



## GB Auto Releases Second Quarter 2009 Results

**Market leader GB Auto posts a sharp rise in quarter-on-quarter profits and a gain in second quarter market share, suggesting Egypt's automotive industry may be entering a recovery phase.**

**5 August 2009**

(Cairo, Egypt) — GB Auto (AUTO.CA on the Egyptian Exchange), the leading automotive assembler and distributor in the Middle East and North Africa, announced today its consolidated results for the second quarter of 2009, reporting net income of LE 40.3 million. This figure is up sharply from LE 7.2 million in 1Q09 and, exchange gains apart, is in line with our previously disclosed expectations. For the first half of 2009, the company recorded net earnings of LE 47.5 million, down 79.2% compared to the first half of 2008.

"Considering the Egyptian passenger car market has been in free fall since August 2008 and that the market grew at rate of more than 30% in the first half of last year, we're very satisfied with our comparative numbers for 1H09," said GB Auto Chief Executive Officer Dr. Raouf Ghabbour. "In 4Q08 we made a strategic decision to accept lower sales through the end of 1Q09 as the cost of supporting our dealer network. That decision and a decisive move to manage overhead costs put us in a strong position to operate in a market that has become increasingly price-oriented in recent months."

### Highlights\*

#### Second Quarter 2009

- **GB Auto revenue** reached LE 1,072.6 million, a 29.4% decrease from 2Q08.
- **Consolidated gross profit** stood at LE 129.2 million, representing a 49.8% drop from 2Q08. Gross profit margin fell 4.9 percentage points year-on-year to 12.1%.
- **Net Income** totaled LE 40.3 million, a drop of 71.9% from 2Q08, but a sharp rise over LE 7.2 million in 1Q09, when profits plunged well over 90%.

**Total Passenger Car** sales revenue dropped 38.0% from 2Q08 to LE 714.6 million on the back of a 35.3% decline in sales volumes, a substantial improvement over the 54.6% fall in volumes in 1Q09. Gross margin dropped 8.6 percentage points over the same quarter of 2008.

**Total Commercial Vehicle** sales revenue fell 10.3% to LE 162.1 million compared with a decline of 37.6% in the first quarter. The division recorded rises in sales of trucks, trailers and superstructures. Commercial Vehicles gross margin dropped two percentage points in 2Q09 from 2Q08 levels, to 13.7%.

**Total Motorcycle and Three-Wheeler** sales revenue grew 4.6% to LE 97.8 million on the back of strong sales of three-wheelers. The line of business' gross margin improved seven percentage points over 2Q08 to 23.4%.

**Total After-Sales** Revenues from all segments grew 6.9% to LE 61.1 million. After-sales gross margin improved 1.6 points to 38.9%.

\* Full financials are available at [www.ghabbourauto.com](http://www.ghabbourauto.com)

### First Half 2009

- **GB Auto revenue** reached LE 1,714.6 million, a 34.6% decrease from 1H08.
- **Consolidated gross profit** stood at LE 214.5 million, representing a 51.9% drop from 1H08. Gross profit margin fell 4.5 percentage points year-on-year to 12.5%.
- **Net Income** totaled LE 47.5 million, a drop of 79.2% from 1H08. Net profit margin fell 5.9 percentage points to 2.8%.

**Total Passenger Car** sales revenue dropped 44.4% from 1H08 to LE 1,042.5 million on the back of a 42.7% decline in sales volumes. Gross margin was down 8.2 percentage points.

**Total Commercial Vehicle** sales revenue fell 24.9% from levels in 1H08 to LE 272.5 million, pushed down primarily by a 43.9% drop in bus sales. Trailers and superstructures were up for the half, while gross margin dropped 3.8 points to 13.4%.

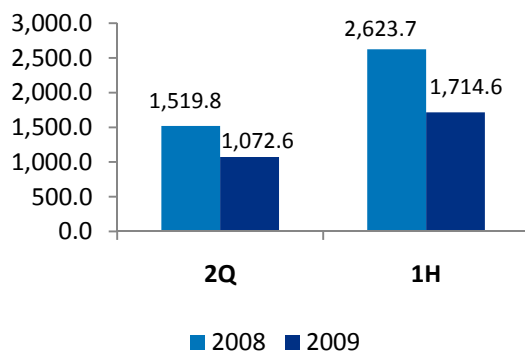
**Total Motorcycle and Three-Wheeler** sales revenue grew 13.0% to LE 215.2 million, driven by an increase in sales of three-wheelers. Gross margin improved 4.7 percentage points to 21.8%.

**Total After-Sales Revenues** saw an 8.7% improvement, bringing them to LE 120.1 million for all segments. After-sales gross margin dropped 1.9 percentage points to 36.5% for the first half.

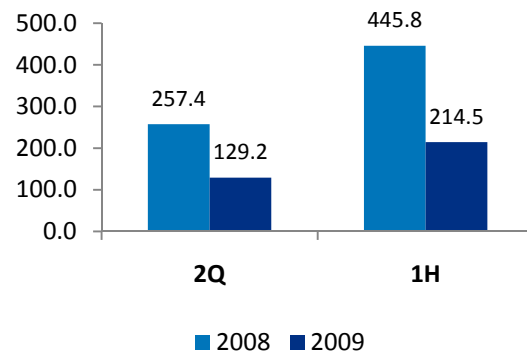
## CONSOLIDATED GROUP PERFORMANCE FOR 2Q09 AND 1H09

All figures in LE million

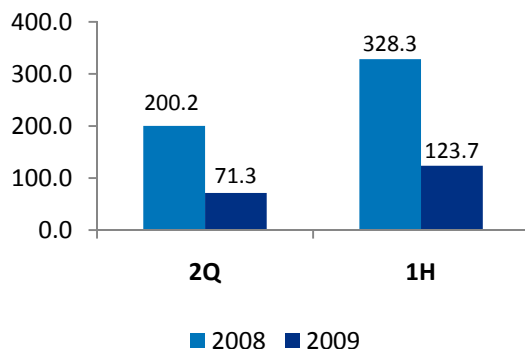
### Sales Revenue



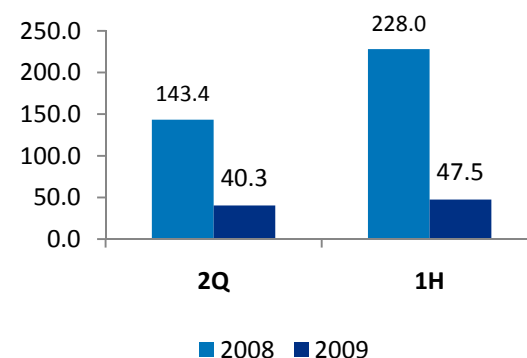
### Gross Profit



### EBIT



### Net Income



## Message from the CEO

The GB Auto story of the first half of 2009 is a near-textbook trading recovery amid nearly unprecedented market conditions. Senior management detected in early fall 2008 — significantly earlier than the competition — that the market was headed for a sharp downturn and took decisive action by devising a program to cut and manage overhead costs. This program, which we began implementing in earnest toward year's end, has seen us emerge from a 9-month market slump leaner and more committed to our strategy than ever.

Heading into the second half of the year, we have locked-in significant cost savings for 2009 and are now seeing signs of improving consumer and corporate confidence across our client base. By accepting price cuts prompted by the competition's moves to stimulate sales and thereby maintain their cashflows, GB Auto has done more than maintain our market leadership: We have improved it slightly in 2Q09.

Heading into a crisis, the easiest decision for a consumer to take is to postpone the purchase of a new car, and that is exactly what we saw happen starting in August 2008. The key word here is "postpone." Important for GB Auto and for the market as a whole is that this demand has not been lost — it merely adds to the already-significant pent-up demand in a highly under-motorized market.

While it would be imprudent to declare that the worst is behind us, we are now predicting a stronger second half with slightly better margins. We must bear in mind, however, that we will not see a return to the margin levels of 2008, which were unusually high because supply shortages allowed us to increase prices and because exchange rates worked in our favor. The world has changed since those highs.

Still, we will likely see growth in key 4Q09 figures over the same quarter last year. What's more, we are not the only ones who have weighed the risks and are now forecasting a brighter second half for Passenger Cars: I note with pleasure early signs that consumer finance is again on the rise, particularly from Egyptian banks, who have taken a more aggressive stance than many of their international compatriots.

We are similarly optimistic about our Commercial Vehicle and Construction Equipment lines of business (LOBs), although we caution that the dynamics of those LOBs suggest a slower recovery than for Passenger Cars. In this context, we note a rising number of tenders being issued, although these are converting into purchase orders with some slowness as many of these are government tenders. And while we have seen a sales effect from truckers' resistance to the banning of drawbar trailers, for example, we believe that like the Passenger Car business, these are missed sales that accrue as pent-up demand.

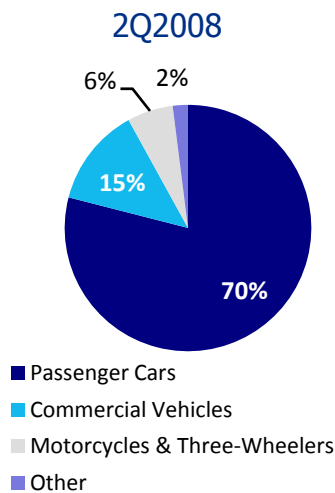
Heading into the second half, we now forecast that the market should close this year below 2007 levels. As it does, we still expect to gain some market share in a challenging climate. And we will be a leaner, more aggressive company that will enjoy the benefits of a very substantial reduction in overheads going forward.

This is why we have gained the confidence of an international bank such as JP Morgan, which has extended us a trade facility in a challenging global environment because it has faith in the soundness of our strategy and the fundamentals of our business. This is also why the Bank of New York Mellon worked with us to launch our Global Depositary Receipts (GDR) program and is helping us set a strategy to expand GB Auto's base of international institutional shareholders.

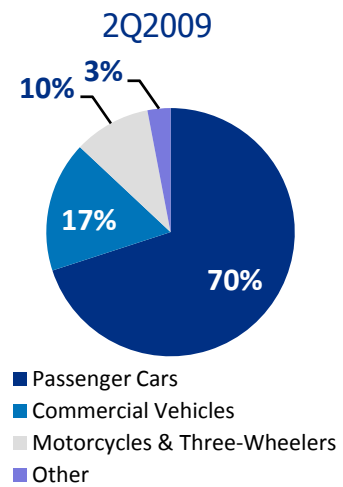
Ladies and gentlemen, the six months just ended were challenging, to say the least, and there is no reason to presume the coming half will be challenge-free. That said: I am as confident as ever that we are up to those challenges.

**Dr. Raouf Ghabbour, CEO**

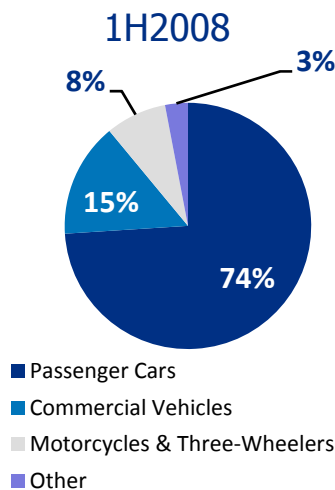
**REVENUES FOR 2Q2009 AND 1H2009 ARE SPLIT AS FOLLOWS**



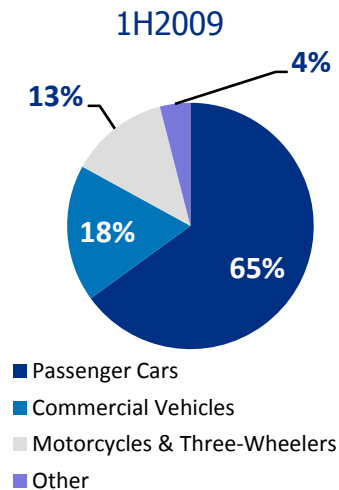
LE 1.5 billion



LE 1.1 billion



LE 2.6 billion



LE 1.7 billion

## PASSENGER CAR LINE OF BUSINESS

***GB Auto is the dominant player in the Egyptian car market. The company is the sole importer and assembler of Hyundai passenger cars in Egypt and owns the largest nationwide after-sales service network of any brand.***

Egypt's market for passenger cars shrank 39.3% in 1H09 compared with the same period last year with total sales of 65,775 units. GB Auto's volume decline in the first half stood at 42.7%, bearing in mind this does not take into consideration the substantial sales of some 3,300 units from existing dealer inventory in 1Q09. Had they been taken into consideration, GB Auto market share would have recorded growth not just in 2Q09, but also in 1H09.

**Table 1A: Passenger Car Sales Activity**

		2Q08	2Q09	% Change	1H08	1H09	% Change
CBU Sales Volume	(Units)	10,860	6,887	-36.6	17,129	10,547	-38.4
CKD Sales Volume	(Units)	6,081	4,081	-32.9	10,338	5,195	-49.7
<b>Total Sales Volume</b>	(Units)	<b>16,941</b>	<b>10,968</b>	<b>-35.3</b>	<b>27,467</b>	<b>15,742</b>	<b>-42.7</b>
Total Market	(Units)	58,916	37,692	-36.0	108,357	65,775	-39.3
GB Auto Market Share	(%)	28.5	29.1	0.6	25.0	23.9	-1.1
<b>Sales Revenue</b>	(LE million)	<b>1,153.4</b>	<b>714.6</b>	<b>-38.0</b>	<b>1,875.0</b>	<b>1,042.5</b>	<b>-44.4</b>
<b>Gross Profit</b>	(LE million)	<b>191.1</b>	<b>57.0</b>	<b>-70.2</b>	<b>304.6</b>	<b>83.5</b>	<b>-72.6</b>
Gross Profit Margin	(%)	16.6	8.0	-8.6	16.2	8.0	-8.2

**Table 1B: Passenger Car After-Sales Activity**

		2Q08	2Q09	% Change	1H08	1H09	% Change
<b>After-Sales Revenue</b>	(LE million)	<b>39.1</b>	<b>39.2</b>	<b>0.3</b>	<b>75.6</b>	<b>78.0</b>	<b>3.2</b>
<b>After-Sales Gross Profit</b>	(LE million)	<b>16.6</b>	<b>17.0</b>	<b>2.6</b>	<b>32.2</b>	<b>31.3</b>	<b>-2.8</b>
After-Sales Gross Profit Margin	(%)	42.3	43.3	1.0	42.6	40.1	-2.5

GB Auto's sales of 10,968 units in the second quarter (15,742 in 1H09) came as we witnessed what we believe is a moderate recovery in consumer demand from the lows of 4Q08 and 1Q09.

Despite this recovery in demand and notwithstanding GB Auto's gain in market share, the Passenger Car line of business remained volatile in the second quarter. Unit sales were down 35.3% in 2Q09 from the same period last year against a market decline of 36%, an improvement on the 54.6% drop in the first quarter.

Sales of Completely Knocked Down (CKD) models received a notable boost from the government-sponsored taxi replacement program discussed in previous Earnings Newsletters. Since its launch in April 2009, GB Auto has sold 1,400 units under the program, giving the company a 25% market share in the program to-date. Going forward, we believe it likely GB Auto will maintain a sizeable market share in this program. Relative to offerings from some other participants, GB Auto's Hyundai Verna model is available without delays or back-orders thanks to our unrivaled CKD production capacity.

CKD units accounted for 37.2% of all GB Auto passenger car sales in 2Q09 and 33.0% of sales in the first half, with the skew toward CKD in the second quarter coming largely as a result of the taxi replacement program. Sales mix was also affected by supply shortage on select Completely Built Up (CBU) models, which had an effect on margins.

Passenger Car gross margins declined 8.2 percentage points in 1H09 to 8.0%. A large component of the fall in margin came as a reversal of the "2008 effect" that created unprecedentedly high margins (see CEO's Note, above). Margins came under additional pressure as GB Auto reduced prices to preserve market share in a more competitive environment that saw other market players cut prices to move units and thus preserve their cashflows. Also a factor was some under-recovery of factory overheads that could not be addressed through the decisive cost-cutting program that will see GB Auto save millions of pounds this year across all lines of business.

Going forward, GB Auto believes the passenger car market will close this year somewhat below the 2007 level. Currently improving consumer sentiment leads us to forecast a gradual recovery in demand throughout the year, and we may see 4Q09 sales growth over the same quarter of last year. Barring exogenous shocks, margins should improve slightly in the second half as under-recovered overheads are eliminated.

As previously discussed, GB Auto's strategic decision to support our dealer network by holding back on sales in 4Q08 and 1Q09 resulted in an accumulation of inventory at the company level. With in-market dealer inventory normalized by mid-2Q09, GB Auto's own passenger car inventory is now back to normal levels (with the exception of one model); in some models, we are now seeing modest shortages.

Given the increase in sales activity and the launch of the new Sonata model in May, GB Auto will need to increase its marketing spend through year's end.

Meanwhile, weak sales on the back end of 2008 and early this year have pressured after-sales service revenues, which rose just 0.3% in 2Q09 to LE 39.2 million (up 3.2% to LE 78.0 million in 1H09). With fewer cars moving off the lot, fewer are returning for regular maintenance. Moreover, the pacing of capital expenditures in the first half of the year saw us slow down the rollout of new after-sales centers. This investment is now picking up pace as after-sales is a fundamental component of our business model going forward. After-sales centers will continue to build out on a return-on-investment basis, and our largest center yet (on the Cairo-Ismaliyya Highway) should begin delivering sales by mid-2010.

## COMMERCIAL VEHICLE LINE OF BUSINESS

*The Commercial Vehicle line of business offers a wide range of locally assembled trucks and buses under exclusive agent and distributorship agreements with Mitsubishi, Volvo and Hyundai. GB Auto also operates in the manufacturing and distribution of semi-trailers and superstructures (i.e., oil and chemical tankers as well as concrete mixers).*

**Table 2A: Commercial Vehicle Sales Activity**

		<b>2Q08</b>	<b>2Q09</b>	<i>% Change</i>	<b>1H08</b>	<b>1H09</b>	<i>% Change</i>
Buses Sales Volume	(Units)	331	201	-39.3	735	412	-43.9
<i>GB Auto Market Share</i>	(%)	<i>36.1</i>	<i>29.7</i>	<i>-6.4</i>	<i>38.3</i>	<i>32.5</i>	<i>-5.8</i>
Trucks Sales Volume	(Units)	318	379	19.2	734	674	-8.2
<i>GB Auto Market Share</i>	(%)	<i>12.3</i>	<i>19.1</i>	<i>6.8</i>	<i>15.2</i>	<i>19.1</i>	<i>3.8</i>
Trailer Sales Volume	(Units)	190	266	40.0	305	396	29.8
<b>Sales Revenue</b>	(LE million)	<b>180.7</b>	<b>162.1</b>	<i>-10.3</i>	<b>362.8</b>	<b>272.5</b>	<i>-24.9</i>
<b>Gross Profit</b>	(LE million)	<b>28.3</b>	<b>22.2</b>	<i>-21.6</i>	<b>62.4</b>	<b>36.4</b>	<i>-41.7</i>
<i>Gross Profit Margin</i>	(%)	<i>15.7</i>	<i>13.7</i>	<i>-2.0</i>	<i>17.2</i>	<i>13.4</i>	<i>-3.8</i>

**Table 2B: Commercial Vehicle After-Sales Activity**

		<b>2Q08</b>	<b>2Q09</b>	<i>% Change</i>	<b>1H08</b>	<b>1H09</b>	<i>% Change</i>
<b>After-Sales Revenue</b>	(LE million)	<b>13.8</b>	<b>16.1</b>	<i>16.7</i>	<b>27.7</b>	<b>30.1</b>	<i>8.5</i>
<b>After-Sales Gross Profit</b>	(LE million)	<b>3.6</b>	<b>5.3</b>	<i>45.4</i>	<b>8.2</b>	<b>9.2</b>	<i>12.0</i>
<i>Gross Profit Margin</i>	(%)	<i>26.4</i>	<i>32.9</i>	<i>6.5</i>	<i>29.6</i>	<i>30.6</i>	<i>1.0</i>

GB Auto slightly outperformed its forecasted bus sales volume for 2Q09 but has lost some ground in terms of market share given the evaporation of tourism and corporate demand amid prevailing economic conditions. Going forward, we are guardedly optimistic about the second half as we are now beginning to see an increase in the number of tenders issued, these are taking time to convert into purchase orders. Second half sales are usually more robust than first half, and we anticipate that the gap between 2008 and 2009 sales and revenue figures could begin to narrow in the fourth quarter.

Meanwhile, medium light truck volumes posted respectable growth in 2Q09 (our market share reached 23% in this segment, up from 18.5% in 1Q09 and more than double the levels of 2008). However, margins came under pressure due largely to competitively priced contracts to support our base of long-term customers. Early indications point to strengthening market demand through year's end.

Heavy truck sales have been challenged on a cost basis for Volvo products as most opportunities have been presented by government tenders. The market for Hyundai heavy trucks has been hit by severe decline by container transport and food and beverage transport activities. Hyundai models have also come under pressure from competitive inventory liquidations of heavy trucks in Europe, where the currency rate has now become more favorable.

Although 40.0% second-quarter growth (29.8% in 1H09) in the current climate would normally be considered a positive result, we find the results of our trailer line of business disappointing in both volume and margin terms. Volume growth was muted as truck drivers facing the legislated replacement of their drawbar trailers resisted making purchases in the first half. Intermittent protests and wildcat strikes demanding an extension of the grace period or the scrapping of the law appear to have come to an end. We note the government has shown no sign of giving in to demands, suggesting that sales anticipated but not registered in 1H09 are not lost, but will accrue as pent-up demand.

In light of that fact, the Trailer division's emphasis heading into the second half will be on ensuring production capacity sufficient to meet anticipated demand as market resistance subsides. Pricing on trailers remains strong. We completed our first shipment to GB-Allab Remorque in May 2009 and our first real sales there began in the first part of 3Q09 following the completion of administrative procedures with the Algerian authorities.

## MOTORCYCLE & THREE-WHEELER LINE OF BUSINESS

*GB Auto is the local agent and distributor for Bajaj three-wheel scooters ("tuk-tuks"), two-wheel scooters and Boxer motorcycles.*

**Table 3A: Motorcycle & Three-Wheeler Sales Activity**

		2Q2008	2Q2009	% Change	1H2008	1H2009	% Change
Two-wheeler Sales Volume	(Units)	3,298	1,351	-59.0	4,177	2,183	-47.7
Three-wheeler Sales Volume	(Units)	5,050	6,953	37.7	11,622	15,432	32.8
<b>Sales Revenue</b>	(LE million)	<b>93.5</b>	<b>97.8</b>	4.6	<b>190.5</b>	<b>215.2</b>	13.0
<b>Gross Profit</b>	(LE million)	<b>15.3</b>	<b>22.9</b>	49.2	<b>32.7</b>	<b>47.0</b>	43.6
<i>Gross Profit Margin</i>	(%)	<i>16.4</i>	<i>23.4</i>	<i>7.0</i>	<i>17.2</i>	<i>21.8</i>	<i>4.7</i>

**Table 3B: Motorcycle & Three-Wheeler After-Sales Activity**

		2Q2008	2Q2009	% Change	1H2008	1H2009	% Change
<b>After-Sales Revenue</b>	(LE million)	<b>3.0</b>	<b>4.6</b>	50.6	<b>4.7</b>	<b>9.6</b>	102.7
<b>After-Sales Gross Profit</b>	(LE million)	<b>0.6</b>	<b>1.0</b>	53.1	<b>1.0</b>	<b>2.2</b>	123.1
<i>After-Sales Gross Profit Margin</i>	(%)	<i>20.8</i>	<i>21.1</i>	<i>0.3</i>	<i>20.8</i>	<i>22.9</i>	<i>2.1</i>

Three-wheeler (tuk-tuk) sales continued to climb in 1H09 despite the challenges faced by consumers on higher licensing costs. Moreover, some governorates is implementing their own unique color-scheme requirements.

The margin improvements in the LOB came in part from customs cuts on tuk-tuks (despite GB Auto passing most of these savings on to consumers in 1Q09) and as a result of the skew in sales toward three-wheelers. Meanwhile, motorcycle sales fell 18.5% in 1H09 when adjusted for a one-off 1,500 unit government contract in 2Q08. Moving forward, GB Auto believes recent nation-wide interest in microfinance ventures could stimulate demand in this LOB.

We note that the second half of the year is typically high-season for both motorcycles and three-wheelers.

## TIRES

*GB Auto distributes Lassa passenger car and light truck tires.*

**Table 4: Tires Sales Activity**

		<b>2Q2008</b>	<b>2Q2009</b>	<i>% Change</i>	<b>1H2008</b>	<b>1H2009</b>	<i>% Change</i>
<b>Total Sales Revenue</b>	(LE million)	<b>9.9</b>	<b>21.4</b>	<i>115.6</i>	<b>31.7</b>	<b>28.8</b>	<i>-9.0</i>
<b>Total Gross Profit</b>	(LE million)	<b>1.8</b>	<b>4.5</b>	<i>153.9</i>	<b>5.6</b>	<b>4.9</b>	<i>-13.2</i>
<i>Gross Profit Margin</i>	(%)	<i>18.0</i>	<i>21.2</i>	<i>3.2</i>	<i>17.7</i>	<i>16.9</i>	<i>-0.8</i>

In 1Q09, the Tires LOB worked to stimulate market demand by liquidating high-COGS inventory after obtaining better pricing from Lassa on new orders. In 2Q09, the division saw margins improve as fresh stock came on stream, allowing GB Auto to recoup some first-half losses. Margins were stable across 1H09 as a result.

In the second half of this year, capacity constraints at Lassa may become more pronounced as market demand picks up for high season. GB Auto continues its search for a complementary supplier and for suppliers able to provide stock in additional tire categories, but does not anticipate making an announcement in this respect in the coming quarter.

## CONSTRUCTION EQUIPMENT

*GB Auto distributes Volvo construction equipment.*

**Table 5A: Construction Equipment Sales Activity**

		<b>2Q2008</b>	<b>2Q2009</b>	<i>% Change</i>	<b>1H2008</b>	<b>1H2009</b>	<i>% Change</i>
<b>Sales Revenue</b>	(LE million)	<b>13.8</b>	<b>3.6</b>	<i>-74.0</i>	<b>30.8</b>	<b>7.2</b>	<i>-76.6</i>
<b>Gross Profit</b>	(LE million)	<b>2.2</b>	<b>1.4</b>	<i>-38.0</i>	<b>3.8</b>	<b>1.7</b>	<i>-55.6</i>
<i>Gross Profit Margin</i>	(%)	<i>15.9</i>	<i>38.0</i>	<i>22.0</i>	<i>12.4</i>	<i>23.6</i>	<i>11.2</i>

**Table 5B: Construction Equipment After-Sales Activity**

		<b>2Q2008</b>	<b>2Q2009</b>	<i>% Change</i>	<b>1H2008</b>	<b>1H2009</b>	<i>% Change</i>
<b>After-Sales Revenue</b>	(LE million)	<b>1.2</b>	<b>1.2</b>	<i>N/A</i>	<b>2.4</b>	<b>2.4</b>	<i>N/A</i>
<b>After-Sales Gross Profit</b>	(LE million)	<b>0.5</b>	<b>0.5</b>	<i>N/A</i>	<b>1.0</b>	<b>1.1</b>	<i>10.4</i>
<i>After-Sales Gross Profit Margin</i>	(%)	<i>40.7</i>	<i>44.5</i>	<i>3.9</i>	<i>41.2</i>	<i>45.9</i>	<i>4.7</i>

Construction activity remains at a pronounced low nationwide, and this condition is reflected in our 1H09 numbers. In the time since, we have secured contracts for the second half that will buoy the LOB's performance through year's end and recover much of the first half's shortfall. GB Auto continues to view the Construction Equipment business as a very promising segment and remains committed to investment in after-sales service, a key sales driver in this segment.

## TRANSPORTATION SERVICES

*GB Auto provides public passenger and cargo transportation services through its wholly-owned subsidiary, Haram Transport Company.*

**Table 6: Transportation Services Sales Activity**

		2Q2008	2Q2009	% Change	1H2008	1H2009	% Change
Cargo Revenue	(LE million)	5.7	5.6	-0.9	10.3	13.7	33.5
Passenger Revenue	(LE million)	5.9	5.7	-4.0	10.7	13.1	22.7
<b>Total Sales Revenue</b>	(LE million)	<b>11.6</b>	<b>11.3</b>	<b>-2.5</b>	<b>20.9</b>	<b>26.8</b>	<b>28.0</b>
Cargo Gross Profit	(LE million)	1.2	0.3	-72.1	0.3	2.4	669.4
Passenger Gross Profit	(LE million)	-2.9	-3.3	N/A	-5.9	-5.8	N/A
<b>Total Gross Profit</b>	(LE million)	<b>-1.8</b>	<b>-3.0</b>	<b>N/A</b>	<b>-5.6</b>	<b>-3.4</b>	<b>N/A</b>
<i>Gross Profit Margin</i>	(%)	<i>-15.5</i>	<i>-26.5</i>	<i>-11.0</i>	<i>-26.7</i>	<i>-12.7</i>	<i>14.0</i>

The cargo business continues to benefit from the fixed-contract nature of its revenues and maintained its profitability throughout the first half of this year. Still, this profitability, up more than six-fold from the first half of 2008, has been impacted by reduced corporate spending. Going forward, GB Auto continues to note that there is no integrated regional leader in cargo services and sees substantial market opportunity as a result.

Although its loss has narrowed slightly compared with 1H08, the Passenger Transport division still struggles with profitability due largely to the challenges inherent in working with municipal authorities in the operation of inter- and intra-urban bus transportation lines.

Although the Ministry of Transportation has been supportive of this project, GB Auto has signaled that it cannot continue investing in a loss-making business and withdrew its services from certain governorates in the second quarter. Losses in the quarter are higher than expected as a result.

## GB LEASE

*GB Lease provides finance for commercial vehicle and corporate fleet clients. engages in a number of export activities including selling commercial vehicles in Saudi Arabia, the United Arab Emirates, Algeria and Ethiopia.*

**Table 7: GB Lease Sales Activity**

		2Q2008	2Q2009	% Change	1H2008	1H2009	% Change
<b>Total Sales Revenue</b>	(LE million)	<b>0.2</b>	<b>0.8</b>	<i>336.9</i>	<b>0.6</b>	<b>1.5</b>	<i>165.1</i>
<b>Total Gross Profit</b>	(LE million)	<b>-0.4</b>	<b>0.4</b>	<i>N/A</i>	<b>-0.3</b>	<b>0.6</b>	<i>N/A</i>
<i>Gross Profit Margin</i>	(%)	<i>-234.4</i>	<i>54.0</i>	<i>N/A</i>	<i>-47.5</i>	<i>40.0</i>	<i>N/A</i>

GB Lease began operations in 2008 to finance commercial vehicle sales as well as corporate clients purchasing passenger cars for fleets. This line of business started cautiously and with very modest investment and is making continuous progress as it accumulates a promising client base.

## FINANCIAL POSITION AND WORKING CAPITAL MANAGEMENT

GB Auto's overall net debt position inclined LE 190 million in the first half, largely on the back of high inventory levels. We note that inventory is down some LE 300 million in 2Q09 as shipments to our dealer network have picked up pace. The second-quarter inventory decline came as the program to regularize dealer inventory levels was completed and GB Auto in turn resumed shipments to our dealer network. The challenge in this respect remains commercial vehicles, which we anticipate will need an additional 6-9 months to see inventory fall a further LE 250 million to reach the more normal levels required to support current sales activity.

Some of the reduction in inventory was converted directly into receivables as we await bank payments on taxi proceeds. The remainder of the increase in receivables is a result of customers presenting promissory notes to secure supplies. Those promissory notes are offset by a corresponding credit in the liabilities side of the balance sheet since these do not represent invoiced sales. The increase in the usage level of this type of promissory note was LE 65 million at the end of 2Q09.

The net debt-to-equity ratio at the end of 1H09 remains unchanged from 1Q09 at 0.55 compared with 0.49 at 31 December 2008. Total assets at the end of 1H09 declined 2.8% on the back of declining inventories, with the proceeds applied against reducing levels of payables. Current liabilities dropped by 10.1% to LE 1,525.1 million.

Finally, we note with pleasure that GB Auto secured in July 2009 a US\$ 20 million structured trade finance credit facility from J.P. Morgan, becoming one of the first companies in North Africa to secure such a facility from this leading global financial services firm.

## LATEST CORPORATE DEVELOPMENTS

- GB Auto launched a Global Depositary Receipt (GDR) program without a capital increase in May 2009 that allows global investors to trade its shares in London and New York. The program sees the Bank of New York Mellon acting as depositary bank. The Bank of New York Mellon is also helping GB Auto develop strategic outreach initiatives to broaden its international shareholder base. Each GB Auto GDR represents five ordinary shares that trade under the symbol AUTO.CA on the Egyptian Exchange.
- The new Sonata model was launched in May following a facelift. Since its launch, unit sales of this model have increased four-fold.

## OUTLOOK

### Risks

Going forward, we note that any weakening of the Egyptian pound would increase costs for GB Auto both above and below the line.

As discussed in earlier Earnings Newsletters, our substantial market opportunity to replace the draw-bar trailers banned under summer 2008 amendments to the Transportation Act remains in place.

Sales are still slow due to resistance by truck owners hoping for concessions from the state. The government has given every signal that it will not scrap the act or extend the grace period.

While our new passenger car paint shop will come online this year, we do not expect to make good utilization of the resulting increase in CKD capacity until sometime in 2010 or even 2011 as a result of current market conditions.

Finally, we note that our forecasts for the year do not include allowance for exogenous shocks that may have an impact on market sentiment.

### **Opportunities**

Heading into the third quarter, we see improved consumer confidence. This is translating into both stronger sales and enhanced visibility on the planning front.

We believe there is still an opportunity to seek additional advantageous pricing from our network of global suppliers as we strive to protect our margins.

On the Passenger Car front, the taxi replacement program remains a substantial opportunity, and we note signs of growing consumer finance activity in the market, the effect of which was particularly pronounced in May and June 2009. GB Auto will also continue to explore additional means of tapping international capital and is open to new ways of financing the business on the back of a very strong balance sheet.

Finally, we again note that GB Auto remains committed to deepening its portfolio of passenger car representations to take maximum advantage of the rise in new CKD capacity that will come on-stream when our second paint shop is completed later this year.

## FINANCIAL STATEMENTS

### INCOME STATEMENT

	Three Months Ended 30 June 2009			Six Months Ended 30 June 2009		
	2008	2009	% Change	2008	2009	% Change
(LE million)						
Revenues	1,519.8	1,072.6	-29.4	2,623.7	1,714.6	-34.6
COGS	1,262.5	943.3	-25.3	2,177.9	1,500.1	-31.1
<b>Gross Profit</b>	<b>257.4</b>	<b>129.3</b>	<b>-49.8</b>	<b>445.8</b>	<b>214.5</b>	<b>-51.9</b>
<i>Gross Profit Margin</i>	<i>16.9</i>	<i>12.1</i>	<i>-4.8</i>	<i>17.0</i>	<i>12.5</i>	<i>-4.5</i>
Selling and Marketing	-29.3	-31.2	6.5	-60.1	-51.9	-13.5
Administration Expenses	-43.6	-32.2	-26.2	-77.2	-62.4	-19.2
Other Operating Income (Expenses)	9.9	7.8	-21.0	14.7	17.4	17.9
<b>Operating Profit</b>	<b>194.4</b>	<b>73.7</b>	<b>-62.1</b>	<b>323.2</b>	<b>117.5</b>	<b>-63.7</b>
<i>Operating Profit Margin (%)</i>	<i>12.8</i>	<i>6.9</i>	<i>-5.9</i>	<i>12.3</i>	<i>6.9</i>	<i>-5.4</i>
Net Provisions	5.8	-2.5	n/a	5.0	6.2	23.1
<b>EBIT</b>	<b>200.2</b>	<b>71.3</b>	<b>-64.4</b>	<b>328.3</b>	<b>123.7</b>	<b>-62.3</b>
<i>EBIT Margin (%)</i>	<i>13.2</i>	<i>6.6</i>	<i>-6.5</i>	<i>12.5</i>	<i>7.2</i>	<i>-5.3</i>
Foreign Exchange Gains (Losses)	0.8	20.5	-	-2.0	12.9	-
Net Finance Cost	-23.7	-36.3	53.1	-43.8	-72.3	64.9
<b>Earnings Before Tax</b>	<b>177.3</b>	<b>55.4</b>	<b>-68.7</b>	<b>282.5</b>	<b>64.3</b>	<b>-77.3</b>
Income Taxes	-33.3	-16.7	-49.9	-53.4	-18.6	-65.2
<b>Net Profit Before Minority Interest</b>	<b>144.1</b>	<b>38.8</b>	<b>-73.1</b>	<b>229.1</b>	<b>45.7</b>	<b>-80.1</b>
Minority Interest	-0.6	1.5	N/A	-1.1	1.8	N/A
<b>Net Income</b>	<b>143.4</b>	<b>40.3</b>	<b>-71.9</b>	<b>228.0</b>	<b>47.5</b>	<b>-79.2</b>
<i>Net Profit Margin (%)</i>	<i>9.4</i>	<i>3.8</i>	<i>-5.6</i>	<i>8.7</i>	<i>2.8</i>	<i>-5.9</i>

## BALANCE SHEET

	(LE million)	31 Dec 2008	30 June 2009	% Change
Cash		124.2	126.1	
Net Accounts Receivable		500.3	598.6	
Inventory		1,345.2	1,109.9	
Other Current Assets		230.8	219.9	
<b>Total Current Assets</b>		<b>2,200.5</b>	<b>2,054.9</b>	<b>-6.6</b>
Net Fixed Assets		1,194.6	1,256.2	
Goodwill and Intangible Assets		188.7	186.6	
Other Long-Term Assets		44.8	36.8	
<b>Total Long-Term Assets</b>		<b>1,428.1</b>	<b>1,479.6</b>	<b>3.6</b>
<b>Total Assets</b>		<b>3,628.6</b>	<b>3,534.1</b>	<b>-2.6</b>
Short-Term Notes and Debt		845.8	961.2	
Accounts Payable		709.6	477.6	
Other Current Liabilities		140.8	86.2	
<b>Total Current Liabilities</b>		<b>1,696.2</b>	<b>1,525.1</b>	<b>-10.1</b>
Long-term Notes and Debt		127.9	133.3	
Other Long-Term Liabilities		63.3	56.6	
<b>Total Long-Term Liabilities</b>		<b>191.2</b>	<b>189.9</b>	<b>-0.7</b>
<b>Minority Interest</b>		<b>15.0</b>	<b>61.2</b>	
Common Stock		129.0	129.0	
Shares Held With the Group		(3.3)	(3.3)	
Legal Reserve		139.7	139.1	
Other Reserves		1,024.2	1,008.3	
Retained Earnings		436.6	484.7	
<b>Total Shareholder's Equity</b>		<b>1,726.2</b>	<b>1,757.8</b>	<b>1.8</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>3,628.6</b>	<b>3,534.1</b>	<b>-2.6</b>

### **About GB Auto S.A.E.**

GB Auto S.A.E. (Stock Symbol: AUTO.CA) is the leading automotive producer and distributor in the Egyptian market. The company assembles, imports and distributes passenger cars under the Hyundai brand as well as commercial vehicles (buses, trucks and trailers) under the Volvo, Mitsubishi, Hyundai and Ghabbour brands. In addition, it distributes motorcycles and scooters under the Bajaj brand, tires under the Lassa brand and construction equipment under the Volvo brand. The company also operates Egypt's largest network of service centers and automotive accessories sales points as well as passenger and cargo transportation services. GB Auto is headquartered in Giza, Greater Cairo Area, Egypt. ([www.ghabbourauto.com](http://www.ghabbourauto.com))

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### **Forward-Looking Statements**

This document may contain certain "forward-looking statements" relating to the Company's business. These may be identified in part through the use of forward-looking terminology such as "will," "planned," "expectations" and "forecast" as well as similar explanations or qualifiers and by discussions of strategy, plans or intentions. These statements may include descriptions of investments planned or currently under consideration or development by the Company and the anticipated impact of these investments. Any such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance, decisions or achievements of the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.