

MEPCO's First Half 2018 Results Conference Call

Moderator: Anoop Fernandes
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Operator: This is Conference # 8178657

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by.
Welcome to MEPCO's First Half 2018 Results Conference Call.

At this time, all participants are in listen-only mode. There will be a presentation followed by the question-and-answer session. If you wish to ask a question, you need to press *1 on your telephone and wait for your name to be announced.

I must advise you that this conference is being recorded today, Thursday 2nd of August, 2018.

I would like to hand the conference over to your first speaker today. Anoop Fernandes, please go ahead, sir.

Anoop Fernandes: Good afternoon, ladies and gentlemen. This is Anoop Fernandes from SICO and I would like to welcome you all to MEPCO's second quarter and first half 2018 results conference call.

It is my pleasure to host the MEPCO senior management on the call today. With us we have Engineer Sami Safran, the CEO, Dr. Mohamed Darweesh, CFO, Ahmed Fazary, Chief Commercial Officer and Mr. Bassem El-Shawy, Investor Relations Officer.

Without further delay, I will hand over the call to Bassem El-Shawy, MEPCO's Investor Relations Officer. Thank you.

Bassem El-Shawy: Good afternoon. Good morning, everyone, and thank you for your time and attention. Thank you to have -- for being with us today in first conference call for MEPCO.

I will start the call by a brief disclaimer of our forward-looking projections, as usual. Certain information set forth in this presentation contains forward-looking statements. These statements do not guarantee the future performance and undue reliance should not be set of them. Such forward-looking statements necessarily involve known and unknown risks, uncertainties which may cause actual performance and financial results in the future periods to differ materially from those statements.

Thank you very much. I will hand over to Engineer Sami Safran to start with an introduction about the company.

Eng. Sami: Good afternoon, gentlemen. Good morning to you. My name is Sami. I believe that most of us know about MEPCO in general. We are actually specialized in the containerboard industries, in addition to the integrated process for material sorting and management. In this quarter brief, I would like to highlight the general performance about the paper industry market, we will speak about the operations of MEPCO, then we'll move to WASCO and we'll speak about the international markets and the operation of WASCO in the region.

Globally, as we are aware that 2017 was one of the fastest growing year of containerboard demand. The growth rate of the containerboard demand in that area reach up to in the global reached up to 4 percent, equivalent to the traditionals we've seen it in the previous years which is 3 percent.

We believe that 2018 will continue to be a healthy year in terms of the demand which will be an average of almost 3.5 percent based on the driven supply and demand in the market. Containerboard segment is considered to be one of the fastest growing segments in the paper industry. It's being

subsidized by the e-commerce which has grown globally and in the region here.

To speak now about our local region in the Middle East, I believe most of us are aware that MEPCO is actually an export company. We are exporting an average of 50 percent of our production annually to outside Saudi Arabia for the different sub-continent, almost like 50 countries in the world.

From the other side, we have also our own local market. Which I believe most of us is aware what is happening in our local market in Saudi Arabia from the economic performance which we have seen most of the FMCGs are dropping in return. Rationally, this should affect the containerboard industry because it's related to packaging.

However, from the other side we have noticed that MEPCO in the local market has enhanced and increased our market share due to the situations of the availability of the supply in the region and due to meeting the market requirements here. I think that helped MEPCO a lot really in terms of enhancing the local market share, in terms of keeping our presence in a different country.

However, it's also important to highlight that one of the key pillars we have performed in 2018 which is increasing our sales of the non-conventional grades. I believe anybody who was monitoring MEPCO here will notice that we have mentioned earlier that the company conducted an expansion projects earlier and part of the objective was to enhance our market share of the non-conventional grades.

Accordingly, we have increased the sales ratios of the non-conventional grades from almost 25 percent all the way to 35 percent. We believe this will continue up to the end of the year.

Operational wise, like what we have mentioned earlier that we have invested in 2015 and 2016 for the objective of improving efficiency, reducing cost, enhancing diversification and it looks that this plan actually is being maintained well because this is what we are keeping also in terms of the

performance for this year. We have achieved some marginal increase in our production capacities in the operation.

Now coming to the second part of the business which is WASCO and WASCO, in brief, it's actually -- it's a fully owned company by MEPCO. It is focusing in waste management and sorting and they are considered to be one of the major suppliers of raw materials to MEPCO.

WASCO in the global market of the waste paper industry, we have noticed that China have developed the new regulations in 2017 and that's to increase the restrictions of the import of the waste paper in China. That has actually led to a global drop in the raw material prices. We have anticipated that could be a temporary situation, but it looks that it is not a temporary situation and it is continuing as such and this is what we have clearly noticed it and recognize it in 2018.

Which, as a result, has helped us as a paper mill to reduce our direct material cost for the similar case, but from the other side, it's put pressure on WASCO in catering the requirements at the competitive price.

Likewise, we have mentioned earlier the relation between MEPCO and WASCO are an arm length basis and accordingly, in MEPCO, due to the price advantage, we have imported certain quantities of raw materials from outside. Due to the cost advantage we have noticed it, but at the same time, it puts pressure on the performance of WASCO.

However, then it was that when we noticed that in global we managed to reduce the total consolidated cost of our operation. (There's a ton of produced as if we continue our convince lever). However, the only (top they decide effect) is the marginal (dot) in the sales of WASCO due to midpoint average from the raw material side.

Now, I believe the last part that we should cover is how do we see the rest of the 2018. I think what we have mentioned earlier in our planned area of the year, it's been implemented and we believe what we have noticed it in the paper industry market that 2018 is considered to be a tight year which,

potentially, the situation should continue as such through the whole year or through the rest of the year.

That's all what I have about the operational side. I will hand over the talk now to Dr. Darweesh to speak about the financial side of the company.

Dr. Darweesh: Good morning, everyone. I will give a high-level highlight about our financial performance for the first half of 2018 versus the same period of 2017. Elhumdillah, our gross profit margin jumped from 22 percent last year to 28 percent this year. The main driver behind this improvement, the improved market demand for containerboard products, as well as higher product diversification, was more focus to a higher margin of products.

As mentioned -- as the CEO mentioned now, non-conventional grade increased from 25 percent in the first half of 2017 to around 35 percent in the first half of 2018.

So first of all, the operating profit margin also increased by 6 percent from 10 percent in 2017 to 16 percent for the same reasons mentioned earlier. net profit margin also jumped from 6 percent to 13 percent as improvement of sales revenue led to improvement on gross profit, operating profit and also less finance costs.

Finance costs dropped by about 14 percent as compared to the last year due to (lower borrowing level and also we mitigated the increase in SIBOR through decreasing (bank margin). Our loans dropped in 2018 as compared to 2017 by about SAR 80 million which -- and the total debts dropped by 11.9 percent.

Our equity increased by 9 percent this year as compared to the last year. Return on assets increased from 4 percent to 7 percent, return on equity increased from 9 percent to 16 percent. So debts to equity ratio dropped from 1.11 to 0.91. I think this all what I have and I leave you all to start your questions. Hello, operator?

Operator: Yes, sir.

Dr. Darweesh: All right. We can open for Q&A

Operator: OK. So you want to ask for questions. We will now begin the question-and-answer session. As a reminder, if you wish to ask a question you need to press *1 on your telephone and wait for your name to be announced. If you want to cancel your request, just press the "hash" key. Once again, you need to press *1

And sir, we got one question from Jonathan Milan. Please ask your question.

Jonathan Milan: Good afternoon, gentlemen. Thank you for taking the time for the call. I just want to get a sense of your guidance for volumes for the rest of the year and I'm guessing for prices, we can look at the commodities price. For volumes, why can't you grow volume again through exports? There seems to be enough demand for these products.

The second question is on cost. Can you import the waste paper from abroad? Because their prices continue to drop quarter-on-quarter and year-on-year, whereas we haven't really seen a drop in cost for MEPCO.

And the third question, are there any large expansion plans?

Eng. Sami: (Clearly) I just -- I didn't catch your name .Can you repeat that?

Jonathan Milan: Jonathan Milan from Waha Capital.

Eng. Sami: Waha Capital. All right. Thank you, Jonathan. Your first question was on exports. Why don't we export more?

Jonathan Milan: Yes.

Eng. Sami: All right.

Jonathan Milan: Yes. I mean I understand in the Saudi markets right now there's a bit of a slowdown. So why won't you replace it with exports?

Ahmed Fazary: Hello, everyone. This is Ahmed Fazary, Chief Commercial Officer. Let me answer your question, Jonathan. Regarding exports, we have in general, we sell 50 percent domestic and 50 percent exports, but we will not stop on that.

We have a very flexible sales policy where we adjust our sales to the export market or the domestic market according to the benefits it's bringing to the company and according to the market situation.

So in the first half of 2018, it was a better decision for us to sell in the domestic markets. So that's why we base our sales in the domestic markets, but we have to lose flexibility later on that we divert a lot of our sales to the export markets. It's all a matter of benefit.

Jonathan Milan: OK. But I mean in a sense then why -- because the main reason why I'm asking this is our volumes have fallen 7 percent. So I understand that maybe it was more lucrative to sell in the local market, but other than seeing a drop in volumes, could this have been sold abroad, for example?

I mean it's just -- a better way to ask this is why did you see a drop in volumes and is there a way to mitigate this and to recapture that volume, that lost volume?

Ahmed Fazary: When you're looking at our financials and the figures we announced, they are actually our consolidated figures. So if you're looking at the drop in volume, it's basically because of WASCO and this would probably answer a question that you asked later regarding import waste paper.

So we reduced our buying volumes from WASCO and we imported more volumes from abroad, but also WASCO has reduced its sales in the market to other buyers in favor of the import of wastepaper. But in terms of finished product, we have increased.

Jonathan Milan: OK. OK. How much ..

Ahmed El Fazary: (We won't) be able to because that's the consolidated.

Jonathan Milan: OK. Got it. And how much is WASCO sales in Saudi riyals as a -- to outside companies as a percentage of total sales for the group?

Eng. Sami: (Furthermore) is the 59 percent of our ...

Jonathan Milan: Revenues actually.

Eng. Sami: Sorry?

Jonathan Milan: No, in terms of revenues I mean.

Dr. Darweesh: Fifty-nine percent of our sales was agreed) to the local market and the 41 percent was addressed to export. And ...

Dr. Darweesh: As you know, WASCO is a fully owned subsidiary company. (Inaudible) in our consolidated financial statement most of WASCO sales 90 percent of WASCO sales do not appear in income statement. But sales to others dropped by about 75 percent.

Jonathan Milan: How much? 35 percent?

Dr. Darweesh: Seventy-five percent.

Jonathan Milan: OK. OK. And I guess my last question is regarding expansion plans. Are there any expansion plans in the near future?

Eng. Sami: I think we have been asked this question if you remember, since the IPO of MEPCO, they have announced about our plan for expansion and then the situation has been held for a couple of administrative reasons that we didn't get the approvals. This year we started to initiate activity again. Hopefully we can hear some official news through this year.

Jonathan Milan: OK. And one last question, if I may. Do you have any guidance for the rest of the year in terms of revenue growth and the net profit growth? Because so far the revenue growth has been coming in large part from increase in prices and paper prices, but year-on-year the increase is no longer as large as it was in H1. So should we -- does this mean that we should see a slowdown in revenue growth to the single-digit and similarly for net profit growth?

Ahmed Fazary: Well, we cannot state that, John. It's a -- so far the year has been looking good compared to 2017. We expect this trend to continue. Despite the tightening of the local markets, we have a huge international market to attract.

So we're still optimistic for the remainder of the year, but taking into consideration that this is an international commodity. This is traded all over the world and anything could happen at any time, but for what we are seeing so far throughout this year, it's looking very positive.

Jonathan Milan: OK. Perfect. Thank you very much.

Eng. Sami: Thank you.

Operator: Next question comes from the line of Asim Bukhtiar. Please ask your question.

Asim Bukhtiar: Hi. Good afternoon, everyone. This is Asim Bukhtiar from Saudi Fransi Capital.

Asim Bukhtiar: Just a couple questions. Hi. How are you? I noticed on your trade receivables, they've been steadily increasing since beginning of 2017. Is it just business growth? Is it something else? Can you just shed some light on this?

And my second question is related to 35 percent contribution from non-conventional grade. Can you just talk a little bit about flexibility? I mean how much can you increase that and what are the factors behind deciding whether it's 25 percent versus 35 percent? Thank you.

Dr. Darweesh: Regarding our receivables, our receivables has increased 26 percent against or versus 2017. But at the same time, our sales revenue increased by the same percentage, 26 percent. That's a -- it's a small amount and elhumdillah our collection period and the collection amount was in the same line as our budget.

For the (non-conventional grades), the gross margin generated from these products is higher. If we have more gross profit from this product, we will increase it and vice versa.

Let me comment on this further. The advantage we have built in our machine that in paper industry, in one machine you can produce the (fancy grade) and this is what we have actually developed the machine with in 2015 and 2016.

Asim Bukhtiar: OK.

Eng. Sami: Accordingly, we run the product mix based on that return which is having a better revenue and this is how we moderate between conventional, non-conventional and between local and international market. If the non-conventional grades have a better return in certain areas, we enhance it. However, it's clear that non-conventional grade is taking an upper advantage than the conventional. That's why we gradually ramp it up.

Asim Bukhtiar: OK. OK. Understood. And just one other question is you mentioned the weakness in the Saudi -- in the Saudi market. FMCG is a little bit slow. How much is this -- do you expect this to further weaken going forward? And how much of an impact do you think this will have on your revenues going forward and for the rest of the year?

Eng. Sami: See, number one is that the FMCG market in Saudi Arabia, most of the analysts aware that's been dropped on an average of 15 percent, plus or minus. OK? MEPCO's share in the Saudi market is on an average of 20 percent. This year we have increased it to 22.5 percent.

Asim Bukhtiar: OK.

Eng. Sami: The advantage of the product since it's been an exportable product, we respond to this on the -- on the benefits that return to the company and accordingly, we adjust it. The drop of 15 percent in our market share of 20 percent is not (measured) typically. It's getting affected from the imports before the local suppliers are getting affected.

Then in the Saudi market, conventionally, are importing an average of 35 percent from outside.

Asim Bukhtiar: OK.

Eng. Sami: And we have noticed that the drop has impacted the imports from outside, not from the local mills.

Asim Bukhtiar: OK. OK. Understood. Thank you.

Operator: Your next question comes from the line of Deepak Babu. Please ask your question.

Deepak Babu: Hi. Good evening, gentlemen. Thank you, first of all, for the call. I guess most of my questions have already been answered, but I just have a quick one regarding the Capex. So in Q2, we saw the Capex jump a bit on a quarter-on-quarter basis and it came at around 6.8 percent of revenues. I just want to know, is this just maintenance Capex? And if not, what does this relate to?

And secondly, is it possible to provide the guidance for Capex for the rest of the year and for 2019?

Dr. Darweesh: Capex increased in first half of 2018 as compared to first half of 2017 by about SAR 24 million due to new projects or improvement of our power plant and water plant and (inaudible) other projects. Maintenance cost is normal, is about 5 percent of gross revenue.

Deepak Babu: All right. Great. And regarding the guidance ...

Eng. Sami: But typically, MEPCO historically -- and paper machine, you have two different models to operate. Whether it is the American model that you're under machine until they're end of the life and then you replace it. Or you keep enhancing the operation of the machine to keep it in a high efficiency operation and this is how you can extend the life of the machines for more than normal, above the 30 years. And since the start up of MEPCO, we keep to always keeping our machines in a healthy condition.

Deepak Babu: All right. Great. So for the rest of the year, is there a way you could provide us a guidance? Would it still be in that 5 percent range of maintenance Capex for the -- for the remaining half of 2018 and can we pretty much expect the same going into 2019 as well?

Eng. Dr. Darweesh: Yes. If we don't have new projects or new expansion, it will continue within 5 percent.

Deepak Babu: OK. Great. All right. Thank you so much.

Operator: Your next question comes from the line of Azar Salem. Please ask your question.

(Azar Salem): Yes. This is (Azar Salem) from Saudi Kuwaiti Finance House. OK. Yes. Most of my questions were actually answered in the previous (sessions), but one thing that I wanted to ask is we see a lot of global dynamics changing with the U.S. trade war with China and as evident from the numbers from MEPCO as well, that the reliance on the price is way too much.

I mean the firm is already operating at almost full capacity and expansion. Yes, if it goes through it's good, but don't you think there is a slight of a question on the sustainability of this business model itself, if it's going to be sustainable unless value-added products are added or something else is going to be done? I mean how does the company tackle that situation? Because if the global prices are changing, the company is not able to generate those volumes in that case. I hope you understand that.

Secondly, what I feel is that locally itself the dynamics have been changing in the past one year or so with a lot of pressure on cost in terms of utilities, manpower, expatriates and all look at the labor fees and all the expat fees is a -- is a smaller portion.

But how material is the utilities increase on MEPCO's cost structure and is there a strategy to tackle that or that's just going to be cost of business or a new normal is going to be set in the economy? Thank you so much.

Eng. Sami: Thank you. It's really a good question. Both when you answer them are very genuine. Let's take number one, the business dynamic, which you have rightly expressed this industry. OK? And this is why I think MEPCO, since the beginning, we are aware that we are in such kind of nature of an industry and accordingly, we have to pay attention for every, single or minor issue that is related to the business.

And this is why, since the start up, we move to backward integration. We have established WASCO to secure the raw materials continuity and supply for almost 18 years of operation of the company, WASCO's one of the backbones of the success and stability of the business.

Number two, we have invested into the power generations, like automation before. MEPCO is producing 100 percent of our power by ourselves and this really helped us a lot to mitigate the cost of the energy in our operation. And considering the fact, like what you mentioned of the increases in energy of the government, this is what really the measure of that or the file that is already active for us right now.

I don't really to give you a briefing promises, but reality, most of the -- most of the expected changes in the environment here is being considered in MEPCO and taking an action system-wide.

For example, the manpower issue and the localizations, the company established our own training institute to train Saudis and to inject them in the industry -- in the industries according to where is our Saudization level to 50 percent and then you will find some of our general expenses going higher only for the investment of the training.

The second thing is the water which is (a part). We have invested into recycling most of our water that is coming out from the mill and now we are going for further development in the ETP plant to further recycle the water and keep it in the lower levels.

Eng. Sami: Yes. And take an example that although that we have been awarded that we are one of the water innovators of the industry, if you see the benchmark of the cost per ton of the water at MEPCO comparing with the rest of the world, we are maintaining an average of \$5.

If you access the international benchmarking, you will find we are almost in the same level. Although, in Saudi Arabia, water scarcity is very high. Our cost of water is very high, but accordingly, we manage to maintain it. So this

is regarding, really, the business dynamic, how we tackle it and we can maintain it.

Regarding what is happening of aggression between China and the United States, until now most of the results which is happening is coming to our favor. Number one because we are not part of this issue and number two is that, like what I mentioned in my brief presentation, that the change in legislations in China, OK, is going to the favor of the other countries.

For example, banning the export -- the import of wastepaper from United States is actually helping to reduce the cost of wastepaper, but at the same time to increase -- the export of our finished products to China and others. And this is why MEPCO is also selling to China in a small basis.

So coming really to one part, which is really very important, which is the dynamics. If you remember, since the internet revolution started, you will see industries like writing and printing or news spreads are diminishing heavily and it's going down.

But at the same time, the e-commerce is re-boosting the demand in the containerboard and the e-commerce in the region here representing 10 percent of the trade which is equivalent to the rest of the world.

And we could see tangibly, earlier at MEPCO we used to ship our paper application in the United Kingdom for the e-commerce requirement and now we are selling it to the local region. We noticed some of our clients are converting their machines to serve the e-commerce segment. Does that answer your question?

(Azar Salem): Yes. Yes. I think that was good. Thank you so much.

Operator: Another question comes from the line of (Samer Darwiche). Please ask your question.

(Samer Darwiche): Hi. Good afternoon, gentlemen. I just have a couple of question. Do you have any update on the anti-dumping from Spain and

Portugal? I remember you guys had an anti-dumping case. Do you have any update on that?

The second question is in the 2017 annual report, you mentioned -- you mentioned, and your note about zakat that you're having a final assessment of the authorities. Do you have also any update on that?

And my last question is do you have a number about what's the percentage of WASCO business that's cash-based? Thank you.

Ahmed Fazary: I'll answer you on the anti-dumping status. Actually the anti-dumping case has been against three countries which are Poland, Spain and Italy. the deadline for the final report is to come out before the end of this year and initially, the results seems to be favorable in our favor.

(Samer Darwiche): OK. What type of -- I don't know -- compensation, if I may say so, or what type of (response do you expect?

Ahmed Fazary: Basically, in anti-dumping case, world-wide because it has to be as per the international regulations, trade regulations. You basically -- they evaluate the size of the damage and the -- if duty is imposed according to the dumping harm that has been caused by each country and each company in those countries.

(Samer Darwiche): OK.

Dr. Darweesh: For zakat, we have received, as you mentioned, assessment of about SAR 16 million for the period from 2008 up to 2012. We have appealed against this assessment and we submitted all required information up to satisfaction level of zakat authority. But yet we didn't receive their feedback, but we do not expect any material impact on our financial performance or our income statement in the recent future.

(Samer Darwiche): OK.

Dr. Darweesh: For WASCO cash, yes, WASCO business model is different from other companies or its business is different. But in general, the credit against the

cash, 65 percent credit, 35 percent cash. But this flexible model changes from time to time depending on the market, depending on price advantage, and depending on the quantity we need to provide for holding company MEPCO. A lot of factors controlling this formula, but in general, 35 percent cash, 65 percent credit.

(Samer Darwiche): OK. Just one last question. Do you have any maintenance shutdown scheduled this year or not?

Eng. Sami: We have a scheduled shutdown on a monthly basis, but we don't have any plans for major shutdowns for the rest of the year.

(Samer Darwiche): OK. Thank you so much, guys.

Operator: Once again, if you would like to ask a question just press *1 on your telephone and if you want to cancel the request just press the "hash" key.

And we got another question. Comes from the line of (Raghad Duhaiby). Please ask your question.

(Raghad Duhaiby): Salamaleikun. I'm Raghad from HSBC. First of all, thank you very much for the presentation, Eng. Sami and Dr. Mohammad. So my question is regarding the non-conventional grade.

Could you shed some light on the margins and the applications of those non-conventional grades? The annual investment on conventional grade. I mean, for example, expand your client base. Is there other application or is it a substitution for the conventional grade?

Ahmed Fazary: Answering your question, let me -- let me give you more details on the non-conventional grades. The non-conventional products, they include products that serve the packaging factor and they include also products that serve other sectors like the furniture sector or the construction sector.

The products serving, whether the packaging or the containerboard sector and also the other products serving other sectors are all niche products that have been -- never been traditionally produced in the Middle East region and this is

-- this is opening a new gate for our company to penetrate market segments that have never been penetrated by any domestic company.

So having stated that, this gives us a lead and those products are definitely providing favorable margins for the company.

(Raghad Duhaiby): OK. So ...

Eng. Sami: For example -- for example, the products would serve the construction sector like the plasterboard. MEPCO is the only producer in the Middle East for this kind of grade of the paper. Most of the conventional producers of this grades are coming whether from Europe or Far Asia.

(Raghad Duhaiby): OK. So basically the move to more of a conventional -- a non-conventional, sorry, grade. Is it mainly driven by it's more profitable or is it driven because there is a weakness and there's been demand for the conventional grades?

Ahmed Fazary: They provide favorable margins for the company.

(Raghad Duhaiby): OK. Thank you very much. Thank you for that.

Male: Thank you.

Operator: We got another question. Comes from the line of (Abdulaziz Al Nazure). Please ask your question.

(Abdulaziz Al Nazure): Hello, gentlemen. Congratulations on the strong set of results and performance during the first half. I have four questions for you. I want the volumes from the manufacturing segment, please, Dr. Darweesh. Exclude the WASCO during Q1, Q2 and comparing this to 2017.

Dr. Darweesh: OK.

(Abdulaziz Al Nazure): And I want also to have an outlook on the OCC market, given -- the local OCC market, given the current U.S.-China trade war and how did that impact the local market? And also, I want to know if there is an update on the tariffs on exports of OCC.

And my fourth question, last question, is in case you went for the expansion, do you plan to or do you target to have a production line that runs or utilizes natural gas or HFR? Thank you very much.

Dr. Darweesh: the volume in the first half of 2018 increased by about 2 percent as compared to the first half of 2017.

(Abdulaziz Al Nazure): Yes. No, I want the exact amount, Doctor. Q1, how much and Q2, how much?

Dr. Darweesh: The amount we didn't used to announce such information for the time being, but we'll discuss it internally in the third quarter and we will let you know inshallah

(Abdulaziz Al Nazure): OK.

Eng. Sami: Regarding the OCC of the local market Abdulaziz, typically to confirm something gentlemen the drop in the prices of local raw materials of OCC has not driven due to the China war. Rather actually due to the change in Chinese regulation.

To explain further, typically in such raw materials, that allow for the international outsource are 5 percent. Chinese are reducing the outsource to be 0.5 percent which means they are accepting only very clean raw materials. And this is typically very difficult to achieve in normal, recycling operations in any area.

Accordingly, the Chinese dropped their consumptions of the imports greatly and they are trying to enhance the consumption from the local market in China. That actually leads to non-availability or not enough availability of raw materials in Chinese mills which created a drop in the total production of China and that really drive them to import. But from the same time, it leads also to abundancy of such raw materials in the whole world.

Accordingly, the global crisis of OCC went down which has resulted -- it drops, also, the prices in the local market and that's why WASCO did not --

did not manage to sell at the favorable prices which was being practiced the year before.

(Abdulaziz Al Nazure): But Engineer Sami -- Engineer Sami, what they say is that -- is that because of the trade war between China and the U.S., U.S. volumes of wastepaper went to India which is the target market for our local waste collectors who try to export to India. So prices in India went down and prices locally went down and WASCO is not buying from the local market, trying to pressure markets downward. Is that true or?

Eng. Sami: It's partially true. Just to keep -- to keep you informed about it, the change in regulations in China started since Q3 2017. Whereas the trade war between China and U.S. started almost in Q2 2018. And as a quick action, Chinese, (when they figure the world really will choose) United States as the first market to ban the import of OCC from there.

However, the (situation) of raw material prices was not from Q2 2018. It started the year with the deterioration in the prices.

(Abdulaziz Al Nazure): How about locally, Engineer Sami?

Eng. Sami: Locally, it is a response to what happened internationally and that's why today you would find there is an availability, the export of 2018 of raw materials from Saudi Arabia is much lower than 2017.

(Abdulaziz Al Nazure): And if we combine, Engineer Sami, the decline in prices of test liner and floating during, let's say, Q3 or Q4 of 2018 versus the decline in OCC, I mean would it be favorable for MEPCO or would it pressure MEPCO's results?

Eng. Sami: This is difficult, really, to comment for the price indications for the coming quarter. However, just to keep you informed, the decline of raw material prices was not triggered only in Q2. It was triggered much earlier. So there is -- for the first time, we do not see a correlation between the finished product prices and the raw material prices.

Keeping in mind that the virgin pulp, which is also another constituent of the finished product, is actually moving in the other way. It is going in a high direction. Today, for example, the pulp has moved up to \$800. Again, it was \$450 one year ago.

However, the tight supply of the -- of the finished product is expected to maintain the prices on that level for the coming period.

(Abdulaziz Al Nazure): OK. And ...

Eng. Sami: Now, regarding the tariffs of the OCC export, we did not hear anything or any regulations yet so we can't really comment on it. Coming to beam Abdulaziz like what I mentioned beginning of my discussion, at MEPCO, we try always to foresee what is going to happen in the future and act accordingly and energy is one of the key players in Saudi Arabia that has to be considered in any future expansion.

(Abdulaziz Al Nazure): So you will target natural gas then? Or I mean it will be favorable.

Eng. Sami: Yes, we are studying all options, but for the time being, definitely. Natural gas is the clear options for energy reduction.

(Abdulaziz Al Nazure): OK. Thank you very much, Engineer Sami, and congratulations again.

Eng. Sami: Thank you very much.

Operator: Once again, if you would like to ask a question just press *1 and if you want to cancel your request just press the "hash" key. And we got another question. Comes from the line of (Abora Ramanlanrakeen). Please ask your question.

(Abora Ramanlanrakeen): Good afternoon, gentlemen.

Male: Good afternoon.

(Abora Ramanlanrakeen): I want to ask -- I'm abdulrahman from (Dreyer Financials) and I only have a small question. Regarding the capacity utilization rate in

Q2, what was it and also what is the expectation of the utilization rate in Q3?
That's it.

Eng. Sami: Abdulrahman in MEPCO, the paper machines are running with their full capacity. Now, the only thing that you consider most of time in case of any unscheduled shutdowns are there. However, it is in operation. You might notice some variation and challenges and this is related to -- in our production line, usually we vary with the GSM. GSM which is the gram per square meter.

So if there is more grams of lower GSM, like 100 gram, you will find challenges is lower and if there is a higher grammage, like from 100 gram to 200 gram or 500 gram, you will find that challenges are higher. Now, we modulate those runs based on a better financial return for the product. So sometimes your on lower grammages, but the return is higher and this is how we modulate.

However, in total, there is an increase between 2017 and 2018. We are targeting to increase 5 percent from what we have did last year.

(Abora Ramanlanrakeen): OK. Thank you so much.

Operator: There are no further question at this time. I will hand the call over to you, Anoop. Thank you.

Anoop Fernandes: I would like to thank everyone for their participation in this conference call of MEPCO. Thank you very much and now I will hand over to Bassem for any closing remarks.

Bassem El-Shawy: Gentlemen, thank you very much for giving us your time and from the way we have seen the questions, I really appreciate your interest of our company. And I think in before and now, we are trying to translate this confidence and trust on us into a deliverable result.

I believe that, thankfully, MEPCO since the start up in an oil-based industry and gratefully, the 2030 vision came to enhance the business principles of the company itself where a local content of our production above 80 percent are

from the local market. We have successfully managed to localize the industry and increase our Saudization rateto 50 percent.

We try to anticipate the potential risks in the future and mitigate them or avoid them as possible. We will keep studying all the options in terms of increasing and growth of our business from a conventional expansion to backward to down streaming. And hopefully in the coming months and years, you will find the business in MEPCO is justified. So thank you very much for your time and effort spent with us.

Operator: This concludes our conference for today. Thank you for participating. You may now all disconnect.

END