

Operator: Ladies and gentlemen, thank you for standing by. I would like to welcome you to the MEPCO Q1 2019 results call. At this time, all participant lines are in a listen-only mode. The format of the call will be a presentation by the MEPCO management and IR team, followed by a question and answer session during which you will have the opportunity to ask questions. So, without further ado, I would like to pass the line to MEPCO. Bassem, the floor is yours.

Mr. El Shawy: Thank you, Tim. Thank you very much for joining us today. I will start today's presentation by making the forward-looking disclaimer. This presentation may contain forward-looking statements. While management has made every effort to present a fair view of MEPCO's operational and financial performance, it is important to know that expectations about the future results that come in light of prevailing operational, financial, and market conditions may change in the future. Management does not give forward-looking statements in financial modeling or investment decision making. It does take your responsibility to explain differences between future and actual results and what was stated in the course of this presentation.

Mr. El Shawy: I will hand over now to engineer Sami Safran, CEO of MEPCO, to read you about Q1 2019 performance.

Eng Sami: Good morning. Good afternoon, gentlemen. This is Sami. Thank you very much for joining us on this conference call. I think in this meeting we will try to share with you the market performance, global market performance, local, and operational performance of the company. I was thinking in the beginning how to modulate this scenario of the reviews, but that I thought that it will be more freely for me to speak moving forward and backward between both of them.

Eng Sami: Let's speak in the beginning about the market performance in general. I think we have noticed the decline of the commodity prices of paper industries since Q3, end of Q3, and it is continuing. We anticipate that the situation should continue as such. However, it took probably a sharper turn than what we are expecting. It's been aggravated by the situation of the Chinese-US war on a commercial basis, in addition to the slow economic performance in Europe. Like what we mentioned early, usually paper industry, although it is a healthy industry, based on the continuable demand and average growth of 3%, and as a result, usually, the investors are increasing their capacities and installations to match the additional requirements of the 3%. However, occasionally you would face an economical slowdown that will create a drop in the demand and causing [inaudible 00:03:06] access.

Eng Sami: We have noticed that by Q3 the inventory level of most countries is going up, which probably even the same situation happen to us here in MEPCO. Let's take, for example, Chinese consumption has dropped by 7% from '17 to '18, and by another 6% from '18 to '19. The aggregate demand of Chinese market is 45 million ton. That shows how much excess capacity is ... Or excess inventories was available. By the beginning of this year we have decided to change our

scenarios and to meet the challenges, and accordingly we focus to enhance our sales both locally and internationally. Thankfully, all those financial results were as we were expecting. We have managed actually to execute the highest ever sales volume of the company's history [*note added by editor: highest sales volume in tons*]. As a result, we managed to drop the inventory of our warehouses to a normal level, and it is continuing to be a plan.

Eng Sami: At the same time, I think we ... That drives us to focus more into continual improving our efficiencies in the process. We have focus to reduce the cost of the raw materials from our side. We negotiated very well our raw materials from the local market and from the international. We have opened the international market to import raw materials to compete with the local market.

Eng Sami: At the same time also, we have changed slightly our plan for the marketing and sales. We focus more into the products that have higher revenue for us. I think as an advantage for this, we have managed to focus onto different type of grades that create the better revenue. I think we mentioned earlier that in MEPCO we have managed to increase our portfolio of production from two conventional grades to almost nine or 11, and that gives us the flexibility to modulate from one segment to another, which has the higher revenue for us. Thankfully the people in operations are having their dynamic machines that we can adjust accordingly without a negative effect on our performance.

Eng Sami: The way I'm explaining, as you can see, that we are responding to the situations that is happening. However, that always creates for us an opportunities for further improvement in term of different things, including the energy, including the manpower, which is continuing to be an optimizing objective process for us.

Eng Sami: We believe that the market situation is going to continue for Q2 without, probably, major surprises. However, I think it's important to remember, gentlemen, that it's been more than one year. The price is continuously escalating, and usually there is a correction step that's happening. I believe what is happening in those two quarters are the correction step for the continuous increase in prices. We don't anticipate always this drop will continue as the normal industries. We have seen it through the number of years. We always find the [inaudible 00:06:39] of up and down, and this is the nature of the market.

Eng Sami: Interestingly, we are in a place that has a continuous growth of 3%, like what I mentioned. Until now, most of the technology, especially the e-commerce applications coming to that favor, and accordingly that will not hold us to focus and improving our business, maximizing it, focusing on our growth.

Eng Sami: And just speaking about our growth, I would like to highlight a couple of things. Number one, about our anti-dumping case, which I think everybody heard about it. That the final resolution came to apply duties in both Spain, which is one of the main suppliers to the market here, and Poland, in a duty level of 24% and 34% in both of them. We will continue to monitor our market, and we will continue to create the maturity in the market.

Eng Sami: Now, probably some of us will ask about the challenge of implementation. Actually we are in close contact with the Ministry of Commerce. And thankfully it's been established in Saudi Arabia, a specific agency is looking after the foreign trade and creating the required measures to rationalize the local market. Three weeks ago we were meeting with them, discussing the mechanism of implementing and monitoring the imports of similar [inaudible 00:08:05]. All what we are actually trying to make is to make rational market practices in our local one.

Eng Sami: Coming up to the next one, which is actually a PM4 project, which we discussed earlier. Probably we have highlighted for you that PM4 was planned to be announced last year. I think there was a further report about it based on the market analysis, and potentially we might review back again for further expanding by adding additional 25% to the basic plan. Most of the activities are happening on the ground right now in an active mode. We hired our small project team. We are, in the final review for the second division of the feasibility study. We are negotiating with different governments and [inaudible 00:08:58] regarding the study approvals, financials, land allocations and utilities. The plan is still there. We hope that we can actually make an official announcement within this year. Being a public listed company, of course, we cannot take any official steps until everything is confirmed to take those steps.

Eng Sami: Last but not least, to talk about WASCO. I'm sure WASCO, as an operation, they kept their operation the way it should be, although the international prices of their finished product, which is the raw material for us, went down. However, WASCO in the last eight months, they took an extensive measures to optimize themselves to turn their cost of operations, and I think we managed to keep them in a competitive mode even with the drop of the selling prices for them.

Eng Sami: Interestingly, to highlight, maybe some of you guys have heard that the government has released National Center for Waste Management. Maybe we mentioned this earlier. The National Center for Waste Management is the institute that will regularize the waste management industries in Saudi Arabia. The idea in Saudi Arabia is to recycle 80% of the generated municipality waste, and 20% to be converted to energy. And that, I think, it gives a great opportunity for Wasco to expand on the field that they are specialized in. Recently we have engaged an international consultant to review Wasco's strategy and to build a plan to meet the vision of Saudi Arabia regarding the waste management.

Eng Sami: At the same time, we believe those measures, which was mentioned, about regularizing the waste management industry in Saudi Arabia, will help us to have an excess of raw materials at a competitive cost, which is equivalent to the international price, and at the same time the availability needed, including these.

Eng Sami: I'm sorry I talk so long, but I can speak forever about the business here. I will hand over now the speech to Dr Mohammed Darwish, our CFO, to speak about the financial results.

Mr. Darweesh: Good afternoon, gentlemen. Our financial figures [inaudible -] show declined compared their 2018 levels. This is about [inaudible 00:11:28] price problem. We could mitigate some of the quarter price that by increases sales quantity, which resulted in an increase of 4% in revenue from first two quarter 2018. However, the annual comparison was not to our favor. [inaudible 00:11:39] prices dropped more than at 16%, resulting in revenue dropping of 19% year, one year.

Mr. Darweesh: While first two quarters 2019 those profits declined by 66.3% from first quarter 2018. We still maintain a healthy gross profit margin of 21.6%. Our OCC prices are lower from their 2018 level, but the magnitude of their decrease is far less than the drop in the property prices. Adding significant pressure on the gross profit margin and the rest of profitability indicators, we continue our efforts to achieve more cost effectiveness and synergies across all levels. This will [inaudible 00:12:42] to maximize its profitability when prices rebound.

Mr. Darweesh: Once [inaudible] is undergoing significant corporate restructuring. The restructuring program is well on its way. So far, Wasco has successfully reduced its manpower [inaudible 00:12:57] management [inaudible 00:13:01], making management by implementing an effective rotation demand. These steps are taken to prepare Wasco for a modernized waste management framework to be applied soon in Saudi Arabia.

Mr. Darweesh: Thank you, gentlemen. I will now hand over to the operator to start the Q & A sessions.

Operator: Thank you very much.

Speaker 5: [crosstalk 00:13:30].

Operator: Thank you very much. Ladies and gentlemen, we will now start the Q&A session. If you have any questions, please press 5* on your telephone and listen carefully for the line unmuted command. So, just to remind you, that's 5* on your telephone keypad.

Operator: We'll just give it a minute or two to receive questions.

Operator: We'll give it a couple more minutes. Just a reminder, it's 5* on your telephone keypad if you want to ask a question. Thanks.

Operator: Yes, we've got a question from Rahman Al Muquare

Rahman: Hi. This is Rahman from Dreyer Financials [pls check]. I wanted just to ask regarding the utilization rate for this quarter compared to the previous quarter. If you can give me just a percentage please.

Mr. Darweesh: You are to speak about the capacity utilization rate?

Rahman: Yes.

Mr. Darweesh: And so, traditionally it's normally above 93%.

Rahman: Is there anything that I can get [crosstalk 00:15:33]-

Eng Sami: [crosstalk 00:15:33] to add to this answer-

Rahman: Yes.

Eng Sami: If you research about the utilization rate in Asia and Europe, you will find that they did away with all that. They are taking excessive shutdown times.

Mr. Darweesh: And the most [inaudible 00:15:49] European, Chinese and American, the transition rates drop in the first quarter and the first quarter of 2019 through 90%.

Rahman: Okay. And then anything regarding the expansion increasing at a capacity?

Eng Sami: Yeah, like we mentioned Abdulrhaman, we were talking about 2018. Then, I think, in the middle of our feasibility study we have decided to read the feasibility study considering increasing certain the capacities expansion, which probably we'll announce about it at the end. We're talking about 300. Potentially we might go to 400 now, which is under a study. Like what I mentioned earlier, I think we have in the final stage of the feasibility study. We are negotiating with the different government institutes regarding the financial approvals, land allocations, utilities, supplies. We have created our small project team. However, as a public company, we have to have, of course, start up after getting the board approval for us which is the anchor signature of the main contractor.

Rahman: Thank you so much. Thank you so much.

Operator: Okay. Thank you very much. We also have a question from Anut Fernandez.

Anut: Yeah, hi. Good afternoon gentlemen. Hello?

Eng Sami: Yes, you can go ahead.

Anut: Yeah. Good afternoon. And thanks for hosting the call. I have three questions. Firstly, on the capacity expansion that you mentioned. I mean, this plan is coming at a time when one would say there's a lot of supply in the containable space coming in Europe and China. Even in the US. So, just one thing, does it really make sense to expand capacity at, I know at the space with the cycle, where pricing could, in any case, bring your cashflow under pressure? Why not rather invest in acquiring, say, a box maker and sort of integrating that, rather than this expanding capacity in the containable space?

Anut: That's question one. Question two is could you give a sense of what the paper recycling rates are in Saudi currently and with this entire focus on waste management in Saudi and Wasco's role in it. Do you see Wasco's sort of moving away from this focus on recycling paper to source things. Scrap, different types of scrap, like plastic and all of that, as well. Would they become some sort of diversification and what sort of waste Wasco would be involved in?

Anut: And thirdly, if I remembered right, there was some capacity expansion in the Eastern Province. I think that was in 2017, sometime in the second half. I just want to understand sort of Wasco ... I just want to understand in what ways has this capacity expansion contributed to MEPCOs world plain or in other costs. If you could just give us some sort of clarity in how this has contributed to the overall business. Thank you very much.

Mr. Darweesh: You ask actually two good questions. I'll try to answer them both. Number one, let's talk about the capacity expansion, which is very interesting. See, typically for us, like what I mentioned, the demand globally of the container board is an average of 3% and it will be the way how we see it is that while the demand is growing 3%, every two years you will find a new capacity is coming. And it will be about, let's say, 5% to 6% to 8% to the market and that 8% will be off-setted from both sides. Number one, from the organic growth and the demand. And other one from the closure of the old additionments and accordingly it will create a gap of number of peers which, as a result, increases the selling price. So, this is traditionally the cycle.

Mr. Darweesh: The second thing is that container for industry, usually globally, is the local industries serving the local market as primarily then secondarily going outside. Looking to our G60 market, the demand of the G60 market is now an average of 1.6%, 1.6 million ton. Again, it's that installed capacities of almost like 1.2 million ton. So, assume there is almost 400,000 imports from outside market. Keeping in consideration that the local mill, or at least MEPCO, we are exporting to the international markets considering the advantages of specialility [inaudible] that we have an unreachable markets within our domain.

Mr. Darweesh: So, the capacity expansion that is coming, okay, by the time it is entering, it will enter and it has it's own need in the local market in addition to the international market. So, answering that concern the answer is no, it's normal especially that we have a major net importing region. Unlike, for example, the case in China or Europe, where they are actually net exporting region, then putting new capacities there would become very challenging.

Mr. Darweesh: Going to the second step is that how far we are thinking of the diversification or the integration, okay. Answering the question, definitely in MEPCO here, we are not sitting idly. We are actually trying strategically, like we mentioned before. We are working into three dimensions. Forward Integration, so enhancing workflow operation, and growth, so expanding our organic production of WASCO and last downstream integration with our clients. However, we do not have the appetite to enter in the downsteam industry through a greenfield

project. We will try to look for a brown field with [inaudible 00:22:10] of existing clients on the level of the business. So, this is an active assignment but both will be happening or the three parts will happen at the same time. It is not either/or.

Mr. Darweesh: Now, going to the second concern about WASCO. What it looks really ... We are closely monitoring what we are doing. WASCO originally ... was actually focusing 100% effort into waste paper sourcing then we developed WASCO activities to be waste stable and recyclable. So, WASCO now .. nly they did with plastic, with aluminum, with the steel, with everything. Then the next generation for Wasco is that they start to do AMAS activities which is their material covering facilities in landfill (Pls check). And that actually brings us to a [inaudible 00:22:57] project which is the [inaudible 00:22:59] and now it is the latest one in Saudi Arabia. The largest one and the most prestigious.

Mr. Darweesh: Now, this will create what could be actually the most preferred policies to be inline with the new efficient Saudi Arabia regarding the waste management because WASCO is the only one in the region which is controlling half million ton of recyclables. Within their own domain. We do not have number two in the Middle EaSt. The second one is hardly handling 100,000 ton. So, that's why at the beginning of my discussion I was saying that WASCO is having a great opportunity to grow and this is what we are trying to share about Wasco is that to make them ready to get their advantage for this one.

Mr. Darweesh: You might ask a question about how does this affect our raw material availability? Number one, Saudi Arabia, the total recycling officially is 60%. That 60% is not actual rate because it's considering how much the manufacturing industry produce and how much it recycle. But if you consider the paper which is coming also at the imported material with finished good, you will find Saudi Arabia has almost more than 2.5 million ton of paper. What is being covered is only one million ton, so we are much below in the average at 55%. With that, if you compare this one with the modern world, which has a waste management industry, you will find waste paper recoveries up to 80%. So, that means when the initiatives of the waste management started it and get more active in the region here, we should have almost a double volume available waste paper in Saudi Arabia which has to find it's own way. Whether by import, which is not favorable idea, or by creating value through converging it to finished product which MEPCO is planning to prepare project accordingly.

Anut: Okay, that was very helpful. Thank you very much.

Mr. Darweesh: Thank you.

Operator: Okay. We just give you another chance. If anyone else has any questions, it's 5*. We'll just give it another minute or two.

Operator: Okay. That concludes our conference call. Sorry, we just had one more question. We got a question from [Isham Reperera]

Eng Sami: You go ahead.

Speaker 9: The government targeted this project. Why not all the Chinese favor?

Eng Sami: Can you please repeat your question because we couldn't hear.

Speaker 9: Regarding the duties on the papers from Spain and Poland, I'm just wondering why the government targeting the projects from these two countries not from other countries. There is not permitting from or dumping from Chinese producers?

Mr. Darweesh: The reason why we targeted those two countries. The reason why targeted those two countries is because we have filed the anti dumping case against the anti dumping countries which is Spain and Poland that is why regarding why they chose those two countries. The second question regarding why Chinese. Chinese actually are not a competitive edge with us. Our production in MEPCO in Saudi Arabia here is more competitive. Competitive with rest of the world. Why Europeans are competitive because the availability of raw materials there, which is the waste paper and the pulp is abundant, which gives them a competitive advantage. To give you an example, the cost of waste paper of OCC which is used in Europe, is at an average of almost like say \$100 or \$120. Due to the situation that China is not having enough raw material, they have to import because every paper produced in China shipped as a finished good outside, they have to import it. By the time it is reaching China the raw material price jumps from \$100 all the way to \$200 or \$220. So, the raw material imports is high they can not competitive to export it as a finished good outside.

Mr. Darweesh: What gives us an advantage here in MEPCO, is that logistically we are a competitive edge about raw material prices. I don't see it's really cheap like Europe but still it's cheaper than China. Okay. Logistic cost is low. Not all cost is competitive. And that gives us that challenging one to actually we ship to China, not Chinese are shipping to us. If you see our statistics for Q1, we have sold almost like, I think, 5% our shares to China.

Speaker 5: Okay. I have a question. What's their market share in Saudi Arabia? The Spanish and Poland projects.

Mr. Darweesh: In Saudi Arabia, Spanish used to be 10%, I think, or 12% of the market share. Poland, they were, I think, 4% of the market share.

Speaker 5: But do you think that after the duty on those on those two countries it will have a big impact on the market share of MEPCO?

Mr. Darweesh: Our region here is traditionally a [INAUDIBLE] region (pls check?). This is why we are actually taking the measures to rationalize it. Taking the measures of the anti dumping, when actually sent a message rest of the world the the market is moving toward more mature and in reality we are actually paving the road for our expansion project to come and sit in the region here without really a major turbulence about it. Speaking about the expansion project, it's not [inaudible 00:29:32] play and it's not about buying equipment. It's about creating the business around it and that really is what we are doing here. Taking the

measures of the anti dumping, creating the sight of the right [inaudible 00:29:43] communicating with administer of trade and higher facilities. We're trying to create what's called a rational business practices of paper industries in the region. And accordingly, the import will come in a smooth manner. And yet, with all these things, we don't believe that it will eliminate. However, people will think twice before they come to the region. And, I think, we have reflected this year. We have seen that the drop of the imports of Saudi Arabia. If you check the statistics, you will find Saudi Arabia, generally, have to drop the import to the paper of the local mill.

Mr. Darweesh: We anticipate we might lose this advantage due to that the free fall of prices nowadays. However, we will continue to do that rationalize the market.

Speaker 9: Do you think that this duty will have a significant drop on the general prices of paper?

Mr. Darweesh: I mean, mergers like this will bring the prices to what's called the market level. I've been in this industry in the last 20 years and I have seen the prices going up and down. It's normal in our business to see prices escalation and prices drop. Both are acceptable. Both are healthy for us. Because when the prices are low we focus more on efficiencies and process improvement and diversification. We will not do this when the price is high. However, from the other side, those mergers of anti-dumping and such mergers will create more rationality in the market and that's what we are looking for. That we have no problem for the market to go up and down but we have a problem into the dumping, the irrational, we call it non ethical practices in the business, that would destroy the industry which we would not allow and we would keep chasing it and we'll keep tackling it.

Speaker 9: Thank you very much.

Operator: Okay. Thank you very much everybody. I think if there's no more questions then we'll leave it there. So, that concludes the conference call for today. Thank you very much everybody for attending. I'll hand it briefly back to the IR team and the management team just to say good-bye. Thank you very much.

Eng Sami: Thank you, gentlemen for the patience and thank you very much for trusting MEPCO. We are here at MEPCO with our years of experience and practices. We will do our best to maintain the efficient operation that we have here. We will focus on our growth. We will continue to expand. We have seen those situations before. It's a cycle of the business. However, our role in this cycle is actually how to maintain the maximum efficient operation always, maximize the opportunities, create right business environments for us. And [inaudible 00:32:46] happening in challenging years like this one. So, thank you very much and I wish you all the best.

Operator: Thanks very much. You can now disconnect. Thank you.