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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2023

MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

Building a better working world

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 REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Middle East Company for Manufacturing and Producing Paper and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are 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 International Code of Ethics for Professional Accountants (including International Independence Standards), that is endorsed in the Kingdom of Saudi Arabia, that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Allowance for expected credit losses As at 31 December 2023, the gross trade receivables amounted to 289 million (2022: SR 329 million), against which an allowance for expected credit losses of SR 22 million (2022: SR 31 million) was maintained. The Group assesses at each reporting date whether trade receivables carried at amortized cost are credit impaired. The management determines and recognizes expected credit losses ('ECL') as required by International Financial Reporting Standard 9 (Financial Instruments) ('IFRS 9'). Significant judgments, estimates and assumptions have been made by the management in the calculation of ECL impact. We have considered this as a key audit matter as the determination of ECL involves significant management judgement and assumptions, including future macro-economic factors and the study of historical trends. Refer to note 3.7 to the consolidated financial statements for the accounting policy, note 2.6 for the material accounting judgements and estimates and note 11 for the disclosure of movement in allowance for impairment of trade receivables.	Our audit procedures performed included, among others, the following: ➢ Evaluated the Group's accounting policy for ECL allowance in accordance with the requirement of IFRS 9. ➢ Obtained an understanding of management's assessment of the impairment of trade receivables and allowance for expected credit losses. ➢ Involved our internal specialist to assess the reasonableness of significant judgements, estimates and assumptions made by the management related to the Group's assessment of the probability of default, incorporation of forward-looking information and the loss given default parameter used in ECL model. ➢ Tested the accuracy of trade receivables ageing generated by the accounting system which is used in the preparation of ECL model as at 31 December 2023. ➢ Tested the arithmetical accuracy of the ECL model. ➢ Assessed the adequacy and appropriateness of the related disclosures in the accompanying consolidated financial statements.
Allowance for slow moving inventories As at 31 December 2023, the Group had inventories amounting to SR 185 million (2022: SR 219 million) and related provision for slow moving and obsolete inventories amounting to SR 10 million (2022: SR 6 million). These inventories comprise raw materials, work in progress, finished goods, consumable spare parts and goods-in-transit.	Our audit procedures performed included, among others, the following: ➢ Evaluated the Group's accounting policy for identifying the slow-moving and obsolete inventories. ➢ Obtained an understanding of management's process for assessment of allowance for inventories.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Allowance for slow moving inventories (continued) Group adopted the policy of providing provision for inventories identified as obsolete or slow-moving which are not expected to be sold / used in the normal business cycle and when there is evidence of deterioration in the physical condition, technological changes and/or no movements in the specific period. We considered this as a key audit matter because establishing a provision for slow-moving, obsolete and damaged inventories involves significant management judgement in respect of factors such as identifying those slow moving, dormant and obsolete, and assessing their future use and respective allowance. The gross inventories and related provision are material to the consolidated financial statements. Refer to note 3.4 to the consolidated financial statements for the accounting policy relating to the inventories, note 2.6 for the material accounting judgements and estimates and note 10.1 for the disclosure of movement in provision for slow moving and obsolete inventories.	➢ We attended stock counts at the year-end to observe the Group's application of procedures for identifying obsolete inventory. ➢ Tested, on sample basis, the underlying data related to damaged and obsolete inventories by category included in the allowance calculation. ➢ Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

Other information included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 annual report, other than the consolidated financial statements and our auditor's report thereon. The Management is responsible for the other information in its annual report. The Group's 2023 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 will 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 identified above 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 Group's 2023 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and Parent Company's By-laws, and for such internal control as the Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

In preparing the consolidated financial statements, the 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 the Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 International Standards on Auditing that are 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 International Standards on Auditing that are 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 the Management.

- Conclude on the appropriateness of the 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 Group'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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MIDDLE EAST COMPANY FOR MANUFACTURING AND PRODUCING PAPER (A SAUDI JOINT STOCK COMPANY) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

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, actions taken to eliminate threats or safeguards applied.

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 period 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.

for Ernst & Young Professional Services

Ahmed Ibrahim Reda
Certified Public Accountant
License No. 356

J14
EY
سجل تجاري ٤٠٣٠٢٧٦٦٤٤
CR.4030276644
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

Jeddah: 21 Ramadhan 1445H
31 March 2024G

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Expressed in Saudi Riyals unless otherwise stated)

	Notes	***31 December 2023***	*31 December 2022*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	**1,111,782,224**	871,799,672
Capital work in progress	6	**171,234,329**	233,703,635
Right-of-use assets	8	**27,763,340**	28,660,645
Intangible assets	9	**324,848**	267,692
TOTAL NON-CURRENT ASSETS		**1,311,104,741**	1,134,431,644
CURRENT ASSETS			
Inventories	10	**175,697,378**	212,777,017
Trade receivables	11	**266,336,680**	297,736,735
Capital project advances	7	**2,282,335**	47,715,916
Prepayments and other receivables	12	**8,189,154**	14,590,045
Other current assets	13	**110,768,636**	94,011,302
Financial asset at fair value through profit or loss	14	**5,633**	5,633
Cash and cash equivalents	15	**56,549,393**	145,246,081
TOTAL CURRENT ASSETS		**619,829,209**	812,082,729
TOTAL ASSETS		**1,930,933,950**	1,946,514,373
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	**666,666,660**	666,666,660
Statutory reserve	18	**135,278,852**	135,278,852
Reserve for employees' share-based payments	19	**10,500,000**	7,860,000
Retained earnings		**261,845,302**	371,242,769
Equity attributable to equity holders of parent		**1,074,290,814**	1,181,048,281
Non- controlling interests		**(6,087,404)**	1,237,841
TOTAL EQUITY		**1,068,203,410**	1,182,286,122
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term borrowings	20	**350,204,502**	411,327,423
Lease liabilities	21	**16,612,745**	21,999,430
Employee benefits	22	**48,808,117**	48,014,426
TOTAL NON-CURRENT LIABILITIES		**415,625,364**	481,341,279
CURRENT LIABILITIES			
Lease liabilities – current portion	21	**8,292,816**	7,430,410
Long-term borrowings – current portion	20	**114,556,914**	99,828,007
Short-term borrowings	24	**109,908,824**	33,564,696
Trade and other payables	25	**189,202,705**	123,950,413
Other current liabilities	26	**15,415,337**	4,726,875
Zakat payable	23.2	**9,728,580**	13,386,571
TOTAL CURRENT LIABILITIES		**447,105,176**	282,886,972
TOTAL LIABILITIES		**862,730,540**	764,228,251
TOTAL EQUITY AND LIABILITIES		**1,930,933,950**	1,946,514,373

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023
(Expressed in Saudi Riyals unless otherwise stated)

	Notes	***2023***	*2022*
Revenue	4	**866,752,771**	1,187,005,798
Cost of revenue	27	**(781,756,682)**	(684,219,701)
GROSS PROFIT		**84,996,089**	502,786,097
Selling and distribution expenses	28	**(61,606,662)**	(85,829,922)
General and administrative expenses	29	**(90,042,886)**	(93,542,482)
Reversal / (impairment) losses on financial assets	11	**6,657,591**	(16,283,851)
Other operating income/(expenses) - net	30	**8,761,401**	(2,835,459)
OPERATING (LOSS) / PROFIT		**(51,234,467)**	304,294,383
Finance costs	31	**(26,524,499)**	(18,483,106)
(LOSS) / PROFIT BEFORE ZAKAT		**(77,758,966)**	285,811,277
Zakat expense	23.2	**(9,878,531)**	(15,081,467)
(LOSS) / PROFIT FOR THE YEAR		**(87,637,497)**	270,729,810
Attributable to:			
Equity holders of the parent		**(80,269,141)**	269,698,532
Non-controlling interests		**(7,368,356)**	1,031,278
		(87,637,497)	270,729,810
OTHER COMPREHENSIVE INCOME / (LOSS):			
Items that will not be reclassified to statement of profit or loss:			
Actuarial gain / (loss) on re-measurement of employee benefit obligations	22	**4,248,118**	(4,199,580)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(83,389,379)**	266,530,230
Attributable to:			
Equity holders of the parent		**(76,064,134)**	265,498,952
Non-controlling interests		**(7,325,245)**	1,031,278
		(83,389,379)	266,530,230
(LOSS) / EARNINGS PER SHARE:			
(Loss) / Earnings per share attributable to ordinary equity holders of the Parent (SR)			
Basic and diluted	32	**(1.20)**	4.05

Chief Financial Officer | Chief Executive Officer | Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023
(Expressed in Saudi Riyals unless otherwise stated)

		Attributable to equity holders of the Parent							
	Notes	*Share capital*	*Statutory reserve*	*Treasury shares*	*Reserve for employees' share-based payments*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 1 January 2022		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 year		-	-	-	-	269,698,532	269,698,532	1,031,278	270,729,810
Other comprehensive loss for the year		-	-	-	-	(4,199,580)	(4,199,580)	-	(4,199,580)
Total comprehensive income for the year		-	-	-	-	265,498,952	265,498,952	1,031,278	266,530,230
Transfer to statutory reserve	18	-	26,969,853	-	-	(26,969,853)	-	-	-
Bonus issue	16	166,666,660	-	-	-	(166,666,660)	-	-	-
Additions during the year		-	-	-	7,860,000	-	7,860,000	-	7,860,000
Transfer from treasury shares		-	-	1,136,135	(1,136,135)	-	-	-	-
Gain on employee share-based payment plan		-	-	-	(578,865)	578,865	-	-	-
Dividends		-	-	-	-	(75,000,000)	(75,000,000)	-	(75,000,000)
Balance as at 31 December 2022		666,666,660	135,278,852	-	7,860,000	371,242,769	1,181,048,281	1,237,841	1,182,286,122
Loss for the year		-	-	-	-	**(80,269,141)**	**(80,269,141)**	**(7,368,356)**	**(87,637,497)**
Other comprehensive income for the year		-	-	-	-	**4,205,007**	**4,205,007**	**43,111**	**4,248,118**
Total comprehensive loss for the year		-	-	-	-	**(76,064,134)**	**(76,064,134)**	**(7,325,245)**	**(83,389,379)**
Addition during the year		-	-	-	**2,640,000**	-	**2,640,000**	-	**2,640,000**
Dividends	17	-	-	-	-	**(33,333,333)**	**(33,333,333)**	-	**(33,333,333)**
Balance as at 31 December 2023		**666,666,660**	**135,278,852**	-	**10,500,000**	**261,845,302**	**1,074,290,814**	**(6,087,404)**	**1,068,203,410**

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023
(Expressed in Saudi Riyals unless otherwise stated)

	Notes	*2023*	*2022*
OPERATING ACTIVITIES			
(Loss) / profit before zakat		**(77,758,966)**	285,811,277
Adjustment to reconcile (loss) / profit before zakat to net cash flows:			
Depreciation and amortization	5,8,9	**103,128,427**	100,368,813
Finance costs	31	**26,524,499**	18,483,106
Loss on disposal of property, plant and equipment	30	**412,321**	1,966,544
Impairment loss on property, plant and equipment	30	**2,155,875**	432,450
(Reversal) / allowance for impairment of trade receivables	11	**(6,657,591)**	16,283,851
Allowance / (reversal) for slow moving inventories	10.1	**4,440,268**	(1,208,641)
Provision against advances to suppliers and employees	13(d)	**208,582**	-
Employee benefits provision	22	**7,806,146**	7,007,279
Employee share-based payment cost		**2,640,000**	7,860,000
		62,899,561	437,004,679
Working capital changes:			
Decrease / (increase) in inventories		**32,639,371**	(67,550,605)
Decrease / (increase) in trade receivables		**38,057,646**	(22,639,225)
Decrease in prepayments and other receivables		**6,400,891**	2,764,350
Increase in other current assets		**(16,965,916)**	(7,211,822)
Decrease / (increase) in capital project advances		**45,433,581**	(47,715,916)
Increase / (decrease) in trade and other payables		**65,252,292**	(10,886,154)
Increase / (decrease) in other current liabilities		**10,688,462**	(6,545,046)
Cash generated from operations		**244,405,888**	277,220,261
Finance costs paid		**(28,978,448)**	(24,660,588)
Zakat paid	23.2	**(13,536,522)**	(8,447,501)
Employee benefits paid	22	**(2,764,337)**	(5,437,232)
Net cash flows from operating activities		**199,126,581**	238,674,940
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	5 & 9	**(35,700,620)**	(21,246,254)
Additions to capital work in progress		**(234,516,050)**	(144,466,532)
Proceeds on disposal of property, plant and equipment		**159,058**	409,229
Net cash flows used in investing activities		**(270,057,612)**	(165,303,557)
FINANCING ACTIVITIES			
Net change in short-term borrowings		**74,446,677**	(63,684,296)
Proceeds from long-term borrowings	20	**45,000,000**	258,778,846
Repayments of long-term borrowings	20	**(91,963,608)**	(306,324,210)
Payment of principal portion of lease liabilities	21	**(11,915,393)**	(5,900,000)
Dividends	17	**(33,333,333)**	(75,000,000)
Net cash flows used in financing activities		**(17,765,657)**	(192,129,660)
Net decrease in cash and cash equivalents		**(88,696,688)**	(118,758,277)
Cash and cash equivalents at the beginning of year		**145,246,081**	264,004,358
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	15	**56,549,393**	145,246,081

Chief Financial Officer | Chief Executive Officer | Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2023
(Expressed in Saudi Riyals unless otherwise stated)

	2023	*2022*
MAJOR NON-CASH TRANSACTIONS		
Finance charges capitalized in capital work in progress	**5,924,868**	4,203,146
Amortization of deferred finance charges in finance charges	**857,344**	1,243,265
Transfers to property, plant and equipment	**(302,773,674)**	(9,512,902)
Transfers to intangible assets	**(136,550)**	-
Non-cash addition in right to use assets	**6,387,240**	1,137,966

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

(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 the production and sale of container board, industrial paper and tissue 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 was converted to Saudi Joint Stock Company on 14 Rajab 1436H (3 May 2015). The Company's office is located at Jeddah, P.O. Box 22523, Jeddah 6272, As-Sororyah Distt, Kingdom of Saudi Arabia.

The Company had investments in the following subsidiaries (collectively referred to as "Group"):

Subsidiary name	*Country of incorporation*	*Principal business activity*	***31 December 2023***	*31 December 2022*
			Effective ownership interest	
Direct holdings				
Waste Collection and Recycling Company Limited ("WASCO")	Saudi Arabia	Whole and retail sales of paper, carton and plastic waste	**100%**	100%
Juthor Paper Manufacturing Company formerly known Roots Paper Manufacturing Company Limited ("Juthor")	Saudi Arabia	Production and sales of tissue paper rolls.	**100%**	100%
Indirect holdings				
Estidama Environmental Services Company LLC ("Estidama")	Saudi Arabia	Whole sales of wastes, scrap, and other unclassified product and waste management and treatment services	**50%**	50%
Saudi- Jordanian Waste Collection and Recycling Company ("Saudi-Jordanian WASCO")	Jordan	Recycle and collect carton waste, manufacture, import and export carton. Retail trade in paper and carton. Own movable and immovable funds to implement the company's objectives.	**100%**	100%

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444 H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The shareholders approved the amended Articles of by-laws in their Extraordinary General Assembly meeting held on 28th December 2023. Subsequently, the management has amended its bylaws to align the Articles to the provisions of the Law.

2.2 Basis of measurement

These consolidated financial statements are prepared under the historical cost convention, except for investment at fair value through profit or loss which are measured at fair value. For employees' defined benefit obligations, actuarial present value calculations are used.

2. BASIS OF PREPARATION (continued)

2.3 Functional and presentation currency

These consolidated financial statements of the Group are presented in Saudi Riyals ("SR") which is the functional and presentation currency of the Group.

2.4 New standards, interpretation and amendments standards adopted

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts
IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts; IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard had no impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8
The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12
The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date

The amendments had no impact on the Group's consolidated financial statements as the Group is not in scope for income tax.

2. BASIS OF PREPARATION (continued)

2.5 Standards and interpretations issued but not yet applied by the Group

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback
In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7
In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments:
Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

2. BASIS OF PREPARATION (continued)

2.6 Material accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and accompanying disclosures and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Other disclosure relating to the Group's exposure to risks and uncertainties includes:
- Capital management (note 37)
- Financial risk management (note 36)
- Sensitivity analyses disclosures (note 22)

2.6.1 Judgements

Determining the lease term of contracts with renewal and termination options – Group as lessee
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 lease contract 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 (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

Going concern
The Group exercises judgement in assessing its ability to continue as a going concern. The management has assessed the ability of the Group to continue as a going concern based on its existing liquidity position and cash flow projections, and is not aware of any material uncertainties that may cast significant doubt and the management is satisfied that the Group has the resources to continue and meet its obligations as they fall due in the ordinary course of business in the foreseeable future. Therefore, the consolidated financial statements of the Group continue to be prepared on the going concern basis.

Determining the timing of gain recognition on the sale of non-current assets
The Group has evaluated the timing of revenue recognition on the sale of non-current assets based on a careful analysis of the rights and obligations under the terms of the contract and legal advice from the Group's external counsels in various jurisdictions.

The Group has generally concluded that contracts relating to the sale of completed non-current assets are recognised at a point in time when control transfers. For unconditional exchanges of contracts, control is generally expected to transfer to the customer together with the legal title. For conditional exchanges, this is expected to take place when all the significant conditions are satisfied.

Zakat
The determination for zakat provision involves material management judgement that involves calculation of the zakat base and zakatable profits in accordance with the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia, which may be subject to different interpretations. The final assessment amount could be significantly different from the declarations and appeals filed by the Company. In determining the amount payable to Zakat, Tax and Customs Authority ("ZATCA"), the Group has applied their judgement and interpretation of the ZATCA requirements for calculating Zakat.

2. BASIS OF PREPARATION (continued)

2.6 MATERIAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.6.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a material risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. To determine a recoverable amount, the management uses fair value using market approach and value in use approach.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 22.

Useful lives and residual value of property and equipment and intangibles assets
The Group's management determines the estimated useful lives of its property and equipment and intangibles assets for calculating depreciation and amortization. These estimates are determined after considering the expected usage of the assets and their physical wear and tear and technical obsolescence. Management periodically reviews the useful lives, residual value, depreciation and amortization method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Impairment for expected credit losses (ECL) in trade receivables
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The Group's determination of ECL in trade receivables requires the Group to take into consideration certain estimates for forward-looking factors while calculating the probability of default. These estimates may differ from actual circumstances.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Group has identified GDP growth rate to be the most relevant macro-economic factor of forward-looking information that would impact the credit risk of the customers, and accordingly adjusted the historical loss rates based on expected changes in this factor using different scenarios. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a material estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 11.

2. BASIS OF PREPARATION (continued)

2.6 MATERIAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

2.6.2 Estimates and assumptions (continued)

Employees' terminal benefits plan

The cost of the employees' terminal benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each year end. The most sensitive parameters are discount rate and future salary increases. In determining the appropriate discount rate, the management considers the market yield on high quality corporate/government bonds. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market.

The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Further details about employee benefits obligations are provided in note 22.

Leases - Estimating the incremental borrowing rate

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 (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Allowance for inventory obsolescence

The Group determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales or use. The Group provides an amount as an allowance for obsolete and slow-moving inventories on a monthly basis and reassesses the closing balance at each reporting date based on the result of a physical count and the outcome of the periodic inspections of inventory undertaken by its technical team. The estimate of the Group's allowance for inventory obsolescence could change from period to period, which could be due to differing remaining useful life, change in technology, possible change in usage, their expiry, sales expectation and other qualitative factors of the portfolio of inventory from year to year.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies adopted by the Group for the preparation of these consolidated financial statements are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for accounting policies related to the new standard adopted by the Group effective as of 1 January 2023 (see note 2.4).

In addition, the Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. Although the amendments did not result in any changes to the accounting policy themselves, they impacted the accounting policy information disclosed in certain instances.

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:
i) the Group has power over the entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.1 Basis of consolidation (continued)

(a) Subsidiaries (continued)

The Group re-assesses 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. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of profit or loss and other comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

(b) Eliminations on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(c) Change in ownership

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.2 Current versus non-current classification

Assets
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting year; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year.

All other assets are classified as non-current.

Liabilities
A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting year; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year.

The Group classifies all other liabilities as non-current.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.3 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes purchase price 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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment are recognised net within other income in profit or loss.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and capital work in progress are not depreciated.

The estimated useful lives for the current and comparative years are as follows:

	Years
• Buildings and mobile cabinets	6 – 33
• Machinery and equipment	2 – 30
• Furniture and office equipment	5 – 20
• Motor vehicles	4 – 5

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively, if required. For discussion on impairment assessment of property, plant and equipment, please refer note 3.9.

(d) Capital work in progress

Assets in the course of construction are capitalised in the capital work-in-progress account. The asset under construction is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management.

The cost of an item of capital work-in-progress comprises its purchase price, construction / development cost and any other directly attributable to the construction or acquisition of an item intended by management.

Borrowing costs related to qualifying assets are capitalised as part of the cost of the qualified assets until the commencement of commercial production. Capital work-in-progress is measured at cost less any recognised impairment.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Inventories

Raw materials and spares, work in progress and finished goods are measured at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

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

3.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other highly liquid investments with original maturities of three months or less from the date of acquisition.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary assets measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e. the translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

<u>Classification</u>

On initial recognition, a financial asset is classified in the following categories:
- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – debt instrument;
- subsequently measured at fair value through other comprehensive income ("FVOCI") – equity instrument; or
- subsequently measured at fair value through profit or loss ("FVPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.7 Financial instruments (continued)

(i) Financial assets (continued)

(a) Measurement

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Debt instruments subsequently measured at amortised cost

This category is the most relevant to the Group. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss. This category generally applies to trade and other receivables, cash and cash equivalents, security deposits, advances to employees.

Instruments subsequently measured at fair value

For this category, if applicable, such financial assets are subsequently measured at fair value at the end of each reporting period, with all changes recognised either in profit or loss for equity instruments classified as FVPL, or within other comprehensive income for equity instruments classified as FVOCI.

(b) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.7 Financial instruments (continued)

(i) Financial assets (continued)

(c) Impairment

The Group applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets that are debt instruments, and are measured at amortised cost (e.g. deposits, trade and other receivables and bank balances). The Group follows 'simplified approach' for recognition of impairment loss allowance on trade receivables, if they do not contain a significant financing component.

The application of a simplified approach does not require the Group to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECL at each reporting date, right from its initial recognition. Lifetime ECL is the expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The Group uses a provision matrix in the calculation of the ECL on financial assets to estimate the lifetime expected credit losses, applying certain provision rates to respective contractual past due ageing buckets. The provision matrix was developed considering probability of default and loss given default which were derived from historical data of the Group and are adjusted to reflect the expected future outcome.

ECL impairment loss allowance or reversal recognised during the period is recognised as income/ expense in profit or loss.

(ii) Financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group classifies non-derivative financial liabilities as 'financial liabilities at amortized cost'. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the EIR method.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.8 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of consolidated statement of profit or loss and other over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on present value. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3.9 Impairment of non-financial assets

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.10 Employee benefits

The Group operates a single post-employment benefit scheme of defined benefit plan, driven by the Labor Laws and Workman Laws of the Kingdom of Saudi Arabia, which is based on most recent salary and number of service years. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labor Law of Saudi Arabia.

The Group's obligation under employee end of service benefit plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in consolidated statement of profit or loss and other. The Group determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.12 Revenue

Revenue comprises of sales to customers and is measured based on the considerations specified in contracts with customers and excludes rebates and amounts, if any, collected on behalf of third parties. Certain customers are eligible for volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract. Revenue is recognised, when (or as) the Group satisfies the performance obligations as specified in the contract with the customer (buyer), when the seller has transferred to the customer control over the promised goods and services:

- at a point in time

The Group recognises revenue from the sale of the following goods directly to the customers:

- Sale of container board and industrial paper
- Whole and retail sales of paper, carton and plastic waste

The timing and measurement of revenue recognition for the above-mentioned main source of revenue is stated below:

<u>*Sale of goods directly to the customers*</u>
Revenue is recognised when a customer obtains control of the goods or services (i.e. when it has the ability to direct the use of and obtain benefits from the goods or services). Customers obtain control when goods are delivered to and have been accepted by the customers as per the applicable delivery terms, and accordingly, revenue is recognised at that point-in-time. This is normally happening in the case of the domestic sales for the Group.

Invoices are usually payable within the credit period agreed with the customer which may vary from one customer to another. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.12 Revenue (continued)

The Group sells a significant proportion of its goods which are exports on Cost and Freight ocean transport ("CFR") and Cost, Insurance and Freight ocean transport ("CIF") as per the International Commercial Terms ("Incoterms") and therefore, the Group is responsible for loading the promised goods on the vessel at the loading port. The physical loading of the approved promised goods on the vessel, satisfies the Group's performance obligation and triggers the recognition of revenue at a point in time as the control is transferred to the customer.

The Group has full discretion over the price to sell the goods. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The Group recognises a trade receivable for the sale and delivery of the promised goods when the goods, delivered to the loading port, are loaded on to the vessel as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

3.13 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

IAS 23, Borrowing costs requires any incremental transaction cost to be amortised using the Effective Interest Rate (EIR). The Group accounts for finance cost (Interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. General and specific borrowing cost directly related for any qualifying assets are capitalised as part of the cost of the asset.

3.14 Zakat and taxes

Zakat
The Company and its subsidiaries are subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense for the Company and zakat related to the Company's ownership in the subsidiaries is charged to the profit or loss. Additional zakat, if any, is accounted for when determined to be required for payment.

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under regulations of the ZATCA.

Value Added Tax ("VAT")
Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from the ZATCA, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.15 Selling and distribution expenses

Selling and distribution expenses comprise of all costs for selling, distribution and transportation of the Group's products and include other sales related expenses. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

3.16 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales or the selling and distribution activity of the Group. Allocation between cost of sales, selling and distribution expenses and general and administrative expenses are made on a consistent basis, when required.

3.17 Finance income and finance costs

Finance income and expenses are recognised within finance income and finance costs in statement of profit or loss and other comprehensive income using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

3.18 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data 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, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, if any.

3.19 Segment reporting

Operating Segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

An operating segment is group of assets and operations:

(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.

3.20 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.21 Equity-settled employee share-based payments

Employees (including key management) of the Group receive remuneration in the form of share-based payments, whereby qualifying employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made based on market price of the Company's shares on Saudi stock exchange (Tadawul) at the grant date (see note 19).

That cost is recognised in employee benefits expense in their respective entities of the Group based on entitled employees included in program, together with a corresponding increase in reserve for employee share-based payments in equity as capital reserves, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised as equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into consideration when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

Upon completion of vesting period, the treasury shares are offset with reserve for employee share-based payments in equity and any difference between reserve and treasury shares are directly charged to retained earnings.

3.22 Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

4. SEGMENT INFORMATION

The Group has two operating and reportable segments, i.e. manufacturing and trading, 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. 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 of the 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 (loss)/profit before zakat, as included in the internal management reports that are reviewed by the top management.

(Expressed in Saudi Riyals unless otherwise stated)

4. SEGMENT INFORMATION (continued)

The following table presents segment information:

	Manufacturing	*Trading*	*Elimination*	*Total*
Results for the year ended 31 December 2023				
Revenues	**849,755,960**	**231,121,904**	**(214,125,093)**	**866,752,771**
External revenues	**849,755,960**	**16,996,811**	**-**	**866,752,771**
Segment loss before zakat	**(88,233,674)**	**(45,282,767)**	**55,757,475**	**(77,758,966)**
Zakat	**9,337,012**	**541,519**	**-**	**9,878,531**
Financial costs	**25,373,274**	**1,292,820**	**(141,595)**	**26,524,499**
Additions to property, plant and equipment & capital work in progress (CWIP)	**268,734,887**	**7,618,820**	**(380,919)**	**275,972,788**
Additions to intangible assets	**168,750**	**-**	**-**	**168,750**
Depreciation and amortization	**88,351,410**	**14,777,017**	**-**	**103,128,427**
Results for the year ended 31 December 2022				
Revenues	1,167,957,709	333,238,799	(314,190,710)	1,187,005,798
External revenues	1,167,957,709	19,048,089	-	1,187,005,798
Segment profit before zakat	279,669,609	1,261,754	4,879,914	285,811,277
Zakat	14,372,318	709,149	-	15,081,467
Financial costs	16,971,636	1,511,470	-	18,483,106
Additions to property, plant and equipment & capital work in progress (CWIP)	162,853,168	7,703,566	(851,302)	169,705,432
Additions to intangible assets	38,000	172,500	-	210,500
Depreciation and amortization	83,053,000	17,315,813	-	100,368,813
As of 31 December 2023				
Total assets	**2,124,350,590**	**131,659,820**	**(325,076,460)**	**1,930,933,950**
Total liabilities	**838,953,870**	**105,390,251**	**(71,113,581)**	**873,230,540**
As of 31 December 2022				
Total assets	2,026,832,429	152,294,426	(232,612,482)	1,946,514,373
Total liabilities	706,816,209	82,171,468	(24,759,426)	764,228,251

The revenue from business segments categorised by geographical region is as follows:

31 December 2023	*Manufacturing*	*Trading*	*Total*
Saudi Arabia	**566,397,225**	**14,337,290**	**580,734,515**
Other GCC Countries	**64,651,340**	**-**	**64,651,340**
Other Countries	**218,707,395**	**2,659,521**	**221,366,916**
	849,755,960	**16,996,811**	**866,752,771**
31 December 2022			
Saudi Arabia	742,946,023	15,303,734	758,249,757
Other GCC Countries	29,453,004	-	29,453,004
Other Countries	395,558,682	3,744,355	399,303,037
	1,167,957,709	19,048,089	1,187,005,798

(Expressed in Saudi Riyals unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

	Land	*Buildings and mobile cabinets*	*Machinery and equipment*	*Furniture and office equipment*	*Motor vehicles*	*Total*
Cost						
At 1 January 2022	139,328,401	190,992,059	1,537,554,753	30,903,194	33,751,781	1,932,530,188
Additions	170,476	406,534	14,628,241	3,047,676	2,782,827	21,035,754
Transfers from capital work-in-progress	-	2,018,978	6,175,854	1,318,070	-	9,512,902
Disposals	-	(3,282,321)	(1,426,199)	(967,787)	(385,872)	(6,062,179)
Write off	-	-	(2,222,302)	-	-	(2,222,302)
Reclassification	(2,100,000)	-	-	-	-	(2,100,000)
31 December 2022	137,398,877	190,135,250	1,554,710,347	34,301,153	36,148,736	1,952,694,363
Depreciation						
At 1 January 2022	-	(70,076,991)	(878,409,429)	(18,672,896)	(26,324,278)	(993,483,594)
Depreciation charge	-	(6,755,217)	(79,604,197)	(3,943,020)	(2,584,920)	(92,887,354)
Disposals	-	1,210,779	1,426,185	671,475	377,966	3,686,405
Write off	-	-	1,789,852	-	-	1,789,852
31 December 2022	-	(75,621,429)	(954,797,589)	(21,944,441)	(28,531,232)	(1,080,894,691)
Net book value						
At 31 December 2022	137,398,877	114,513,821	599,912,758	12,356,712	7,617,504	871,799,672

(Expressed in Saudi Riyals unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	*Buildings and mobile cabinets*	*Machinery and equipment*	*Furniture and office equipment*	*Motor vehicles*	*Total*
Cost						
At 1 January 2023	137,398,877	190,135,250	1,554,710,347	34,301,153	36,148,736	**1,952,694,363**
Additions	-	1,214,029	28,361,855	3,177,082	2,778,904	**35,531,870**
Transfers from capital work-in-progress	-	67,339,854	235,225,177	169,643	39,000	**302,773,674**
Disposals	-	(447,754)	(100,658)	(321,257)	(2,477,621)	**(3,347,290)**
Write off	-	(736,922)	(2,860,632)	(2,840,437)	(12,534)	**(6,450,525)**
31 December 2023	**137,398,877**	**257,504,457**	**1,815,336,089**	**34,486,184**	**36,476,485**	**2,281,202,092**
Depreciation						
At 1 January 2023	-	(75,621,429)	(954,797,589)	(21,944,441)	(28,531,232)	**(1,080,894,691)**
Depreciation charge	-	(8,763,811)	(80,182,431)	(4,372,129)	(2,277,367)	**(95,595,738)**
Disposals	-	52,238	15,638	242,049	2,465,986	**2,775,911**
Write off	-	432,568	1,392,685	2,456,864	12,533	**4,294,650**
31 December 2023	-	**(83,900,434)**	**(1,033,571,697)**	**(23,617,657)**	**(28,330,080)**	**(1,169,419,868)**
Net book value						
At 31 December 2023	**137,398,877**	**173,604,023**	**781,764,392**	**10,868,527**	**8,146,405**	**1,111,782,224**

(Expressed in Saudi Riyals unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

5.1 All land, buildings and mobile cabinets, machinery and equipment and furniture and office equipment relating to the Company are pledged as collateral to Saudi Industrial Development Fund (SIDF) as a first-degree pledge (see note 20).

5.2 Depreciation charge has been allocated as follows:

	2023	*2022*
Cost of revenue	**91,463,585**	89,313,067
Selling and distribution expenses (note 28)	**2,780,803**	2,278,648
General and administrative expenses	**1,351,350**	1,295,639
	95,595,738	92,887,354

6. CAPITAL WORK IN PROGRESS

	Tissue Mill Factory	***Plant and Machinery***	***Total***
At 1 January 2022	23,187,564	71,359,295	94,546,859
Additions	132,193,599	16,476,079	148,669,678
Transfers to property, plant and equipment (refer note 5)	-	(9,512,902)	(9,512,902)
31 December 2022	155,381,163	78,322,472	233,703,635
Additions	**208,425,254**	**32,015,664**	**240,440,918**
Transfers to property, plant and equipment (refer note 5)	**(301,150,872)**	**(1,622,802)**	**(302,773,674)**
Transfers to intangible assets (refer note 9)	**(136,550)**	-	**(136,550)**
31 December 2023	**62,518,995**	**108,715,334**	**171,234,329**

Capital work in progress as at 31 December 2023 includes costs incurred related to the ongoing projects for plant and machinery related to MEPCO and WASCO amounting to SR 108.7 million (31 December 2022: SR 78.3 million). The other project pertains to tissue mill factory amounting to SR 63 million as at 31 December 2023 (31 December 2022: SR 155.4 million) located in King Abdullah Economic City, Rabigh under the wholly owned subsidiary Juthor Paper Manufacturing Company Limited. The tissue mill factory production plant has been substantially completed and ready for use during the year ended 31 December 2023, the other factory buildings are still under completion phase which are expected to be completed during 2024. The projects related to plant and machinery are expected to be completed during the year ending 31 December 2024. Refer to note 34 for capital commitments.

During the year ended 31 December 2023, finance costs amounting to SR 5.9 million were capitalized as part of capital work-in-progress (year ended 31 December 2022: SR 4.2 million). Average capitalization rate used ranges from 5%-5.5% (31 December 2022: 2.33%-3.45%).

7. CAPITAL PROJECT ADVANCES

Capital project advances as at 31 December 2023 includes advances 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 owned subsidiary Juthor Paper Manufacturing Company Limited. The materials and the services related to the projects are expected to complete during the year 2024.

(Expressed in Saudi Riyals unless otherwise stated)

8. RIGHT-OF-USE ASSETS

The Group has various leases contracts related to employees' accommodation, offices, warehouses buildings which are shown under the category buildings and landfills sites for its subsidiaries shown under leased land. Rental contracts are typically made for fixed periods of 1 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.
The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leased premises with lease terms of 12 months or less. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

	Leased land	*Buildings*	*Total*
Cost			
At 01 January 2022	48,028,022	7,069,133	55,097,155
Additions	-	1,137,966	1,137,966
31 December 2022	48,028,022	8,207,099	56,235,121
Additions	**3,533,689**	**2,853,551**	**6,387,240**
Terminations	**(3,055,606)**	**(1,183,604)**	**(4,239,210)**
31 December 2023	**48,506,105**	**9,877,046**	**58,383,151**
Depreciation			
At 01 January 2022	(17,037,513)	(3,901,030)	(20,938,543)
Depreciation charge	(4,977,252)	(1,658,681)	(6,635,933)
31 December 2022	(22,014,765)	(5,559,711)	(27,574,476)
Depreciation charge	**(5,000,331)**	**(2,284,214)**	**(7,284,545)**
Terminations	**3,055,606**	**1,183,604**	**4,239,210**
31 December 2023	**(23,959,490)**	**(6,660,321)**	**(30,619,811)**
Net book value			
At 31 December 2022	26,013,257	2,647,388	28,660,645
At 31 December 2023	**24,546,615**	**3,216,725**	**27,763,340**

(a) The following are the amounts recognised in the statement of profit or loss:

	2023	*2022*
Depreciation expense of right-of-use assets	**7,284,545**	6,635,933
Interest expense on lease liabilities (refer 21)	**1,003,874**	1,185,992
Expense relating to short-term leases (included in cost of revenue)	**2,006,552**	1,235,509
Total amount recognised in statement of profit or loss	**10,294,971**	9,057,434

Depreciation has been charged to cost of revenue.

The Company had total cash outflows for leases of SR 11.9 million (2022: SR 5.9 million). The Company also had non-cash additions to right-of-use assets and lease liabilities of SR 6.4 million (2022: SR 1.14 million). The future cash outflows relating to leases are disclosed in note 36.5.

(Expressed in Saudi Riyals unless otherwise stated)

9. INTANGIBLE ASSETS

	2023	*2022*
Cost		
Balance at 1 January	**8,747,873**	8,537,373
Additions	**168,750**	210,500
Transfers from capital work in progress	**136,550**	-
Balance at 31 December	**9,053,173**	8,747,873
Accumulated amortization		
Balance at 1 January	**(8,480,181)**	(7,634,655)
Charge for the year	**(248,144)**	(845,526)
Balance at 31 December	**(8,728,325)**	(8,480,181)
Net book value as at 31 December	**324,848**	267,692

Intangible assets comprise Computer software and ERP. The estimated useful lives for the current and comparative periods are 2 – 5 years.

10. INVENTORIES

	31 December 2023	*31 December 2022*
Raw materials	**68,515,712**	107,021,516
Finished goods	**32,656,742**	44,094,754
Goods in transit	**22,869,607**	11,010,578
Work-in-progress	**1,877,813**	2,679,115
Consumable spare parts, not held for sale	**59,379,867**	54,075,024
	185,299,741	218,880,987
Less: Allowance for slow moving inventories (refer note 10.1)	**(9,602,363)**	(6,103,970)
	175,697,378	212,777,017

10.1 Movement in allowance for slow moving inventories is as follows:

	2023	*2022*
01 January	**6,103,970**	7,659,481
Provided / (reversal) during the year*	**4,440,268**	(1,208,641)
Write-offs	**(941,875)**	(346,870)
31 December	**9,602,363**	6,103,970

*Addition in allowance for slow moving inventories is recognised as an expense under cost of revenue.

(Expressed in Saudi Riyals unless otherwise stated)

11. TRADE RECEIVABLES

	31 December 2023	*31 December 2022*
Trade receivables – Local	**240,757,649**	260,954,638
Trade receivables – Foreign	**48,020,101**	67,992,516
	288,777,750	328,947,154
Less: Allowance for impairment	**(22,441,070)**	(31,210,419)
	266,336,680	297,736,735

Movement in allowance for impairment of trade receivables is as follows:

	2023	*2022*
1 January	**31,210,419**	15,176,259
(Reversal) / provided during the year	**(6,657,591)**	16,283,851
Write off during the year	**(2,111,758)**	(249,691)
31 December	**22,441,070**	31,210,419

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. The average credit period on sales of goods is less than one year and therefore are all classified as current and are mostly secured through trade insurance. Trade receivables are recognised at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. Before accepting any new credit customer, the Group uses an internal credit review system to assess the potential customer’s credit quality and defines credit limits by customer.

No interest is charged on trade receivables balances that are overdue. The overdue amounts are constantly monitored by the management and a provision towards expected credit loss is made in the books if required.

The Group has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at 31 December 2023 and 31 December 2022 was determined as follows:

(Expressed in Saudi Riyals unless otherwise stated)

11. TRADE RECEIVABLES (continued)

Ageing	***Gross carrying amount***	***Expected credit loss range (%)***	***Loss allowance***
As at 31 December 2023:			
Within the credit period	**191,554,035**	**0%-1%**	**352,036**
1-90 days past due	**72,534,433**	**10%-15%**	**3,144,228**
91-180 days past due	**3,258,117**	**15%-20%**	**508,141**
181- 270 days past due	**3,769,351**	**50%-60%**	**2,126,131**
271- 360 days past due	**2,059,520**	**90%-100%**	**2,059,071**
More than 1 year past due	**15,602,294**	**90%-100%**	**14,251,463**
Total	**288,777,750**		**22,441,070**

Ageing	*Gross carrying amount*	*Expected credit loss range (%)*	*Loss allowance*
As at 31 December 2022:			
Within the credit period	150,628,262	0.00% - 0.3%	437,287
1-90 days past due	143,596,451	0.00%-6.22%	8,890,026
91-180 days past due	12,465,246	0.00% -19%	2,316,963
181- 270 days past due	2,074,461	34.47%-100%	718,425
271- 360 days past due	2,099,673	72.86%-100%	1,540,071
More than 1 year past due	18,083,061	94.75%-100%	17,307,647
Total	328,947,154		31,210,419

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses in statement of profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

12. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2023	*31 December 2022*
Prepaid expenses	**7,005,859**	10,226,333
Deposits with suppliers	**595,650**	1,023,330
Net value added tax (VAT) receivables	**98,344**	2,680,845
Others	**889,301**	1,059,537
Less: Provision against deposits with suppliers*	**(400,000)**	(400,000)
	8,189,154	14,590,045

*Provision against deposits with suppliers is charged to cost of revenue for the year ended 31 December 2023.

(Expressed in Saudi Riyals unless otherwise stated)

13. OTHER CURRENT ASSETS

	Notes	***31 December 2023***	*31 December 2022*
Advances to suppliers		**45,660,999**	40,134,826
Advances to suppliers – related party	(a)	**20,050,000**	20,050,000
Advance against land	(b)	**32,300,000**	32,100,000
Costs relating to share capital increase	(c)	**10,000,000**	-
Advances to employees		**3,454,663**	5,413,250
		111,465,662	97,698,076
Less: Allowance for impairment loss on advances	(d)	**(697,026)**	(3,686,774)
		110,768,636	94,011,302

(a) In 2021, an advance of SR 20 million was paid by the Company's subsidiary "Estidama" to Jeddah Development and Urban Regeneration Company ("JEDRIC") under an arrangement for the procurement of the raw materials ("Agreement"). Subsequent to year ended 31 December 2023, the Group entered into amendment to said agreement whereby the purpose of advances changed to right to receive all recyclable materials from the cleaning contractors contracting with the Municipality for a period of 5 years starting from the date of effectiveness of the contract with cleaning contractors dated 1st July 2024. Furthermore, the accounting treatment for advances will be changed to intangible assets from 1st July 2024 in accordance with the requirements of Intangible Assets "IAS 38".

(b) 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 Group. However, during 2021, the Company received certain information that the General Prosecution has banned the use and control of the land. During the year ended 31 December 2022, the Board has appointed a consultant to investigate and secure the land's title deed in the name of the Group. The Group's management consulted an external lawyer and is of the view that such a transfer in the name of the Group is a procedural aspect and would be completed soon. Accordingly, the management had decided to reclassify the land from property, plant and equipment to advances paid for acquisition of land along with the related legal costs amounting to SR 2.1 million till the time the land legal title transferred to the Group. As a result, the amount of SR 32.1 million is classified to advances paid for acquisition of land within other current assets in the year ended 31 December 2022. During the year ended 31 December 2023, these procedural aspects for the transfer in the name of the Group are still underway as communicated from the external lawyer. Additional legal costs during 2023 amounting to SR 0.2 million are added to the advance.

(c) These costs include legal and financial consultancy fees, documentation, prospectus and other costs ancillary to the increase of share capital as disclosed in note 38.

(d) Movement in allowance for impairment loss on advances is as follows:

	2023	*2022*
01 January	**3,686,774**	3,686,774
Additions*****	**208,582**	-
Write-offs	**(3,198,330)**	-
31 December	**697,026**	3,686,774

*****Addition in allowance for impairment loss on advances is recognised as an expense under general and administrative expenses.

14. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2017, the Company had acquired the units of an unlisted open-ended mutual fund. As at 31 December 2023, the fair value of the investment is SR 5,633 (2022: SR 5,633).

(Expressed in Saudi Riyals unless otherwise stated)

15. CASH AND CASH EQUIVALENTS

	31 December 2023	*31 December 2022*
Cash in hand	**1,008,539**	785,771
Cash at bank	**55,540,854**	144,460,310
	56,549,393	145,246,081

16. SHARE CAPITAL

As at 31 December 2023, the Company's authorized and issued share capital is SR 666.67 million (2022: SR 666.67 million) consists of 66.67 million (2022: 66.67 million) fully paid shares of SR 10 each. The Company has only one class of equity shares having a par value of SR 10 per share. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

During 2022, the Board of Directors recommended on 08 August 2022 (corresponding to 10 Muharram 1444H) to the Extra ordinary General Assembly (EGA) to increase the Company's share capital from SR 500 million to SR 666.67 million via the capitalization of SR 166.67 million of retained earnings. Each shareholder is granted 1 share for each 3 shares owned at the eligibility date. The proposed increase in share capital was approved by the EGA on 24 November 2022 (corresponding to 30 Rabi' al-Thani 1444H) and bonus shares issuance to shareholders was completed during fourth quarter of the year 2022.

17. DIVIDENDS

On 23 May 2023, the Board proposed a final dividend for the year ended 31 December 2022 amounting to SR 33.33 million (SR 0.5 per share). The Annual General Assembly in its meeting held on 22 June 2023 approved the cash dividends of SR 33.33 million and was paid on 11 July 2023.

18. STATUTORY RESERVE

On 28 December 2023, the Company's Extraordinary General Assembly approved specific amendments to its By-laws to align with the new Companies Law (note 2.1). Notably, the requirement for transferring 10% of profits to the statutory reserve no longer required. Furthermore, As per the Companies Law the Ordinary/Extraordinary General Assembly can take a decision regarding whether to retain the accumulated amounts allocated to the statutory reserve or transfer it to retained earnings.

19. RESERVE FOR EMPLOYEES' SHARE-BASED PAYMENTS

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 has transferred all of the entitled shares to respective employees as of the period ended 31 December 2022. Accordingly, the Company only proportionately recognized the realized gain for the period ended 31 December 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.

During the year ended 31 December 2022, the Company recorded a shared based payments of the 300,000 equity shares which are granted to Group President with service for 5 years. The exercise price of the shares is equal to the market price of the underlying shares on the date of grant. The share options are vested as of 31 December 2023 and all the conditions mentioned for the President which are service, performance and market based are met, no final settlement approved as at 31 December 2023. Subsequent to the year ended 31 December 2023, the Board has approved a cash settlement options by paying SR 10,500,000 based on the settlement agreement and release of claims dated 13 March 2024. Accordingly, the reserve for employees' share-based payments shall be transferred to trade and other payables in 2024.

(Expressed in Saudi Riyals unless otherwise stated)

20. LONG TERM BORROWINGS

	31 December 2023	*31 December 2022*
SIDF loans - Principal	**144,600,000**	114,000,000
Accrued finance charges – SIDF	**970,667**	456,169
Less: Deferred financial charges	**(7,844,764)**	(7,024,155)
Saudi Industrial Development Fund (SIDF) (refer note a)	**137,725,903**	107,432,014
Islamic banking facilities (Tawarruq)	**324,580,238**	402,143,846
Accrued finance charges – Banks	**2,455,275**	1,579,570
Islamic banking facilities (Tawarruq) (refer note b)	**327,035,513**	403,723,416
Long-term borrowings	**464,761,416**	511,155,430
Current portion shown under current liabilities		
Borrowings - gross	**113,535,962**	98,649,784
Accrued finance charges	**3,425,942**	2,035,739
Less: Deferred financial charges	**(2,404,990)**	(857,516)
	114,556,914	99,828,007
Long term borrowings shown under non-current liabilities		
Borrowings - gross	**355,644,276**	417,494,062
Less: Deferred financial charges	**(5,439,774)**	(6,166,639)
	350,204,502	411,327,423
Long-term borrowings	**464,761,416**	511,155,430

Reconciliation of cash movement of borrowings	***2023***	*2022*
Balance at beginning of year	**511,155,430**	561,760,665
Disbursements	**45,000,000**	258,778,846
Repayment of principal instalments	**(91,963,608)**	(306,324,210)
Movement in accrued financial charges	**1,390,203**	1,375,045
Movement in deferred financial charges	**(820,609)**	(4,434,916)
Balance at end of year	**464,761,416**	511,155,430

(Expressed in Saudi Riyals unless otherwise stated)

20. LONG TERM BORROWINGS (continued)

(a) During 2020, the Group had obtained new facility from Saudi Industrial Development Fund (SIDF) amounting to SR 55 million to finance the construction of manufacturing facilities and the Group has fully withdrawn this facility. The loan is repayable in unequal semi-annual instalments up to August 2025.

During 2021, the Group had obtained new facility from SIDF for the tissue paper factory amounting SR 150 million to finance the construction of manufacturing facilities. The Group has utilized SR 120 million as of 31 December 2023 (2022: SR 75 million). The loan is repayable in unequal semi-annual instalments up to year 2030.

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) During 2022, The Company has also obtained long-term credit facilities (Islamic Finance Tawarruq) from commercial banks amounting to SR 572 million. The Company has utilized of these facilities amounting to SR 324.6 million as of 31 December 2023 (2022: SR 402.1 million). These loans bear financial charges based on prevailing market rates in Kingdom of Saudi Arabia ("SIBOR"). These loans are repayable up to the year 2027.

Upfront fees were deducted at the time of receipt of loans from commercial banks, which are amortised over the period of the respective loans.

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 has met most of debt covenants compliance requirements for banks as at 31 December 2023. The Company have received waiver letters as at 31 December 2023 from banks which are valid for next 12 months so management did not change the classification.

All the above long term loans are denominated in SR as at 31 December 2023 and 31 December 2022.

The scheduled maturities of the long-term borrowings outstanding are as follows:

Year ending 31 December 2023:	***Loan's principal***	***Deferred financial charges***	***Accrued financial charges***	***Net loan amount***
2024	**113,535,962**	**(2,404,990)**	**3,425,942**	**114,556,914**
2025	**129,135,960**	**(1,790,719)**	**-**	**127,345,241**
2026	**116,535,961**	**(1,481,748)**	**-**	**115,054,213**
2027	**43,972,355**	**(1,107,092)**	**-**	**42,865,263**
2028	**66,000,000**	**(1,060,215)**	**-**	**64,939,785**
	469,180,238	**(7,844,764)**	**3,425,942**	**464,761,416**

Year ending 31 December 2022:	*Loan's principal*	*Deferred financial charges*	*Accrued financial charges*	*Net loan amount*
2023	98,649,784	(857,516)	2,035,739	99,828,007
2024	118,335,962	(3,300,467)	-	115,035,495
2025	129,135,962	(1,255,005)	-	127,880,957
2026	116,535,960	(874,246)	-	115,661,714
2027	53,486,178	(736,921)	-	52,749,257
	516,143,846	(7,024,155)	2,035,739	511,155,430

(Expressed in Saudi Riyals unless otherwise stated)

21. LEASE LIABILITIES

Movement in lease liabilities is summarized as follows:

	2023	*2022*
At the beginning of the year	**29,429,840**	33,005,882
Additions	**6,387,240**	1,137,966
Accretion of interest	**1,003,874**	1,185,992
Payments	**(11,915,393)**	(5,900,000)
At the end of the year	**24,905,561**	29,429,840

The scheduled maturities of the lease liabilities are as follows:

As at 31 December 2023	***Principal amount***	***Interest***	***Net lease liabilities***
Current portion	**9,022,321**	**(729,505)**	**8,292,816**
Non-current portion	**17,860,337**	**(1,247,592)**	**16,612,745**
	26,882,658	**(1,977,097)**	**24,905,561**

As at 31 December 2022	*Principal amount*	*Interest*	*Net lease liabilities*
Current portion	8,404,062	(973,652)	7,430,410
Non-current portion	24,078,993	(2,079,563)	21,999,430
	32,483,055	(3,053,215)	29,429,840

22. EMPLOYEE BENEFITS

Movement in provision for employee benefits is summarized as follows:

	2023	*2022*
At beginning of year	**48,014,426**	42,244,799
Current year charge:		
- Current service cost	**7,263,156**	6,152,104
- Interest cost	**542,990**	855,175
	7,806,146	7,007,279
Re-measurement (gain) / losses:		
- Financial assumptions	**(4,351,815)**	2,400,245
- Experience adjustment	**(7,602)**	1,804,115
- Demographic assumptions	**111,299**	(4,780)
	(4,248,118)	4,199,580
Payments	**(2,764,337)**	(5,437,232)
At end of year	**48,808,117**	48,014,426

(Expressed in Saudi Riyals unless otherwise stated)

22. EMPLOYEE BENEFITS (continued)

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

	2023	*2022*
Discount rate	**4.45%**	4.10%
Future salary growth	**6%**	5.50%

Sensitivity analysis

	31 December 2023		*31 December 2022*	
	Increase	***Decrease***	*Increase*	*Decrease*
Discount rate (1% movement)	**(2,499,762)**	**2,800,851**	(2,634,290)	2,967,827
Future salary growth (1% movement)	**3,028,139**	**(2,751,406)**	3,143,255	(2,843,665)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

The expected maturity analysis of undiscounted employee benefits obligations is as follows:

	2023	*2022*
Less than a year	**9,916,389**	8,283,703
Between 1 – 5 years	**19,630,889**	18,544,930
Over 5 years	**35,367,459**	35,228,050

23. ZAKAT

23.1 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.

23.2 Provision for zakat

	2023	*2022*
At the beginning of the year	**13,386,571**	6,752,605
Provisions		
- Provision for current year	**9,878,531**	13,605,121
- Adjustment related to prior years	-	1,476,346
Payments	**(13,536,522)**	(8,447,501)
At the end of the year	**9,728,580**	13,386,571

(Expressed in Saudi Riyals unless otherwise stated)

23. ZAKAT (continued)

23.3 Status of final assessments

Middle East Company for Manufacturing and Producing Paper("MEPCO")
The zakat assessments of the Parent ("MEPCO") 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") issued its decision in favour of the Company, reducing by SR 6.3 million from the original amount. During 2022, ZATCA raised an appeal to the Tax Violation & Disputes Appeal Committee ("TVDAC") against the TVDRC's decision. The Company has submitted its reply to memo against ZATCA's appeal. On 12 December 2023, the TVDAC decision came in favour of the company against ZATCA's appeal.

There are no open assessment for 2013 by ZATCA and return filed by the Company deemed final assessment. 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 assessments for the years ended 31 December 2015 to 2018 claiming SR 30 million as additional zakat. The Company objected 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"). On 06 February 2024, TVDAC issued its decision in favour of the Company by accepting the case from the Formal Aspect and returning the case to the TVDRC to be re-studied from the Technical/subjective Aspect.

During 2021, ZATCA issued its assessments 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 million for both years. The Company settled the revised claimed amount to clear these years with ZATCA. During 2024, ZATCA sent queries in relation to years 2021 & 2022, which is currently being prepared by the company.

The zakat declarations of the Company till 2022 are filed with the ZATCA and unrestricted zakat certificates have been obtained till 30 April 2024.

Waste Collection and Recycling Company Limited ("WASCO")
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 favour of ZATCA. Accordingly, subsequently on 18 October 2022, the Company raised an appeal against TVDRC's decision. During 2023, the Appeal Committee has issued its decision in favour of ZATCA, however according to Article 49 of the Work Rules of Tax Committees, the Company has submitted a Reconsideration Request to the TVDAC which is currently under review by TVDAC. The zakat declarations of WASCO till 2022 are currently under review by ZATCA and unrestricted zakat certificates have been obtained till 30 April 2024.

Juthor Paper Manufacturing Company ("Juthor") & Estidama Environmental Services Company LLC ("Estidama")
Both companies filed their zakat declaration for the year 2022 and unrestricted zakat certificates have been obtained till 30 April 2024.

24. SHORT TERM BORROWINGS

	31 December 2023	*31 December 2022*
Islamic banking facilities (Tawarruq)	**99,999,000**	20,625,000
Notes payable	**7,781,295**	12,708,618
Accrued financial charges	**2,128,529**	231,078
	109,908,824	33,564,696

The Group has short-term credit facilities from commercial banks comprising of short-term loans, letters of credit and guarantees. These borrowings bear financing charges at the prevailing market rates. These facilities include certain financial covenants which require the Group to maintain certain levels of ratios. The Group has met most of debt covenants compliance requirements for banks as at 31 December 2023. All loans are denominated in SR as at 31 December 2023 and 31 December 2022.

The short-term borrowings under Islamic banking facilities bears average interest rate of 6.0% (2022: 6.84%).

(Expressed in Saudi Riyals unless otherwise stated)

25. TRADE AND OTHER PAYABLES

	31 December 2023	*31 December 2022*
Trade payables - third parties	**151,149,549**	75,925,960
Employees related accruals	**22,648,954**	33,813,502
Trade payables - related party (see note 35.3)	**5,914,180**	6,169,941
Net Value Added Tax (VAT) payables	**1,809,818**	119,016
Accrued sales services expenses	**592,298**	646,342
Accrued legal and consultancy fees	**291,725**	552,225
Accrued transportation expenses	**142,250**	230,427
Accrued directors' remuneration	-	405,751
Others	**6,653,931**	6,087,249
	189,202,705	123,950,413

26. OTHER CURRENT LIABILITIES

	31 December 2023	*31 December 2022*
Advances from customers	**8,324,497**	4,726,875
Costs relating to share capital increase	**7,000,000**	-
Others	**90,840**	-
	15,415,337	4,726,875

27. COST OF REVENUE

	2023	*2022*
Material and employees' cost	**506,775,133**	467,798,633
Depreciation and maintenance cost	**138,854,794**	131,122,910
Energy costs	**54,800,323**	31,155,413
Transportation cost	**19,572,852**	15,285,479
Rent	**2,006,552**	1,235,509
Other overheads	**59,747,028**	37,621,757
	781,756,682	684,219,701

28. SELLING AND DISTRIBUTION EXPENSES

	2023	*2022*
Transportation and shipping	**41,319,658**	69,592,755
Salaries and related benefits	**9,464,471**	7,922,592
Depreciation (refer note 5.2)	**2,780,803**	2,278,648
Sales commission	**1,746,880**	2,236,037
Sales service expenses	**385,625**	774,645
Credit insurance	**107,606**	720,000
Others	**5,801,619**	2,305,245
	61,606,662	85,829,922

(Expressed in Saudi Riyals unless otherwise stated)

29. GENERAL AND ADMINISTRATIVE EXPENSES

	2023	*2022*
Salaries and related benefits	**56,965,213**	59,233,995
Directors' remuneration (refer note 35.2)	**5,514,311**	3,209,490
Consultation fee	**6,445,669**	4,875,451
IT expenses	**2,952,982**	1,294,938
Government fee	**2,346,688**	2,377,831
Training	**1,932,936**	1,940,731
Bank charges	**1,799,687**	2,545,143
Depreciation and amortization	**1,784,936**	1,932,682
Travel expenses	**1,835,479**	1,060,967
Communication	**1,313,993**	949,665
Professional fee *****	**1,231,249**	1,210,633
Insurance expenses	**1,019,814**	1,376,879
Repairs and maintenance	**1,005,450**	732,489
Provision against advances to suppliers	**208,582**	-
Penalty (reversal)/expense - note 34 (iii)	**(5,000,000)**	5,000,000
Others	**8,685,897**	5,801,588
	90,042,886	93,542,482

*****Professional fees include audit fees amounted to SR 969,000 and non-audit services fees amounted to SR 183,750 for year ended 31 December 2023.

30. OTHER OPERATING INCOME / (EXPENSES)– NET

	2023	*2022*
Foreign currency exchange gain / (loss)	**2,568,191**	(4,133,050)
Consultancy services income	**4,000,000**	600,000
Scrap sales	**2,688,779**	1,034,615
Insurance claim recovery	**1,795,102**	-
Loss on disposal of property, plant and equipment	**(412,321)**	(1,966,544)
Impairment loss on write-off of property, plant and equipment	**(2,155,875)**	(432,450)
Loss on disposal of investment in subsidiary	**-**	(167,527)
Others, net	**277,525**	2,229,497
	8,761,401	(2,835,459)

31. FINANCE COSTS

	2023	*2022*
Finance costs on long-term borrowings:		
- Tawarruq	**21,592,477**	12,887,322
- SIDF charges	**1,504,667**	1,086,470
- Amortisation of deferred financial charges	**857,516**	1,243,261
Finance costs on short-term borrowings:		
- Tawarruq	**1,573,037**	2,080,061
Interest on lease liabilities	**996,802**	1,185,992
	26,524,499	18,483,106

(Expressed in Saudi Riyals unless otherwise stated)

32. (LOSS) / EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data 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 year.

	2023	*2022*
Net (loss) / profit for the year attributable to equity holders of the Parent Company	**(80,269,141)**	269,698,532
Weighted average number of shares *	**66,666,666**	66,666,438
Basic and diluted (loss) / earnings per share (SR per share)	**(1.20)**	4.05

*The weighted average number of ordinary shares issued and outstanding at year end 31 December 2022 have been adjusted for the bonus shares issued during the year ended 31 December 2022.

33. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group holds various financial instruments in the ordinary course of its activities.

33.1 Financial instruments by category

(a) Financial assets subsequently measured at amortised cost:

	Notes	***31 December 2023***	*31 December 2022*
Trade receivables	11	**266,336,680**	297,736,735
Other current assets (Advances to employees)	13	**3,454,663**	5,413,250
Cash and cash equivalents	15	**56,549,393**	145,246,081
		326,340,736	448,396,066

(b) Financial assets at fair value through profit or loss:

	Note	***31 December 2023***	*31 December 2022*
Investments at fair value through profit or loss	14	**5,633**	5,633

(c) Financial liabilities at amortised cost:

	Notes	***31 December 2023***	*31 December 2022*
Borrowings	20, 24	**574,670,240**	544,720,126
Trade and other payables	25	**189,202,705**	123,950,413
Lease liabilities	21	**24,905,561**	29,429,840
		788,778,506	698,100,379

The carrying amount of financial assets and liabilities approximates their fair value. Financial assets are not considered to pose a significant credit risk. Trade receivables are due from customers who have been assessed for credit-worthiness prior to entering into transactions with them.

(Expressed in Saudi Riyals unless otherwise stated)

33. FINANCIAL INSTRUMENTS (continued)

33.2 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or liability, the Group uses observable market 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.
- Level 2: inputs other than quoted prices included 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).

The Group fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instrument is calculated as the present value of the estimated future cash flows based on observable yield curves.

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

	31 December 2023	*31 December 2022*
Level 2		
Investments at fair value through profit or loss	**5,633**	5,633

During the year ended 31 December 2023, there were no movements between the levels.

34. COMMITMENT AND CONTIGENCIES

i. At 31 December 2023, the Group had outstanding letters of credit of SR 28 million (2022: SR 36 million) and letters of guarantee of SR 1 million (2022: SR 1.5 million) that were issued in the normal course of the business.

ii. The capital expenditure contracted by the Group but not incurred till 31 December 2023 was approximately SR 32.7 million (2022: SR 125 million).

iii. During 2022, General Authority of Competition alleged that the one of the subsidiaries had been involved in fixing the prices and incurred penalty charges of SR 10 million. The subsidiary filed appeal against the decision in 2022. During the year ended 31 December 2023, the appellate court issues the decision in favour of the subsidiary and hence provision of SR 5 million is reversed.

(Expressed in Saudi Riyals unless otherwise stated)

35. RELATED PARTIES

35.1 Transactions with key management personnel

Key management personnel compensation comprised the following:

	2023	*2022*
Short term benefits	**43,035,774**	32,750,360
Post-employment benefits	**574,650**	302,056
Termination benefits	**2,147,833**	830,800
	45,758,257	33,883,216

Compensation to key management personnel includes salaries, and contributions to post-employment defined benefit plan. During the year ended 31 December 2023 and 2022, Director of operation of Juthor has been added in key management personnel compensation.

35.2 Related parties' transactions

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

Related party	***Description of transaction***	***Relationship***	***2023***	*2022*
Arabian Maize Company for Industry (formerly "Al Masirah International Industrial Investments Company")	Purchase of materials	Company of chairman board of directors	**25,126,617**	35,716,109
Directors	Directors' remuneration	Directors	**5,514,311**	3,209,490

35.3 Related parties' balances

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

Related party	***31 December 2023***	*31 December 2022*
Jeddah Development and Urban Regeneration Company (note 13(a))	**20,050,000**	20,050,000
Advances to key management personnel	**210,000**	188,488
Accrued directors' remuneration (note 25)	-	(405,751)
Arabian Maize Company for Industry (note 25)	**(5,914,180)**	(6,169,941)

(Expressed in Saudi Riyals unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group also uses derivative financial instruments to hedge certain risk exposures.

36.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is represented by interest rate risk, currency risk and other price risk.

36.2 Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments and entering into interest rates swap arrangements.

At 31 December 2023, if interest rates had been 1% higher/lower with all other variables held constant, future interest on outstanding loans will increase/decrease by SR 3,736,640 (2022: SR 8,957,586).

36.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did undertake significant transactions in currencies Saudi Riyals and US Dollars during the year ended 31 December 2023 and 2022. Since Saudi Riyal is pegged to the US Dollar, the Group is not exposed to significant foreign currency risk.

The Group also has significant exposure to Euro at the end of 2023 and 2022. The following tables demonstrate the sensitivity to a reasonably possible change in Euro and Saudi Riyals exchange rates, with all other variables held constant. The impact on the Group's (loss) / profit before zakat is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in rate Euros	*Effect on (loss) / profit before zakat*
31 December 2023		
	+ 5%	**82,751**
	- 5%	**(82,751)**
31 December 2022		
	+ 5%	4,880,176
	- 5%	(4,880,176)

36.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The management continuously monitors the credit exposure towards the customers and makes allowances against those balances considered doubtful of recovery using the expected credit loss model. To mitigate the risk, the Group has developed a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Most of the customers are secured, where possible, by way of inland letters of credit, cash security deposit, bank guarantees and insurance guarantees.

(Expressed in Saudi Riyals unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Credit risk (continued)

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	31 December 2023	*31 December 2022*
Financial assets		
Trade receivables	**288,777,750**	328,947,154
Other current assets (Advances to employees)	**3,454,663**	5,413,250
Cash at banks	**55,540,854**	144,460,310
Investment at FVTPL	**5,633**	5,633
	347,778,900	478,826,347

Trade receivables are due from customers who have been assessed for credit worthiness prior to entering into transactions with them. Cash at bank and short-term investments are placed with reputable local banks. There were no past due or impaired receivables from related parties.

36.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments. The Group has no significant concentration of liquidity risk. For instance, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowings or reliance on a particular market in which to realize liquid assets. The following is contractual undiscounted maturity analysis of the financial liabilities of the Group as at 31 December 2023. The Group does not hold financial assets for managing liquidity risk. Hence, these risks have not been considered for maturity analysis.

31 December 2023	***1 year or less***	***Above 1 year to 5 years***	***More than 5 years***	***Total***
Non derivative financial liabilities				
Borrowings	**254,368,843**	**382,922,691**	**439,059**	**637,730,593**
Trade and other payables	**189,202,705**	**-**	**-**	**189,202,705**
Lease liabilities	**9,022,321**	**4,025,465**	**13,834,872**	**26,882,658**
	452,593,869	**386,948,156**	**14,273,931**	**853,815,956**

31 December 2022	*1 year or less*	*Above 1 year to 5 years*	*More than 5 years*	*Total*
Non derivative financial liabilities				
Borrowings	160,338,353	450,884,298	-	611,222,651
Trade and other payables	123,950,413	-	-	123,950,413
Lease liabilities	8,404,062	10,244,121	13,834,872	32,483,055
	292,692,828	461,128,419	13,834,872	767,656,119

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(Expressed in Saudi Riyals unless otherwise stated)

37. CAPITAL MANAGEMENT

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

The Group manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a gearing ratio, which is net debt, interest bearing loans and borrowings including finance cost thereon, less cash and bank balances. Capital signifies equity as shown in the statement of financial position plus net debt.

The capital gearing ratio is as follows:

	2023	*2022*
Borrowings	**574,670,240**	544,720,126
Total debt	**574,670,240**	544,720,126
Cash and cash equivalents	**(56,549,393)**	(145,246,081)
Net debt	**518,120,847**	399,474,045
Share capital	**666,666,660**	666,666,660
Statutory reserve	**135,278,852**	135,278,852
Reserve for employee share-based payments	**10,500,000**	7,860,000
Retained earnings	**261,845,302**	371,242,769
Non-controlling interest	**(6,087,404)**	1,237,841
Net equity	**1,068,203,410**	1,182,286,122
TOTAL EQUITY AND NET DEBT	**1,586,324,257**	1,581,760,167
Capital gearing ratio - %	**33%**	25%

38. SUBSEQUENT EVENTS

- In accordance with the share subscription agreement signed between MEPCO and Public Investment Fund (PIF) dated 31 July 2023, MEPCO will increase its capital from SR 666,666,660 to SR 866,666,650 with the suspension of pre-emptive rights, by issuing 19,999,999 new ordinary shares (representing 30% of MEPCO's current capital), with a nominal value of SR 10 per share (the "New Shares") after approval of MEPCO's extra-ordinary general assembly on 28th December 2023.Subsequent to year ended 31 December 2023, PIF has paid to MEPCO a subscription amount of SR 31.50 per New Share being a total subscription amount of SR 629,999,968.50. The New Shares has been fully subscribed by PIF, so PIF's ownership in MEPCO's share capital becomes 23.08% after the capital increase. Management has updated its commercial registration on 07 February 2024.

- Other major subsequent events related to advances to suppliers– related party amounted to SR 20 million and cash settlement of employees' share-based payments amounted to SR 10.5 million are disclosed in note 13(a) and note 19 respectively.

(Expressed in Saudi Riyals unless otherwise stated)

39. COMPARATIVE FIGURES

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

Reclassification in the statement of financial position for the year ended 31 December 2022 is summarised below:

	As previously reported	*Reclassification*	*As currently reported*
Current assets			
Other current assets	91,911,302	2,100,000	94,011,302
Prepayments and other receivables	16,690,045	(2,100,000)	14,590,045

Reclassification in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 is summarised below:

	As previously reported	*Reclassification*	*As currently reported*
Selling and distribution expenses	(84,024,584)	(1,805,338)	(85,829,922)
General and administrative expenses	(95,347,820)	1,805,338	(93,542,482)

40. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on 21 Ramadhan 1445H (corresponding to 31 March 2024G).