

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS (Unaudited)**
**FOR THE THREE AND NINE MONTHS PERIODS ENDED
SEPTEMBER 30, 2020**
WITH INDEPENDENT AUDITOR'S REVIEW REPORT

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

INDEX	PAGE
Independent auditor's review report on condensed consolidated interim financial statements	1-2
Condensed consolidated interim statement of financial position	3
Condensed consolidated interim statement of profit or loss and other comprehensive income	4
Condensed consolidated interim statement of changes in equity	5
Condensed consolidated interim statement of cash flows	6
Notes to the condensed consolidated interim financial statements	7 – 14

INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Saudi Paper Manufacturing Company, A Saudi Joint Stock Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2020, the related condensed consolidated interim statement of profit or loss and other comprehensive income for the three and nine months periods then ended, the condensed consolidated interim statements of changes in equity and cash flows for the nine months period then ended and notes including a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard No. 34, "Interim Financial Reporting" ("IAS-34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Basis for Qualified Conclusion

- 1) Management had performed an assessment for the impairment of the Group's trade receivables as of December 31, 2019. Based on the results of this assessment, a reversal in allowance for impairment of trade receivables, amounting to SR 31.4 million, was recognised during the year ended December 31, 2019. However, management had not performed an assessment for the impairment of the Group's trade receivables as of December 31, 2018, as required by IFRS 9 - Financial instruments and had not reflected the resulting impact, if any, in the statement of financial position and statement of profit or loss for the year ended December 31, 2018 and in the accumulated losses of the Group as of January 1, 2019. Accordingly, we are unable to determine whether any adjustment to accumulated losses of the Group as of January 1, 2019 and results for the period ended September 30, 2019, is necessary.
- 2) The Group had incurred loss amounting to SR 27.47 million during the year ended December 31, 2019 (December 31, 2018: SR 114.9 million) and had accumulated losses amounting to SR 11.8 million as of December 31, 2019 (December 31, 2018: SR 136.9 million). The management of the Company performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss was recognised during the year ended December 31, 2019 (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors. The outcome of these assumptions is highly dependent on the success of future operations and market conditions as estimated by management and achieving its plans in future.

Qualified Conclusion

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

INDEPENDENT AUDITOR'S REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

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

Material Uncertainties Related to Going Concern

We draw your attention to Note 1 of these condensed consolidated interim financial statements which states that the current liabilities of the Group exceeded its current assets by SR 136.7 million (December 31, 2019: SR 198.3 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 114.7 million and SR 152.9 million respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its long term loans by SR 5.76 million as of September 30, 2020 (December 31, 2019: SR 19.9 million). During the period ended September 30, 2020, as part of its overall loan restructuring plan, the Group was successful in restructuring its term loans amounting to SR 474 million. Management believes that the Group will be successful in restructuring of its loans, and avail new ones as and when needed revolving its short term loans as per its past practice and resolving the breach in the near future. Further, the Company has received approval from Capital Market Authority (CMA) for increase its share capital by SR 100 million through right issue. Accordingly, the accompanying condensed consolidated interim financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment. Our conclusion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 4 of these condensed consolidated interim financial statements which states that the management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2019, amounting to SR 43.7 million. Based on the results of this assessment, management has concluded that impairment amounting SR 3.2 million was required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of September 30, 2020.

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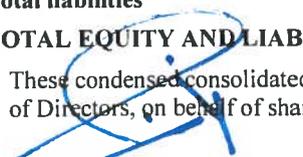


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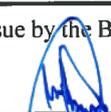
SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2020

	Note	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR
ASSETS			
Non-current assets			
Property, plant and equipment	4	593,038,059	620,330,466
Intangible assets		15,989,453	16,859,361
Investment in an associate		21,137,534	21,252,673
Total non-current assets		630,165,046	658,442,500
Current assets			
Inventories		103,630,202	89,411,044
Trade receivables	5	117,948,104	137,972,465
Advances, prepayments and other assets		25,389,251	37,961,932
Cash and cash equivalents		19,798,854	11,959,334
Total current assets		266,766,411	277,304,775
TOTAL ASSETS		896,931,457	935,747,275
EQUITY AND LIABILITIES			
Equity			
Share capital	1	92,000,000	92,000,000
Other reserves		(8,294,596)	(7,475,688)
Accumulated losses		(2,937,878)	(11,801,606)
Equity attributable to the shareholders of the Company		80,767,526	72,722,706
Non-controlling interest		1,324,801	1,222,385
Total equity		82,092,327	73,945,091
LIABILITIES			
Non-current liabilities			
Medium and long term loans	6	382,592,325	358,824,347
Employees' end of service benefits		21,113,357	19,828,157
Lease liabilities – non current portion		7,631,200	7,569,483
Total non-current liabilities		411,336,882	386,221,987
Current liabilities			
Short-term loans	6	114,710,352	140,022,579
Medium and long term loans – current portion	6	152,998,749	206,621,768
Trade payables		67,009,302	69,607,261
Accrued expenses and other liabilities		49,231,313	42,594,780
Provision for zakat		18,909,458	16,208,696
Lease liabilities – current portion		643,074	525,113
Total current liabilities		403,502,248	475,580,197
Total liabilities		814,839,130	861,802,184
TOTAL EQUITY AND LIABILITIES		896,931,457	935,747,275

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on October 29, 2020.


Khalid Walid Abu Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer

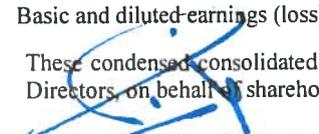

Fahad Mohammad Al Dawood
Chairman

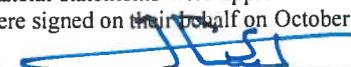
The accompanying notes form an integral part of these condensed consolidated interim financial statements.

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

	Note	From July 1 to September 30		From January 1 to September 30	
		2020	2019	2020	2019
		(Un-audited) SR	(Un-audited) SR	(Un-audited) SR	(Un-audited) SR
Revenue	9	124,289,266	121,758,077	412,836,605	398,738,336
Cost of revenue		(85,472,801)	(93,567,549)	(292,573,523)	(328,740,972)
Gross profit		38,816,465	28,190,528	120,263,082	69,997,364
General and administrative expenses		(10,965,498)	(11,650,818)	(31,661,165)	(35,612,557)
Selling and distribution expenses		(11,811,694)	(14,472,188)	(39,506,669)	(41,713,451)
(Allowance) /reversal for impairment of trade receivables	5	(273,665)	(537,727)	(795,856)	40,330,241
Operating profit		15,765,608	1,529,795	48,299,392	33,001,597
Finance charges	6,9	(8,341,648)	(17,307,119)	(25,835,483)	(39,403,845)
Share in profit of an associate		835,043	720,000	2,484,861	2,170,000
Other expenses, net	8	(2,357,402)	(7,062,840)	(8,546,943)	(5,668,340)
Net profit (loss) before zakat		5,901,601	(22,120,164)	16,401,827	(9,900,588)
Zakat		(1,795,755)	(2,098,371)	(7,161,780)	(6,295,112)
Net profit (loss) for the period		4,105,846	(24,218,535)	9,240,047	(16,195,700)
<u>Other comprehensive (loss) income</u>					
<i>Item that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations and others		(277,581)	198,657	(874,026)	1,219,131
<i>Item that will not be reclassified to profit or loss</i>					
Change in fair value of equity investments through OCI		-	(1,067,062)	-	(1,067,062)
Other comprehensive (loss) income for the period		(277,581)	(868,405)	(874,026)	152,069
Total comprehensive income (loss) for the period		3,828,265	(25,086,940)	8,366,021	(16,043,631)
Net profit (loss) attributable to:					
Shareholders of the Company		3,979,539	(24,286,143)	8,863,728	(16,495,900)
Non-controlling interest		126,307	67,608	376,319	300,200
Net profit (loss) for the period		4,105,846	(24,218,535)	9,240,047	(16,195,700)
Total comprehensive income (loss) attributable to:					
Shareholders of the Company		3,700,373	(25,154,548)	8,044,820	(16,343,831)
Non-controlling interest		127,892	67,608	321,201	300,200
Total comprehensive income (loss) for the period		3,828,265	(25,086,940)	8,366,021	(16,043,631)
Earnings / (loss) per share (SR) attributable to shareholders of the company					
Basic and diluted-earnings (loss) per share	10	0.43	(2.64)	0.96	(1.79)

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on October 29, 2020.


Khalid Walid Abu Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammed Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

	Equity attributable to the shareholders of the Company				Non-controlling interest SR	Total SR
	Share capital SR	Other reserves SR	Accumulated losses SR	Total SR		
As at January 1, 2019 – (audited) as previously stated	245,000,000	(8,107,729)	(103,865,781)	133,026,490	5,425,690	138,452,180
Restatement of property plant and equipment	-	-	(33,052,515)	(33,052,515)	-	(33,052,515)
As at January 1, 2019 - as restated	245,000,000	(8,107,729)	(136,918,296)	99,973,975	5,425,690	105,399,665
Net (loss) / profit for the period	-	-	(16,495,900)	(16,495,900)	300,200	(16,195,700)
Other comprehensive income for the period	-	152,069	-	152,069	-	152,069
Total comprehensive income (loss) for the period	-	152,069	(16,495,900)	(16,343,831)	300,200	(16,043,631)
As at September 30, 2019 (un-audited)	245,000,000	(7,955,660)	(153,414,196)	83,630,144	5,725,890	89,356,034
As at January 1, 2020 - (audited)	92,000,000	(7,475,688)	(11,801,606)	72,722,706	1,222,385	73,945,091
Net profit for the period	-	-	8,863,728	8,863,728	376,319	9,240,047
Other comprehensive loss for the period	-	(818,908)	-	(818,908)	(55,118)	(874,026)
Total comprehensive (loss) income for the period	-	(818,908)	8,863,728	8,044,820	321,201	8,366,021
Dividend paid	-	-	-	-	(218,785)	(218,785)
As at September 30, 2020 (un-audited)	92,000,000	(8,294,596)	(2,937,878)	80,767,526	1,324,801	82,092,327

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on October 29, 2020.



Khalid Walid Abu Hana
Chief Financial Officer



Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer



Fahad Mohammad Al Dawood
Chairman

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

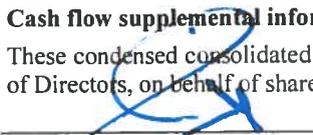
SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2020

	Nine months periods ended	
	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
Cash flow from operating activities		
Net profit / (loss) for the period	9,240,047	(16,195,700)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	37,173,464	37,616,768
Allowance / (reversal) for impairment of trade receivables	795,856	(40,330,241)
Finance charges	25,835,483	39,403,845
Provision against other receivables	10,500,000	-
Zakat expense	7,161,780	6,295,112
Amortization of intangible assets	1,112,687	1,106,617
Share in profit of an associate	(2,484,861)	(2,170,000)
Gain on sale of property, plant and equipment	(109,502)	(1,215,656)
Provision for employees' end of service benefits	2,947,450	2,864,005
	92,172,404	27,374,750
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	19,228,505	47,554,093
Inventories	(14,219,158)	(20,343,478)
Advances, prepayments and other assets	2,072,681	29,155,367
Trade payables	(2,597,959)	(19,818,150)
Accrued expenses and other liabilities	6,636,533	(4,444,038)
Cash generated from operating activities	103,293,006	59,478,544
Finance cost paid	(22,293,135)	(31,924,364)
Zakat paid	(4,461,018)	-
Employees' end of service benefits paid	(1,662,250)	(1,520,311)
Net cash generated from operating activities	74,876,603	26,033,869
Cash flow from investing activities		
Purchase of property, plant and equipment	(9,428,014)	(5,077,783)
Dividend received from an associate	2,600,000	1,560,000
Purchase of intangible assets	(242,779)	-
Proceeds from disposal of property, plant and equipment	269,566	1,216,453
Net cash flows used in investing activities	(6,801,227)	(2,301,330)
Cash flow from financing activities		
Lease payments	(903,200)	(903,200)
Change in short term loans, net	(5,254,556)	33,088,336
Change in medium and long term loans, net	(53,155,350)	(56,127,179)
Dividend paid to non controlling interest	(218,785)	-
Net cash used in financing activities	(59,531,891)	(23,942,043)
Net change in cash and cash equivalents	8,543,485	(209,503)
Cash and cash equivalents at the beginning of the period	11,959,334	22,844,638
Effect of exchange rate fluctuations	(703,965)	1,254,443
Cash and cash equivalents at the end of the period	19,798,854	23,889,578

Cash flow supplemental information

11

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors, on behalf of shareholders and were signed on their behalf on October 29, 2020.


Khalid Walid Abu Hana
Chief Financial Officer


Yousseri Abdel Hamid Abdel
Aziz El Bishry
Chief Executive Officer


Fahad Mohammad Al Dawood
Chairman

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

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

The shareholders in their extraordinary general meeting held on November 4, 2019 approved recommendation of the Board of Directors of the Company to reduce the share capital of the Company from SR 245,000,000 to SR 92,000,000 for the purpose of restructuring of the share capital of the Company to absorb the accumulated losses of the Company and support its future growth. As a result, total number of shares of the Company was reduced from 24,500,000 to 9,200,000 by way of cancellation of shares and the capital was accordingly reduced to SR 92 million. Following the capital reduction, the Board recommended to increase the share capital of the Company through right issue by SR 150 million in order to strengthen the financial position of the Group and to improve liquidity and working capital needs. On April 28, 2020, the Board of the Directors of the Company resolved to adjust their previous recommendation on increase in share capital, whereby it was agreed to increase the share capital by SR 100 million instead of SR 150 million by way of right issue. Subsequent to the period end, the Company has received approval from Capital Market Authority (CMA) for increase in share capital through right issue. The Company on October 15, 2020 issued prospectus for right issue amounting SR 100 million by offering 10 million shares.

These condensed consolidated interim financial statements which states that the current liabilities of the Group exceeded its current assets by SR 136.7 million (December 31, 2019: SR 198.3 million) mainly on account of short term loans and current portion of medium and long term loans amounting to SR 114.7 million and SR 152.9 million respectively (December 31, 2019: SR 140 million and SR 206.6 million respectively). Additionally, the group was in breach of its loans financial covenants and in default on repayment due for its long term loans by SR 5.76 million as of September 30, 2020 (December 31, 2019: SR 19.9 million). During the period ended September 30, 2020, as part of its overall loan restructuring plan, the Group was successful in restructuring its term loans amounting to SR 474 million. Management believes that the Group will be successful in restructuring of its loans and avail new ones as and when needed, revolving its short term loans as per its past practice and resolving the breach in the near future. Accordingly, these condensed consolidated interim financial statements are prepared on going concern basis and the loans are continued to be classified as per their original terms of repayment.

1.1 Structure of the group

These condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries as listed below:

Subsidiary	Country of incorporation	Effective ownership	
		September 2020	December 2019
Saudi Recycling Company	Saudi Arabia	100%	100%
Saudi Paper Converting Company	Saudi Arabia	100%	100%
Saudi Investment and Industrial Development Company	Saudi Arabia	100%	100%
Al Madar Paper Trading (Al Madar)	UAE	100%	100%
Al Madar Paper Trading	Morocco	100%	100%
Al Madar Paper Trading	Jordan	100%	100%
Saudi Paper Converting Company Jordan	Jordan	100%	100%
Al Madar Paper	Algeria	100%	100%
Al - Juthoor Paper Tissue Manufacturing Plant	Kuwait	85%	85%

During the year ended December 31, 2019, based on a “promise to sell agreement” the Group sold one of its subsidiary, Morocco Paper Manufacturing Company (MPMC). The balance receivable against the sale amounting to SR 13.6 million is presented under advances, prepayments and other assets. During the nine months period ended September 30, 2020, the Company has provided SR 10.5 million against this receivable balance based on the recommendation of Board of Director of the Company. Management of the Company has filed a law suit to cancel the sale agreement and made a precautionary seizure of the factory. As of the date of approval of these condensed consolidated interim financial statements, the legal procedures were still in progress.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements for the three and nine months' periods ended September 30, 2020 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. The accompanying condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and hence should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2019.

2.2 Preparation of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements are prepared under the historical cost convention, except where International Financial Reporting Standards (IFRS) require other measurement basis. The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019.

The preparation of these condensed consolidated interim financial statements in conformity with IFRS required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts in the condensed consolidated interim financial statements. These critical accounting judgements and key sources of estimations were the same as those described in the last annual financial statements.

2.3 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the "Group" as detailed in note 1.1. Control is achieved when the Group:

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

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

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

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

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

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of consolidation (Continued)

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

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

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

3.2 Changes in significant accounting policies

New standards, Amendments to standards and Interpretations

There are no new standards issued, however, there are number of amendments to standards which are effective from January 1, 2020 and has been explained in Group’s annual Consolidated Financial Statements, but they do not have a material effect on the Group’s Condensed Consolidated Interim Financial Statements.

4 PROPERTY, PLANT AND EQUIPMENT

4.1 The Group acquired fixed assets in nine months period ended September 30, 2020 amounting to SR 10.2 million including SR 1.64 million for right of use assets. (period ended September 30, 2019: SR 5.08 million).

Property, plant and equipment include the following right of use assets relate to Group’s leases:

	September 30, 2020 (Un-audited) SR	December 31, 2019 (audited) SR
Right of use assets, net		
Lands	7,346,013	7,905,098
Buildings	1,437,643	-
	8,783,656	7,905,098

4.2 Impairment on working plant and machinery

The management of the Company performed an impairment assessment of its property, plant and equipment as at December 31, 2019 based on which no impairment loss was recognised during the year ended December 31, 2019 (December 31, 2018: SR 6.5 million). The assessment includes assumptions related to future sales volume, prices, annual growth rates, terminal growth rates, discount rates, net realizable value and other related factors. The outcome of these assumptions is highly dependent on the success of future operations as estimated by management, market conditions and achieving its plans in future. Management considers these assumptions to be realistic and achievable in view of its operational restructuring plan and is confident of its ability to meet these future plans. Management believes that the carrying value of its property, plant and equipment will ultimately be recovered from the future operations.

4.3 Impairment of unutilized plant and machinery

The management engaged a third party consultant for the impairment assessment of certain unutilized assets of property, plant and equipment as of December 31, 2019 amounting to SR 43.7 million (December 31, 2018: SR 84 million). Based on the results of this assessment, management concluded that impairment amounting SR 3.2 million was required for these unutilized assets as of December 31, 2019 (December 31, 2018: SR 36.9 million). Management is currently assessing the alternative utilization plan for these assets. Management believes that these assets have the ability to provide future economic benefits to the Group and accordingly carrying amount of such assets will not exceed their recoverable amounts as of September 30, 2020.

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020**

5. TRADE RECEIVABLES

		September 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Trade receivables		222,424,078	241,652,582
Allowance for impairment of trade receivables	5.1	(104,475,974)	(103,680,117)
		117,948,104	137,972,465

5.1 The movement in allowance for impairment of trade receivables is as follows:

	September 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	SR	SR
Opening balance	103,680,117	138,731,315
Allowance for the period / year	795,856	-
Write offs	-	(3,658,584)
Reversals during the period / year	-	(31,392,614)
	104,475,974	103,680,117

6. LOANS

a) Medium and long-term loans

		September 30, 2020 (Un-audited)	December 31, 2019 (Audited)
	Note	SR	SR
Saudi Industrial Development Fund (“SIDF”) loans	6.1	31,023,650	39,272,452
Commercial bank loans	6.2	504,567,424	526,173,663
		535,591,074	565,446,115
Current maturity of medium and long term loans		(152,998,749)	(206,621,768)
		382,592,325	358,824,347

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

These bank loans are secured against promissory notes amounting to SR 979 million (December 31, 2019: SR 729.3 million).

During the period, certain loans amounting to SR 474 million (2019: SR 75.3 million) from different commercial banks were restructured.

6.1 SIDF loans

These represent loans obtained from SIDF by the Company and one of its Saudi Arabian subsidiary. The covenants of the loan agreements require the Company and such subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures. (Note 1)

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

6.2 Commercial bank loans

The Group has obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi Riyals which generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at September 30, 2020, based on their respective repayment schedules, are spread in 2020 through 2026.

b) Short term loans

Short term loans are obtained from various commercial banks and bear financial charges at the prevailing market rates which are based on inter-bank offer rate.

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

7. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Key management personnel compensation

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
Short-term employees benefits	3,528,498	5,321,800
Employees' end of service benefits	185,755	217,481
	<u>3,714,253</u>	<u>5,539,281</u>

8. OTHER EXPENSES, NET

Other expenses for nine months period ended September 30, 2020 include SR 10.5 million provision against receivables from sale of a subsidiary, Morocco Paper Manufacturing Company (MPMC) (note 1).

9. OPERATING SEGMENTS

a. Basis for segmentation

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

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

Reportable segments	Operations
Manufacturing	Buying, manufacturing and distributing pulp and paper
Trading, transport and other	Collecting, sorting, transporting and pressing waste papers

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

There are varying levels of integration between the both the segments. This integration includes transfers of recycled raw materials and shared distribution services respectively.

b. Information about reportable segments

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

Nine months period ended September 30, 2020 (Un-audited)	Reportable segments		
	Manufacturing SR	Trading and others SR	Total SR
Segment revenue	498,757,477	28,526,281	527,283,758
Inter-segment revenue	(104,255,887)	(10,191,266)	(114,447,153)
External revenue	<u>394,501,590</u>	<u>18,335,015</u>	<u>412,836,605</u>
Net profit (loss) before zakat	<u>26,373,683</u>	<u>(9,971,856)</u>	<u>16,401,827</u>
Finance charges	<u>24,814,406</u>	<u>1,021,077</u>	<u>25,835,483</u>
Depreciation and amortization	<u>37,164,006</u>	<u>1,122,145</u>	<u>38,286,151</u>
Segment assets	<u>855,742,303</u>	<u>41,189,154</u>	<u>896,931,457</u>
Segment liabilities	<u>771,021,087</u>	<u>43,818,043</u>	<u>814,839,130</u>

SAUDI PAPER MANUFACTURING COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020

9. OPERATING SEGMENTS (Continued)

b. Information about reportable segments (Continued)

Nine months period ended September 30, 2019 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading, transport and others SR	
Segment revenue	479,564,950	33,645,656	513,210,606
Inter-segment revenue	(98,013,209)	(16,459,061)	(114,472,270)
External revenue	381,551,741	17,186,595	398,738,336
Net loss before zakat	(7,845,724)	(2,054,864)	(9,900,588)
Finance charges	38,330,730	1,073,115	39,403,845
Depreciation and amortization	37,199,820	1,523,565	38,723,385
Segment assets	946,744,251	40,543,923	987,288,174
Segment liabilities	854,429,620	43,502,520	897,932,140

Three months period ended September 30, 2020 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment revenue	158,304,543	10,423,012	168,727,555
Inter-segment revenue	(40,713,583)	(3,724,706)	(44,438,289)
External revenue	117,590,960	6,698,306	124,289,266
Net profit (loss) before zakat	8,568,477	(2,666,876)	5,901,601
Finance charges	7,990,875	350,773	8,341,648
Depreciation and amortization	12,462,785	508,486	12,971,271

Three months period ended September 30, 2019 (Un-audited)	Reportable segments		Total SR
	Manufacturing SR	Trading, transport and others SR	
Segment revenue	148,739,753	10,241,641	158,981,394
Inter-segment revenue	(31,994,023)	(5,229,294)	(37,223,317)
External revenue	116,745,730	5,012,347	121,758,077
Net loss before zakat	(15,442,733)	(6,317,431)	(22,120,164)
Finance charges	16,945,887	361,232	17,307,119
Depreciation and amortization	12,500,273	502,621	13,002,894

Year ended December 31, 2019 (Audited)	Reportable segments		Total SR
	Manufacturing SR	Trading and others SR	
Segment assets	883,487,379	52,259,896	935,747,275
Segment liabilities	820,556,846	41,245,338	861,802,184

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020**
9. OPERATING SEGMENTS (Continued)
c. Geographic information

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

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

For the nine months period ended

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
- Revenue		
Saudi Arabia	374,544,624	356,198,411
GCC countries	26,804,918	29,933,208
Other countries	11,487,063	12,606,717
Consolidated revenue	412,836,605	398,738,336

For the three months period ended

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
- Revenue		
Saudi Arabia	110,877,604	108,981,776
GCC countries	9,085,512	8,997,572
Other countries	4,326,150	3,778,729
Consolidated revenue	124,289,266	121,758,077

As of period / year ended

	September 30, 2020 (Un-audited) SR	December 31, 2019 (Audited) SR	September 30, 2019 (Un-audited) SR
- Non-current assets			
Saudi Arabia	580,317,068	612,401,517	627,202,028
GCC countries	37,966,806	35,140,102	30,452,576
Other countries	11,881,172	10,900,881	8,085,862
Consolidated non-current assets	630,165,046	658,442,500	665,740,466

10. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the net profit / (loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Earnings (loss) per share are represented as follows:

	From July 1 to September 30		From January 1 to September 30	
	2020	2019	2020	2019
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
Net profit (loss) for the period (SR)	3,979,539	(24,286,143)	8,863,728	(16,495,900)
Weighted average number of outstanding shares	9,200,000	9,200,000	9,200,000	9,200,000
Basic/ Dilutive earnings (loss) per share (SR)	0.43	(2.64)	0.96	(1.79)

SAUDI PAPER MANUFACTURING COMPANY

(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE AND NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2020****11. SUPPLEMENTAL CASHFLOW INFORMATION**

	September 30, 2020 (Un-audited) SR	September 30, 2019 (Un-audited) SR
Right of use assets	783,168	8,091,460
Reclassification from short term loans to long term loans	21,200,000	-

12. CONTINGENCIES AND COMMITMENTS

As of September 30, 2020, the Group was contingently liable for letter of credits and bank guarantees issued in the normal course of the business amounting to SR 28.5 million (December 31, 2019: SR 14.9 million) and SR 0.53 million (December 31, 2019: SR 0.53 million) respectively.

13. SIGNIFICANT EVENT

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

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

14. ZAKAT ASSESSMENT STATUS

During the period, the Group received an assessment from GAZT for the year 2014 claiming additional liability of SR 9.2 million. Subsequent to period end, the Group has paid additional amount of SR 0.48 million and filed an objection against this assessment. Furthermore, subsequent to the period ended September 30, 2020, the Group received an assessment for the years 2015 to 2018 claiming additional liability amounting to SR 26.9 million.

The management is currently in the process of review of the assessment and believes that no further provision is required in respect of these aforementioned assessments in these condensed consolidated interim financial statements.

15. COMPARATIVE FIGURES

Certain figures of the comparative period have been reclassified in order to conform with presentation in current period.

16. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors of the Company and authorized for issue on October 29, 2020 corresponding to 12 Rabi I 1442H.