Saudi Arabian Mining Company (Ma'aden)
P.O. Box 68861, Riyadh 11537
Kingdom of Saudi Arabia
Tel: +966 011 874 8123
Fax: +966 011 874 8134
www.maaden.com.sa

Transcription for MA'ADEN

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Corporate Participants

Walid Al Hakim
Ma'aden – Investor Relations Manager

Khalid Al Mudaifer
Ma'aden – President and Chief Executive Officer

Darren Davis
Ma'aden – Chief Financial Officer

Presentation

Operator
Ladies and gentlemen, welcome to Ma'aden First |Quarter 2017 Earnings Conference Call. I will now hand over to your host, Mr Walid Al Hakim. Sir, please go ahead.

Walid Al Hakim
Thank you very much. Good afternoon ladies and gentlemen and welcome to our first quarter 2017 earnings conference call. To discuss Ma'aden results and performance, we have with us today engineer Khalid Al Mudaifer, Ma'aden's President and Chief Executive Officer, and Mr Darren Davis, Vice President Finance and CFO. The format is as usual, it will be where management brief you on the results through a presentation, and then we will answer your questions after our prepared remarks. The presentation slides being used today will be available on the Investor Relations section of our corporate website afterwards.

Now, before we begin today, I would like to remind you that today's discussion may contain forward-looking statements relating to the future events like project completions and other expectations. As always, there may be known and unknown risks, uncertainties and other factors that may cause the company's actual results to differ materially from the projections listed in today's presentation. Therefore, I would like to kindly ask you to review the disclaimers included in slide number three. I would like also to say here that we are bound by CMA regulations; hence we may not be able to answer some of your questions on future expectations or any information, which is not already in the public domain.

Without further ado, I would like to turn the call over to engineer Khalid Al Mudaifer.

Khalid Al Mudaifer
Thank you, Walid, and thank you all for joining us on the conference call today to discuss the 2017 first quarter results. On the next slide, I hope most of you have had the chance to review our financial and operational data. You will have seen that Ma'aden continues to

deliver on all fronts, achieving both outstanding operational performance, as well as strong financial performance in the first quarter of the financial year. As planned, we have ramped up production to all our businesses, and this represents both improving the throughput of our existing businesses, as well as bringing online another wave of production assets. At the same time, we have seen a more positive commodity price environment compared to 2016, which has also supported our performance.

What is important to highlight, though, is that our strong financial performance not only comes from this production increase and the price strengthening, but also from a very tight control in our end costs. That is the key message from this quarter, Ma'aden can deliver industry-leading performance, and the business is very well positioned to benefit from better commodity prices. I am also pleased that as we near the successful completion of another world-class scale project at Wa'ad Al Shamal, we can look forward to continuing that growth as we execute on a strong pipeline of attractive growth opportunities.

Let us now take a closer look at some of the highlights. As I mentioned, we saw some strengthening in the commodity price environment in Q1, particularly compared to the last quarter of 2016, which was very challenging. We saw a good recovery in the ammonia prices that had an exceptionally weak Q4. Their prices held up well and aluminium continued to hold into the improvements we saw in the later parts of 2016. With record production across our different products, we capitalised on the price environments, while holding down costs and saw a sharp increase in profitability in the quarter. EBITDA margins rose sharply, although this is partly due to the fact that we are currently selling a high volume of ammonia from the Wa'ad Al Shamal plant, and due to the fact that the remaining plants are currently in the commissioning phase. Ammonia is a high margin product, so that was factoring the exceptional rise in our margins. But even taking into account the impact of this, our underlying business remains strong and we continue to see the benefits of our focus on cost and cash generation.

On the next slide, the phosphate market struggled last year and then ammonia had a very weak fourth quarter due to oversupply in the market. Ammonia recovered strongly in Q1 as supplies from the Black Sea dropped and we also saw DAP prices holding up well. as DAP prices have held up, we see the Chinese exporter coming back to the market, and we are concerned that this coupled with these rising supplies out of Morocco and, of course, Saudi Arabia, DAP market could move into an oversupply situation and push prices down during the remainder of the year. Overall, the demand looks positive, but we see supply increasing, which may now work toward price weaknesses in the near-term.

On the next slide, turning now to aluminium, we saw a price recovery beginning in 2016 and that recovery has continued during Q1 this year. The price of aluminium at the London Metal Exchange increased 23% versus Q1 last year, and 9% versus Q4 of last year. This seems to be part due to the speculation that the implication of announced environmentally related restrictions on Chinese smelters will curtail Chinese production later this year. The fact that physical premiums have also moved higher also suggests that the market is in deficit outside China. Overall, we remain cautiously optimistic on aluminium prices, and that we see to have moved passed the bottom of the cycle, although the strength of this recovery is yet to be fully demonstrated.

Turning on the gold and copper, gold continues to trade within a healthy range and at these prices, we will continue to enjoy profitable growth in our gold business. Copper had a very strong 2016 and although there have been some corrections this year; prices remain at a much healthier level than a year ago. The outlook for both gold and copper appears to be positive for the rest of this year.

On the next slide, as we are a manning company, our future is based on our ability to deliver new reserves, and so Ma'aden is committed to growing our business through exploration. During 2016, we had a very successful year adding large and new phosphate ore reserves and the new copper resources in the Ma'aden/Barrick joint venture. Looking forward to 2017, we are optimistic about the potential of our exploration team to add new metallurgical bauxite and gold mineral resources near our existing mining operation. We are geared up for more exploration and as we, again, access to new land to explore, we will be ready to ramp up our exploration spending. And this brings me to Ma'aden's strategy and how this relates to Vision 2030.

You will all be very well aware that mining will play a meaningful role in achieving the goals of Saudi Vision 2030. The vision is ambitious for the country and we share that ambition, as we see Ma'aden make its contribution to generating jobs and economic value in the Kingdom, and to the increasing of non-oil exports. The goals of Vision 2030 and the National Transformation Plan are goals which we share. We will play our part in developing the Saudi economy through investment to build a globally competitive mining industry; including developing our strengths and making them not least through creating high quality jobs, encouraging the creation of local value around our investment, and make sure we develop our industry in a sustainable way, including protection of our precious environment. The National Transformation Plan targets intensified exploration and development of mineral resources, and expect that by 2020, the mining sector will contribute SAR 97 billion to GDP and create 90,000 jobs, and we are confident that these goals can be achieved.

In light of the announcement of Vision 2030, and also the reshaping of Ma'aden's board of directors, we took the opportunity during the later half of 2016 to review our strategy in order to ensure it supports the Saudi Vision 2030 and the NTP and also the global mining markets. As a result, we have refocused our strategy around three main pillars. First, we will continue to concentrate on costs and productivity, we will support and nurture best in class capability and technology, and we will continue to work on establishing Ma'aden leadership and sustainability, health, safety and environment protection. This is about the essential job of ensuring that we maximise the value of the world-class assets in which we have invested over the last eight years or so. As the end company, we see opportunities to improve our operations and we will pursue those as a priority. The second pillar as a Saudi mining champion, we will continue to grow our mining business in the Kingdom through the continuation of our extensive exploration programme. We will be able to support the development of Saudi fertilisers, aluminium, industrial minerals and gold and base metals. The initiative within the Saudi Vision 2030 and the NTP will undoubtedly help Ma'aden to achieve these objectives. This will allow us to continue to do what we have been doing so successfully in the recent years; generate high quality jobs, create real and sustainable economic value, and make significant contributions to the development of the Kingdom in

the some of the country's most remote locations. Finally, we see an opportunity to build a global presence. We are already a major global player in fertilisers and our aluminium business is world class. We can use this strong pace to continue to develop Saudi mineral deposits with an eye to adding to this through strategy international growth opportunities in selected commodities. Together by executing successfully across these three strategic values, Ma'aden will strengthen the foundation upon which to build a world leader in the mining sector that contributes in a meaningful way to the transformational ambitions of Saudi Vision 2030.

I will now hand over to Darren who will take you through a more detailed look at the Q4 results. Thank you very much.

Darren Davis
Thanks, engineer Khalid. We move now to slide 14, just make a note, first of all, all of the 2016 numbers we are going to refer to have been restated as IFRS compliant, of course, to be in line with our first reporting period under the IFRS standards, which is Q1 2017. Maybe it is useful just to work down the table on slide 14, that tells the story of the first quarter, and it is a very similar story between Q1 2017 and Q4 2016 and Q1 2017 versus Q1 2016 in terms of the story, so we see a big increase in sales year-on-year and quarter-on-quarter, which is a combination of some healthy price improvements, particularly in aluminium offsetting a drop year-on-year in ammonia and DAP. But at the same time, what we are also seeing is the effect of the new operations that were not there in Q1 2016, so we have Ad'Duwayhi gold mine, we have the bauxite mine and alumina refinery and we have the ammonia plant from MWSPC all in Q1 2017 and they were not there a year ago. Looking at the cost to sales, you will see, as engineer Khalid has already referred to, controlling that cost base has been very important, so while there has been some impact from raw materials cost, it is actually about achieving efficiency through increased throughput a well. So you see a big increase in our gross profit year-on-year and quarter-on-quarter.

Just looking at some of our costs there, G&A you may notice there, you see a big increase of Q1 versus Q1 '16, there are a couple of exceptional items in there, one particularly around 40 million relates to a historic adjustment for some net back pricing and also some additional consultancy costs that we incurred the end of last year as we went through the strategic review. Actually, G&A is roughly flat year-on-year, it hasn't actually increased, and that is taking into account, of course, that a year ago we didn't have the G&A from the mine and alumina refinery or Ad'Duwayhi or a portion of the MWSPC G&A. Actually, it is a cut in real terms.

The other noticeable item, of course, is the write-off in Q4 '16 under IFRS, which relates to a second write-down of the rolling business, and I will come back to that in a moment. I think the other thing worth noting, of course, is the finance costs. They have doubled roughly just over that since last year and have increased since Q4, but again, that is about recognising the financing costs associated with Duwayhi mine and the Ma'aden Wa'ad Al Shamal ammonia plant, or the financing that relates to that, and also the bauxite mine and refinery again. I think what is important to know, though, of course now is that most of our debt is coming through the income statement, so we will see less of an increase of that going forward, other

than due to interest rate increases. Looking at then profits attributable to the shareholders of the parent company, we saw a 42% increase year-on-year, which is obviously a fantastic result.

Moving onto the next slide, phosphate and aluminium of course remains the biggest portion of our business, although I think it is noticeable that gold is making a bigger contribution as we see a big increase in production there, and I will come back to that, but it is obviously an important part of our business going forward. Phosphate, all the revenues from the ammonia business at Wa'ad Al Shamal, and as Khalid has mentioned, I think it is worth noting, again, that of course ammonia is a very profitable product. At the moment, we are exporting all the ammonia from the Wa'ad Al Shamal project. As that project starts to ramp up during the year, of course, we will start consuming that ammonia to produce phosphate fertilisers in Wa'ad Al Shamal for the first time.

Moving onto the net income bridge, this is Q1 '17 versus Q1 '16 starting over from the left. The price effect was obviously important. As I mentioned, it is not quite as simple as all the prices going up. Aluminium, certainly, is an improvement year-on-year, but ammonia and phosphate are actually down year-on-year, so there is some benefit there from price effect. I think what is very important is we look at the next three items, particularly the volume effect, so this is partly, of course, due to production that wasn't being recognised last year, but it is also about getting more throughput through our existing facilities, and at the same time, the cost effect, which is partly due to raw materials, but also due to the work we have done in terms of our cash generation initiative, you can see, actually, we benefitted surely from a slightly better pricing environment, but there is a lot of work on the side of the company that, actually, contributed to an improvement in the net income number. I mentioned the one-off items in G&A which account for the SAR 60 million movement negatively, and again, finance charges largely due to the recognition of debt that wasn't recognised last year in terms of the facilities that it relates to it that not yet in commercial operation.

Looking at the quarter-on-quarter bridge on the following slide (17), a slightly different story here. Again, very positive in terms of both price and more importantly throughput. Again, more products coming out of the company as we commercialise more of our projects, and those contributed to a big uplift in terms of performance. I mentioned the write-off of part of the value of the rolling business. We look very carefully under the IFRS process of evaluating impairments; we look to all of our businesses, of course. The rolling business suffers really under that testing regime due to the very slow ramp up, which we have always been aware of, but it does have an impact on the income statement. We remain very positive about that business, we have an excellent asset, and I think we're starting to see some good improvements in productivity and marketing successes, so we will continue to focus on that business, it is still a good underlying business.

If you look a bit more closely at the operational performance on slide 19. We had a record quarter in terms of fertiliser production reaching over 720 K tonnes, and this is, of course, is from MPCs, so this is existing business, so this growth is all about getting more throughput through our existing assets, this is not any production facilities showing in there, so we're very pleased with that improvement, both in utilisation rates and the higher efficiency. Of

course, that feeds through to our cost base as well, so we get a lower cost per tonne, and we get more throughput through the same assets. Ammonia, of course, we saw a big jump in external sales and production and that is because of the Wa'ad Al Shamal volumes. That will, obviously, as I mentioned change as we ramp up Wa'ad Al Shamal during the rest of the year, probably not a huge impact on Q2. Q2 is when we started to see the ramp up of the historic assets and the rest of the fertiliser chain, but you will see more of the effect of that in Q3 and Q4, so you will see more ammonia consumed later in the year. Aluminium also did well on the production side; again, this is from the same assets that we're seeing better utilisation of our assets in Ras Al Khair, particularly on the recycling unit, which is a good sign.

I think the other noticeable point worth mentioning in Q1, of course, is our first external sales of alumina. You will be aware that the refinery is sized above our needs for captive consumption in our smelter, so we sold our first 30 tonne cargo of alumina in Q1, which is a great milestone for Ma'aden. Cost-wise, again, throughput helps you keep your costs down, so cost per tonne was notably improved and, of course, we're now consuming our own alumina, so when we look at our cost per tonne of aluminium produced, we can look at it as an all-in-integrated cost, we're now not buying alumina to process, we're of course utilising our own in-house alumina, which obviously the cost of that is considerably lower than the market price.

As I mentioned, the rolling mill continues to ramp up. We're making good progress there and we're sure we will see some more progress there during the rest of the year. Turning to gold and copper, great in terms of pricing, particularly on copper over the last year, but on production, it has really been the story of gold in terms of the continued increase in production, so 71,000 ounces in the first quarter, a record production for Ma'aden and we continue to ramp up the Duwayhi mine, which we're obviously very pleased with. 7,000 tonnes of copper produced in the quarter at Jabal Sayid and, again, that is another facility that will continue to increase production as it reaches its full production capability over the next couple of years. Cost performance is also improving, again, this is about volume, so as we increase the volumes, particularly at Duwayhi, because it is such an important part of our production profile, we increase volumes there, you will see the cash cost of production of gold continue to drop.

Just quickly on our financial position, again, these are under IFRS numbers. Just a couple of things to notice, I think the capital work in progress is continuing to shrink, so the only major capital items now are the rolling mill (the aluminium rolling mill) and the balance of the Wa'ad Al Shamal plant after the ammonia. So all of these are, obviously, in commissioning phase now and we look forward to seeing those moves into the PPE column in the coming quarters. Long-term borrowings are stabilising as well, we're obviously paying down debt in MPC and the aluminium business, where there obviously is some increase in debt drawings as we finish the Wa'ad Al Shamal project.

If you look at the strategy page on slide 24, 23 have restated 2016, so you will see that there was an increase in the debt/total capital ratio in 2016, and this was really mainly down to the fact that we made the adjustments to retained earnings, because of the impairments recognised in the opening balance sheet, but as you will see in Q1 2017, you are starting to see the stabilisation of that debt/total capital ratio.

I will finish up, just to reiterate some of the highlights engineer Khalid started with. I think the thing we're very proud of is the record production across our business in Q1. We're really starting to see the effects of all of those projects we commercialised in 2016 all coming together now in Q1 for the first time, and we are seeing very substantial improvements in production in those new assets. More importantly, we're seeing more throughputs through our existing assets and that is a key part of the strategy as was mentioned earlier. We're still in great commodities; we're pleased to see some improvements in pricing that seem to be sustained in aluminium. DAP held up well in Q1 and certainly the ammonia price improvement was welcome. We have some concerns, though, over the rest of the year and we will be watching those markets carefully. As we do ramp up, cost performance becomes ever more important. We want to see the engine that we have created produce the profits we know it can, so as we see commodity prices improve, we need to keep strong cost control so we can deliver the profitability we know this company is capable of doing. Our growth projects continue, Wa'ad Al Shamal is progressing well and we look forward to first production in Q2, and we still have a great pipeline of new projects, so we have already announced the third wave of phosphate and we have some good projects in the pipeline for gold as well.

Finally, Vision 2030 is a great opportunity for us. We think there are a lot of initiatives coming out of [audio] benefit from and, of course, Ma'aden will be an important part of delivering its own contribution to the goals of Vision 2030.

With that, we will move onto Q&A.

Question and Answer Session

Operator
[Operator instructions]

Our first question is from Asim Bukhtiar from Saudi Fransi Capital. Please go ahead.

Asim Bukhtiar
Congratulations on a great quarter. I just had a couple of questions. One is related to copper. Can you talk a little bit about where this copper concentrate was sold and what was the realised selling price? As well as the accounting aspect of it, where do we expect to see the P&L impact of copper? My second question is related to the impairment on rolling mill. It sounded like that there could be further recurring impairments on the rolling mill. Could you talk a little bit about that? Thank you.

Darren Davis

On copper first of all, the concentrate, I don't have the exact destinations here at the moment. There's a couple of marketing contracts we have in place going to smelters where we already have a relationship there. Your second question was around the impairment on MRC. As you'll see through the accounts, we took quite a large impairment as an opening balance sheet adjustment for January 1, 2016 and then we tested again for impairment at the end of 2016. As I said, the business is a difficult business and when you do the impairment testing under IFRS versus SOCPA you have discounting of future cash flows, so what tends to happen is that where you have a slow ramp up, which is normal in this business by the way, that discounting tends to amplify the effect, so it's expected that this would happen in the rolling business. That's why you've seen in auto sheet as well, which you've also mentioned, so we still think this is a good business, but it does take time to penetrate into the market and we're very pleased at the progress it's made in Q1, but it's going to take some time to keep ramping that up and the next time we look at this, I guess, for testing is likely to be the end of the year, because at the moment we see no reason and, as I say, no other indication of further impairment at the moment.

Asim Bukhtiar
And the testing for impairment is done annually as opposed to quarterly, I guess.

Darren Davis
Well, it's tested when there are indications of impairment, so as I said, we don't see in the first quarter any indication of impairment on any assets, including on MRC, so it didn't move in a negative way. Quite the opposite I think; we're happy with the way it's ramping up now.

Asim Bukhtiar
One final question is related to very strong EBITDA margins on aluminum in Q1 '17 versus Q1 '16. You talked a little bit about price improvement as well as sourcing alumina from your refinery. Is there anything else in terms of cost savings and how sustainable are these savings going forward?

Darren Davis
There certainly is a lot in the cost savings. I mean, this is an initiative that is going across the whole company and it's been place for over a year now, and it's a very precise and organised programme. It's very detailed. It's really from the shop floor upwards, so everyone in the company is contributing to making this effective in all of the business, so that's certainly a good part of the aluminium business. But, you know, the being integrated, seeing that benefit, this is exactly what the aluminium business in Ma'aden was all about when it was set up. It's about being integrated from the rock all the way through to the end product, so when you switch from being an alumina buying to being self-sufficient, in fact an alumina seller, it has a big impact on your margin, so that's baked in, so I think I've mentioned in the last quarter that alumina now for us is a revenue item and not a cost item anymore, which is great news for the business. The other thing is just to emphasise that we are a young

company, as Engr. Khalid mentioned earlier, and we still see improvements that can be achieved across the business, including aluminum in terms of cost and efficiency, so we think there is more to come.

Operator
Our next question is from Saad Al Nasser from Olayan Saudi Investment Company. Sir, please go ahead.

Saad Al Nasser
My question is regarding your write-offs in first quarter of 16 million, what it is related for.

Darren Davis
This was just in relation to potlining of the smelters, so this is just where we find the lives of the pots shorter than we expected, so we have to accelerate the write-offs, so it wasn't anything particularly unusual. This happens occasionally.

Saad Al Nasser
The impairment you took in the last quarter, which is around 609 million, so it's related to MRC mostly.

Darren Davis
Yes, that right, it mostly was, so 566 related to MRC, the rest was gold company write-offs relating to some old equipment.

Saad Al Nasser
My last question is regarding your [P3] project, the phosphate [three] that you mentioned last time, so what is the progress of this? Is it still in the feasibility stage or there is some development going on over there?

Darren Davis
Yes, so we're working hard on the feasibility study and it's going very well. I think as we announced at the time back in Q4 is this is a project that we can execute in different ways, maybe in phases, depending on the market, and we're very conscious that as one of the biggest players in the phosphate market globally, we need to be careful on how we bring on new volumes, so we're watching the market carefully and we'll make a decision on when to bring forward the third phosphate wave based on market conditions.

Saad Al Nasser
The last question regarding the same, the [P3], what will be your favourable source of financing, because looking at your balance sheet right now, which is already highly leveraged, so are you planning to go for more debt financing or you go for liquidity financing?

Darren Davis
Very good question, so our path forward on financing as we grow is very much we need to balance growth to improve our balance sheet and I think as what you're seeing now on the first quarter is an important element of that is that we've commercialised so much of our early projects, we're actually generating a lot more cash now, so what we'll be able to do as we go forward is use more of our internally generated cash towards funding our projects. We've also accumulated quite a large cash balance, which we did opportunistically over the last 12-15 months, where we saw opportunities to refinance, so we think we're in a good position to be able to grow without increasing our leverage in the next period going forward.

Operator
Our next question is from Tanvir Abid from NCB Capital. Please go ahead.

Tanvir Abid
I've got two questions. The first thing is that can you please clarify why the Q4 '16 rolling mill impairment was booked in the income statement and not directly in return earnings, because as far as we understand, the rolling mill has still not started commercial operations? Secondly, your first quarter '17 gross margin is 34% and just for our understanding purposes, can you give us some idea what your first quarter '17 gross margin would be if the financials were shown under SOCPA?

Darren Davis
There were two treatments of impairments in our accounts, so at the date of transition to IFRS, which is the 1 January, 2016, you're allowed to make any impairment adjustments there directly to retained earnings, not through the income statement, so that's what occurred in the opening balance sheet, but any impairments made after that, including to capital work in progress, needs to go to the income statement, so that's just the accounting requirement. On the gross margin, your question was about what the difference would have been if we had reported under SOCPA in Q1. It wouldn't have been substantial. We've provided some… if you look at the rest of the pack after the call; we've given you some examples of the bridge between, for example, Q1 2016 IFRS versus Q1 2016 SOCPA. It isn't huge, the impact; the biggest transitional impact was actually the impairments.

Operator
[Operator instructions]

Our next question is from Adnan Farooq from Jadwa Investment. Please go ahead.

Adnan Farooq
My question is regarding the strategy you mentioned, that there are three pillars, one of them is a global presence, is the company planning to expand outside Saudi Arabia in terms of mining projects and not just sales, and if yes, would these been greenfield projects or acquisitions?

Darren Davis
I think Engr. Khalid; you'd be best placed to answer those.

Khalid Al Mudaifer
Of course, what we said we are now present in terms of marketing and we will grow further outside through distributions and others, and we would await other opportunities as they come. We do not have something in mind now, but we would find a way to do projects that will have a meaning to our operations in Saudi.

Adnan Farooq
One question regarding the aluminum business; how much of the production during the quarter was related to the recycled material?

Darren Davis
We don’t normally provide the breakdown between the smelter and the recycling, Adnan.

Operator
Our next question is from Anoop Fernandes from SICO Bahrain. Please go ahead.

Anoop Fernandes
My question is related to the guidance that you have provided on caustic soda and pet coke price inflation through the year. Will the caustic soda really impact because we operate on an integrated model, and secondly on pet coke, you have mentioned in the past that you're planning to replace some of your imports with local supply, so has there been progress on that front? Thank you.

Darren Davis

I will just answer on caustic soda. I mean, there is to a certain degree some integration, but of course the way it's integrated in the income statement doesn't really reflect, because it reflects as a cost in cost of sales. If there were profits at SAMAPCO that would be related, but as you probably know, SAMAPCO suffers from a very difficult situation in terms of EDC, which is the other product it makes, so actually when caustic prices increase, we just see the cost effect. We don't see the full integration given the different ownership structures.

Khalid, do you have an update on the pet coke – the potential domestic supply of pet coke for the smelter?

Khalid Al Mudaifer
[As a project and the consigned coke], the project that's going on now and we are waiting for the execution, and they have started building, but I don't know where are they now.

Anoop Fernandes
One of your competitors actually alluded to real strong demand, aluminium demand, this quarter compared to the quarter last year and that kind of shows even in the volume growth from Ma'aden. Could you please give us a sense of where this demand is coming from and which segments are driving this increase in demand?

Darren Davis
For aluminium, I mean aluminium, there's often a misunderstanding that when you look at the price for aluminium people think that there is some problem with the demand side. Aluminium's growth in demand has continued to be very strong and including in China after the last few years; it's never been a demand issue, so…

Anoop Fernandes
But just to clarify this is regional demand; this is demand in Saudi Arabia that I was talking about.

Darren Davis
Yes, I mean, we do obviously sell in Saudi Arabia, but that's not where most of our product goes to, but the point that I was trying to make is that the pricing of aluminium – it's a global commodity, so what goes on in the Kingdom doesn't really have a huge effect on its own in terms of the pricing. There's obviously differences in terms of premiums that can be achieved, but we're very much geared towards finding the market and the products, which gives us the best net back, whether it's in the Kingdom or exporters.

Operator
[Operator instructions]

We have a question from Mohamed Alatebi from Riyad Capital. Please go ahead.

Mohamed Alatebi
I have two questions to Mr Davis. The first one being, a few weeks ago, I'd say a month ago, the company has mentioned that you have booked an impairment charge of about 2.9 billion and that's allocated between the rolling mill and SAMAPCO. Could you please shed some light as to what percentage was allocated to SAMAPCO and what percentage was allocated to the rolling mill? That's number one. The second question is how… we want to know how reliant the SAR railway on transporting the phosphate projects from Riyadh, if you can give us some numerical answer in percentage, it would be very insightful.

Darren Davis
I will just answer quickly on the impairments before I hand over to Engr. Khalid on the SAR performance, so we announced – not the booking, but we announced obviously the estimate of impairments, so in the Q1 financials you will see details of the actual impairments we booked, so if you look there, first of all there are three assets that are impaired. First of all, there is MRC, which is impaired by about SAR 1.5 billion in the opening balance sheet and a further SAR 566 million in Q4. For the automotive sheet, we impaired for SAR 461 million in the opening balance sheet adjustments. On SAMAPCO we impaired SAR 373 million in the opening balance sheet adjustments. Those are the total. Those exclude the minority share in respect of auto and MRC, by the way.

On SAR, I will hand over to Khalid.

Khalid Al Mudaifer
On SAR, they have achieved 100%, almost near to 100%, of lifting and transportation and they are doing very well. Also in Wa'ad Al Shamal they have completed the project and that's ready for transportation.

Mohamed Alatebi
What about the trucks? Do you still rely on trucks heavily or not?

[Technical difficulty]

My question was related to trucks, on trucking, of the transportation using trucks or trucking business. Is Ma'aden still relying heavily on that business?

Khalid Al Mudaifer
The question is. Are we still using trucks, hey?

Mohamed Alatebi
Yes, exactly.

Khalid Al Mudaifer
Very rarely, but we use it for special purposes not because of the performance. Sometimes the product would not be… it's a very small percentage, not more than 5%.

Operator
[Operator instructions]

Our next question is from Ali Azgar from Saudi Fransi Capital. Please go ahead.

Ali Azgar
My two questions are relating to more or less the debt situation of the company. The first question is regarding the financial expenses, as you rightly pointed that a major part of it is now being expensed since the commercial operations started, but what part of it is still capitalised? Can you please elaborate on that? The second question is relating to the debt level overall. Considering that you still have future CapEx plans and, again, the company is very aggressive towards the mining, do you think that the company would consider raising further equity considering the market situation and everything else? Thank you.

Darren Davis
In terms of the debt, so we've not only expensed all of the finance charges on the commercially operational assets, we're actually also expensing the finance charges on MRC, so even though we're expensing the finance charges related to the ammonia at Wa'ad Al Shamal, the only interest charges we're not expensing at the moment relate to the balance of the Wa'ad Al Shamal plants, so we think that the debt for Wa'ad Al Shamal once it's fully drawn will be around $5.3 billion equivalent and of that, roughly 85% relates to the non-ammonia assets, so that's the portion that's not in the income statement at the moment. On the overall debt level, I think one of your colleagues asked earlier, we're very conscious of the fact that we're highly leveraged. It's not the best position to be in when you're in a commodity business, notwithstanding that we have an exceptionally good cost position.

I think as we look forward to the growth, as I said, we're very conscious that we need to balance growth with an improvement to the balance sheet, because there's no point growing if we can't do sustainably, but as you see from Q1, though, we're commercialising production assets very quickly and very effectively. We're ramping up our business very fast and you'll see the cash come through the business, so as we grow, we're actually producing a lot more cash and if we see continued improvement in commodity price, we'll see that cash go very fast, because our cost base is relatively sticky. We actually see a good opportunity going forward to be able to grow and improve the balance sheet at the same time, and as I said,

we've also got a considerable cash pile on hand that can go towards that next wave of growth that we've identified in phosphate and in gold.

Ali Azgar
Just a follow-up question regarding that, concerning the increase in interest rates and the federal hikes that are going on right now, so isn't it kind of a better idea to finance some of this debt through equity issuances?

Darren Davis
So we have seen some changes in the interest rate over the last six months. The Government in Saudi Arabia has done a good job of bringing down the SAIBOR rate. The liquidity in the banking sector has improved, as I'm sure everyone on the call is aware of, so we've seen a healthy improvement in SAIBOR over the last three months or so. US dollar LIBOR obviously is heading in a slightly different direction. It's difficult to see how much momentum that will have, so as we look forward, there are different things we can do about our interest rate exposure. We could borrow more or replace some of our debt with fixed rate debt. That's something we certainly look at and hedging is available as well, but I think you start talking about equity, you have to be very cautious about saying we're just going to raise equity to save interest costs. I mean, equity has a cost in itself and we wouldn't just raise equity to save ourselves financing costs.

Operator
[Operator instructions]

We had a question from Eshendra Perera from Falcom. Please go ahead.

Eshendra Perera
I have one quick question. You are saying there's a lot of opportunity given the 2030 plans. My question is what kind of return can the investors expect, so what is like the hurdle rate for Ma'aden when they are making an investment decision?

Darren Davis
So we have a very disciplined approach to the hurdle rate, so we basically calculate a weighted average cost of capital for each of our businesses, because clearly that's different from gold, aluminium, and phosphate and base metal, and then we add a margin over that to create the hurdle rate, so we have a different hurdle rate for each of our businesses and any new projects need to pass that hurdle rate before it would be considered.

Eshendra Perera

Just one more question; with regards to the impairment, was there a big change in your ramp up? Was it the reason for the impairment or just that whatever the investment that you make was much higher than the discounted cash flows?

Darren Davis
Yes, so the difference between what we'd done before under SOCPA and what we'd done under IFRS is just the discounting, so under SOCPA you didn't have to discount the cash flows when you did the first part of the impairment test. On that basis, the ramp up doesn't really matter, because you still take into account all the cash flows without discounting, but as soon as you discount then the discounting factor has a big impact on a slow ramp up asset like the rolling mill.

Eshendra Perera
Okay, because the thing is that you were saying that you checked the WACC and there is a bit of an addition when you're selecting an investment, so if that was the case, there should not be impairment, right?

Darren Davis
I see what you mean, so you're talking about versus the original investment decision back in 2010.

Eshendra Perera
Yes, that's correct.

Darren Davis
Then, of course, the WAC would change. We actually evaluate the WAC every year, so we use that to evaluate the investment decisions in that particular year. We'd have to go back and see what the evaluation was done back in 2010. You have to think as well of the aluminium business overall. It was always designed to be an integrated value chain, so it's all about taking the rock all the way through the smelting, down to the final can sheet product, so overall when you look at the aluminium business, it's a very attractive business.

Eshendra Perera
What about the supply side for some of your products? What's your expectation? Is there further supply side additions coming up, especially for aluminium? Not the demand side, the supply side, what is your expectation?

Darren Davis

You mean globally?

Eshendra Perera
Yes, globally.

Darren Davis
I think most of the supply additions that we've seen recently and that are in the future are likely to be in China. It depends on policy there. There are lots of factors that they take into account when they're making investment decisions in China, but I think again you have to remember that new supply will be needed over time, because demand continues to grow very healthily for aluminium. The problem is there has just been a disconnect between the speed of growth in supply and that speed of growth in demand. It does appear from what we've seen in Q1 that there is an expectation in the market now that the Chinese aluminium production will be more rationalised going forward, but I think that the impacts of that might not be seen until the end of the year. There is a lot of expectation at the moment, but it will take some time to see whether that's a really significant impact and whether it's sustainable, and you would expect that that would also have an impact on new investment decisions as well.

Operator
We have no further questions. Mr Walid, back to you for the conclusion.

Walid Al Hakim
We thank you all for listening in and we look forward to staying in constant contact with you in the future. Thank you again.
