Company: Ghabbour Auto

Conference Title: Second Quarter 2015 Results Presentation

Host: Dr Raouf Ghabbour

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Operator: Good morning, good afternoon, ladies and gentlemen. Thank you for joining our Second Quarter 2015 Results Presentation from GB Auto. We have Dr Raouf Ghabbour, CEO, and Mr. Abbas ElSayed, VP- Group Finance, presenting the Second Quarter 2015 Results. I will hand over to Dr Ghabbour for his presentation, then we will have a Q&A session.

Dr Raouf Ghabbour: Thank you. Good afternoon and thank you for joining our second quarter 2015 earnings call. Ladies and gentlemen, we have experienced the second quarter in a row of what can only be described as mixed results. As a Group, we again saw our top line rise despite challenging conditions including the shortage of foreign currency. April and May were very difficult months for us. However, our performance in June more than compensated for this and led us to believe that 2015 could be a strong year across our lines of business. This is particularly the case in Egypt, our home market. At the same time, our expansion markets—and especially Iraq—continued this quarter to present unique challenges far beyond our control.

I'd like to begin by offering that, as I have noted before, bumps in the road such as the year-on-year dip in passenger car revenues, are nothing new for us. We have always thrived in trying conditions and the current period through which we are passing will be no exception. As has so often been the case since the global financial crisis, and through the two revolutions that followed, we have demonstrated ability to capture opportunities in challenging circumstances. Moreover, I remember our performance in even more difficult times for our main market Egypt 20 years ago. Despite the dire economic conditions back then, our company was quite profitable, an experience that reinforces our ability to turn the situation in our favour when least expected.

I'll start with a survey of the quarter just ended in Egypt, beginning with passenger cars. Our passenger cars line of business continues to be the driving force behind GB Auto's performance with our Egyptian passenger cars operations leading the way. Passenger car sales in our home market accounted for 53% of total Group revenue in the second quarter of this year. This is all the more impressive when you recall from last quarter that we made the strategic decision to withhold deliveries of GB products to dealers as we sought to correct a market oversupply. In tandem, we took the opportunity to work on quality issues of a car that captured the high single-digit market share right out of the gates. These issues have been addressed and we now see signs of sales returning to near-normalised levels. The drop in CKD Geely sales in the quarter should be seen in that context. The bulk of our sales in Egypt continue to come from Hyundai and I'm happy to note that total sales of Hyundai CBU units rose 22.5% in the quarter and 38.2% in the half, signalling continued strong consumer demand and confidence. We are also in the process of rolling out a number of 2016 models which should boost our sales. Mazda meanwhile continues to report increases in unit sales revenues and contributions to the passenger cars line of business gross profit. We are quite pleased with this division's performance in general and are looking forward to developing the business further.

All that being said, margins were again pressured by the devaluation of the Egyptian pound against both the US dollar and the Korean won. Japanese and European vehicles are also simultaneously benefiting from devaluation and improving their profits even as they leave their prices static. This has prevented us from passing the full impact of devaluation, a practice at which we had succeeded since official devaluation started. We continue to work in the third quarter to pass on price rises.

More critically, I'd like to again sound the alarm when it comes to the larger threat not just to our business but to our industry in the long term. That threat is of course the unfair customs advantage enjoyed by the European, Turkish and Moroccan vehicles against assembled-in-Egypt cars. As pressure continues to build and the situation becomes increasing dire, I remain optimistic that the current government will address this issue sooner rather than later. Along with our peers in the industry and the Egyptian Federation of Industries, we are backing a plan that would see assemblers that go further down the value chain into manufacturing rewarded. In return for continuing to create jobs for skilled labour, companies that increase their local content would be rewarded with a series of incentives that would make continued assembly and manufacturing operations possible. I look forward to reporting more on this front in the months to come.

Turning to our regional passenger car operations, the Iraqi market remains very difficult to navigate as the political, economic and security situation in the country has seen consumer confidence buffeted. When coupled with oversupply issues due to non-authorised regional parties moving excess inventory into Iraq, the picture becomes even more complicated. That said, we still believe the Iraqi market is a key market in the MENA region and will continue to operate there to defend our market share in anticipation of a future recovery in the market.

In terms of our Algerian operations, we remain focused on the very much present medium- and long-term opportunities this market has to offer. That said, our growth in the second quarter was stalled as the impact of low oil prices and the government's move to allow substantial devaluation of the dinar have had a sharp impact on the market. Not surprisingly, it has also impacted our revenues from the market. Our goal for Algeria remains unchanged: to continue to cover our costs as we explore means of growing our presence in this potentially exciting territory.

I'm very pleased to report that the motorcycles and three-wheelers business witnessed significant increases year-on-year in sales volumes, revenues and gross profit on both a first quarter and first half basis. With the attempt last year to ban the import of kits now behind us, there remains a remarkable market for these vehicles not just in Egypt but abroad. In Egypt, we expect to continue to work with authorities to ensure that tuk-tuks and motorcycles continue to serve the needs of low-income consumers.

Speaking of which, we are pressing ahead with this line of business planned expansion which will utilise proceeds from the recently finalised capital increase. Our present assembly facilities in Egypt are considered to be the first motorised assembly line of production for Bajaj three-wheelers outside India, and we are currently finalising studies to install new painting and welding shops with considerable component and process localisation. In tandem, we see significant opportunities to replicate our tuk-tuk and motorcycle experience in Iraq and other markets.

The commercial vehicle and construction equipment line of business meanwhile performed well again in the second quarter, witnessing growth in overall revenues and gross profit amid a favourable market environment. We also expect to deliver 150 Marco Polo buses built on Volvo chassis to the Public Transport Authority in Alexandria during this quarter.

In Egypt, our tyres business reported a decline in sales as we worked to avoid a long-term problem through our strategic decision to remake this into a cash-and-carry business. As I speak with you today, this division no longer has receivables from clients. You pay for what you buy at the time of collection. And just as positively, dealers have now reworked their cash flow cycle to suit our model so sales are now returning to normal levels.

In other good news, our regional tyre operations were up in terms of both sales revenue and gross profit, as Goodyear sales in Algeria have been strong and jumbo tyres were successfully launched in both the Iraqi and Jordanian markets. We are also pressing ahead with the new tyre manufacturing facility where negotiations are ongoing with a technology partner. The factory will enable us to lock in supplies of products suitable to our markets while simultaneously catering to strong local demand in North and East Africa and the GCC, where 99% of tyres sold are imported.

The financing businesses meanwhile continued to perform exceptionally both on a divisional level and in terms of its four units. The long-term growth prospects of this business are particularly encouraging and I expect to be making an interesting announcement about this line of business shortly.

Finally, we are moving ahead with our new businesses and I'm pleased to report that both Fabrika, our preowned vehicles line of business, and our lubricants business made positive contributions to gross profit this quarter.

As always, I want to thank you all for your continued support throughout our journey, navigating in a complex region filled with opportunity. We are pressing ahead with a successful model that has allowed us to excel during difficult times, a model that centres on moving up the value chain in our high-margin businesses while using our current operating strength to benefit from the less-than-favourable market conditions, all with an eye on further boosting the long-term profitability of our business. We look forward to continuing on this journey with each and every one of you.

With that, I will hand over to Abbas El-Sayed as unfortunately our CFO Mostafa had an emergency this morning and he had to leave his office. Abbas will take you through a quick look at our financial performance in the second quarter and then we'll open the floor to your question. Please, Abbas.

Abbas El-Sayed: Thank you, Dr Raouf. Good afternoon, ladies and gentlemen. Despite the operational challenges faced during the second quarter and the first half 2015, GB Auto saw revenues increase by 4% and 11.4% respectively. The growth in revenue was driven mainly by strong performance of the motorcycle and three-wheeler, the commercial business and the financing business segments. Our gross profit margin meanwhile inched down slightly in the first half 2015 to 12.4%, only a 0.9 percentage point dip compared to the same period in 2014. As Dr Raouf noted, the months of April and May 2015 witnessed an easing in demand, particularly in the auto markets. However, it was somewhat offset by a stronger performance in June. Overall, the Company's net profit increased by 26% year-on-year in the second quarter 2015 with margins inching up 0.3 percentage points to 1.6%.

The second quarter of 2015 also marked the successful growth of GB Auto's EGP 960 million capital increase via our rights issue, with 99.86% of the rights exercised during the first subscription round. Accordingly, the Company's issued and paid-in capital increased to EGP 1.094 billion through the issuance of almost 959,000 new shares. The new shares were declared for trade on the EGX starting the 22nd June. I would like to note here that the increase was financed through the injection of EGP 473 million that were paid in cash and a further EGP 485 million through the capitalisation of the debt owed by GB Auto to its shareholders.

As a result, the Group's net debt stood at EGP 2.95 million, a significant decrease of EGP 544 million compared to the first quarter of the year, and hence this reflected on the following. Net debt to equity dropped sharply to 0.78x as of 30th June 2015, down from 1.32x at the end of 2014. Net debt to EBITDA also improved, standing at 2.82x versus 3.45x as at 31st December

2014. Total debt was stable at EGP 5.05 billion in second quarter 2015, which includes EGP 1.03 billion of financing business risk as we continue to grow our operations efficiently.

Our funds from operations continue to turn a positive figure, recording EGP 390 million despite the challenging operational environment. This is thanks to GB Auto's new payable days on hand terms with its main supplier.

Going into the second half of the year, GB Auto will continue to streamline and strengthen its financial position, a key factor that has allowed the Company to weather the adverse market conditions. Our investment in a new tyre manufacturing facility and the motorcycle and three-wheeler assembly plant will help lay the foundation for future growth in these segments and allow GB Auto to meet demand across the region that is otherwise 99% satisfied through imports. And while we anticipate continued currency pressures for the remainder of the year, we are optimistic given the good improvements in market sentiment witnessed towards the end of the second quarter.

That concludes our presentation for today. Ladies and gentlemen, we would now be pleased to take any questions you may have. Operator?

Operator: If you would like to ask a question at this time please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

Our first question today comes from Samah Dissi of Beltone Financial.

Samah Dissi: Good evening. Thank you for having the call. I had two questions. The first one relates to the FX shortage in Egypt. I was wondering how much it's affecting your inventory levels and how do you assess the inventory coverage, for how long will it last? This is the first thing to ask about. The second thing relates to the pickup seen in June 2015. Do you expect this pickup to continue for the remainder of the year or it was a one-off? And what is your overall assessment for 2015, the annual increase in passenger cars sold in the market? Thank you.

Dr Raouf Ghabbour: Yes, thank you for the question. Regarding foreign exchange, we have witnessed a big difficulty during the months of February, March and partially April. Starting from late April, we have witnessed an improvement in allocation. I can confirm that we have absolutely no issues regarding the foreign currency allocations related to industrial activities, which represent almost all our commercial vehicles, our two- and three-wheelers and about 50% of our passenger car business. The problem basically in the second quarter was in the imported cars, which is the only segment affected. Regarding the imported cars, we have seen an improvement in the allocation of foreign currency and as a result, today you can go in the market, ask for any imported or CBU Hyundai model, you will find it available either in our showrooms or throughout our dealer network. So I believe that the situation is not yet 100% back to normal but I would say that if we had 100% problem during March/April – February/March/April – our problem now could be about 15% or 20%. In the imported cars. As for –

Samah Dissi: Your expectations for the full year?

Dr Raouf Ghabbour: No, I mean as for the pickup in June, I actually noticed a slowdown in the market during the months of April and May, especially after the Easter holiday. So until Easter holiday, the market was very strong. After the Easter holiday until late May, the market was kind of slower. Not bad but slower. I have seen a big pickup in June which has maintained so far and which I expect to continue.

As for my expectations for the year, definitely if the foreign currency were normal, we would have seen a couple of hundred million extra revenue this quarter, which is something like less than 10% improvement in the top line and which would have improved the bottom line as well. But as my opinion, I believe that going forward, this is going to be behind us. So I don’t think that there will be a significant impact on the results of the business due to shortage of foreign currency. And by the way, during the period of the shortage, we have used our strategic inventory to cover us. So even during that period, the period which succeeded it, we didn’t really suffer from shortages of FX.

Samah Dissi: Okay and on the two- and three-wheelers front, do you think the ban that was issued by Cairo Governor related to banning tuk-tuks in eight areas of Cairo, do you think it's going to impact your sales or anything like that?

Dr Raouf Ghabbour: Absolutely not. No. first of all, I have to stress that I am full supporting the Governor of Cairo banning three-wheelers from areas like Central Cairo or Zamalek or whatever. Law has to be applied.

Samah Dissi: Definitely.

Dr Raouf Ghabbour: And we have to enforce discipline at the end of the day. So it's not a banning. It's putting them or forcing them not to go outside their zones. I do not see that this will impact – I'm currently at my peak and I need even more volume. So this is in the middle of what is called a banning. It's not a banning; it's discipline.

Samah Dissi: So we should hear about the timeline for the two- and three-wheelers plan soon?

Dr Raouf Ghabbour: Yes, yes. Yes.

Samah Dissi: Thank you very much.

Dr Raouf Ghabbour: We are actually finalising discussion with the Ministry of Industry and with the supplier related to fixing to this product or to that three-wheeler tricycle and motorcycle the percentages of local content and the timeframes during which those percentages have to be fulfilled. And parallel to that, we are in discussion with the supplier, who is fully cooperative with us. So I think that we should be starting the construction very late this year or early next year.

Samah Dissi: Great, thank you.

Dr Raouf Ghabbour: Thank you.

Operator: Our next question comes from Nicholas Paton of HSBC.

Nicholas Paton: Afternoon, everybody. I have some detailed questions on the passenger car business, maybe if we could just deal with those quickly first. On the Geely destocking, you were quite significantly below our estimates for the second quarter and I just wondered if you could give us some guidance for the full year now for the Geely business in Egypt.

Dr Raouf Ghabbour:Yes, shall I take them one by one or…?

Nicholas Paton: I think you won't remember them all if I do it the other way round.

Dr Raouf Ghabbour:Okay. For Geely, as a matter of fact, we face two challenges. The first challenge was late last year we realised that the market was overstocked or we oversupplied the volume with cars. So we intentionally withheld supplies during the first quarter in order to bring down the inventory levels in the market to the reasonable number. And as a matter of fact, by the end of the first quarter we have actually comes the second problem. While we were expecting to start selling big volumes in April because actually the market was almost I wouldn't say empty but normally staffed, unfortunately we started facing a terrible blackmailing I would say through social media against the car, claiming that the car has safety issues and claiming lots of false information. As a matter of fact, we have obtained from the supplier certificates related to the items social media was attacking us for and not only that, we went to German testing firms, global German testing firms, and we did neutral testing and we got the results of those testings and as a matter of fact, I am now threatening anyone in the social media who writes anything untrue about the product to take him to court. And as a matter of fact, we have reduced the inventory – I remember we had an inventory of 7,000 cars – that was reduced during the last two months to 3,500 cars and I expect to be short of cars within 2-3 months. So I do not see a problem. I am confident about the quality of the car. I have put the people who were blackmailing – I don't know if their intention was blackmailing GB Auto or blackmailing Geely but at the end of the day, I am strongly facing them and I have stopped them.

Nicholas Paton: And I'm not quite sure what you mean by "blackmailing" – what were they hoping to get out of you?

Dr Raouf Ghabbour:They, no, it's not blackmailing, excuse me, Badmouthing. They are trying to attack the car or the sales of the car or maybe the company by talking untrue information and putting images which are false images and putting information which are totally untrue in order to scare the public from buying the car. So we have then –

Nicholas Paton: This doesn't sound like a short-term issue; this sounds like something that might take a little while to recover from.

Dr Raouf Ghabbour:I told you I sold 3,500 cars in the last 60 days.

Nicholas Paton: Right.

Dr Raouf Ghabbour:There was 1,000 cars in the market and I liquidated 2,500 cars from my stock.

Nicholas Paton: So what is a sensible number now for the full year?

Dr Raouf Ghabbour:I believe that we are now selling something like 1,000+ cars a month so I believe that we should be selling about 6,000 cars during the second half of the year.

Nicholas Paton: Yes okay, all right. So you're looking for about 10,000 cars I guess in total then.

Dr Raouf Ghabbour:Yes.

Nicholas Paton: Okay, fine. We previously had a number that was quite a bit higher than that in our model so I just wanted to check that with you. Now on the Karry Egypt, we were looking for significant higher numbers there. We were looking for 500 units in the second quarter and I think you've done 177. Is there a reason that we should expect that number to recover back to the run rate that we're looking for? Because I think the previous guidance was for 3,000 units in 2015, which now looks a bit out of reach.

Dr Raouf Ghabbour: We started the Karry with a 1 litre engine and the 1 litre engine proved not to be strong enough to take the load of the seven passengers with a driver and air-conditioning. So we changed the engine to a 1.2 litre engine which is now having no problem and my run rate now is about 150 a month, which should see growth in the future.

Nicholas Paton: Okay, that answered that one and –

Dr Raouf Ghabbour: As well, I have to mention that we had a very serious problem in the shipping of the components. So in many during the first half of this year, most of the cars were shipped with shipments of components or damaged components upon arrival, so we had a production which we could not supply to the end user, waiting for shipments to compensate the damage or short shipments of items.

Nicholas Paton: And just very quickly, and now on the more positive ones, you actually beat versus our estimates on the Mazda Egypt and the Geely Algeria. Are you expecting those run rates to be continued for the rest of the year?

Dr Raouf Ghabbour: As a matter of fact I had today Mazda people and they agreed to increase our allocation next year from 3,000 to 4,000 cars. So I expect much more in the future.

Nicholas Paton: Okay and just very quickly on the motorcycles, the two- and three-wheeler business, the margin there was quite a bit lower than we had expected. Was there some particular reason for that?

Dr Raouf Ghabbour: We actually chose not to pass part of the devaluation to the end user, choosing the volume. Those markets are very price-sensitive. If you, let's say we started the year with a foreign exchange of 7.18. Today the foreign exchange is 7.83 plus we pay about 1.5% kind of something called allocation fees. So it's actually 7.95. So as a matter of fact, we have about 10% devaluation in six months. If I pass the whole 10% devaluation to the end user, you would have seen far lower volumes. So we do it gradually and we hope that the devaluation will not be as speedy or more speedy, so we will recover the margins, definitely.

Nicholas Paton: Okay, I've only got four more questions. Hopefully we can whip through these. The finance charge was quite a bit better than we expected. Can we expect that run rate to continue for the rest of the year?

Dr Raouf Ghabbour: Because the Company has repaid or actually has capitalised half a billion from its debt. So that's the direct – yes.

Nicholas Paton: I think even the rate was slightly better than we'd expected. I know the absolute number should be coming down.

Dr Raouf Ghabbour: We reduced – the rate of Egyptian pounds has reduced was it 0.5 or 1? 0.5%. So the interest rate was reduced and the debt of the Company was reduced by half a billion.

Nicholas Paton: SG&A? That was significant – sorry.

Dr Raouf Ghabbour: The way I expect, the Central Bank of Egypt could be reducing the rate further next month.

Nicholas Paton: Okey-dokey. And SG&A, that was quite a bit higher than we expected, it was about 40 million higher than we expected it to be in the quarter.

Dr Raouf Ghabbour: Yes, we have a clear explanation for that which I will let Abbas explain to you.

Hafez El-Sayed: There are one-off items that carried out during this year as well as there are new items. For the one-off items, there are some consultancy fees which have been paid and these are one-off for investment opportunity as well as a donation that has been paid, we've already made it, 350 two-wheelers to Ministry of Interior. The third reason for that, the introduction of a new business, not there in the comparative table for LOBs likelubricants – lubricant business started late in 2014, therefore there is no comparative figure between 2013 and 2014 for this line of business, as well as the ESOP. We finalised the ESOP regulatory requirements end of 2014 and we've already granted the ESOP shares to the employees, and we are required by the Egyptian Accounting Standards as well as the International Financial Reporting Standards to account for the fair value of the ESOP shares granted to the employees, not the par value, and this fair value has to be charged to the income statement over the vesting period, which is two years for these discounted shares and three years for the free shares. The last reason for that, we used to compensate our employees through the annual payroll as well as part of dividends distribution and this is as per the Egyptian Accounting Standards. Given that we are currently undertaking investment plans in the future, management of the subsidiaries decided to withhold and retain the profit and not to distribute this profit, therefore we will use it in our investment plan. Therefore, the portion that was given to the employee as part of dividend distribution has been changed to the income statement for this period.

Nicholas Paton: Okay, that's very – I guess it's a very clear answer but I guess in future it would be useful to at least have the numbers for each one of those items in the press release when you have your SG&A moving by such a significant number. I mean it's moved up to over 7% of sales and it's ordinarily been between 4% and 5% I guess over an extended period of time, so it might make sense to put that in the press release next time. Last two questions I promise you. Tax was very high – 60% of net profit before taxex – was there any particular reason for that?

Abbas El-Sayed: Okay, if you look at the tax, GB Auto is working in jurisdictions which are taxable, you have Egypt which is taxed at 30%. Our operation in Iraq is tax-free and for all our Egyptian operations, it's taxed at 30%. If you look specifically at the Egyptian operation for the PCCV, two- and three-wheeler, we have already – we have a profit before tax for more than 120 million which is taxed at 30%. This is apart from our financing business, which is quite profitable this year. But on the other hand, our operation in Iraq reported losses this year, which has reduced our consolidated profit.

Dr Raouf Ghabbour: So as a matter of fact, last year we had a very profitable Iraqi operation which was tax-exempted so the effective tax rate for the Group was minimal. This year, unfortunately, Iraqi – instead of posting a big profit, it's posting losses and the Egyptian operations, which are taxable, are the majority of the profit so the effective tax rate shot up.

Nicholas Paton: Yes, I see. I understand, okay, subtle. And the last question, just on your net debt, I mean you haven't generated any cash for the last couple of years for various reasons. What do you expect for the second half? Do we expect your net debt number to go up in the second half?

Dr Raouf Ghabbour:If you account for the financing business, yes.

Nicholas Paton: That's an interesting point. So what about ex the financing business?

Dr Raouf Ghabbour:Pardon?

Nicholas Paton: What about ex the financing business?

Dr Raouf Ghabbour:What about what?

Nicholas Paton: Ex the financing businesses, fi you exclude the financing business, if you look at the operational business –

Dr Raouf Ghabbour:No, excluding financial business, we don't have until year end serious investment because we are starting the investments beginning of next year either for the tyre manufacturing facility or the two- and three-wheeler facility.

Nicholas Paton: But what is that?

Dr Raouf Ghabbour:Ex finance business, we should be reducing our debt.

Nicholas Paton: Okay, and including the financing business, what's your estimate for the full year? How much cash is that going to absorb?

Dr Raouf Ghabbour:I have here the chairman of the finance businesses. She can give better.

Nicholas Paton: Thanks.

Mrs Amal Ragheb: The total debt of the financing businesses, as I do understand there are 1 billion. It all depends at the pace of growth that the company is making that the financing group would like to grow. We can add up another 200, 300, possibly 400 million depending on the market situation. As you understand, it's not a sale opportunity over here, it's a matter of locating proper client base, corporate and as well as retail. So once we have the right clients on hand, we provide the additional funding for it. So that has an implication on the debt.

Nicholas Paton: Okay, so worst-case scenario it's going to go up by 400 million I guess.

Mrs Amal Ragheb: Yes.

Nicholas Paton: At a Group level. Okay, that's very clear. Sorry to take so much time. Congratulations, a decent set of numbers. Thank you.

Operator: Our next question comes from Tamim Elyan of Bloomberg.

Tamim Elyan: Dr Raouf, I have two questions. You said there were reports that you were planning to start a new finance – microfinancing – unit that would start operating this quarter, third quarter. Any progress on this regard? The second question is are there any plans regarding new models? Are you planning to introduce new models, car models in Egypt or in the regional markets this year?

Dr Raouf Ghabbour: Yes, actually you will hear very soon an announcement about the financing business. So we will make it hopefully within this month. So at this stage I cannot disclose any further.

Tamim Elyan: How would it be different than the existing ones?

Dr Raouf Ghabbour: We will make a disclosure within the next 2-3 weeks.

Tamim Elyan: Okay, thank you.

Dr Raouf Ghabbour: As for new models, yes, of course we have a product range which is about 20 models, which are changing every four years. So every year we have at least five models, five new models coming. I'm expecting at least one of them will be sold like hot cakes, and it's a new market segment in Egypt and we will announce it very soon.

Tamim Elyan: Okay, thank you.

Dr Raouf Ghabbour: Thank you.

Operator: As a reminder, if you'd like to ask a question please press *1 on your telephone keypad. Our next question comes from Sharat Dua of Charlemagne.

Sharat Dua: Hi, good afternoon, Dr Raouf and team, thank you for your time. I wanted to follow up on a few of the questions that were raised earlier and just get a bit more detail initially if I could please. Firstly on the proposed tuk-tuk ban in Cairo, Dr Raouf, if you could just explain a bit more detail why you think that that's not an issue and why you're supportive. I presume you have been selling into the Cairo market up until now. Why do you think that that's not a problem for your investment in that space?

Dr Raouf Ghabbour: Okay. I am totally with the putting discipline and forcing the tuk-tuks not to go out of routes where they should operate. The routes where they should operate, they should be operating in slum areas and villages. Egypt – sorry, Cairo more than 50% of the inhabitants of Cairo are living in slum areas and in those areas there are no transport means for transporting individuals. The moment the three-wheeler goes in kind of central Cairo or on Qasr El-Nil Street or on the Cairo-Alexandria Desert Highway or on any highway, that creates huge hazard and huge accidents because the guys driving the three-wheeler are, they don't have a driving licence, they are below the age of driving, they could be kids of 12 years and I cannot have, as a respectable Egyptian citizen, I cannot accept this to happen. What the Governor of Cairo has done is not to ban the tuk-tuk in Cairo. Do not read the newspapers – newspapers, they take part of the truth and they leave you in the dark. He said in some districts of Cairo which are districts covered completely with a public transportation means and where the tuk-tuk should not operate because the density of traffic is huge, in those parts of Cairo if a tuk-tuk is driven, it will be confiscated and the driver of the tuk-tuk will have to pay EGP 1,500 fine in order to get back his tuk-tuk, and if he repeats, the penalty will be final confiscation of his three-wheeler. But in the rest of Cairo which is where my market is, this is absolutely not an issue. They are driving, nobody is touching them.

Sharat Dua: Okay, thank you, that's –

Dr Raouf Ghabbour: So it is not affecting my business because my business is not built on the business model of destroying the country.

Sharat Dua: Okay, thank you, that's good to clear up as you say sometimes the wrong information comes out in the media. The second thing I wanted to follow up on again for those of us who are perhaps not following social media in Egypt, if you could shed some light on what the faults allegations that have been made against Geely have been and how you have fought back, how you've been able to demonstrate that they are false.

Dr Raouf Ghabbour: I have 30,000 cars running in the streets of Cairo and I do not know exactly what the percentage is normal percentage of accidents but if you have 30,000 vehicles on the road, you can expect a few hundred accidents every year. In an accident, if a car hits the pavement of the road or whatever, possibly a rim can break even if it is a Volvo car or a Mercedes car or an Audi car. So if a rim is getting severe external forces, whatever the maker of the rim, the rim will break. So there were allegations that in some accidents which happened with Geely cars, and in those accidents the rim was broken, the allegation was that the accident happened because of the breaking of the rim. So when somebody started talking about this in the social media, all the guys who had similar accidents during the last three years started saying, "And we too, we have the same problem. We had an accident." So guys, something like 20 cases, started gathering – cases which happened two years ago, two and a half years ago and a month ago, claiming that the rims breaking was the cause of their accident. So I was shaken, personally I was shaken because I didn't know and when Geely brought me their report saying that the accident was the cause of the rim breaking, not vice versa, I couldn't get convinced because they were just defending themselves so they had to be biased, I thought so. So I sent a number of rims – brand new rims and broken rims from accidents – to a very famous testing institute in Germany and I got a definitive opinion saying that we did not find a single case or a single evidence which proves that the breaking rims was the cause of the accident but on the contrary, the accidents were the cause of breaking rims. So the moment I got this, I started taking a very strong position, putting warnings in all the social media that if anyone talks untruly about the cars, I'm going to take him to court. In no time, they disappeared, and I'm just waiting for one to show up and he will get the lesson.

Sharat Dua: Okay.

Dr Raouf Ghabbour: So that's exactly what happened. So it's mainly they were talking about the rim.

Sharat Dua: Okay, all right, thank you for that. The next item, I just wanted to understand, just clear up in Iraq, what is the total loss that the Iraqi business has made in the first half and just to clear up, that is the reason why your minority interest is appearing as a positive contributor in the statement.

Dr Raouf Ghabbour: I'll have to get the exact number. I have to, just want to mention that as a matter of fact not only Iraq, Middle East. Middle East means Levant countries, Saudi and the Gulf. Middle East suffered huge oversupply of Hyundai and Kia cars during the last years and the very early part of this year. I personally went to Emirates in September and I have seen something like 80,000 cars sold there. Eighty thousand cars. And as a matter of fact, we at the end of last year, we had a big shock. We have decided to start liquidating from September last year when I saw this and we started the liquidation making less profit than before. Then it became by year end at breakeven. Then this year it became as loss. The good news is I only have now 550 cars stock. So I was the first distributor in all those countries who cleaned and got out. So the losses are behind me. This morning I was calculating how much I will lose further, I find out a bit less than $1 million. Our losses in the first half of this year is EGP 32 million in Iraq. EGP 32 million in Iraq in the first half.

Sharat Dua: So can you explain to me what the 33 million positive minority level is then? I thought that was all Iraq but there are some other businesses as well which are contributing to that then.

Dr Raouf Ghabbour: 33, maybe 1 million from GB Polo.

Sharat Dua: Okay, no but sorry, 32 million is the total loss for the Iraqi business of which your stake – that's your share of the loss.

Dr Raouf Ghabbour: Yes. 32 is the total. Total? Total.

Sharat Dua: Okay, but then that should be – because if I look at your P&L, you've reported a profit before tax of 123 million and then a tax rate, as we said, which is very high because if I understand correctly, the profit before tax number includes a loss for Iraq. So you're saying that we should add 33 – 32, 33 to that 123 to get the Egyptian profit, is that correct?

Dr Raouf Ghabbour: One moment.

Abbas El-Sayed: Just one moment.

Operator: Let's take our next question now from –

Dr Raouf Ghabbour: One moment please.

Abbas El-Sayed: The first portion in the minority interest is, 32 million is total losses coming from Iraqi operation and the rest is coming from the GB Polo, which is manufacturing for buses, and this is owned partially by GB Auto and the rest is owned by Marco Polo.

Sharat Dua: Okay, so what's your ownership of the Iraqi business, how much do you own?

Dr Raouf Ghabbour: Ownership is 50.

Sharat Dua: 50% of Iraq and 50% of GB Polo? Both of them you own 50%? Okay, so the GB Polo business is losing roughly the same amount as the Iraqi business at the moment then if that's…

Abbas El-Sayed: GB Polo is 15. 15 total.

Sharat Dua: Total 15 million loss.

Abbas El-Sayed: And GB Polo is 16, the minority shares.

Dr Raouf Ghabbour: 30.

Abbas El-Sayed: 30, yes.

Dr Raouf Ghabbour: 32 and 30. 32 and 30.

Sharat Dua: Excellent. Okay, I think – yes, okay. Thank you. I'll leave it there.

Dr Raouf Ghabbour: Yes, operator?

Operator: Would you like the next question? Our next question comes from Abdel Rahman Khalifa of Beltone Financial.

Abdel Rahman Khalifa: I have two questions, one is how is GB Auto benefiting from the GCC spending?

Dr Raouf Ghabbour: GCC what?

Abdel Rahman Khalifa: Spending in the trucks segment, the commercial vehicles. And other question is are we still on in starting assembling the Elantra in October 2015 or when is it going to start?

Dr Raouf Ghabbour: It's very clear from the results, the commercial vehicles business is booming. So we are doing very well either in construction equipment or light trucks or heavy trucks, all three, so…

Abdel Rahman Khalifa: In the release it says trucks supported the volume drop in the first half 2015 due to a harsh –

Dr Raouf Ghabbour: Because unfortunately they do not segregate between the light truck and the truck. So light truck may not be the first half, there was no tender from the Ministry of Interior or Coca-Cola or Pepsi-Cola, which are the big customers. But the heavy truck segment which relates directly to the projects financed by the GCC is booming.

Abdel Rahman Khalifa: Okay.

Dr Raouf Ghabbour: The second question, Elantra. Elantra, yes, we are on schedule. We may have a couple of months' delay so you may expect by year end.

Abdel Rahman Khalifa: So the slowdown, the part related to the slowdown in GCC spending, it's meant to say the funding – the Egypt-based funded projects by the GCC, right?

Dr Raouf Ghabbour: I don't hear. I didn't hear you.

Abdel Rahman Khalifa: Oh sorry, so I meant to say that the slowdown in GCC in this part related to the trucks, you meant to say that the GCC-funded projects in Egypt, that slowed down, right?

Dr Raouf Ghabbour: No, I didn't mean that. Okay. My sales until the first half of this year are related to projects which were started last year and the year before. So my sales until now are very strong. Whether the funding from GCC will reduce or not because of the current oil prices, I don't know and I don't know what will happen. But until now, we have a very strong demand for heavy trucks.

Abdel Rahman Khalifa: Okay, thank you.

Operator: There are no further questions at this time but as a reminder, please press *1 if you'd like to ask a question. As there are no further questions, I'd like to hand the call back to the speakers for any additional or closing remarks.

Dr Raouf Ghabbour: Thank you, ladies and gentlemen, and hopefully we meet again in November to talk about the third quarter. Thank you.

Operator: That will now conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.