, adjusted by revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years.

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**6. INVESTMENT IN AN ASSOCIATE**

Investment in an associate at December 31, 2020 and 2019 represents the Group's 26% equity interest in East Gas Company (the Associate), a limited liability Company registered in Kingdom of Saudi Arabia. The Associate is principally involved in distribution of natural gas, maintenance and operating of industrial facilities and wholesale trade in machines and equipment of gas.

The Group has determined that it has significant influence because it has representation on the board of the investee. Movement in investment in an associate is as follows:

	<b>2020</b>	2019
	<b>SR</b>	SR
January 1,	<b>21,252,673</b>	19,742,172
Share in profit of an associate	<b>3,619,915</b>	3,070,501
Dividends received from the associate	<b>(2,600,000)</b>	(1,560,000)
December 31,	<b>22,272,588</b>	21,252,673

The tables below provide summarised financial information for the Associate. The information disclosed reflects the amounts presented in the financial statements of the Associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method if any, including fair value adjustments and modifications for differences in accounting policy as needed.

	<b>2020</b>	2019
	<b>SR</b>	SR
Non-current assets	<b>64,762,958</b>	66,601,643
Current assets (excluding cash and cash equivalents)	<b>19,609,255</b>	24,263,514
Cash and cash equivalents	<b>15,982,266</b>	3,741,184
Total current assets	<b>35,591,521</b>	28,004,698
Non-current liabilities	<b>(1,333,879)</b>	(1,157,230)
Current financial liabilities (excluding trade payables and provisions)	<b>(28,234)</b>	(24,660)
Other current liabilities	<b>(13,328,565)</b>	(11,319,096)
Total current liabilities	<b>(13,356,799)</b>	(11,343,756)
<b>Net Assets</b>	<b>85,663,801</b>	82,105,355

**Summarized statement of profit or loss of the Associate:**

	<b>December 31,</b>	December 31,
	<b>2020</b>	2019
	<b>SR</b>	SR
Revenue	<b>88,746,139</b>	82,528,085
Depreciation and amortization	<b>(7,159,264)</b>	(6,538,526)
Finance cost	<b>(513,093)</b>	(614,420)
Profit before zakat	<b>14,173,784</b>	12,391,960
Zakat	<b>(599,545)</b>	(454,115)
Profit for the year	<b>13,574,239</b>	11,937,845
Other comprehensive (loss)/ income	<b>(15,793)</b>	190,350
Total comprehensive income	<b>13,558,446</b>	12,128,195

The Group has no contingent liabilities or capital commitments relating to its interest in the associate as at December 31, 2020.

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**6. INVESTMENT IN AN ASSOCIATE (Continued)**

The associate has a contingent liability for bank guarantees issued in the normal course of the business amounting SR 19 million as at December 31, 2020 (December 31, 2019: SR 18.9 million).

During the year, the associate has declared and paid dividends amounting to SR 2.6 million (2019: 1.56 million).

**7. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

The Group has investment at fair value through other comprehensive income invested in unlisted securities (Mena Shipco Limited). This investment is classified as level 3 and fair value is determined using Net Asset Value (NAV).

**8. INVENTORIES**

	<u>Note</u>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Raw materials		51,592,944	32,362,878
Finished goods		28,994,389	28,040,485
Work in progress		1,580,491	1,447,969
Stores, spare parts and other consumables		47,109,145	47,640,186
		<u>129,276,969</u>	<u>109,491,518</u>
Allowance for slow moving inventories	8.1	<u>(21,225,260)</u>	<u>(20,080,474)</u>
		<u><b>108,051,709</b></u>	<u><b>89,411,044</b></u>

**8.1** The movement in allowance for slow moving inventories during the year ended is as follows:

	<u>December 31, 2020</u> <u>SR</u>	<u>December 31, 2019</u> <u>SR</u>
Opening balance	20,080,474	20,353,013
Provision for the year	2,200,000	-
Write offs during the year	<u>(1,055,214)</u>	<u>(272,539)</u>
	<u><b>21,225,260</b></u>	<u><b>20,080,474</b></u>

**9. TRADE RECEIVABLES**

	<u>Note</u>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Trade receivables		219,444,455	241,652,582
Allowance for impairment of receivables	9.1	<u>(100,835,002)</u>	<u>(103,680,117)</u>
		<u><b>118,609,453</b></u>	<u><b>137,972,465</b></u>

**9.1** The movement in allowance for impairment of receivables during the year ended is as follows:

	<u>December 31, 2020</u> <u>SR</u>	<u>December 31, 2019</u> <u>SR</u>
Opening balance	103,680,117	138,731,315
Reversal for the year	(2,845,115)	(31,392,614)
Write offs during the year	-	(3,658,584)
	<u><b>100,835,002</b></u>	<u><b>103,680,117</b></u>

**9.2** Management has performed an assessment for the impairment of Group's trade receivables as of December 31, 2020. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 2.85 million, is recognized during the year ended December 31, 2020.

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**9. TRADE RECEIVABLES (Continued)**

**9.3 Aging analysis of trade receivables**

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>&lt; 31 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>91 – 120 days</b>	<b>&gt;120 days</b>
<b>December 31, 2020</b>	<b>219,444,456</b>	<b>84,531,890</b>	<b>12,905,821</b>	<b>6,057,128</b>	<b>4,653,866</b>	<b>3,168,851</b>	<b>108,126,900</b>
December 31, 2019	241,652,582	32,672,410	11,550,388	16,868,589	28,332,075	13,833,875	138,395,245

Information about the Group's exposure to credit and market risks, and impairment losses for trade receivables, is included in note 31.

**10. ADVANCES, PREPAYMENTS AND OTHER ASSETS**

	<b>Note</b>	<b>2020 SR</b>	<b>2019 SR</b>
Receivable on sale of a subsidiary	1	<b>13,654,067</b>	13,654,067
Provision against receivable on sale of a subsidiary		<b>(13,654,067)</b>	-
Net receivable on sale of a subsidiary		-	13,654,067
Advances to suppliers		<b>9,579,551</b>	11,855,845
Prepaid expenses		<b>3,160,232</b>	2,900,426
Custom duty advances		<b>1,741,740</b>	2,905,616
Insurance claim receivable		<b>1,103,296</b>	1,518,808
Employees housing and other advances		<b>1,255,503</b>	1,179,345
Refundable deposits		<b>855,483</b>	873,206
VAT - net		-	544,854
Others		<b>2,323,028</b>	2,529,765
		<b>20,018,833</b>	37,961,932

**11. CASH AND CASH EQUIVALENTS**

	<b>Note</b>	<b>2020 SR</b>	<b>2019 SR</b>
Cash at banks - current accounts	11.1	<b>14,854,872</b>	9,633,745
Cash in hand		<b>868,068</b>	2,325,589
		<b>15,722,940</b>	11,959,334

**11.1** The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year. The table below provides details of cash at bank placed in various currencies.

	<b>2020 SR</b>	<b>2019 SR</b>
SAR	<b>4,113,550</b>	5,438,773
KUW	<b>6,885,635</b>	1,540,888
DZD	<b>3,178,808</b>	2,924,159
USD	<b>370,004</b>	(392,460)
Others	<b>306,875</b>	122,385
	<b>14,854,872</b>	9,633,745

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**12. SHARE CAPITAL**

As at December 31, 2020, the share capital of the Company was SR 92,000,000 (December 31, 2019: SR 92,000,000) divided into 9,200,000 shares (December 31, 2019: 9,200,000 shares) of SR 10 each (see note 1).

**13. OTHER RESERVES**

These reserves include change in fair value of financial assets through OCI, remeasurement gain / (loss) on employees' end of service benefits and translation reserves due to consolidation of foreign subsidiaries at year end from their presentation currencies to Saudi Riyals.

**14. MEDIUM AND LONG TERM LOANS**

	<u>Note</u>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Commercial bank loans	14.2	<b>489,894,273</b>	526,173,663
Saudi Industrial Development Fund ("SIDF") loans	14.1	<b>27,632,000</b>	39,272,452
		<b>517,526,273</b>	565,446,115
Medium and long term loans – current portion		<b>(151,284,922)</b>	(206,621,768)
		<b>366,241,351</b>	358,824,347

**14.1 SIDF loans**

These represent loans obtained from SIDF by the Company and one of its Saudi Arabian subsidiary. The covenants of the loan agreements require the Company and such subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures.

The loans do not bear financial charges, however, an upfront fee is charged on the loan and these are secured by mortgaged on property, plant and equipment of the Company and the subsidiary equal to the carrying amount of the loan.

**14.2 Commercial bank loans**

The Group has obtained loan facilities both long term and short term of SR 706.3 million from various commercial banks. These loans are mainly denominated in Saudi Riyals which generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at December 31, 2020, based on their respective repayment schedules, are spread in 2020 through 2027.

The covenants of some of these facilities require the Group to maintain certain level of financial conditions, require lenders' prior approval for dividends distribution above a certain amount and certain other requirements. The information is summarized in the table below.

	<b>Nominal</b> <b>interest rate</b>	<b>Year of</b> <b>maturity</b>	<u>2020</u> <u>SR</u>	<u>2019</u> <u>SR</u>
Alinma Bank	SAIBOR + 2.25%	2018-26	<b>193,489,730</b>	193,728,268
Riyadh Bank	SAIBOR + 2%	2018-26	<b>146,223,372</b>	163,594,560
Al-Rajhi Bank	SAIBOR + 2%	2019-21	<b>73,527,000</b>	78,670,706
Saudi Investment Bank	SAIBOR + 2%	2018-25	<b>36,867,000</b>	42,074,717
Samba Bank	SAIBOR + 2%	2016-23	<b>13,333,176</b>	21,237,355
National Commercial Bank	SAIBOR + 2%	2018-22	<b>13,281,676</b>	-
Aljazeera Bank	SAIBOR + 2%	2018-21	<b>5,383,736</b>	8,297,113
Arab National Bank	SAIBOR + 2%	2016-21	<b>5,000,037</b>	6,000,000
Industrial Bank of Kuwait	3.5%	2020-27	<b>2,788,546</b>	-
Saudi British Bank	SAIBOR + 2%	2016-20	-	12,570,944
			<b>489,894,273</b>	526,173,663

These bank loans are secured against promissory notes amounting to SR 756.5 million (2019: SR 729.3 million).

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**14. MEDIUM AND LONG TERM LOANS(Continued)**

**14.2 Commercial bank loans (Continued)**

Information about the Group's exposure to interest rate and liquidity risks is included in Note 31.

**14.3 Maturity profile of long-term borrowings**

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
2020	-	206,621,768
2021	<b>151,284,922</b>	113,182,227
2022	<b>67,072,980</b>	89,336,000
2023	<b>61,838,440</b>	73,586,000
2024	<b>78,023,308</b>	30,500,000
2025	<b>77,856,308</b>	24,000,000
2026	<b>80,943,308</b>	28,220,120
2027	<b>507,007</b>	-
	<b>517,526,273</b>	<b>565,446,115</b>

The Group has not complied with the covenant requirements of maintaining certain financial ratios of some of its loan agreements.

**15. EMPLOYEES' END OF SERVICE BENEFITS**

The movement in the present value of defined benefit obligation is as follows:

	<b>For the year ended</b>	<b>For the year ended</b>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<b>SR</b>	<b>SR</b>
Opening balance	<b>19,828,157</b>	15,542,107
<b>Charged to consolidated profit or loss:</b>		
- Current service cost	<b>2,286,515</b>	3,049,971
- Interest cost	<b>563,549</b>	700,076
	<b>2,850,064</b>	3,750,047
<b>Charged to consolidated statement of other comprehensive income:</b>		
Actuarial remeasurement (gain) / loss	<b>(2,339,559)</b>	2,832,782
Paid during the year	<b>(2,320,856)</b>	(2,296,779)
Closing balance	<b>18,017,806</b>	19,828,157

**15.1** The details of the actuarial valuation under the projected unit credit method as at December 31, for unfunded gratuity scheme is as follows:

	<b>For the year ended</b>	<b>For the year ended</b>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Discount rate per annum used for calculation of obligation	2.54%	3.10%
Salary increment rate used for calculation of obligation	1.35%	3.00%
Mortality rates (from mortality table)	IALM 2012-14	WHO SA16-75%
Employee turnover (withdrawal rate)	Moderate	Moderate

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**15. EMPLOYEES' END OF SERVICE BENEFITS (Continued)**

**15.2 Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<b>December 31, 2020</b>		<b>December 31, 2019</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
	<b>(1% movement)</b>		<b>(0.5% movement)</b>	
Discount rate	<b>15,939,459</b>	<b>18,704,492</b>	18,465,635	20,345,789
Future salary growth	<b>18,704,508</b>	<b>15,939,603</b>	20,341,861	18,460,551

**16. TRADE PAYABLES**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>SR</b>	<b>SR</b>
Non-related parties		<b>65,604,481</b>	66,719,922
Related parties	29	<b>2,292,480</b>	2,887,339
		<b>67,896,961</b>	69,607,261

**17. SHORT TERM LOANS**

These include short-term loans and liabilities against letter of credit refinancing obtained from various commercial banks and bear financial charges at prevailing market rates which are based on inter-bank offer rate.

The covenants of certain of the short-term bank borrowings require the Group to maintain certain level of financial conditions.

As at December 31, 2020, the Group has unused bank financing facilities amounting to SR 22.1 million (2019: SR 2.9 million).

**18. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Employee benefits accrual	<b>15,255,532</b>	13,807,022
Goods received but invoices not received	<b>5,375,362</b>	2,384,803
Accrued sales commission and rebates	<b>3,741,969</b>	6,111,290
VAT - net	<b>3,264,182</b>	-
Accrual for utilities	<b>2,698,754</b>	2,241,710
Advances from customers	<b>2,621,071</b>	196,835
Accrued transportation cost	<b>1,861,269</b>	2,618,547
Accrued legal and professional expenses	<b>1,498,593</b>	3,189,565
Provision for marketing expenses	<b>555,091</b>	5,621,484
Accrued clearing cost	<b>272,843</b>	2,845,656
Others	<b>3,742,565</b>	3,577,868
	<b>40,887,231</b>	42,594,780

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**19. PROVISION FOR ZAKAT**

The Company is subject to Zakat in the Kingdom of Saudi Arabia in accordance with Saudi Arabia fiscal regulation.

a) Principal elements of zakat base are as follows:

	<b>2020</b>	2019
	<b>SR</b>	SR
Non-current assets	<b>614,465,187</b>	658,442,500
Inventory- Spare parts machinery and equipment	<b>47,109,145</b>	47,640,186
Non-current liabilities	<b>391,337,925</b>	386,221,987
Opening shareholders' equity	<b>72,722,706</b>	99,973,975
Net profit (loss) before zakat	<b>19,710,235</b>	(19,075,428)

b) Movement in Zakat provision for the year ended as follows:

	<b>2020</b>	2019
	<b>SR</b>	SR
January 1	<b>16,208,696</b>	7,815,213
Provision for the year	<b>4,051,877</b>	8,393,483
Payments made	<b>(6,033,712)</b>	-
December 31	<b>14,226,861</b>	16,208,696

c) **Status of assessments**

Pursuant to the requirements of Circular No. 36025/9/1437 issued by the General Authority of Zakat and Tax ("GAZT") in 2016, the Group had filed combined zakat declaration based on the combined audited financial statements combining the results of parent company and its resident and non-resident wholly owned subsidiaries for the financial year ended December 31, 2019.

During the year, the Company has settled the assessment claim for the years 2006 to 2007 amounting to SR 2.1 million by payment of SR 1.05 million and received the final assessment for these years. Further, the Company also received the assessments related to years 2014 to 2018 (note 33).

**20. LEASE LIABILITIES**

The Group has lease liabilities related to factory lands. With the exception of short-term leases, each lease is presented as a lease liability on the statement of financial position. Lease term period of lands is 20 years with fixed payment terms.

Each lease imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. These leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security.

	<b>December 31,</b>	December 31,
	<b>2020</b>	2019
	<b>SR</b>	SR
Opening balance – January 1	<b>8,094,596</b>	-
Impact of adoption of IFRS 16	-	8,594,265
Opening balance	<b>8,094,596</b>	8,594,265
Additions	<b>889,652</b>	-
Interest accrued during the year (note 25)	<b>442,601</b>	403,531
Lease liability settled during the year	<b>(895,400)</b>	(903,200)
Closing balance	<b>8,531,449</b>	8,094,596

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**20. LEASE LIABILITIES (Continued)**

	<b>December 31, 2020</b>	December 31, 2019
	<b>SR</b>	SR
Current	<b>1,452,681</b>	525,113
Non-current	<b>7,078,768</b>	7,569,483
	<b>8,531,449</b>	8,094,596

As at December 31, 2020, lease payments and finance charges related to lease liabilities are as follows:

	<b>Current</b>	<b>1-5 years</b>	<b>6-10 years</b>	<b>11-19 years</b>	<b>Total</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
Lease payments	1,877,314	4,637,776	3,180,000	1,272,000	<b>10,967,090</b>
Finance charges	(424,633)	(1,365,826)	(599,028)	(46,154)	<b>(2,435,641)</b>
Net present values	1,452,681	3,271,950	2,580,972	1,225,846	<b>8,531,449</b>

The Group has short term and low value lease arrangements and expenses for the year was SR 4.9 million.

**21. REVENUE**

	<b>2020</b>	2019
	<b>SR</b>	SR
Manufacturing	<b>504,735,298</b>	505,390,014
Trading and others	<b>27,355,261</b>	21,736,235
	<b>532,090,559</b>	527,126,249

**22. COST OF REVENUE**

	<b>Note</b>	<b>2020</b>	2019
		<b>SR</b>	SR
Raw materials, consumables and change in finished products		<b>240,779,048</b>	283,891,354
Depreciation	4.1	<b>50,826,302</b>	48,436,647
Utilities	29	<b>35,107,421</b>	36,530,221
Salaries, wages and other employees' benefits		<b>32,791,007</b>	30,775,855
Maintenance		<b>9,091,596</b>	14,059,051
Contract labour		<b>5,311,788</b>	6,187,657
Insurance		<b>4,513,455</b>	3,545,634
Amortization		<b>1,902,219</b>	1,475,488
Lease rentals		<b>1,250,485</b>	1,366,673
Impairment loss on property, plant and equipment	4.2	<b>959,656</b>	-
Others		<b>2,686,033</b>	1,858,253
		<b>385,219,010</b>	428,126,833

**23. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Note</b>	<b>2020</b>	2019
		<b>SR</b>	SR
Salaries, wages and other employees' benefits		<b>24,936,944</b>	32,658,547
Depreciation	4.1	<b>2,287,964</b>	1,880,396
Provision against custom duty advances		<b>1,884,410</b>	-
Legal, professional and consultancy services		<b>1,788,078</b>	2,675,897
Communication and IT services		<b>1,442,377</b>	2,078,816
Allowance for slow moving inventory	8.1	<b>1,000,000</b>	-
Travelling		<b>459,619</b>	1,256,723
Government charges and fees		<b>618,800</b>	921,526
Rent		<b>122,431</b>	298,244
Repair and maintenance		<b>239,912</b>	408,010
Others		<b>4,616,619</b>	5,472,573
		<b>39,397,154</b>	47,650,732

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**24. SELLING AND DISTRIBUTION EXPENSES**

	<b>2020</b>	2019
	<b>SR</b>	SR
Transportation and logistics cost	<b>17,034,147</b>	15,911,388
Salaries, wages and other employees' benefits	<b>14,783,522</b>	13,368,934
Sales commission	<b>3,802,074</b>	2,283,163
Sales vehicles rent	<b>2,792,966</b>	2,037,705
Marketing expenses	<b>1,514,209</b>	8,953,788
Travelling expenses	<b>1,085,418</b>	1,254,876
Warehouse rent	<b>761,637</b>	1,070,609
Others	<b>7,274,829</b>	7,321,904
	<b>49,048,802</b>	52,202,367

**25. FINANCE CHARGES**

	<b>2020</b>	2019
	<b>SR</b>	SR
Mark-up on:		
- Long term borrowings	<b>18,085,306</b>	29,365,248
- Short term borrowings	<b>5,767,020</b>	7,655,241
Bank and other charges	<b>9,221,992</b>	5,308,466
Interest on lease liability	<b>442,601</b>	403,531
	<b>33,516,919</b>	42,732,486

**26. OTHER EXPENSES, NET**

		<b>2020</b>	2019
	<b>Note</b>	<b>SR</b>	SR
Provision against other receivable	26.1	<b>13,654,067</b>	-
Provision against Osus receivable		-	6,875,000
Impairment loss on unutilized property, plant and equipment	4.3	<b>615,644</b>	3,223,329
Loss on disposal of a subsidiary	26.1	-	3,237,232
Gain on sale of property, plant and equipment		<b>(363,928)</b>	(1,215,656)
Reversal of creditors balance		<b>(96,485)</b>	(2,656,140)
Others, net		<b>(2,145,829)</b>	488,609
		<b>11,663,469</b>	9,952,374

**26.1** In 2019, the Group has sold net assets of its fully owned subsidiary in Morocco. Net assets of the subsidiary sold were SR 16.9 million and the receivable amount recorded was SR 13.65 resulting a loss amounting to SR 3.2 million. During the year ended December 31, 2020, the Group has fully provided against this receivable balance.

**27. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. With regard to diluted earnings (loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all diluted potential ordinary shares.

Earnings (loss) per share are represented as follows:

	<b>2020</b>	2019
	<b>SR</b>	SR
Net profit (loss) for the year	<b>15,100,183</b>	(27,883,310)
Weighted average number of outstanding shares	<b>9,200,000</b>	9,200,000
Basic/ diluted earnings (loss) for the year	<b>1.64</b>	(3.03)

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**28. OPERATING SEGMENTS**

**a. Basis for segmentation**

The Group has the following strategic divisions, which are its reportable segments. These divisions offer different products and services, and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment that met the quantitative thresholds for reportable segments in 2020 and 2019.

<b>Reportable segments</b>	<b>Operations</b>
Manufacturing	Buying, manufacturing and distributing pulp and paper
Trading, transporting and other	Collecting, sorting, transporting and pressing waste papers

The Group's Chief Executive Officer reviews the internal management reports of each division at least quarterly.

There are varying levels of integration between the both the segments. This integration includes transfers of recycled raw materials and shared distribution services, respectively. Inter-segment pricing is determined on an arm's length basis.

**b. Information about reportable segments**

Information related to each reportable segment is set out below. Segment profit (loss) before Zakat is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

**For the year ended December 31, 2020**

	<b>Reportable segments</b>		<b>Total</b>
	<b>Manufacturing</b>	<b>Trading and others</b>	
Segment revenue	636,494,233	42,106,022	678,600,255
Inter-segment revenue	(131,758,935)	(14,750,761)	(146,509,696)
External revenue	504,735,298	27,355,261	532,090,559
Net profit (loss) before zakat	31,703,681	(11,993,446)	19,710,235
Finance cost	32,149,265	1,367,654	33,516,919
Depreciation and amortization	57,193,266	1,554,537	58,747,803
Segment assets	836,787,560	40,080,562	876,868,122
Segment liabilities	740,271,973	45,990,892	786,262,865

**For the year ended December 31, 2019**

	<b>Reportable segments</b>		<b>Total</b>
	<b>Manufacturing</b>	<b>Trading and others</b>	
Segment revenue	635,177,997	42,536,552	677,714,549
Inter-segment revenue	(129,787,983)	(20,800,317)	(150,588,300)
External revenue	505,390,014	21,736,235	527,126,249
Net loss before zakat	(13,852,676)	(5,222,752)	(19,075,428)
Finance cost	41,291,484	1,441,002	42,732,486
Depreciation and amortization	49,765,812	2,026,719	51,792,531
Segment assets	883,487,379	52,259,896	935,747,275
Segment liabilities	820,556,846	41,245,338	861,802,184

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**28. OPERATING SEGMENTS (Continued)**

**c. Geographic information**

The business of the Group is managed on a worldwide basis. However, the main operations are settled in Kingdom of Saudi Arabia, certain Gulf Cooperation Council (GCC) countries and certain other countries.

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries.

	<b>December 31, 2020</b>	December 31, 2019
	<b>SR</b>	SR
<b>- Revenue</b>		
Saudi Arabia	<b>477,834,809</b>	470,623,988
GCC countries	<b>37,346,405</b>	40,102,612
Other countries	<b>16,909,345</b>	16,399,649
<b>Consolidated revenue</b>	<b>532,090,559</b>	527,126,249
<b>- Non-current assets</b>		
Saudi Arabia	<b>567,425,239</b>	612,401,517
GCC countries	<b>35,429,985</b>	35,140,102
Other countries	<b>11,609,963</b>	10,900,881
<b>Consolidated Non-current assets</b>	<b>614,465,187</b>	658,442,500

**29. TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

The related parties consist of subsidiaries, affiliates and Board of Directors and key management personnel. In the ordinary course of business, the Group transacts with its related parties. Such transactions relate to services rendered and received and expenses incurred on behalf of related parties. The transactions are dealt with on mutually agreed terms and the terms and conditions on these transactions are approved by the Group's management.

**Key management personnel compensation**

	<b>For the year ended</b>	<b>For the year ended</b>
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Short-term employees benefits	<b>5,088,075</b>	7,176,200
BOD and related committees remuneration	<b>2,073,996</b>	1,674,000
Employees' end of service benefits	<b>259,565</b>	288,975

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to a post-employment defined benefit plan.

Payable balance to key management personnel as of year end amounted to SR 2.47 million (December 31, 2019 SR 4.25 million).

**Other related parties transactions**

During the year ended December 31, the Company had the following significant transactions with its related parties:

<b>Related party</b>	<b>Relationship</b>	<b>Nature of transaction</b>	<b>Amount</b>	<b>Balance</b>
			<b>SR</b>	<b>SR</b>
<b>2020:</b>				
East Gas Limited	Associate	Purchase of gas	<b>7,188,244</b>	<b>2,292,480</b>
		Dividend received	<b>2,600,000</b>	
<b>2019:</b>				
East Gas Limited	Associate	Purchase of gas	6,777,102	2,887,339
		Dividend received	1,560,000	

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**30. FAIR VALUE MEASUREMENT**

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. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Group uses market observable 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 that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included in 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).

As of December 31, 2020 and 2019, all of the Group's financial instruments have been carried at amortised cost except for financial assets at fair value through OCI which have been carried at fair value under level 3 fair value hierarchy i.e. based on unobservable inputs and which were fully provide during 2019. The carrying values of all other financial assets and financial liabilities in the consolidated financial statements approximates to their fair values.

**31. FINANCIAL RISK MANAGEMENT**

The Group finances its operations through equity, borrowing and management of working capital with a view to maintain an appropriate mix between various sources of finance to minimize risk. Taken as a whole the Group's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments. Financial instruments of the Group are as under:

**Financial instruments by categories**

**(i) Financial assets**

	<u>Amortized Cost</u>	<u>Total</u>
<b>December 31, 2020:</b>		
Trade receivables	118,609,453	118,609,453
Other receivables	6,023,547	6,023,547
Cash and cash equivalents	15,722,940	15,722,940
	<u>140,355,940</u>	<u>140,355,940</u>
<b>December 31, 2019:</b>		
Trade receivables	137,972,465	137,972,465
Other receivables	21,481,462	21,481,462
Cash and cash equivalents	11,959,334	11,959,334
	<u>171,413,261</u>	<u>171,413,261</u>

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

**(ii) Financial liabilities**

	<b>At amortized cost</b>	<b>Total</b>
<b>As at December 31, 2020:</b>		
Long term loans	<b>517,526,273</b>	<b>517,526,273</b>
Short term loans	<b>119,176,284</b>	<b>119,176,284</b>
Trade payables	<b>67,896,961</b>	<b>67,896,961</b>
Lease liabilities	<b>8,531,449</b>	<b>8,531,449</b>
Accrued expenses and other liabilities	<b>35,001,978</b>	<b>35,001,978</b>
	<b>748,132,945</b>	<b>748,132,945</b>
<b>As at December 31, 2019:</b>		
Long term loans	565,446,115	565,446,115
Short term loans	140,022,579	140,022,579
Trade payables	69,607,261	69,607,261
Lease liabilities	8,094,596	8,094,596
Accrued expenses and other liabilities	42,397,945	42,397,945
	825,568,496	825,568,496

The Group has exposure to the following risks from financial instrument:

- a. credit risk
- b. liquidity risk
- c. market risk
- d. operational risk

The Board of Directors of the Group has the overall responsibility for establishment and oversight of the Group's risk management framework. To assist the Board in discharging its oversight responsibility, the management has been made responsible for identifying, monitoring and managing the Group's financial risk exposure. The Group's overall risk management program focuses on the under predictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

**a. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

**a. Credit risk (Continued)**

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Trade receivables	<b>219,444,455</b>	241,652,582
Other receivables	<b>6,023,547</b>	21,481,462
Balances with banks	<b>14,854,872</b>	9,633,745
	<b>240,322,874</b>	<b>272,767,789</b>

**Trade receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The Group management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information, and in some cases bank references. Sale limits are established for each customer and reviewed periodically. Any sales exceeding those limits require approval from the risk management committee.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one to three months for individual and corporate customers respectively.

The Group is closely monitoring the economic environment in the Middle east and is taking actions to limit its exposure to customers in countries experiencing particular economic volatility.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

At December 31, the maximum exposure to credit risk for trade receivables by geographic region was as follows:

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Kingdom of Saudi Arabia	<b>207,715,273</b>	229,853,121
Kuwait	<b>9,532,998</b>	10,578,478
Algeria	<b>1,930,948</b>	1,049,503
United Arab Emirates	<b>242,285</b>	148,536
Jordan	<b>22,951</b>	22,944
	<b>219,444,455</b>	<b>241,652,582</b>

At December 31, the maximum exposure to credit risk for trade receivables by type of counterparty was as follows.

	<b>2020</b>	<b>2019</b>
	<b>SR</b>	<b>SR</b>
Business to business	<b>120,774,864</b>	143,995,429
Wholesale customers	<b>70,308,641</b>	73,770,591
Retail customers	<b>27,869,388</b>	23,488,756
Other	<b>491,561</b>	397,806
	<b>219,444,455</b>	<b>241,652,582</b>

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

**Cash and cash equivalents**

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated as follows;

	Rating		Rating agency	December 31, 2020	December 31, 2019
	Short-term	Long-term			
Al Awwal Bank	A3	P-2	Moody's	-	29,095
Al Rajhi bank	A1	-	Moody's	1,593,758	96,395
Arab National Bank	A2	A	CI ratings	15,369	-
Bank Aljazeera	F2	A-	Fitch	2,877	1,628
Banque Saudi Fransi	A1	P-1	Moody's	2,196	250,463
Bank Alinma	F2	A-	Fitch	203,908	125,115
National Commercial Bank	F1	A-	Fitch	1,715,220	3,458,661
Riyadh Bank	F2	A-	Fitch	460,131	782,541
Saudi British Bank	A1	P-1	Moody's	55,056	-
Saudi American Bank	A1	P-1	Moody's	276,765	392,387
Foreign subsidiaries banks and others	-	-	-	10,529,592	4,497,460
				<b>14,854,872</b>	<b>9,633,745</b>

**b. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the maturities of financial liabilities at the reporting date.

As at December 31, 2020	Carrying amount	Less than one year	One to five years	More than five years
Long term loans	517,526,273	151,284,922	365,734,344	507,007
Short term loans	119,176,284	119,176,284	-	-
Trade payables	67,896,961	67,896,961	-	-
Lease liabilities	8,531,449	1,452,681	3,271,950	3,806,818
Accrued expenses and other liabilities	35,001,978	35,001,978	-	-
	<b>748,132,945</b>	<b>374,812,826</b>	<b>369,006,294</b>	<b>4,313,825</b>
As at December 31, 2019	Carrying amount	Less than one year	One to five years	More than five years
Long term loans	565,446,115	206,621,768	358,824,347	-
Short term loans	140,022,579	140,022,579	-	-
Trade payables	69,607,261	69,607,261	-	-
Lease liabilities	8,094,596	525,113	3,055,164	4,514,319
Accrued expenses and other liabilities	42,397,945	42,397,945	-	-
	<b>825,568,496</b>	<b>459,174,666</b>	<b>361,879,511</b>	<b>4,514,319</b>

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

**c. Market risk**

Market risk is the risk that changes in market interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Interest rate risk management**

Interest rate risk management arises from the possibility of changes in interest rates which may affect the value of financial instruments. The Group has long term and short term borrowings at variable rates. Group is exposed to interest rates risk on its borrowings. At the reporting date, the interest rate profile of the Group's interest bearing financial instruments is:

	2020 SR	2019 SR
<b>Fixed rate instruments:</b>		
<b>Financial liabilities</b>		
Long term loans	517,526,273	565,446,115
Short term loans	119,176,284	140,022,579
	<b>636,702,557</b>	<b>705,468,694</b>

**Foreign exchange risk management**

Foreign exchange risk is the risk that the value of financial asset or a liability will fluctuate due to change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies. Currently, the Group's foreign exchange risk exposure is restricted to the amounts receivable / payable from / to the foreign entities and outstanding letters of credit and bills payable. These are mainly denominated in Euros, GBP Pound sterling and "United States Dollar "USD". USD is pegged with SR at USD 1 to SR 3.75.

**d. Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Group's activities, either internally within the Group or externally at the Group's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of operation behaviour. Operational risks arise from all the Group's activities.

The Group's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation while achieving its objectives of becoming a profitable organisation, producing high quality products and generating returns for investors. Primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors.

**Capital risk management**

The objective of the Group when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other shareholders and to maintain a strong base to support the sustained development of its business.

The Group manages its capital structure by monitoring return on net assets and make adjustments to in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payable to the shareholders or issue new shares.

The Group finances its expansion projects through equity, borrowings and management of its working capital with a view to maintain an appropriate mix between various sources of finance to minimize risk.

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**31. FINANCIAL RISK MANAGEMENT (Continued)**

The gearing ratios at December 31 were as follows:

	<b>2020</b>	2019
	<b>SR</b>	SR
Interest bearing loans and borrowings	<b>636,702,557</b>	705,468,694
Less: cash and cash equivalents	<b>(15,722,940)</b>	(11,959,334)
Net debt	<b>620,979,617</b>	693,509,360
Total equity	<b>90,605,257</b>	73,945,091
Net debt to equity ratio (in times)	<b>6.85</b>	9.38

**32. SUPPLEMENTAL CASHFLOW INFORMATION**

	<b>December 31, 2020</b>	December 31, 2019
	<b>SR</b>	SR
Right of use assets	<b>2,711,051</b>	8,091,460
Spare parts capitalized	<b>2,565,859</b>	-
Rescheduling of short term loans to long term loans	<b>26,200,000</b>	-
Receivable on disposal of a subsidiary previously classified as held for sale	-	(13,654,065)

**33. CONTINGENCIES AND COMMITMENTS**

- As of December 31, 2020, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 25.5 million (December 31, 2019: SR 14.9 million) and SR 0.697 million (December 31, 2019: SR 0.53 million) respectively.
- During the year, the Company has received assessments from General Authority of Zakat and Tax (GAZT) for the years 2014 to 2018 claiming additional liability amounting to SR 42.4 million. The Company has settled the assessment claim of SR 15.5 million related to 2014 by SR 0.48 million and received the final assessment. The management has filed appeal against the remaining assessments for the year 2015 to 2018 amounting to SR 26.9 million. The management believes that the provision recognised against aforementioned assessments is adequate and no further provision is required as at year end date.

**34. SIGNIFICANT EVENT**

- In March 2020, the Kingdom of Saudi Arabia announced a global pandemic due to the novel coronavirus (COVID-19). The impact of outbreak and long hours of curfew has caused a significant change in business activities and increase in economy uncertainty. The Group proactively took a range of operational preventive measures in response to the situation by modifying certain operations to comply with health and safety guidelines to protect employees, customers and suppliers, secure smooth supply chain process to avoid any business interruption benefiting from all supports announced by the Government for the private sectors.

Management believes that the Covid-19 pandemic had limited impact on the Group reported results for the year December 2020 due to the steps taken by the company and the diversification of its portfolio. The company will continue to assess this situation moving forward.

- On January 31, 2021, the Company announced on Tadawul that it has filed a lawsuit in the court of law against Ex-Board Member and the CEO for financial and administrative violations with an estimated value of SR 40.95 million. The allegations relate to sale of subsidiary in Morocco, cancellation of debt, extending large credit facilities to a small client and other financial and administrative violations.

The case is still pending in the court of law as of the date of approval of the consolidated financial statements.

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**35. COMPARATIVE FIGURES**

Certain reclassifications were made to the 2019 figures to conform to the current year's presentation.

**36. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors and authorized for issue on March 25, 2021 corresponding to 12 Shaban, 1442H.