

Middle East Paper Company

CONFERENCE CALL DEDICATED TO MEPCO FINANCIAL RESULTS Q1 2023

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Participants:

- Sami Al Safran, Chief Executive Officer
- Ahmed Fazary, Chief Commercial Officer
- Abdullah Al Yabis, Chief Financial Officer
- Johan van Vuuren, Chief Transformation Officer
- Sarah Moussa, Investor Relations Manager

Nour Eldin Sherif Good morning and good afternoon, ladies and gentlemen, and thank you for joining us today. This is Nour Eldin. And on behalf of Arqaam Capital, I'm delighted to welcome you to MEPCO's first quarter results conference call. I have with me here today, Mr Sami AlSafran, group president, Mr Abdullah AlYabis, group CFO, Mr Ahmed Fazary, group CCO, Mr Johan van Vuuren, group CTO, and Ms Sarah Moussa, IR manager. With no further delay, I will now turn over the call to Ms Sarah.

Sarah Moussa Thank you, Nour. Good morning and good afternoon, ladies and gentlemen. Today, we are so happy to come and talk to you about the results of the first quarter for the fiscal year 2023. And despite this year, we are facing global challenges similar as to all the international paper millers worldwide are facing, yet MEPCO is witnessing important milestones that will forever change the history of the company throughout the years. Let me first take you through a disclaimer. This presentation is prepared by MEPCO and contains basic information about the company activity as of the latest published results.

The information is presented in summary rather than detailed form. This information, including any forward-looking statements, should not be taken as basis for investment recommendation, solicitation for any of the company's tradeable securities. While management has made every effort to present a fair view of MEPCO's operational and financial performance in this presentation, 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 recommend using such forward-looking statements in financial modelling or investment decision-making.

It thus takes no liability to explain differences between future actual results and what was stated in the course of this presentation. Starting with the main results of what has happened in Q1 of 2023, our key performance indicators, let me first start with you to explain that we are comparing a very strong quarter that has occurred in the previous year, in which there were much favourable global conditions. There were much favourable conditions in terms of the containerboard demand

and the international prices. When we are witnessing these decreases on a year-on-year basis in terms of the sales revenue, the gross profit and all the profitability matrices up to the net loss that we have incurred, this is coming from a very remarkable quarter that we have witnessed.

The sales revenue decreased by around 27%. The gross profit, 75%. And up until the net loss that has on a year-on-year basis, was a difference of 107%. This is the key performance indicators that has happened in the Q1. But let me first drive you through the macro conditions and steps that we are taking in terms of the sales and marketing strategy in this year. We all know that Saudi Arabia is currently one of the strongest booming economy worldwide. We witnessed, in 2022, despite all the economical conditions worldwide, Saudi was able to grow on a year-on-year basis by April, 70%.

And in the first quarter, it grew year-on-year real GDP by 3.9%. Bearing in mind that according to the General Authority for Statistics, the growth in the real GDP in the first quarter was majorly and mainly backed up by the non-oil activities and government service activities. If we look at Saudi, we will find that the World Bank estimates for the world economy is only to be projected by the growth of 1.7%, while the emerging and developing countries are projected to grow in this rating range from 3.8% to 2.7. But looking at Saudi, Saudi alone in the first quarter just grew 3.9. These are the matrices that we always witness and look at when we are determining how the sales and marketing strategy is going to be in the year.

But in terms of the global demand growth and what is happening, we have witnessed in 2022 a very strong first half in the global container demand. But yet in the second half, due to the geopolitical conditions and Russian-Ukrainian war, there was a degrowth in the demand by 2.2%. Currently, according to the forecast of RISI and how they are foreseeing the global demand of the containerboard, they are forecasting that there will be a growth worldwide by 1.7%. How this would reflect on Saudi, luckily in Saudi, we are still having growth in the kingdom, especially since the recycled containerboard are always witnessing growth by a range of 4.2% per annum.

We're having a decline in the world container demand growth that is not in the normal ranges. And this definitely will impact their international prices. That it is no hidden fact that we are witnessing a downward pressure in the international prices up until now. And this is what we have witnessed in the first quarter of 2023. What have steps that MEPCO has taken in order to mitigate this risk? We're targeting the markets in which there is higher demands. And on a Q-to-Q basis, we have witnessed that there are total sales volume increase from Q4 to Q1 by 21%. And even on year-on-year basis, there has been an increase by 7%.

Keeping in mind that in the previous year, there were favourable conditions, yet we were able to beat these numbers in this quarter. And from Q4 to Q1, the sales volume exports increased around 12% in Q4 and local sales volume increased about 31%. And on a year basis, we have also managed to increase the export sales volume. And on the local level, it was only 0%. Yet the sales value for the local has increased Q to Q by 5%. We're still maintaining the sales distribution in value in terms of we achieved export sales by range of 39% versus 61% for the local sales.

Sarah Moussa Coming to the financial matrices of what has happened in Q to Q and year-on-year, we will find that there is a decline that is much more coming on a year-on-year perspective. And I explained the reasons why. But relatively, a much more less decline from a Q to Q perspective. In terms of sales revenue, we only decreased by 3% and backed up with a higher sale volume. The gross profit and the gross profit margin actually also decreased. Gross profit decreased by around 54% from Q to Q and it decreased around 75% on year-on-year basis. What we are taking in order to be able to protect our margins is we are applying over the company a cost reduction policy.

In terms of the cost of sales, we have witnessed a relative increase, Q to Q and year-on-year, but the main reason for it is that we have increased our production volume, increased our sales volume, in addition to the normal increases that can happen on a yearly basis. See, from Q to Q, there has been an increase in the fibre cost by around 36%, which is basically a normal increase if you are intending to increase your production volume in order to satisfy higher demand. For the other profitability margins and the EBITDA margins, we witnessed a decrease from around 24% to 12% in the EBITDA margin on a Q-to-Q basis.

But on year-on-year, since that was a top high margin achieved in the EBITDA from 41 to 12%, this number seems to be very low. Net income, we have incurred in this quarter a net loss. Yet we have still maintained some improvement in the other cost factors, such as the selling and distribution. In quarter to quarter, we have decreased from around SAR 20 million to SAR 50 million by around 20%. And on year-on-year basis, we also managed to achieve a decrease by around 18%. And we also managed to decrease the accounts receivable provisions on a Q-to-Q basis. Hence, we have increased our receivable collections on a quarter to quarter basis.

And yes, we are having and witnessing higher finance costs, which it's no hidden fact that it has increased due to the global economic circumstances. In terms of the working capital and what are happening in our liquidity, in this quarter, we were maintaining a very strong working capital management. And that has helped us actually have increased working capital from year-on-year basis. We have increased it by around 20%. And this actually gives us a good management to maintain our current assets and current liabilities funds. For the cash flow from operation, it has decreased by 22%.

Mainly the reason, of course, because of the net loss that has been incurred. Also, there is an impact due to the finance cost, which was rounded to around SAR 10 million. For the debt ratios, you will see that on a year-on-year basis, we have relatively increased, but it wasn't that much since we are still maintained in the ranges of the normal short term and midterm that MEPCO always uses. There has been an increase in the short-term debt by around SAR 14 million, keeping in mind that we come from a range that was around SAR 100 million. And for the total debt, the total debt has risen on a year-on-year basis from SAR 451 million to 566, by around 25%.

But we're still maintaining the normal level in the total ranges, which amounts between 560 to 570 for the total debt of MEPCO. This was an overview for the financial matrices. But since that, we just announced that the test run for Juthor has taken place. We wanted you to take a look about the market dynamics for the tissue and give you some overview about it. See, right now, as per the latest calculations, that in 2022, the global tissue demand consumption reached to around 44 million tonnes. Saudi Arabia is around 250 million tonnes. And the normal global demand growth ranges between 3.3 to 3.4, while Saudi Arabia demand is in the range of 3.5%.

Coming up to what is going to be happening in this year in terms of the world tissue demand growth, it is forecasted that this year, there will be higher increase year-on-year basis. Since 2022, the increase was around 2.2%. And now in 2023, it's forecasted to be 2.8%. This gives you a hint that we are having a very healthy demand and there is growth in it. And we are so excited that we are anticipating for the commercial launch to run to be within a few weeks. The expected breakeven will be within Q3 2023. And the contribution to the top line from MEPCO and the consolidated financial statements, it's expected to be around from 18 to 20%.

And we are expecting around a range, for gross profit margin, around 25% to 27%. And roughly, we are targeting a market share around 24% in Saudi Arabia. This is a benchmark for the international prices for Juthor. We are basically benchmarking against two main indexes. The first is the bleached hardwood kraft price and the second is the northern bleached softwood kraft. We

are seeing right now a slight decline in the international prices, yet we are backed up by the fact that there will be growth in the demand. This means that there is much more room for us to grow. And finally, we want to tell you what is our management's midterm outlook for this year. We are maintaining improvement in the production efficiency, sustaining lower production and we are maintaining our marketing positioning where higher market demand exists locally and internationally. And definitely, this is the photo of Juthor's team taken on 27th May for celebrating the test run. And we are expecting the commercial launch to start, inshallah, in a few weeks. Thank you so much. I hope I didn't take much of your time. Please, Nour, take the floor to receive the questions.

Nour Eldin Sherif Thank you, Sarah, for the detailed presentation. If you have a question, please raise your hand or submit it in the Q&A box. We will just wait for a few moments until someone raises a hand. Just as a reminder, if you have a question, please raise your hand or submit it in the Q&A box. Thank you.

Sami AlSafran [Unclear].

Nour Eldin Sherif Our first question comes from Abdurrahman.

Sarah Moussa Nour, I'm sorry. Can I interrupt you? We are receiving a message here that there is no option for raise hand. Can you help in that?

Nour Eldin Sherif We can take the first question and then let me check with the IT if there is an issue. But there is a first question from Abdurrahman here. We can take this one. Abdurrahman, your mic is open.

Abdurrahman Hi. Am I on, Nour?

Nour Eldin Sherif Yes, we can hear you well.

Abdurrahman Firstly, I have just one question from my end. I joined in the middle of the call. I'm not sure if the management has addressed this point or not. But could you give us an update on the agreement with the PIF acquiring a minority stake in MEPCO?

Johan van Vuuren Abdurrahman, at this moment in time, we are not at liberty to disclose further details than what we have announced in the initial transaction or the initial announcement about the transaction. Being that the PIF has signed an MOU with MEPCO to obtain a significant minority. We are currently nearing completion. And as soon as we have further material progress on the transaction, we will make further announcements on the matter.

Abdurrahman Very Clear. Just one quick question. The 18 to 20% revenue contribution, that is assuming full utilisation of the plant? Am I correct to assume that?

Sami AlSafran Good afternoon, Abdurrahman. This is Sami. I would like to add up on that, on the PIF signed MOU. Of course, we mentioned this earlier in the discussion that MEPCO, we have announced our ambition about the growth from all directions which requires really different support. One of them is the financial structure. Accordingly, I think we have signed MOUs with the strategic investors to primarily invest in MEPCO. That will really support the growth of the company going forward. The second thing regarding the tissue, look, the difference between the tissue and the containerboard, our existing industries, is that the curve of ramp-up is very short compared with the containerboard industries.

When we anticipated 20 to 25 that we are talking about a full utilisation of the project. However, in the first year, we will not be far away from that one.

Abdurrahman I see. Very clear. Thank you.

Nour Eldin Sherif We can take the second question from Sean. Your mic is open.

Sean Good afternoon, everyone. Can you hear me?

Sami AlSafran Yes, we can hear.

Sean Sorry, there's no hand option for me. Thanks for the opportunity to ask a couple of questions following the results. I guess just related to the tissue project, obviously, it's quite exciting that it's a few weeks away from being launched. Just in terms of the guidance to break even so quickly, is that a cash breakeven or all-in cash breakeven? That's my first question.

Sarah Moussa Is it a cash breakeven and including non-cash expenses

Abdullah AlYabis And this is net

Sarah Moussa Yes, this is net.

Abdullah AlYabis Yes, it is net breaking.

Sarah Moussa Sean, you heard the answer? It is a net breakeven.

Sean Net breakeven. That's really useful. Thanks. And just in terms of the increased demand for MEPCO's volumes outside of the Kassel region, could you maybe share some colour on where you just see uptick in demand for containerboard?

Ahmed Fazary Hi, Sean and Nour. This is Ahmed Fazary. I'm the chief commercial officer. And look, let me take you through, around the picture of the containerboard in the last period, how we see it and how it's developing. It's not necessarily an uptick in demand, per se. It's basically, we evaluate our export markets based on better performing markets, opposed to less favourable markets. But overall, as we all know, the general global economy is not performing great. And accordingly, as we mentioned several times, demand for containerboard and packaging is highly correlated with economic indicators.

Generally speaking, still, demand does not look magnificent globally. Yet I have to highlight that Saudi Arabia, in general... And again, this also you can correlate with the growth in GDP, opposed to the growth or degrowth rate in other regions around the world. Still, Saudi Arabia is considered to be healthy. Yet we also yet have to compete with global players, of course, trying to move volumes, whether in our capital export markets or in Saudi Arabia. And let me elaborate more about the situation of the containerboard. I hope I answered your question. But I would like to elaborate more on the picture of containerboard.

As I mentioned in the last call, that we follow certain indicators in the industry that gives us an insight about how the industry and the demand is developing, where we monitor the inventory levels globally at the buyers and at the mills. We monitor operating rates. We monitor shipments. And to be quite frank with you, most of the factors I mentioned were not looking brilliant. Yet I have to mention as well that we're starting to see that the decline in prices and the pressure from the lower demand has almost maxed out. Inventory levels are starting to decline. Operating rates are at their lowest levels at most mills globally.

On average, they're in the 80th percentile. And in certain mills, they go as low as 70%. And we've also seen some mill closures, whether temporary closures or permanent closures. While MEPCO has maintained 90%-plus operating rates and had record sales volume in the first quarter, first time to achieve since inception, I cannot really provide forward-looking. But at least I believe, that's how I see it personally, that we've reached the bottom. Hopefully, the only way is up. Is it tomorrow? After tomorrow? This is very difficult to determine.

Sean Thank you very much. That's perfect. Thank you. I have another follow-up, if you don't mind. It looks like, as you mentioned, in terms of the record production, there was quite a good effort to obviously offset the pressure on revenue. Which means your top line only dropped by, I think, about 3% quarter on quarter. But if you could please just help me understand the bridge... Are you still there?

Ahmed Fazary Yes.

Sean Can you just help me understand the bridge in EBITDA drop for the quarter? Because revenue's only dropped by 3% and then I think EBITDA was down by 51%. Which means there was obviously a significant cost pressure coming through. Maybe you could just speak around those cost pressures, please.

Sami AlSafran Sean, the selling prices are correcting very fast, dropping in very fast paces. Not only internally at MEPCO we are driving efficient programmes to optimise and reduce the cost which is presented by Sarah, but also fibre raw material cost is responding accordingly. The only difference behind it is that keep in mind that, as you are a 24/7 operating unit, you are carrying always some inventory with you. While you are realising the benefit of the cost reduction of the raw material input, it takes you time before you see it impacting in our cost of manufacturing as a P&L.

And we usually try to operate on an average basis for our raw material inventory warehouses and finished goods. This is why you will not find that the costs of manufacturing are responding in similar fast pace. However, gradually, quarter to quarter, you will see further reduction in the direct material cost manufacturing. That's from probably operating. I don't know if you'd like to comment regarding any further details? Does that answer the question, Sean?

Sean Thank you very much. That's great. And then just second last question, in terms of the medium-term outlook in terms of lowering the production costs, are there any other strategies of play to make that happen or was that more of a function of, obviously, increased tonnage and then spreading the fixed costs over those tonnes?

Sami AlSafran Actually, it's both. From one side, as you can see, we have maximised our sales, quarter to quarter. But the most significant one actually is reducing the cost of manufacturing, keeping in mind that MEPCO is backward-integrated with our parent company WASCO, which we are actually controlling 50% of the Saudi market. We can easily manage and control the market, especially that our relation with WASCO more of an arm's length basis. And one of the tactics we did last year is that we went and we have imported volumes from outside to adjust and regulate the local market and to bring it down to match the international prices. Strategically, you have to act. And this is one of the key strong points of MEPCO, that we are integrated backward and we have a better flexibility into responding to the changes in the business environment and cascading it to the rest of the market backwards and forwards.

Sean Thank you very much for that. And then just last question from my end, in terms of the PM5 expansion, is there any new information to share with us in terms of how we should think about the project?

Sami AlSafran Look, like what we have announced about PM5, of course, definitely there is no stagnancy. While we are doing it, off the track, we are allocating the site. We are cleaning our feasibility study, updating it. We are doing technology assessment for technology suppliers. It is really moving in parallel as a preparation. And definitely, once we fix the major variables of the project, we will announce the zero date for it. But it is going on in a healthy way. Nothing will be affecting or influencing the plan. At least for the time being, no appearances for that.

Nour Eldin Sherif We'll now take the next question from Abdelaziz. Your mic is open.

Abdelaziz Thank you for the informative presentation. I just have a question regarding the litigation with the General Authority for Competition. Could we get clarification about this issue? It was mentioned in the financials for the full year.

Sami AlSafran That okay. It's about the anti-competition. There is the case and the gag for investigation that we have announced in our financials. We have submitted...

Sami AlSafran The appeal or objections?

Abdullah AlYabis Appeal.

Sami AlSafran Appeal. We have submitted the appeal. We have submitted actually two appeals. One of them is to stop the applied fine and the second one is to reject the case. Thankfully, the administration court have accepted and suspended the fine payment. And that's why we did not actually preserve the full value of the penalty. And hopefully, we are proceeding positively to accept our appeals for it. We will keep definitely the market posted for any changes.

Abdelaziz Thank you.

Nour Eldin Sherif We now move to questions on the Q&A box. Our first question comes from Amal. What was the reason for Q1 gross drop? Is it related to a higher inventory? And how was the pricing for Q1 and Q2?

Sami AlSafran This has been actually addressed clearly in our announcement news. The main driver for the profitability deterioration is driven by the aggressive drop of the selling prices. Keeping in mind that 2022 was actually, a selling price as historically something we haven't seen it. The market went through a quick correction. And I'm sure not in the level of our paper industry only. Across most of the commodities, we could see all of them are dropping in different fast pace, including the temper, corn and all of these things. I would relate majority of the reasons of the negative performance of the financial is due to the selling prices.

As we said, we have taken different measures. One of them is increasing our volumes. Look, one of the strong points of MEPCO that we are actually having an international access in addition to the local presence, and one of the tactics we did is that we have moved geographically from one place to another to select the market with the better margins and guarantee sustainability of operations. And at the same time, we reduce our cost, which further will be impacted into our results. I think this strategy agility of doing our business is something we have inherited in the last six years or seven years.

Where we have moved from a conventional, to production grades, all the way up to nine different grades. And also, we have expanded our international footprint to almost 50 countries. Based on that, our commercial team, led by Ahmed, is selectively choosing the market which has more attractiveness in terms of return, logistic easiness and financial security. And accordingly, you will see that we are always modulating. And honestly, guys, this is actually the fuel of MEPCO while we are aggressively moving in our growth with the full comfort because always, we are having the accessibility of strength to reach out to market in different areas.

Like what we mentioned in couple of interviews, being in the west coast in the Red Sea, it gave you a great advantage to move most of the work at a competitive rate. And that's what we are actually greatly utilising the benefit out of that one.

Nour Eldin Sherif A question that has been duplicated here from varied attendees about the pricing for Q2 compared to Q1 and the outlook from here.

Sami AlSafran Of course, no one can give any outlook prediction. But I think my colleague, Ahmed, when he spoke about the subject in general, he has, I think, clearly addressed the way how we have seen the prices. We have seen the prices are bottoming, backed by improvement in the demand. The main reason that we have seen an increase in sales volumes from quarter to quarter, classically, whenever the demand is picking up, you should really see an improvement of prices. But definitely, again, this is not an outlook view that we see it in the business.

Nour Eldin Sherif A follow-up question from Amal. How much is the local manufacturing contribution to the overall tissue market?

Sami AlSafran Look, currently in so many events we mentioned, we are more than 80% local content. Not only this, but MEPCO is classified as a purely circular economy where most of our materials are being collected from the local market. We create value by recycling it. We do also a proper water management to recycling industrial water. And this is something we have been recognised. We have a great ESG records and the sustainability reports are available at the website where it could show really how MEPCO is superseding our peers in terms of sustainability indexes. And greatly, all of this is being done with the proper business values and return that we added to our shareholders.

Nour Eldin Sherif A question from Ahmed, why is the company selling more volumes at a time of lower selling prices? And a question on any updates on the anti-dumping cases?

Ahmed Fazary Why the company is selling higher volumes in lower prices? The company's calling is always to maximise its operating rates and try to maximise its sales and reach. It's not one of our policies to reduce our operating rates and sales. Our target, always when prices are down, is to reduce our costs, increase our efficiencies, be more competitive and maintain our growth. This is answering the question of sales volume. The anti-dumping case updates, the last update is that there has been an initial decision made by the ministerial committee for the GCC countries to refusing the application of the anti-dumping measures for the new case.

This does not mean that there hasn't been dumping activities in the area. The technical office, clearly working under the guidelines of the WTO, clearly found that there are dumping injuries to the industry, even the region. And proved it and recommended to apply the anti-dumping measures. Then it's a final decision for the GCC Council whether to apply this or not. And the initial decision is not to apply it. There will be an appeal process that will be taking place. It's not yet right.

Sami AlSafran And In conclusion, probably to make it more clear regarding the anti-dumping cases, that the outward report of the technical committee of the GCC confirming dumping activities and recommending to apply measures on the dumping countries, it's been recommendation left to the administrative consul of GCC, where they could not collectively agree to apply the duties. And accordingly, it did not go through. As part of administrative process, we have to apply for two stages appeals. The news just cracked end of last week. And this week, we are preparing for the process for it.

We will continue our application to appropriately organise the market and regulate it because we believe the Saudi market is a healthy market. It's growing. And all what we are after is to create a fair competition in the market that allows for the high-efficient companies to grow.

Nour Eldin Sherif And a question from Adnan here. At what utilisation rate will the tissue plant break even?

Sami AlSafran Honestly, I don't have the figure here. But usually, look, classically, in paper machines, you need to exceed 82% for a breakeven. But I do not have really the actual bullet figure to answer you for this. But as a normal business process, we always target to exceed 82% for the breakeven.

Nour Eldin Sherif A question from Fawad. Is there any possibility of increase in fuel costs by the government as part of the reforms? If yes, please highlight sensitivity to unit costs or margin.

Sami AlSafran This is something was asked long ago, but we answered. Number one, MEPCO is not enjoying any special subsidies for the fuel. The fuel we are buying is based on the price list of Aramco. And definitely it will be subject for any increase and decrease. However, we have run our sensitivity analysis for the fuel. We have projected, in case of the fuel, cost has been increased 100%, it will impact the cost of our goods sold by 3%.

Nour Eldin Sherif Question from Abdurrahman. Can you shed some light on the global demand dynamics going forward with the upcoming containerboard expansions approximately 4.2 million tonnes between 2023 to 2025? Is the demand strong enough to absorb this upcoming capacity?

Ahmed Fazary Abdurrahman, let me highlight a few of the factors that we always like to mention. That there is an annual growth rate in containerboard and packaging demand on global basis, yearly basis, at an average of 2 to 3%. If you calculate this, it adds a few million tonnes every year in terms of growth in demand. While at the same time also, as I mentioned earlier on the call, that we see closures of the older mills and permanent shutdowns. It's a matter of balancing out. There are times where supply exceeds demand, which we have seen in the past few quarters. And this is where it starts putting pressure on prices. Then, again, the demand picks up and balances itself.

Sami AlSafran And to add to my colleagues here, guys, the containerboard industry is one of the healthy growing industries. Unlike the writing and printing, which is diminishing heavily or newsprint, containerboard is growing, driven by GDP, driven by our customer awareness. I think the COVID-19 situation drives the people to focus more into the packaging segments and enhance it. And finally, the e-commerce, which is the playing factor. Like what my colleague's mentioning, the global demand of containerboard is 180 million tonnes. Our local region in the GCC is 1.5 million tonnes, plus and minus.

And the growth rate is an average of 3%. And the most important one is that Saudi Arabia is still importing almost 40% of our leads from abroad. That allows for us a big room to continue growing. And definitely we are anticipating some competition is coming. But we are keeping our competitive edge in terms of agility in doing our business to feed up our growth.

Ahmed Fazary And if I may add also, Abdurrahman, since you mentioned the bullet figure of 4.2 of additional capacities, one thing that you have to consider is that there's a ramp-up that takes place. It's not applicable whether you achieve the 4.2 million tonnes. It takes few years until it reaches to the maximum operating possible capacity. Plus, also, just in North America, the first quarter, there has been permanent shutdowns of 880,000 tonnes of containerboard capacity. As I mentioned earlier, maybe my comment was a bit general, that demand and supply shutdowns and new capacities at the end balances itself. Then goes through the normal cycles we are, I guess now, all familiar with.

Nour Eldin Sherif A follow-up question from Ahmed. What's the Q on Q decline in prices in Q1 23 versus Q4 22?

Ahmed Fazary We don't disclose the change in prices. I can't speak on this.

Nour Eldin Sherif A follow-up from Aman. How much exports as percentage of total costs?

Sarah Moussa How much exports as a percentage of total cost?

Nour Eldin Sherif Of total revenues, yes.

Sarah Moussa Of total revenues. It was around...

Abdel Mohsen [Unclear].

Ahmed Fazary [Unclear]?

Abdel Mohsen [Unclear].

Sarah Moussa Abdel Mohsen, my colleague, he wants to answer this question.

Abdel Mohsen [Unclear] Q3.

Sarah Moussa Basically, our exports range...

Ahmed Fazary The Q1. [Overtalking]. I'm not sure of the number, but I think he would have it... But I believe it was 40 [unclear].

Abdel Mohsen 40% export and 60% local.

Sarah Moussa It was [overtalking]...

Ahmed Fazary 39.

Sarah Moussa 39%...

Abdel Mohsen 39, 61.

Sarah Moussa And 61% versus the local. The export, it was 39% of the sales distribution. And the local, it was 61%.

Nour Eldin Sherif Of revenues?

Sarah Moussa Yes, of the revenues.

Nour Eldin Sherif A follow-up question from Abdelaziz here. Can we get clarification on why SG&A expenses decreased on quarterly basis despite almost flat sales?

Abdel Mohsen Both sales and distribution expenses decreased on quarter basis mainly because of the decline of transportation and freight costs. It has significantly decreased.

Sarah Moussa And also, in addition to this, as we explained, that we are trying in every parameter to adapt a cost reduction policy. One of the main aspects, as my colleague Mohsen here said, that the transportation cost and shipping cost global-wise has decreased, but we're still maintaining the same policy in all the other factors for the selling and distribution expenses.

Nour Eldin Sherif A question from Khaled here. He's asking about the increase in the cash costs despite controlling 80% of the raw materials internally. What is the reason behind the increase in the cost of sales despite having flattish labour and transportation costs?

Sarah Moussa As we explained previously, that we witnessed an increase in the production volume. And of course, we witnessed an increase in the sales volume. And in order to satisfy such increase, we are having an increase in the fibre cost. And this fibre cost, it actually contributes by around 47% of the cost of sales. I have a major factor here that I need to increase it relatively in order to produce more and satisfy my demand.

Nour Eldin Sherif I think that's it from the Q&A box. As a final reminder... We have a question from Pratik on the strategy. Pratik, we can unmute you or you can send...

Pratik HI. Thanks a lot. I have a relatively different question. You are into this business of recycling and you have a subsidiary. Do you see yourself entering into different recycling, different stuff or entering into new line of businesses? Because you have a sovereign wealth fund probably having a minority stake. They have ESG-related concerns and they have aspirations to go big over there. And what are your thoughts on this? Thank you.

Sami AlSafran Thank you. Probably I'll leave the detail to my colleague here, Johan. But as a background, I think, as all of you are aware, that Saudi Arabia had announced the waste management strategy to divert the waste going to the landfill by 94%, reaching up to 2035. Which means what some countries like Netherlands and Germany have spent for 50 years, our ambition to execute this one in less than 15 years. And definitely, that will unlock a lot of an investment opportunity. Some people are estimating 200 billion of an investment to reach up to those goals and targets.

Considering this one and considering WASCO and MEPCO have two decades in that field without regulatory reform, I think that opens up a lot of opportunity for us. Johan, could you please elaborate more on that?

Johan van Vuuren Pratik, look, it's clearly stipulated that MEPCO's strategy is to be the region's leading, fully vertically integrated fibre packaging producer. There's a number of elements to that, waste management only being one of them. We've said on numerous calls that we are evaluating opportunities to forward-integrate, as well as grow our current position in the part of

the value chain that we're already operating at, such as the announcement of PM5 that was made last year. No doubt that our waste management strategy has evolved from WASCO mainly collecting paper for MEPCO, to become a fully integrated waste management company.

As Sami mentioned, we have to remain agile with regards to this. Saudi has newly adopted waste management regulations. These things are still in their infancy stages. And as they evolve, we evolve our position within the waste management sector. Obviously, key advancement that's been made on this aspect is the likes of Estidama, which was the first public-private partnership in the waste management sector in the kingdom. And we plan to expand this model, once stabilised, into other cities across the kingdom. And by default, that will target broader range recyclables and other waste management infrastructure. And definitely not only paper for the sake of MEPCO's current and future operations.

Pratik Thank you.

Nour Eldin Sherif This is a final reminder. If you have any final questions, please raise your hand or submit it in the Q&A box. It seems likely there are no further questions. The floor is back to you, Sarah.

Sarah Moussa Thank you so much, everyone. I will leave the floor now to the group president to say his last words. This has been actually a pleasure. Please, to you, Sami.

Sami AlSafran Thank you, gentlemen, for your attendance. It shows your interest in the business. I'm really glad to attend this meeting. I know it's a very stressful meeting where the financial results did not deliver the expectations. However, we commit ourselves into the modality of our business to suit the business environment and to create value. Nevertheless, I think the strategic move MEPCO we are doing through the expansion, the growth, the market adoptions and the investment vertically and horizontally into different areas, it creates a great, bright future for MEPCO and for the investor.

Thank you very much for your time and looking to see you with better news, hopefully, inshallah, next quarter. Take care.

Nour Eldin Sherif Thank you very much. This concludes our call for today. Thank you very much for attending.

Abdel Mohsen Thank you.

Sarah Moussa Thank you.