

**MIDDLE EAST COMPANY FOR MANUFACTURING
AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
30 SEPTEMBER 2022**

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2022**

| Table of contents | Page |
|--|-------------|
| Independent Auditor's Review Report on Interim Condensed Consolidated Financial Statements | 1 |
| Interim Condensed Consolidated Statement of Financial Position | 2 |
| Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 3 |
| Interim Condensed Consolidated Statement of Changes in Equity | 4 |
| Interim Condensed Consolidated Statement of Cash Flows | 5 |
| Notes to the Interim Condensed Consolidated Financial Statements | 6 - 18 |



Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
King's Road Tower, 13th Floor
King Abdul Aziz Road (Malek Road)
P.O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Head Office – Riyadh

C.R. No. 4030276644

Tel: +966 12 221 8400
Fax: +966 12 664 4408

ey.ksa@sa.ey.com
ey.com

**INDEPENDENT AUDITOR'S REVIEW REPORT ON
THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Middle East Company for Manufacturing and Producing Paper (A Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively referred as "the Group") as at 30 September 2022, and the related interim condensed consolidated statement of profit or loss and other comprehensive income, for the three-month and nine-month periods ended 30 September 2022, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

for Ernst & Young Professional Services

Abdullah Ali AlMakrami
Certified Public Accountant
License No. 476

Jeddah: 8 Rabi Al-Thani 1444H
2 November 2022G



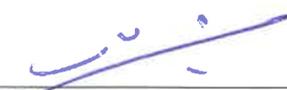
MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

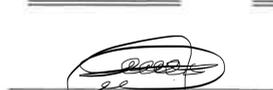
As at 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

| | Note | 30 September 2022 (Unaudited) | 31 December 2021 (Audited) |
|--|------|-------------------------------------|----------------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 5 | 891,129,598 | 939,046,594 |
| Capital work in progress | 6 | 213,235,191 | 94,546,859 |
| Right-of-use assets | 7 | 29,864,177 | 34,158,612 |
| Intangible assets | | 306,888 | 902,718 |
| TOTAL NON-CURRENT ASSETS | | 1,134,535,854 | 1,068,654,783 |
| CURRENT ASSETS | | | |
| Inventories | | 195,371,004 | 144,017,771 |
| Trade receivables | | 370,710,051 | 291,381,361 |
| Prepayments and other receivables | | 21,741,886 | 15,254,395 |
| Other current assets | 8 | 112,970,950 | 86,799,480 |
| Assets held for sale | | 234,598 | - |
| Financial asset at fair value through profit or loss | | 5,633 | 5,633 |
| Cash and cash equivalents | | 138,225,621 | 264,004,358 |
| TOTAL CURRENT ASSETS | | 839,259,743 | 801,462,998 |
| TOTAL ASSETS | | 1,973,795,597 | 1,870,117,781 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | | 500,000,000 | 500,000,000 |
| Statutory reserve | | 132,799,796 | 108,308,999 |
| Treasury shares | | - | (1,136,135) |
| Reserve for employees' share-based payments | 12 | - | 1,715,000 |
| Retained earnings | | 543,970,128 | 373,801,465 |
| Equity attributable to equity holders of parent | | 1,176,769,924 | 982,689,329 |
| Non- controlling interests | | 2,111,476 | 206,563 |
| TOTAL EQUITY | | 1,178,881,400 | 982,895,892 |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Long-term borrowings | 9 | 386,327,876 | 411,866,578 |
| Lease liabilities | 10 | 25,287,063 | 27,203,497 |
| Employee benefits | | 43,552,245 | 42,244,799 |
| TOTAL NON-CURRENT LIABILITIES | | 455,167,184 | 481,314,874 |
| CURRENT LIABILITIES | | | |
| Zakat payable | 11 | 15,307,584 | 6,752,605 |
| Long-term borrowings – current portion | 9 | 74,109,838 | 149,894,087 |
| Lease liabilities – current portion | 10 | 6,971,006 | 5,802,385 |
| Short-term borrowings | | 102,015,687 | 97,349,450 |
| Trade and other payables | | 136,382,801 | 134,836,567 |
| Other current liabilities | | 4,960,097 | 11,271,921 |
| TOTAL CURRENT LIABILITIES | | 339,747,013 | 405,907,015 |
| TOTAL LIABILITIES | | 794,914,197 | 887,221,889 |
| TOTAL EQUITY AND LIABILITIES | | 1,973,795,597 | 1,870,117,781 |


Chief Financial Officer


Chief Executive Officer


Chairman of the Board

The attached notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)

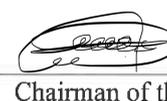
For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

| | Note | Three-month period ended 30 September | | Nine-month period ended 30 September | |
|--|------|--|--------------------|---|--------------------|
| | | 2022 | 2021 | 2022 | 2021 |
| Revenue | | 303,522,078 | 279,484,165 | 955,486,945 | 730,450,748 |
| Cost of revenue | | (181,615,723) | (163,542,492) | (529,865,537) | (483,208,312) |
| GROSS PROFIT | | 121,906,355 | 115,941,673 | 425,621,408 | 247,242,436 |
| Selling and distribution expenses | | (21,816,050) | (18,006,632) | (63,666,356) | (50,275,252) |
| General and administrative expenses | | (20,375,207) | (25,600,525) | (61,863,708) | (55,273,533) |
| Impairment losses on financial assets | | (3,969,232) | (1,041,929) | (8,809,167) | (3,034,931) |
| Fair value gain on derivative financial instruments | | - | - | - | 364,800 |
| Other (expenses) / income, net | | (7,293,391) | (1,202,823) | (14,471,369) | 3,938,038 |
| OPERATING PROFIT | | 68,452,475 | 70,089,764 | 276,810,808 | 142,961,558 |
| Finance costs | | (4,853,072) | (3,145,716) | (12,919,723) | (10,834,442) |
| PROFIT BEFORE ZAKAT | | 63,599,403 | 66,944,048 | 263,891,085 | 132,127,116 |
| Zakat expense | 11 | (8,998,593) | (1,858,569) | (17,078,205) | (6,234,462) |
| PROFIT FOR THE PERIOD | | 54,600,810 | 65,085,479 | 246,812,880 | 125,892,654 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 53,926,589 | 65,043,634 | 244,907,967 | 125,850,809 |
| Non-controlling interests | | 674,221 | 41,845 | 1,904,913 | 41,845 |
| | | <u>54,600,810</u> | <u>65,085,479</u> | <u>246,812,880</u> | <u>125,892,654</u> |
| Other comprehensive income | | | | | |
| <i>Items not to be reclassified to statement of profit or loss in subsequent periods:</i> | | | | | |
| Actuarial loss on re-measurement of employee benefit obligations | | - | - | (827,372) | (235,803) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>54,600,810</u> | <u>65,085,479</u> | <u>245,985,508</u> | <u>125,656,851</u> |
| Attributable to: | | | | | |
| Equity holders of the parent | | 53,926,589 | 65,043,634 | 244,080,595 | 125,615,006 |
| Non-controlling interests | | 674,221 | 41,845 | 1,904,913 | 41,845 |
| | | <u>54,600,810</u> | <u>65,085,479</u> | <u>245,985,508</u> | <u>125,656,851</u> |
| Earnings per share | | | | | |
| Basic and diluted, earnings per share attributable to ordinary equity holders of the parent (Saudi Riyals) | 13 | 1.08 | 1.31 | 4.90 | 2.53 |


Chief Financial Officer


Chief Executive Officer


Chairman of the Board

The attached notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

| | <i>Attributable to equity holders of the Parent</i> | | | | | <i>Total</i> | <i>Non-controlling interests</i> | <i>Total equity</i> |
|---|---|--------------------------|------------------------|--|--------------------------|---------------|----------------------------------|---------------------|
| | <i>Share capital</i> | <i>Statutory reserve</i> | <i>Treasury shares</i> | <i>Reserve for employees' share-based payments</i> | <i>Retained earnings</i> | | | |
| Balance as at 1 January 2021 (Audited) | 500,000,000 | 86,237,989 | (6,816,812) | - | 172,571,815 | 751,992,992 | - | 751,992,992 |
| Profit for the period | - | - | - | - | 125,850,809 | 125,850,809 | 41,845 | 125,892,654 |
| Other comprehensive income for the period | - | - | - | - | (235,803) | (235,803) | - | (235,803) |
| Total comprehensive income for the period | - | - | - | - | 125,615,006 | 125,615,006 | 41,845 | 125,656,851 |
| Transfer to statutory reserve | - | 12,585,081 | - | - | (12,585,081) | - | - | - |
| Additions during the period | - | - | - | 10,290,000 | - | 10,290,000 | 50,000 | 10,340,000 |
| Balance as at 30 September 2021 (Unaudited) | 500,000,000 | 98,823,070 | (6,816,812) | 10,290,000 | 285,601,740 | 887,897,998 | 91,845 | 887,989,843 |
| Balance as at 1 January 2022 (Audited) | 500,000,000 | 108,308,999 | (1,136,135) | 1,715,000 | 373,801,465 | 982,689,329 | 206,563 | 982,895,892 |
| Profit for the period | - | - | - | - | 244,907,967 | 244,907,967 | 1,904,913 | 246,812,880 |
| Other comprehensive income for the period | - | - | - | - | (827,372) | (827,372) | - | (827,372) |
| Total comprehensive income for the period | - | - | - | - | 244,080,595 | 244,080,595 | 1,904,913 | 245,985,508 |
| Transfer from treasury shares | - | - | 1,136,135 | (1,136,135) | - | - | - | - |
| Gain on employee share-based payment plan | - | - | - | (578,865) | 578,865 | - | - | - |
| Transfer to statutory reserve | - | 24,490,797 | - | - | (24,490,797) | - | - | - |
| Dividends | - | - | - | - | (50,000,000) | (50,000,000) | - | (50,000,000) |
| Balance as at 30 September 2022 (Unaudited) | 500,000,000 | 132,799,796 | - | - | 543,970,128 | 1,176,769,924 | 2,111,476 | 1,178,881,400 |


Chief Financial Officer


Chief Executive Officer


Chairman of the Board

The attached notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

| | Note | 30 September 2022 (Unaudited) | 30 September 2021 (Unaudited) |
|---|------|-------------------------------------|-------------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit before zakat | | 263,891,085 | 132,127,116 |
| <i>Adjustments to reconcile profit before zakat to net cash flows:</i> | | | |
| Depreciation and amortization | | 73,246,025 | 75,004,908 |
| Finance costs | | 12,919,723 | 10,834,442 |
| Loss/(gain) on disposal of property and equipment | | 2,008,377 | (2,136,146) |
| Allowance for impairment of trade receivables | | 8,809,167 | 3,034,931 |
| Allowance for slow moving inventories | | 750,000 | 2,250,000 |
| Provision against advances to suppliers and employees | | - | 1,649,861 |
| Employee benefits provision | | 4,889,825 | 4,395,398 |
| Employees share-based payments cost | | - | 10,290,000 |
| Fair value gain on derivative financial instruments | | - | (364,800) |
| Fair value gain on financial asset at fair value through profit or loss | | - | (12) |
| | | <u>366,514,202</u> | <u>237,085,698</u> |
| <i>Working capital adjustments:</i> | | | |
| Inventories | | (52,103,233) | 7,501,201 |
| Trade receivables | | (88,137,857) | (91,840,078) |
| Prepayments and other receivables | | (6,487,491) | (7,763,982) |
| Other current assets | | (26,171,470) | (9,964,929) |
| Trade and other payables | | 1,202,900 | 12,940,645 |
| Other current liabilities | | (6,311,824) | 2,232,438 |
| Cash generated from operations | | <u>188,505,227</u> | <u>150,190,993</u> |
| Finance costs paid | | (13,828,235) | (10,570,629) |
| Zakat paid | 11 | (8,523,226) | (4,898,220) |
| Employee benefits paid | | (4,409,751) | (5,161,341) |
| Net cash flows from operating activities | | <u>161,744,015</u> | <u>129,560,803</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (12,592,650) | (17,421,209) |
| Purchase of intangible assets | | (38,000) | (27,000) |
| Additions to capital work in progress | | (125,390,033) | (32,527,615) |
| Proceeds from disposal of property, plant and equipment | | 4,595 | 3,319,686 |
| Net cash flows used in investing activities | | <u>(138,016,088)</u> | <u>(46,656,138)</u> |
| FINANCING ACTIVITIES | | | |
| Net change in short-term borrowings | | 4,353,259 | 13,237,433 |
| Proceeds from long-term borrowings | | 204,664,946 | 78,098,223 |
| Repayments of long-term borrowings | | (306,324,211) | (157,007,524) |
| Payment of principal portion of lease liabilities | | (2,200,658) | (5,709,219) |
| Payment of other financial liability | | - | (7,485,988) |
| Dividend paid | | (50,000,000) | - |
| Net cash flows used in financing activities | | <u>(149,506,664)</u> | <u>(78,867,075)</u> |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | <u>(125,778,737)</u> | <u>4,037,590</u> |
| Cash and cash equivalents at the beginning of the period | | <u>264,004,358</u> | <u>45,455,272</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | <u>138,225,621</u> | <u>49,492,862</u> |
| MAJOR NON-CASH TRANSACTIONS | | | |
| Major non-cash transactions are reflected in note 5, 6 and 7 | | | |

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The attached notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

1 CORPORATE INFORMATION

Middle East Company for Manufacturing and Producing Paper (“MEPCO” or the “Company”) and its subsidiaries (collectively the “Group”) are engaged in production and sale of container board and industrial paper. MEPCO is a Saudi Joint Stock Company incorporated and operating in the Kingdom of Saudi Arabia. The Company also uses the name Middle East Paper Company in its business operations, agreements and trademarks including places such as Saudi Stock Exchange.

The Company obtained its Commercial Registration No. 4030131516 on 3 Rajab 1421H (corresponding to 30 September 2000). During the year 2012, the legal status of the Company converted from a limited liability company into a Saudi Closed Joint Stock Company. The Ministry of Commerce approved the conversion of the Company to a Saudi Closed Joint Stock Company by Ministerial Decision No. 44 dated 14 Safar 1433H (corresponding to 8 January 2012). The Company’s application for its initial public offering was accepted by the Capital Market Authority (CMA) on 25 Jumada I 1436H (corresponding to 16 March 2015). The Company was converted to Saudi Joint Stock Company on 14 Rajab 1436H (corresponding to 3 May 2015). The Company’s head office is located at Jeddah, P.O. Box 32913, Jeddah 21438 Kingdom of Saudi Arabia. At 30 September 2022, the Company had investments in the following subsidiaries:

| <i>Subsidiary name</i> | <i>Country of incorporation</i> | <i>Principal business activity</i> | <i>30 September</i> | <i>31 December</i> |
|---|---------------------------------|--|-------------------------------------|--------------------|
| | | | <i>2022</i> | <i>2021</i> |
| | | | <i>Effective Ownership interest</i> | |
| Waste Collection and Recycling Company Limited (“WASCO”) | Saudi Arabia | Whole and retail sales of paper, carton and plastic waste | 100% | 100% |
| Special Achievements Company Limited (“SACO”) | Saudi Arabia | Whole and retail sales of used papers, carton and plastic products | - | 100% |
| Juthor Paper Manufacturing Company formerly known Roots Paper Manufacturing Company Limited (“Juthor”) (see note b) | Saudi Arabia | Production and sales of tissue paper rolls. | 100% | 100% |
| Indirect holdings | | | | |
| Estidama Environmental Services Company LLC (“Estidama”) (see note a) | Saudi Arabia | Whole sales of wastes, scrap, and other unclassified product and waste management and treatment services | 50% | 50% |

- (a) On 18 August 2021 (corresponding to 10 Muharram 1443H), WASCO (a wholly owned subsidiary of the parent) established a subsidiary “Estidama Environmental Services Company LLC (“Estidama”) with 50:50 shareholding along with “Jeddah Development and Urban Regeneration Company” where WASCO under an arrangement established management control over Estidama. The purpose of the Estidama is the materials recovery, waste management and treatment, treatment and disposal of non-hazardous wastes, treatment activities, other waste management services and the wholesale of wastes, scrap, and other unclassified products. Estidama started its operations during September 2021 and all transactions incurred during the period has been reflected in the consolidated financial statements of WASCO and consolidated financial statements for MEPCO for the period ended 30 September 2022.
- (b) On 21 January 2021 (corresponding to 8 Jumada II 1442H), the Company has established a subsidiary namely Juthor Paper Manufacturing Company formerly known Roots Paper Manufacturing Company Limited (“Juthor”) (a one-person limited liability company) with 100% investment in paid-up share capital to implement the expansion project of tissue paper factory in the industrial valley of King Abdullah Economic City, Rabigh, Saudi Arabia. The Company obtained Commercial Registration No. 4627100069 on 29 Rabi II 1442H, (corresponding to 14 December 2020). All the transactions incurred during the year by Juthor have been reflected in these consolidated financial statements for the period ended 30 September 2022.
- (c) During November 2021, the Board had approved to initiate the liquidation process for SACO as it no longer serves any legal nor commercial purpose in the Group. On 20 July 2022, all the legal formalities for liquidation have been completed and accordingly SACO ceases to exist.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION

2.1 Statement of compliance

The interim condensed consolidated financial statements for the nine months period ended 30 September 2022 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia as well as other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA"). The Group has prepared the interim condensed consolidated financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021 (see also note 2.4).

2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention, except investment at fair value through profit or loss which are measured at fair value.

2.3 Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Riyals (SR), which is the Group's functional and presentation currency.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, were disclosed in annual consolidated financial statements for the year ended 31 December 2021. Any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods.

2.5 Significant accounting policies

The accounting policies adopted by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for accounting policies related to the new standard adopted by the Group effective as of 1 January 2022 (see Note 3).

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the Parent's consolidated financial statements, based on the Parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the interim condensed consolidated financial statements of the Group as it is not a first-time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no significant impact on the interim condensed consolidated financial statements of the Group during the period.

4 SEGMENT INFORMATION

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

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

4 SEGMENT INFORMATION (continued)

The following summary describes the operations in each of the Group's reportable segments:

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues and profit (loss) before zakat, as included in the internal management reports that are reviewed by the top management. The following table presents segment information for the three-month and nine-month periods ended 30 September 2022:

| | <i>Manufacturing</i> | <i>Trading</i> | <i>Elimination</i> | <i>Total</i> |
|--|----------------------|----------------|--------------------|--------------|
| <i>Results for the nine-month period ended 30 September 2022 (Unaudited)</i> | | | | |
| Revenues | 939,574,565 | 272,620,292 | (256,707,912) | 955,486,945 |
| External revenues | 939,574,565 | 15,912,380 | - | 955,486,945 |
| Segment profit before zakat | 256,951,610 | 18,297,868 | (11,358,393) | 263,891,085 |
| Zakat | 15,947,132 | 1,131,073 | - | 17,078,205 |
| Financial costs | 11,666,103 | 1,253,620 | - | 12,919,723 |
| Depreciation and amortization | 62,279,589 | 10,966,436 | - | 73,246,025 |
| <i>Results for the three-month period ended 30 September 2022 (Unaudited)</i> | | | | |
| Revenues | 299,035,169 | 93,217,852 | (88,730,943) | 303,522,078 |
| External revenues | 299,035,169 | 4,486,909 | - | 303,522,078 |
| Segment profit before zakat | 60,481,945 | 4,549,978 | (1,432,520) | 63,599,403 |
| Zakat | 8,703,561 | 295,032 | - | 8,998,593 |
| Financial costs | 4,460,984 | 392,088 | - | 4,853,072 |
| Depreciation and amortization | 20,603,685 | 3,856,024 | - | 24,459,709 |
| <i>Results for the nine-month period ended 30 September 2021 (Unaudited)</i> | | | | |
| Revenues | 713,504,417 | 294,777,248 | (277,830,917) | 730,450,748 |
| External revenues | 713,504,417 | 16,946,331 | - | 730,450,748 |
| Segment profit before zakat | 133,080,202 | 20,640,929 | (21,594,015) | 132,127,116 |
| Zakat | 5,686,507 | 547,955 | - | 6,234,462 |
| Finance costs | 9,833,280 | 1,001,162 | - | 10,834,442 |
| Depreciation and amortization | 65,969,888 | 9,035,020 | - | 75,004,908 |
| <i>Results for the three-month period ended 30 September 2021 (Unaudited)</i> | | | | |
| Revenues | 274,412,283 | 102,619,488 | (97,547,606) | 279,484,165 |
| External revenues | 274,412,283 | 5,071,882 | - | 279,484,165 |
| Segment profit before zakat | 67,008,536 | 7,842,330 | (7,906,818) | 66,944,048 |
| Zakat | 1,726,903 | 131,666 | - | 1,858,569 |
| Finance costs | 2,817,924 | 327,792 | - | 3,145,716 |
| Depreciation and amortization | 21,009,805 | 2,952,758 | - | 23,962,563 |

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

4 SEGMENT INFORMATION (continued)

| | <i>Manufacturing</i> | <i>Trading</i> | <i>Elimination</i> | <i>Total</i> |
|--|----------------------|----------------|--------------------|---------------|
| <i>As of 30 September 2022 (Unaudited)</i> | | | | |
| Total assets | 2,039,299,898 | 213,549,102 | (279,053,403) | 1,973,795,597 |
| Total liabilities | 742,275,305 | 125,714,758 | (73,075,866) | 794,914,197 |
| <i>As of 31 December 2021 (Audited)</i> | | | | |
| Total assets | 1,834,608,489 | 164,406,241 | (128,896,949) | 1,870,117,781 |
| Total liabilities | 826,466,081 | 93,315,234 | (32,559,426) | 887,221,889 |

The Group makes sales in local and foreign markets in Middle East, Africa, Asia and Europe. Export sales during the three-month and nine-month periods ended 30 September 2022 amounted to SR 94.6 million and SR 323.7 million, respectively (three-month and nine-month periods ended 30 September 2021: SR 89.4 million and SR 273.1 million, respectively). Local external sales in Kingdom of Saudi Arabia, during the three-month and nine-month periods ended 30 September 2022 amounted to SR 209 million and SR 631.8 million, respectively (three-month and nine-month periods ended 30 September 2021: SR 190.1 million and SR 457.3 million, respectively).

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

5 PROPERTY, PLANT AND EQUIPMENT

| | <i>Land</i> | <i>Buildings and mobile cabinets</i> | <i>Machinery and equipment</i> | <i>Furniture and office equipment</i> | <i>Motor vehicles</i> | <i>Total</i> |
|--|--------------------|--|------------------------------------|---|-----------------------|--------------------|
| At 1 January 2022 | | | | | | |
| Cost | 139,328,401 | 190,992,059 | 1,537,554,753 | 30,903,194 | 33,751,781 | 1,932,530,188 |
| Accumulated depreciation | - | (70,076,991) | (878,409,429) | (18,672,896) | (26,324,278) | (993,483,594) |
| Net book value (Audited) | <u>139,328,401</u> | <u>120,915,068</u> | <u>659,145,324</u> | <u>12,230,298</u> | <u>7,427,503</u> | <u>939,046,594</u> |
| Nine-month period ended 30 September 2022 | | | | | | |
| Opening net book value | 139,328,401 | 120,915,068 | 659,145,324 | 12,230,298 | 7,427,503 | 939,046,594 |
| Additions | 170,476 | 347,484 | 8,898,421 | 919,019 | 2,257,250 | 12,592,650 |
| Transfers | | | | | | |
| - Cost (refer note 6) | - | 2,018,978 | 6,175,854 | 1,318,070 | - | 9,512,902 |
| Disposals | | | | | | |
| - Cost | - | (2,292,649) | - | (850,707) | - | (3,143,356) |
| - Accumulated depreciation | - | 554,435 | - | 575,949 | - | 1,130,384 |
| Reclassifications to assets held for sale (refer note 5.3) | - | (220,366) | (7) | (6,319) | (7,906) | (234,598) |
| Depreciation charge | - | (5,000,195) | (58,206,402) | (2,724,478) | (1,843,903) | (67,774,978) |
| Closing net book value as at 30 September 2022 | <u>139,498,877</u> | <u>116,322,755</u> | <u>616,013,190</u> | <u>11,461,832</u> | <u>7,832,944</u> | <u>891,129,598</u> |
| At 30 September 2022 | | | | | | |
| Cost | 139,498,877 | 190,504,405 | 1,551,892,480 | 32,249,455 | 35,623,159 | 1,949,768,376 |
| Accumulated depreciation | - | (74,181,650) | (935,879,290) | (20,787,623) | (27,790,215) | (1,058,638,778) |
| Net book value (Unaudited) | <u>139,498,877</u> | <u>116,322,755</u> | <u>616,013,190</u> | <u>11,461,832</u> | <u>7,832,944</u> | <u>891,129,598</u> |

- 5.1 All land, buildings and mobile cabinets, machinery and equipment, furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first-degree pledge (note 9).
- 5.2 An amount of SR 30 million given as advance is reclassified from the opening balance to advance paid to land acquisition in other current assets. Please refer note 8 for more details.
- 5.3 During the current period ended 30 September 2022, the management decided to close one of the branches of the subsidiary in Sudan and accordingly the property, plant and equipment of that branch are represented as assets held for sale in the statement of financial position.

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

6 CAPITAL WORK-IN-PROGRESS

| | <i>30 September 2022 (Unaudited)</i> | <i>31 December 2021 (Audited)</i> |
|---|--|---|
| Opening net book value | 94,546,859 | 103,007,179 |
| Additions | 128,201,234 | 41,529,066 |
| Transfers to property, plant and equipment (refer note 5) | (9,512,902) | (49,964,613) |
| Reclass to intangible assets | - | (24,773) |
| | <u>213,235,191</u> | <u>94,546,859</u> |

Capital work-in-progress as at 30 September 2022 includes costs incurred related to the ongoing projects for plant and machinery, as well as construction of a tissue mill factory in King Abdullah Economic City, Rabigh under the wholly own subsidiary Juthor. The projects are expected to complete during the year ended 31 December 2022 and the tissue mill project is expected to be completed during first quarter 2023. Refer to note 15 for capital commitments.

During the nine-month period ended 30 September 2022, finance costs amounting to SR 2.8 million were capitalized as part of capital work-in-progress (year ended 31 December 2021: SR 1.6 million).

7 RIGHT OF USE ASSETS

| | <i>Leased Land</i> | <i>Buildings</i> | <i>Total</i> |
|---|--------------------|------------------|-------------------|
| At 1 January 2022 | | | |
| Cost | 48,028,022 | 7,069,133 | 55,097,155 |
| Accumulated depreciation | (17,037,513) | (3,901,030) | (20,938,543) |
| Net book value (Audited) | <u>30,990,509</u> | <u>3,168,103</u> | <u>34,158,612</u> |
| Nine-month period ended 30 September 2022 | | | |
| Opening net book value | 30,990,509 | 3,168,103 | 34,158,612 |
| Additions | - | 542,782 | 542,782 |
| Depreciation charge | (3,732,939) | (1,104,278) | (4,837,217) |
| Closing net book value as at 30 September 2022 | <u>27,257,570</u> | <u>2,606,607</u> | <u>29,864,177</u> |
| At 30 September 2022 | | | |
| Cost | 48,028,022 | 7,611,915 | 55,639,937 |
| Accumulated depreciation | (20,770,452) | (5,005,308) | (25,775,760) |
| Net book value (Unaudited) | <u>27,257,570</u> | <u>2,606,607</u> | <u>29,864,177</u> |

8 OTHER CURRENT ASSETS

| | <i>30 September 2022 (Unaudited)</i> | <i>31 December 2021 (Audited)</i> |
|--|--|---|
| Advances to suppliers | 60,290,097 | 34,266,165 |
| Advances paid for the acquisition of land (refer note 8 (a)) | 30,000,000 | 30,000,000 |
| Advances to suppliers – related parties | 20,050,000 | 20,050,000 |
| Receivable from Higher Institute for Paper and Industrial Technology (HIPIT) | 1,717,727 | 1,923,363 |
| Advances to employees | 4,599,900 | 4,246,726 |
| | <u>116,657,724</u> | <u>90,486,254</u> |
| Less: allowance for impairment loss on advances | (3,686,774) | (3,686,774) |
| | <u>112,970,950</u> | <u>86,799,480</u> |

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

8 (a) Advances paid for acquisition of land

During 2017, the management paid an amount of SR 30 million to acquire a land through public auction and classified it as land under property, plant and equipment account. Accordingly, the Court of appeal ruling of Makkah Region, issued a judgement to transfer this land to the name of Company. However, during 2021, received certain information that the General Prosecution has banned the use and control of the land.

During the period ended 30 September 2022, the Board has appointed a consultant to investigate and secure the land's title deed in the name of the Company. The Company's management consulted an external lawyer and is of the view that such a transfer in the name of the Company is a procedural aspect and would be completed in the near future, or otherwise the amount paid would be refunded and is recoverable.

Accordingly, the management has decided to reclassify the land from property, plant and equipment to advances paid for acquisition of land till the time the control is transferred to the Company. As a result, the amount of SR 30 million is reclassified to advances paid for acquisition of land within other current assets in the period ended 30 September 2022 along with the comparatives number for the year ended 31 December 2021.

9 LONG-TERM BORROWINGS

| | <i>30 September 2022 (Unaudited)</i> | <i>31 December 2021 (Audited)</i> |
|--|--|---|
| Saudi Industrial Development Fund ("SIDF") | 56,830,277 | 64,784,467 |
| Islamic banking facilities ("Tawarruq") | 403,607,437 | 496,976,198 |
| | <hr/> | <hr/> |
| Long-term borrowings | 460,437,714 | 561,760,665 |
| Less: current portion shown under current liabilities | (74,109,838) | (149,894,087) |
| | <hr/> | <hr/> |
| Long term borrowings shown under non-current liabilities | <u>386,327,876</u> | <u>411,866,578</u> |

- (a) The Company signed a loan agreement with SIDF amounting to SR 124.7 million in 2013 to finance the construction of manufacturing facilities. This loan was fully utilized as at 31 December 2017. The loan is repayable in unequal semi-annual instalments up to March 2022. The loan has been paid entirely in the period ended 30 June 2022 ie the previous quarter.

During 2020, the Company had obtained new facility from SIDF amounting Saudi Riyals 55 million (2021: Saudi Riyals 55 million) to finance the construction of manufacturing facilities. The loan is repayable in unequal semi-annual instalments up to February 2025.

During 2021, the Company had obtained new facility from SIDF for the tissue paper factory amounting Saudi Riyals 150 million to finance the construction of manufacturing facilities. An amount of SR 20.9 million was utilized by the Group for the current period ended 30 September 2022 (2021: Nil).

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

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

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans. These loans are repayable up to the year 2027.

During the period ended 30 September, 2022, as part of the Group's plan to optimize its debt-equity structure and consolidate its loan facilities the Group has utilized loan proceeds received on 29 December 2021 to early settle existing long-term loans from other commercial banks.

The above loans and facilities include certain covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank any breach or probable breach immediately. The Company is in compliance with all its related covenants as of 30 September 2022.

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

10 LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

| | <i>30 September 2022 (Unaudited)</i> | <i>31 December 2021 (Audited)</i> |
|---------------------------------------|--|---|
| At the beginning of the period / year | 33,005,882 | 39,989,886 |
| Additions | 542,783 | 2,495,122 |
| Remeasurement | - | 68,173 |
| Accretion of interest | 910,063 | 1,385,591 |
| Payments | (2,200,659) | (10,932,890) |
| At the end of the period / year | <u>32,258,069</u> | <u>33,005,882</u> |

The scheduled maturities of the lease liabilities as at period ended 30 September 2022 are as follows:

| | <i>Principal amount</i> | <i>Interest</i> | <i>Net lease liabilities</i> |
|---------------------|-----------------------------|---------------------------|----------------------------------|
| Current portion | 8,047,374 | (1,076,368) | 6,971,006 |
| Non-current portion | 27,816,309 | (2,529,246) | 25,287,063 |
| | <u>35,863,683</u> | <u>(3,605,614)</u> | <u>32,258,069</u> |

The scheduled maturities of the lease liabilities as at period ended 31 December 2021 are as follows:

| | <i>Principal amount</i> | <i>Interest</i> | <i>Net lease liabilities</i> |
|---------------------|-----------------------------|---------------------------|----------------------------------|
| Current portion | 6,968,597 | (1,166,212) | 5,802,385 |
| Non-current portion | 30,240,067 | (3,036,570) | 27,203,497 |
| | <u>37,208,664</u> | <u>(4,202,782)</u> | <u>33,005,882</u> |

11 ZAKAT

11.1 Components of zakat base

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

11.2 Provision for zakat

| | <i>30 September 2022 (Unaudited)</i> | <i>31 December 2021 (Audited)</i> |
|---|--|---|
| At the beginning of the period/year | 6,752,605 | 4,693,350 |
| Provisions | | |
| - Provision for the current period / year | 12,314,922 | 6,752,605 |
| - Adjustment related to prior years | 4,763,283 | 204,870 |
| Payments | (8,523,226) | (4,898,220) |
| At the end of the period / year | <u>15,307,584</u> | <u>6,752,605</u> |

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

11 ZAKAT (continued)

11.3 Status of assessments (continued)

The zakat assessments of the Group are finalized for the years through 31 December 2008.

During 2019, The Company received revised assessments for the years 2009 to 2012, where the Zakat, Tax and Customs Authority ("ZATCA") claimed SR 6.83 million. The Company escalated its objection to the General Secretariat for Tax Committees ("GSTC"), where the Tax Violation and Disputes Resolution Committee ("TVDRC") recently issued its decision in favor of the Company, reducing SR 6.3 million from the original amount. Subsequently, on 16 October 2022, ZATCA raised an appeal to the Tax Violation & Disputes Appeal Committee ("TVDAC") against the TVDRC's decision. The Company is currently preparing their reply memo against ZATCA's appeal, before the deadline of 20 December 2022. Management believes that TVDAC's decision will be in favor of the Company, in-line with the decision issued by the TVDRC.

During July 2020, the ZATCA has issued an assessment for the year 2014, without any additional claim on zakat. During December 2020, the ZATCA issued an assessment for the years ended 31 December 2015 to 2018 claiming SR 30 million in additional Zakat. The Company objected against these assessments, however it was subsequently rejected by ZATCA. The Company escalated its objection to GSTC. During 2022, TVDRC rejected the Company's objection in Form, however the Company escalated the case to the Tax Violation & Disputes Appeal Committee ("TVDAC"). Management believes that the ultimate outcome of the case will not result in any material additional liability to the Company. During 2021, ZATCA issued its assessment for the years 2019 & 2020, claiming additional zakat of SR 3.6 million. The company objected against ZATCA's claim, and subsequently ZATCA revised its claim to be only SR 1.6 for both years. The Company settled the revised claimed amount to clear these years with ZATCA. The zakat declarations of the Company for the years 2013 to 2021 are filed with the ZATCA and unrestricted zakat certificates have been obtained till 30 April 2023.

During July 2021, WASCO received the assessment for the years 2016 and 2017 where ZATCA claimed additional Zakat of SR 1.39 million and SR 0.169 million respectively. WASCO objected against these assessments, however ZATCA rejected the objection and accordingly WASCO escalated its objection to the GSTC to be heard in-front of the TVDRC. On 18 September 2022, the TVDRC issued their decision in favor of ZATCA. Accordingly, subsequently on 18 October 2022, the Company raised an appeal against TVDRC's decision. The zakat declarations of WASCO for the years 2018 to 2021 are currently under review by ZATCA and unrestricted zakat certificates have been obtained till 30 April 2023. Juthor and Estidama has filed the zakat declaration first time in 2022. SACO commercial registration has been closed and there are no ongoing assessment in these regards.

12 EQUITY SETTLED EMPLOYEE SHARE-BASED PAYMENTS PLAN

During 2021, the Group's Board of Directors approved the equity settled share-based payments plan for the employees (including some key management personnel) working in operational departments of Group on completion of 3 years' vesting period ended on 1 January 2021 with a grant date of 1 July 2021. The Company had already purchased 300,000 equity shares at cost of SR 6,816,812 during 2018 for the purposes of this plan and recorded the shares as treasury shares in equity. The Group accordingly recognised the employees' service cost amounting to SR 10.29 million in statement of profit and loss and created a reserve for employee share-based payments plan in equity. The Company has transferred all of the entitled shares to respective employees as of the period ended 30 September 2022. Accordingly, the Company only proportionately recognized the realized gain for the period ended 30 September 2022 amounting SR 578,865 on employees' equity settled shared based payment plan asset as the difference between cost of purchase of treasury shares and fair value at grant date in retained earnings.

13 EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

| | <i>Three-month period ended</i> | | <i>Nine-month period ended</i> | |
|---|---------------------------------|------------------------------|--------------------------------|------------------------------|
| | <i>30 September 2022</i> | <i>30 September 2021</i> | <i>30 September 2022</i> | <i>30 September 2021</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Net profit attributable to owners of the Company | 53,926,589 | 65,043,634 | 244,907,967 | 125,850,809 |
| Weighted average number of shares | 50,000,000 | 49,700,000 | 49,995,221 | 49,700,000 |
| Basic and diluted earnings per share (SR per share) | 1.08 | 1.31 | 4.90 | 2.53 |

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

14 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The management assessed that the fair value of cash and cash equivalents, trade and other receivables. Short-term borrowings and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Group fair values investment at fair value through profit or loss. The fair value of investment at fair value through profit or loss is based on the net asset value communicated by the fund manager. The fair values under Level 2 were as follows:

| | <i>30 September 2022</i> | <i>31 December 2021</i> |
|---|------------------------------|-----------------------------|
| Level 2 | | |
| Investment at fair value through profit or loss | 5,633 | 5,633 |

During the nine-month period ended 30 September 2022 and year ended 31 December 2021, there were no movements between the levels.

15 CONTINGENCIES AND COMMITMENTS

- (a) As at 30 September 2022, the Group had letters of credit amounting to SR 116.7 million (31 December 2021: SR 127.83 million) and letters of guarantee amounting to SR 1.6 million (31 December 2021: SR 1.86 million) that were issued in the normal course of the business.
- (b) The capital expenditure contracted by the Group but not incurred till 30 September 2022 was approximately SR 212 million (31 December 2021: SR 166.6 million).

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

16 RELATED PARTY TRANSACTIONS AND BALANCES

16.1 Key management compensation

Compensation for key management is as follows:

| | <i>Three-month period ended</i> | | <i>Nine-month period ended</i> | |
|--------------------------|---------------------------------|---------------------|--------------------------------|---------------------|
| | <i>30 September</i> | <i>30 September</i> | <i>30 September</i> | <i>30 September</i> |
| | <i>2022</i> | <i>2021</i> | <i>2022</i> | <i>2021</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Short term benefits | 8,119,089 | 7,678,689 | 18,501,369 | 15,012,087 |
| Post-employment benefits | 128,138 | 94,500 | 217,007 | 207,900 |
| Termination benefits | 325,971 | 201,618 | 590,364 | 526,221 |
| | 8,573,198 | 7,974,807 | 19,308,740 | 15,746,208 |

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan.

16.2 Related party transactions

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

| <i>Related party</i> | <i>Description of transaction</i> | <i>Relationship</i> | <i>Three-month period ended</i> | | <i>Nine-month period ended</i> | |
|---|-----------------------------------|--|---------------------------------|---------------------|--------------------------------|---------------------|
| | | | <i>30 September</i> | <i>30 September</i> | <i>30 September</i> | <i>30 September</i> |
| | | | <i>2022</i> | <i>2021</i> | <i>2022</i> | <i>2021</i> |
| | | | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Directors | Directors' remuneration | Directors | 699,269 | 659,562 | 2,186,615 | 1,978,317 |
| Arabian Maize Company for Industry (formerly "Al Masirah International Industrial Investments Company") | Purchase of materials | Company of chairman board of directors | 8,613,097 | 7,191,508 | 28,436,826 | 15,174,621 |

16.3 Related party balances

Significant due from/(to) balances with related parties are summarized below:

| | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
| | <i>2022</i> | <i>2021</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Jeddah Development and Urban Regeneration Company | 20,050,000 | 20,050,000 |
| Advances to key management personnel | 323,751 | 151,940 |
| Accrued directors' remuneration | (2,103,767) | (1,077,569) |
| Arabian Maize Company for Industry | (5,658,690) | (4,885,290) |

**MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three-month and nine-month periods ended 30 September 2022

(Expressed in Saudi Riyals unless otherwise stated)

17 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current period. These changes have been made to improve the quality of information presented. Such reclassification changes do not affect previously reported profit or equity of the Group.

18 SHARE CAPITAL

On 14 August 2022, the Board proposed to increase the share capital by 33% through issue of 1:3 bonus shares. The bonus shares will be issued by utilizing the retained earnings available after receiving approval by the shareholders in the General Assembly meeting. The revised share capital after the bonus shares issuance will increase to SR 666.66 million.

19 DIVIDENDS

On 14 March 2022, the Board proposed a final dividend for the financial year ended 31 December 2021 amounting to SR 50 million (SR1.00 per share). The Annual General Assembly in its meeting held on 13 June 2022 approved the cash dividends of SR 50 million and was paid in the period ended 30 June 2022. The Annual General Assembly also authorized Board of Directors to distribute interim dividends for the year ending 31 December 2022.

Subsequent to the period ended 30 September 2022, the Board passed a resolution on 8 October 2022, for declaring an interim dividend amounting to SR 25 million (SR 0.5 per share).

20 AUTHORISATION OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on 7 Rabi Al-Thani 1444H (corresponding to 1 November 2022G).