CORPORATE CREDIT RATING
SUMMARY REPORT

Middle East Paper Company (MEPCO)

Saudi Joint Stock Company

June 2026

T: +966 92 000 3594   3196 Saud Ibn Faisal Rd., Al Sahafah District, Riyadh 13321 KSA
CR. 1010461157   CMA license No. 15001-08
www.tassnief.com

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Related Criteria and Methodology

The specific rating methodologies and criteria applied in this analysis are available on the Tassnief website. To view or download these documents, please visit ww.tassnief.com.

Talha Iqbal
Rating Manager

T: 011-250-6627
E: tiqbal@tassnief.com

Syed Fahim, ACCA, CPA
Rating Analyst

T: 011-250-2084
E: sfahim@tassnief.com

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1. Tassnief's Rating Opinion

Tassnief has maintained long-term entity rating of **"A-" (Single A Minus)** and short-term entity rating of "**T-3"** of **Middle East Paper Company**. The outlook on the rating is "**Stable**".

About the Company:

Middle East Paper Company, referred to as "MEPCO" or "the Company" is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under the national unified number 7001404602 and commercial registration number 4030131516 dated September 30, 2000. MEPCO and its subsidiaries, collectively referred to as "the Group", are involved in the manufacturing and sale of containerboard, industrial paper, and tissue paper. MEPCO was listed on Tadawul on May 3, 2015. The Company's head office and manufacturing facilities are in Jeddah.

Middle East Paper Company – Entity Rating	
Domicile	Saudi Arabia
Long-Term Rating	A-
Outlook	Stable
Short-Term Rating	T-3
Rating Watch	None
Rating Action	Maintained
Rating Type	Solicited
Date of Initial Rating	October 2024
Date of Last Review	N/A
Methodologies Deviation	None

2. Rating Rationale

The assigned ratings incorporate Middle East Paper Company's (MEPCO) strong market position as one of the largest containerboard manufacturers in the region. The Company's ongoing expansion program is expected to further strengthen its market share and competitive standing. The ratings also reflect MEPCO's exposure to fast-growing end-markets, diversified product portfolio, and balanced sales mix across domestic and export markets, which provide a relatively competitive advantage over peers. In addition, consistently high-capacity utilization supports solid operating performance and efficient asset deployment. The ratings drawn comfort from the Company's satisfactory liquidity profile, and sound capitalization metrics. Rating constraints include the inherent cyclicality of the sector, which can result in periodic volatility in revenues, margins, and cashflow generation.

Strong operating track record, while capacity expansion program to further strengthen competitive advantage, positioning MEPCO as the largest containerboard producer

The business profile is underpinned by an operating history exceeding 25 years, a scaled production platform operating at relatively high utilization levels, and a diversified product portfolio spanning containerboard, specialty paper, and tissue. With installed containerboard capacity of about 440k tons per year, MEPCO accounts for roughly 22% of Saudi Arabia's containerboard demand and 18% of tissue paper demand. MEPCO is currently undertaking two major expansion projects aimed at materially enhancing its production scale, product offering, and market position.

Upon completion by June 2027, Paper Mill (PM5) will increase MEPCO's total containerboard capacity to approximately 900k tons per annum. Based on current installed market capacity, MEPCO's domestic capacity share is expected to increase to around 50%, positioning the Company as the largest containerboard producer in Saudi Arabia. Beyond scale expansion, PM5 is expected to enable MEPCO's entry into largely import-reliant low-grammage containerboard grades and specialty paper products, strengthening pricing defensibility while broadening its addressable market, and reducing reliance on a single demand cycle through greater geographic and end-market diversification.

Meanwhile, Tissue Mill 6 (TM6), with a designed capacity of 60k tons, is on schedule for completion before end-2026, which is expected to increase the Company's existing market share by approximately two-thirds while enhancing revenue stability given the tissue segment's more defensive demand characteristics. Execution risk on ramp-up and the ability to sustain export placements will remain key determinants of realized benefits.

Diversified product offerings and sales mix

MEPCO maintains a diversified portfolio of nine product lines, positioning the Company favorably relative to its domestic peers. The current product mix remains primarily anchored in core containerboard grades, with Fluting and Testliner representing the largest product categories. Specialty grades, including plasterboard variants, absorbent kraft, and core board, continue to represent a smaller but strategically important share of output, supporting margin resilience through greater product differentiation and less commoditized pricing dynamics. Further diversification is expected upon the commercialization of TM6 and PM5.

The business profile also benefits from a balanced domestic and export footprint, with flexibility to change the geographic mix based on market dynamics. Over the past year, MEPCO has shifted its commercial focus toward the local market to support margin stability and strengthen its domestic positioning ahead of the PM5 ramp-up. This recalibration reflects management's strategy to prioritize higher-margin local sales while maintaining export flexibility as a balancing channel. In 2025, local market accounted for 76% of total revenue. Given the ongoing regional conflict, management expects the share of domestic sales to increase further in 2026, reflecting softer near-term demand across GCC export markets due to supply chain disruptions.

Industry risk assessment incorporates cyclicality and oversupply situation in select international markets; ongoing expansions to provide a degree of mitigation against these risks

The assessment of MEPCO's business profile incorporates inherent cyclicality in supply and demand dynamics and limited pricing power given the commoditized nature of its products. These factors have contributed to volatility in revenue and margins, particularly during periods of oversupply. According to CEPI's Preliminary Statistics 2025, Europe remains in a surplus containerboard environment, with production growth exceeding stable domestic demand. As a result, European producers continue directing excess volumes to export markets, including the GCC region, thereby influencing regional price benchmarks.

GCC containerboard prices followed a gradual softening trend over the May 2025 to February 2026 period, as European surplus volumes maintained competitive pressure. The geopolitical escalation from late February 2026 reversed this softening trend. The recent spike in Testliner and Fluting prices reflects supply tightness from disrupted import flows and precautionary stock building and is assessed as largely transitory. Once import routes normalize, the underlying structural constraints are expected to reassert themselves, limiting the durability of the recent price uptrend.

MEPCO's ongoing strategic initiatives are expected to partially mitigate both pricing and cyclicality risks inherent in the containerboard sector. The current expansions will enhance production scale, lower unit costs, and expand the Company's presence in grades that typically offer stronger pricing defensibility. Additionally, revenue ramp up from tissue products should improve revenue diversification and reduce reliance on more cyclical industrial packaging demand.

Improvement in profitability profile supported by steady revenue and materialization of cost optimization initiatives, sustainability of the same remains important

MEPCO's profitability profile has improved in 2025, reflecting a combination of steady revenue, disciplined cost management, and a gradual shift toward higher-margin product and geographic mix. In 2025, revenue remained largely stable at SAR 1.06b, as improved selling prices were largely offset by lower sales volumes. For 2026, Tassnief expects steady revenue growth, supported by recent improvements in pricing amid the ongoing regional conflict, although the magnitude of growth will depend on the sustainability of sales volumes. Gross profitability strengthened during the year, supported by improved pricing discipline, favorable product mix, a higher proportion of local sales, as well as 3.2% reduction in cost of sales due to lower production overheads and direct material costs, partially offset by higher fuel prices.

Operating profitability exhibited a more pronounced recovery, with operating expenses declining by 25%. This was primarily driven by lower salaries and related benefits. MEPCO reported a net profit of SAR 22m in 2025, compared to a net loss of SAR 77m in 2024, with net margin improving to 2.1%. The turnaround reflects a broad-based recovery across operating and non-operating lines, although profitability remains modest in absolute terms.

While the recent improvement in profitability is notable, its sustainability remains an important consideration from a ratings perspective. The recovery has been driven primarily by efficiency gains, cost rationalization, and a more favorable sales mix. At the same time, the Company remains exposed to production cost volatility, particularly in relation to energy prices. MEPCO's planned transition to natural gas by 2028 is therefore viewed as a key strategic initiative to mitigate energy cost pressures and improve operating efficiency.

Nevertheless, Tassnief is of view that sustained profitability improvement will depend on the Company's ability to maintain pricing discipline, while volume-led growth is expected to be supported by the planned commissioning of TM6 before end-2026 and PM5 in June-2027, which should drive capacity expansion and throughput, albeit within a pricing environment that is likely to remain relatively soft due to global oversupply.

Satisfactory liquidity profile and capitalization indicators are key rating drivers

The assessment of the liquidity profile reflects a satisfactory working capital cycle, sizable cash balances, and sound financial flexibility. Working capital cycle remains well below historical levels, which is mainly attributed to improved inventory management, partially offset by slight increase in collection cycle due to higher local sales. Cash & bank balances remained sizable at end-2025, providing a degree of liquidity cushion as the main utilization remains for ongoing expansions projects. Meanwhile, funds from operations (FFO) and cashflow from operations improved to SAR 118m (2024: SAR 95m) and SAR 123m (2024: Negative SAR 100m), respectively, in 2025.

The Company's coverage indicators are considered adequate, particularly in the context of its ongoing partial debt-funded expansion phase, supported by improved FFO, a comfortable liquidity buffer, and demonstrated financial flexibility. Coverage indicators in terms of DSCR and interest coverage have room for improvement. Tassnief expects these to improve materially post expansion.

MEPCO has a sound capitalization structure, underpinned by sizeable equity base in relation to operational scale and currently low leveraged capital structure. Capital expenditure has increased over the past year in line with the ongoing expansion program, with funding largely secured for both projects. Leverage ratio stood at 0.65x (2024: 0.60x) at end-2025.

With ongoing expansions, long-term borrowings are expected to increase over the rating horizon; however, Tassnief anticipates leverage indicators to remain within manageable levels.

Sound governance framework

Ratings also account for sound corporate governance framework which draws comfort from board composition being in line with best practices, effective board oversight, formalized succession planning framework, structured decision-making process and sound internal control framework. Transparency and disclosures are satisfactory and provide important information for the stakeholders. Tassnief believes that Company's ESG considerations will support sustainability of operations in an industry characterized by high water and energy intensity. ESG considerations include procurement of over 75% of MEPCO's material requirements through its waste management and recycling subsidiary Waste Collection and Recycling Company Limited ("WASCO"). Moreover, MEPCO's PM5 expansion will have an integrated waste-to-energy system which will improve environment compliance. Further details will be available in Tassnief's ESG report on MEPCO.

3. Rating Triggers

Successful execution of expansions, which lead to an increase in scale of operations and financial flexibility, will be a positive rating trigger. Moreover, the Company's ability to reduce volatility in business and financial risk profile, remains important.

Tassnief's Long-Term and Short-Term Rating Scale

<table>
<tr><th>Classification</th><th>Risk Level</th><th>Long-Term Rating</th><th colspan="2">Short-Term Mapping</th></tr>
<tr><td rowspan="4">High Grade</td><td rowspan="4">Negligible Risk</td><td>AAA</td><td>T-1</td><td></td></tr>
<tr><td>AA+</td><td></td><td rowspan="5">T-2</td></tr>
<tr><td>AA</td><td></td></tr>
<tr><td>AA-</td><td></td></tr>
<tr><td rowspan="3">Investment Grade</td><td rowspan="3">Very Low Risk</td><td>A+</td><td></td></tr>
<tr><td>A</td><td rowspan="3">T-3</td></tr>
<tr><td>A-</td><td></td></tr>
<tr><td rowspan="3">Investment Grade</td><td rowspan="3">Low Risk</td><td>BBB+</td><td rowspan="3">T-4</td></tr>
<tr><td>BBB</td><td></td></tr>
<tr><td>BBB-</td><td></td></tr>
<tr><td rowspan="3">Near Prime</td><td rowspan="3">Low to Moderate Risk</td><td>BB+</td><td rowspan="4">T-5</td><td></td></tr>
<tr><td>BB</td><td></td></tr>
<tr><td>BB-</td><td></td></tr>
<tr><td rowspan="3">Sub Prime</td><td rowspan="3">High Risk</td><td>B+</td><td rowspan="8">T-6</td></tr>
<tr><td>B</td><td></td></tr>
<tr><td>B-</td><td></td></tr>
<tr><td rowspan="3">Credit Watch</td><td rowspan="3">Very High Risk</td><td>CCC+</td><td></td></tr>
<tr><td>CCC</td><td></td></tr>
<tr><td>CCC-</td><td></td></tr>
<tr><td rowspan="3">Distressed</td><td rowspan="2">Extremely High Risk</td><td>CC</td><td></td></tr>
<tr><td>C</td><td></td></tr>
<tr><td>Default</td><td>D</td><td>T-7</td><td></td></tr>
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Tassnief's Long-Term Rating Definitions

Long-Term Rating Scale	Definitions
AAA	**Extremely Robust**; Tassnief considers the rated issuer or issuance hold the **highest creditworthiness**, thus **negligible credit risk**
AA+ AA AA-	**Very Robust**; Tassnief considers the rated issuer or issuance to hold **very high creditworthiness**, thus **minimal credit risk**. Risk profile may vary slightly with changes in economic / sector conditions
A+ A A-	**Robust**; Tassnief considers the rated issuer or issuance to hold **high creditworthiness**, thus **very low credit risk**. Risk profile may vary with changes in economic / sector conditions
BBB+ BBB BBB-	**Moderate**; Tassnief considers the rated issuer or issuance hold **adequate creditworthiness**, thus **low credit risk**. Risk profile may exhibit moderately high variation with changes in economic / sector conditions
BB+ BB BB-	Tassnief considers the rated issuer or issuance hold **low to moderate credit risk**. Risk profile may exhibit wide variation with changes in economic or sector conditions.
B+ B B-	Tassnief considers the rated issuer or issuance hold **very low creditworthiness**, thus **high credit risk**
CCC+ CCC CCC-	Tassnief considers the rated issuer or issuance hold **extremely low creditworthiness**, thus **very high credit risk**
CC C	**Highly speculative credit profile**, and the default is imminent
D	Tassnief considers the rated issuer or issuance have **defaulted or may default soon.**

--- End of Report ---