Operator: Ladies and gentlemen, welcome to RAK Ceramics Third Quarter 2016 Results Conference Call. I'll now handover to your host, Mr. Philip Kanaan. Sir, please go ahead.

Philip Kanaan: Good afternoon, ladies and gentlemen. This is Philip Kanaan from Arqaam Capital. And I would like to welcome you to the RAK Ceramics Third Quarter 2016 Earnings Conference Call hosted by Arqaam Capital. I'm joined today by RAK Ceramics' management team, Abdallah Massaad, Chief Executive Officer, PK Chand, Chief Financial Officer, and Philippe Habeichi, Head of Investor Relations of RAK Ceramics. Without further delay, I will now turn the call to Abdallah Massaad, CEO. Please go ahead.

Abdallah Massaad: Thank you, Philip. Good morning, everyone, and welcome to our Third Quarter 2016 Results Conference Call and webcast. I'm Abdallah Massaad, the CEO of RAK Ceramics, and I'll walk you through the operation highlights for the quarter.

Allow me before we go into details of our operation, I want to take a minute I want to take a minute to discuss the operating environment that we were working in. By most indication, the third quarter was exceptionally weak, partly due to the seasonal factors, but also due to weak business sentiment in the region, particularly in Saudi Arabia. These concerns had an impact through the Greater GCC region with an account for about 50% of our sales. The UAE market, traditionally strong even in the face of lower oil price, also saw some weakness but it was mostly confined to the distributor channel as project sales and retail were resilient. Within this weak environment, we saw pricing pressure , especially in Saudi. As I had mentioned in the past, new players came into the picture, and the only alternative was to reduce the prices in the market to sell locally in Saudi, a game which we did not want to play as we have the ability to shift supply to over 150 markets. So we did not reduce our margin while we started increasing our salesr focus outside the region. Beyond the negative supply and demand backdrop in the third quarter, wWe also had self-imposed obstacle like in Europe where we dropped the ball in terms of properly managing the transfer process of our Italian warehousing and in India where we continue to underperform the market. There were some positive operating developments in the quarter however, that are worth highlighting. In Bangladesh, we successfully completed a tile expansion, and tile volume increased by 7% without diluting prices, and revenue increased by 135% year-on-year. During the quarter, we had a successful product launch at CERSAIE, the biggest exhibition in Italy, and put in place the building blocks on which to build a stronger brand going forward. Having a stronger brand is essential for us to compete as we grow our project business, create pull for our products and seek to differentiate ourselves in what can be seen as a commodity industry.

So, without further ado, let's start with the operating review, and the biggest drag on our sales performance in the quarter, our Saudi sales performance. Saudi was the worst performing country for us in the quarter. Tiles and sanitaryware sales in Saudi were 65% year-on-year and 56% lower year-on-year respectively. While these results were very disappointing, keep in mind that the third quarter of 2015 was our best quarter ever in Saudi Arabia in terms of revenue performance. So the bar was high. Had sales in Saudi Arabia been at par with last year, the sales decline in tile and sanitaryware would have been more modest, at -5.5% and -1% respectively.

You will recall that the UAE has been very resilient for us, and backing the negative trends in the GCC in terms of performance. The third quarter was an exception to that with the UAE showing a year-on-year decline in quarter three. Sales were lower by 6.4% in the third quarter 2016, but still we are up by 1.3% year to date driven by project and retail sales whereas distributor were skitish about taking on more inventory. We believe seasonal factors like timing g of holidays also played a role in the quarter weakness as fundamentals remain positive. In fact, the fourth quarter to date shows UAE sales recovering well from the third quarter lows, and trading more or less in line with last year.

As you know, we acquired in Europe the remaining 50% of our Italian distribution joint venture on July first this year. A decision was taken to use the Italian warehouse as our main delivery hub for Europe, and we therefore shut down our German warehousing and transferred more responsibility to Italy. We have some issues with SAP integration as a result. Inventory was not properly monitored. There were some mistakes in orders while some orders were lost all together. We estimate that we had lost sales of 4. -- or lost orders of €4.5 million or about 20 million dirham in the quarter. Several steps have been taken to improve logistics in Italy, which I will discuss bit later and on the fourth quarter it's looking much better.

One of the most important things we witnessed year to date and which really accelerated in the third quarter is that the demand for tiles in the market is functioning to speed. With the addition of large local capacity for ceramic tile on one hand, and with growing in flooring being driven by projects, hotels, malls, and also the lifestyle preferences on other hand, we have seen big difference in the performance of our tiles sales with ceramic sales down by 37% in the quarter, while the GP sales fell by 13%. Similarly, our ceramic average selling price are 4% down while the porcelain or the GP average selling price are flat. As I said, these changes in the market were some time coming, but accelerated in the third quarter.

So what we did to manage in this difficult operating environment? We have made changes in our production to optimize results based on market demand. In fact, process begin a few months back as we saw changes in the market. More specifically, we converted 4 million square meter capacity plant from ceramics to porcelain where we are capacity constrained. Because of the complexity of porcelain tiles, this will result in lower our whole UAE tiles capacity in terms of square meter, but will lead to better volume growth at higher price point going forward. I don't want to give specifics here, but to give you a general idea, porcelain average selling price is more than double of ceramic tiles and margin also stays at compared. As a result of changes to our capacity, we reduced overhead in our tile plant, and expect a further cost optimization. Through continuous focus on raw material substitution and price negotiation, more than 11 million dirhams were saved in the quarter bringing our total savings this year to almost 20 million dirhams. We have also implemented a co-generation initiative to lower our energy cost. While our gas price are flat quarter-on-quarter, the differential we pay in the UAE for our cost of gas versus European peers continue to increase. Now I will turn the call to PK Chand, our CFO to brief you on the financial and segment highlights.

PK Chand: Thank you, Abdallah. I start with a brief of Q3 financial highlights. The third quarter revenues were 646 million, lower by 17.5% over the previous year. For the nine-months period, revenues were 2.14 billion, lower by 8.3%. A big part of the decline is due to lower sales in Saudi Arabia, rest of GCC and

India. We recorded a gross margin of 29.5%, down by 110 basis points year-on-year. For the nine-months period, gross margin was up 90 basis points at 29.7%. EBITDA for the third quarter is 100 million, lower by 35% year-on-year. For the nine-months, it is 383 million, lower by 13% year-on-year. Normalized net profit in the quarter is 37 million, lower by 59% year-on-year, while for nine months, the normalized net profit is lower by 20% at 195 million dirham. We exclude the impact of provisions for bad debts, and other one-off items in calculating normalized net profit. Bad debts and other provisions were 19 million in Q3/16 and 46 million in YTD 16 compared to 12.8 million in the third quarter of 2015 and 7.5 million in YTD 16.

Turning to our balance sheet, slower than expected sales have led to an increase in our inventory position by 15 days to 221 days compared to 206 days in the second quarter of 16. On the receivables side, despite lower sales and a challenging liquidity environment, number of days of receivables has only slightly increased to 115 days from 113 days at the end of Q2/16. Partly as a result of our working capital management efforts, debt level in the quarter has not changed through -- through our gearing ratio expressed as net debt to EBITDA increased slightly on the back of lower profitability to 3.2 times from 3 times at the end of second quarter 2016.

Now, I will take you through the performance of our various segments. First, I will take up tiles. Tiles revenue in third quarter decreased by 20.9% year-on-year, and 13.7% quarter-on-quarter. Sales to the UAE decreased by 6.5% year-on-year, reflecting impact of timing of local holidays and negative regional sentiment in third quarter. However, October results have improved and trending in line year-on-year. In GCC, in particular Saudi Arabia saw significant volume and price declines as distributors were tentative about taking inventory in the quarter due to weak business sentiment. Sales to Europe were weaker as a result of logistic issues from centralization of our European distribution to Italy in the third quarter of 2015. Year-on-year improvement reflects the benefit of accounting consolidation. By product location, India, the revenue in India, tiles revenue decreased by 29% year-on-year. Revenue decline is also reflective of a 5.6% devaluation in the Indian rupee versus the dollar year-on-year. Tile revenue from Bangladesh showed 12.6% led by higher volumes post the completion of our capacity expansion in second quarter 16. Q3/16 tiles margin rose 110 basis points quarter-on-quarter to 25.8%, but decreased by 100 basis points year-on-year. By production location, tiles gross margin rose in Bangladesh by 460 basis points to 35.6% on higher fixed cost absorption due to tile capacity expansion while margins in India rose 250 basis points to 18.2% on lower energy costs and better performance. Tile Gross Margins in the UAE were weaker by 580 basis points to 27.5% versus 33.3% in the third quarter of last year, led by lower volumes and pricing in exports.

Now I come to sanitaryware. In the third quarter of 2016, the sanitaryware sales declined 4.7% year-on-year and 15.4% quarter-on-quarter. Sales to the UAE decreased 6.1% year-on-year and 7.7% quarter-on-quarter. Sales to the rest of GCC were weak in line with business sentiment in the building materials and construction sectors, particularly, in Saudi Arabia. Sales to Europe increased 11.2% year-on-year, but were lower by 10% quarter-on-quarter reflecting the impact of lost sales in third quarter due to logistics issues during the centralization of our distribution hub to Italy. By production location, revenues from UAE decreased by 7.4% year-on-year and 16.6% quarter-on-quarter. Revenues from India decreased 28.2% year-on-year and 7.7% quarter-on-quarter. Revenues from Bangladesh soared 13.7% year-on-year, lead by higher volumes, but were down 13.1% quarter-on-quarter, mainly due to Eid holidays. In the third quarter, 2016 sanitaryware margins increased by 90 basis points quarter-on-quarter, but decreased by 310 basis points compared to third quarter of last year due to change in the product mix sold. The third quarter last year was, in fact, a record quarter.

In terms of production location, UAE margins decreased from 46.4% to 42.9% year-on-year due to change in the product mix sold. And in India, margins increased from 15.7% to 17.5% year-on-year due to change in the product mix sold and lower provisions on stock as majority write-off was taken place during the second quarter, 2016. In Bangladesh, margins decreased by 570 basis points due to change in the product mix and also on account of higher cost of production, mainly in the cost of utilities and labor.

Now I come to tableware performance. In the third quarter, ‘16, tableware revenues increased by 12% year-on-year and 21% quarter-on-quarter. Results were led by higher average selling prices, mainly due to introduction of new products. Excluding the impact of consolidation of RAK Porcelain Europe, revenue growth was 8.2% year-on-year on like for like basis. In the third quarter, ’16, gross margin is 60.5%, which is up by more than 1200 basis points year-on-year and near the record profitability we recorded in the first quarter and second quarter of 2016. Recent product introductions at RAK Porcelain continue to be very well received by the market, and we remain confident of a solid growth and profitability for tableware in 2016.

Now I come to non-core performance. In the third quarter of 2016, the non-core revenues were 81.4 million compared to 106.4 million in the third quarter of last year, that is a decline of 23.5% year-on-year. The decline in non-core revenues year-on-year reflects 13 million from RAK Logistics in the third quarter, ’15, and a decline in construction related activity in the UAE impacting our MEP business. Rough grading revenues also fell as a result of lower activity in the quarter.

Non-core EBITDA fell 41.4% year-on-year to 33.2 million dirhams, and EBITDA declined for all of the non-core businesses as a result of lower activity.

Now I present summary of the financials. This slide shows financial highlights on a quarterly basis for the last nine quarters. As Abdallah mentioned, by most indication, third quarter of this year is exceptionally weak partly due to seasonal factors, but also due to weak business sentiment in the region, particularly in Saudi Arabia. EBITDA margins of 15.5% is well below our performance in the last several quarters on a rolling basis.

On the next slide, we show the bridge for under performance in sales. Sales in Saudi Arabia is really the biggest contributor to the sales performance. Otherwise, we would have been single digit, low sales decline even with lower revenues from India and noncore.

In the next slide, we highlight our EBITDA calculation methodology as we have done in previous quarters, and they already informed that the EBITDA margin has gone down to 15.5% in the third quarter.

In the next slide, we have shown the main cost categories. And from here you can see that the material cost, which represent our largest cost component increased by 6.8% to 50% of the cost of production mainly on account of change in product mix. Abdallah mentioned that there is a shift from ceramics to GP, and that is as a result of this.

Energy is another big component for us at 21.7% of COGS. In the third quarter of 2015, this cost was 20.3%. Then in the third quarter, the stock levels have also increased by 68 million. On the next slide, we have shown details of SG&A and as a whole, the total cost is moderately flat year-on-year despite impact of consolidation of Europe, which added 16.6 million to SG&A in the quarter.

Now turning to our balance sheet, our gearing level in the quarter finished at 3.2 times net debt to EBITDA from 3 times at the end of second quarter, '16. We have mentioned in the past that we are comfortable at around current levels of debt. Cost of debt in the third quarter '16 in higher at 2.77% compared to 2.56% in the second quarter, mainly due to increase in three month LIBOR.

On the CAPEX side, we are maintaining our forecast for CAPEX spent of 240 million in 2016, and expect 2017 CAPEX estimate in line with historical maintenance CAPEX.

Lastly, on the working capital, it continues to be a difficult environment and lower sales resulted in higher inventory than we would have liked at the end of the quarter. Optimization of production should result in lower levels of inventory going forward. Receivables, on the other hand, are holding well in light of the measures we introduced to reduce country party risk. In spite of unfavorable market conditions, we have been able to maintain net working capital at 1.85 billion in absolute terms. However, due to lower revenue, it translates to higher number of days at 249 days at the end of September.

Now I will turn over to Mr. Abdallah for his concluding remarks.

Abdallah Massaad: Thank you. The GCC environment for building products continue to remain challenging in the near term. We are optimizing our production setup and reducing input and overhead costs to deal with these challenges. In parallel, we continue to work on the long-term drivers of value for the company and for us, the largest we planned to tackle this year are initiating a turnaround in India, restarting our Iran capacity, and investing in the brand, while shedding non-core or non-strategic assets. So where do we stand on these initiatives?

In India, recenthires include a new head of HR, a head of marketing and branding, currently management are renegotiating lower energy costs and on track for 15% reduction in production cost by year end versus 2015 levels. Furthermore, a value creation plan has been submitted and is under review. Key elements include expanding distribution, expanding the dealer network, and geographic representation, and creation of a project sales team. Details of the plan will be shared in due time. We remain confident that India is on track for turnaround in the second half of 2017, and we believe it will be one of the primary beneficiaries of our global rebranding and marketing efforts.

In Iran, our manufacturing unit has been operational for the last few months. We are encouraged by the early production results and quality. Over the next several months, we plan to gradually add a second and third line with objective to reach close to 6 million square meter capacity. Iran currently is a drag on our performance of 9 million at EBITDA level year till date, and 26 million dirham as the net profit level.

In China, the liquidation of existing inventory is largely completed. We are evaluating the option of a plant sale and if these efforts are unsuccessful, we will shift machinery to another plant .

We completed the acquisitions of our distribution joint ventures in Italy and Australia after completing acquisitions in Germany and the UK earlier this year. While the process of turning the Italian warehouse into a main distribution hub has not been smooth, as previously mentioned, most of the outstanding issues have now been resolved. Our European team is confident of better results going forward for sales reorganization, and we expect synergies to materialize post integration 2017.

In late September, we unveiled the launch of a new collection at the Cersaie and sanitaryware show in Bologna. This new collection was supported by new marketing material, new packing, a new logo which I hope you like, and a new product websitee www.rakceramics.com. Feedback from the trade has been very supportive, and we believe that we are now better equipped to grow our sales in the project channel as our new approach to product presentation makes it easy for architects and specifier to work with us. Over the next few months, we will be supporting the launch of our new brand through a marketing campaign in trade and architectural magazines in Europe and the GCC, which will later roll – we will roll out in India and Bangladesh. Locally, we are also preparing the relaunch of our Sharjah showroom and upgrading our main showroom to better showcase our new product range and new marketing approach. Over the next 2 to 3 years, the objective is to build on this effort by launching integrated products collection across tiles, sanitaryware, taps and faucets,] as our experience supplying project as total that they prefer a one-stop-shop solution.

The remainder of our 2016 initiatives are on the cash generation side, and these are impacted by the difficult environment in GCC contract construction. We had initially set a target to reduce working capital days to below 180 days, but this target has to be dropped in light of the current economic environment as we worked through higher inventory level, and this should be you are helped by the adjustments in production as we mentioned. That said, having successfully completed a major capital expansion cycle that started in 2015, our capacity is sufficient to our meet. No expansion is planned in 2017. In the absence of any material acquisitions, we expect free cash flow from operations to be significantly better next year. At the same time, we continue to make progress with respect to asset sales having received bids for two assets and third under due diligence. As you can see, we are making good progress on our 2016 priorities. We continue to work on the remaining initiatives from our value creation plan, but most -- that most of the remaining ones will take longer to execute. However, have the greatest potential to positively impact the organization. Looking at the opportunities we have, finding the right balance between organic growth, acquisitions and returning capital to shareholders will be a delicate act, but one, we are privileged to be in a strong financial position to undertake. With that, I would like to turn the call over to the operator and open the line to question.

Q&A session

Operator: Thank you, sir. Ladies and gentlemen, we will now start Q&A session. If you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding until we have the first question. Our first question comes from Alok Nawani, Ghobash Trading & Investments. Please go ahead.

Alok Nawani: Good evening, gentlemen, and thank you very much for the call. Just a couple of questions from my side. Number one would be on the bad debts and provisions that you took in the first nine months. If you could just highlight how much of these provisions related to bad debt, and how much to others, and what was the nature and also the source, the market sources for these provisions? And secondly, in terms of the UAE trends, you explained a bit about why you saw a bit of weakness in the third quarter, but if you could just highlight how much of the decline in revenues was because of pricing and how much on volumes? Thank you.

Abdallah Massaad: The second part of the question was interrupted. Can you repeat, please?

Alok Nawani: I just wanted to know how much of the decline in KSA revenues came from pricing and how much from volumes?

Abdallah Massaad: Out of the provision? See, as far as the provisions are concerned, out of the 45 million provisions in the nine months, around 30 million is for receivables and the balance is for other item. And what was your second question in relation to the provision you wanted to know the base for making these provisions?

Alok Nawani: I wanted to understand how much of -- where exactly is this 30 million in provisions is coming from? Whether it's Saudi, is it any other market in particular?

Abdallah Massaad: Yeah. It is a mix of the markets. What we normally do is, in fact, we had been applying a provisioning policy, and we have now a provisioning policy, which is approved by the Board. So irrespective, even though there are good chances for recovery of the money, but based on the aging profile of the receivable, we do keep a provision. So based on the provisioning policy, we keep on making provision, and the provision of 30 millions, which we have carried out is a mix of Saudi as well as other areas.

Alok Nawani: Okay. Thank you.

Abdallah Massaad: Regarding the drop in Saudi, it majorly was volume. So our prices were slightly affected. So basically, it's a volume drop.

Alok Nawani: Okay. Thank you. And what about the trends in the UAE?

Abdallah Massaad: Look, UAE, you know, the third quarter was, you know, long vacations, holidays, so it was like our project continued to be at the same showrooms doing well, so the trader pick up lifting were slightly lower, but the trend is positive.

Alok Nawani: I mean, just if I may, you know, that the quarter-on-quarter decline trend could be explained by things like Eid, Ramadan or holidays, but the year-on-year trend, shouldn't it signal a weakness in the market altogether?

Abdallah Massaad: I agree. That's why I started with the sentiment of the environment, business environment we are working on, but this summer, you know, like quarter-on-quarter, it was the vacation was linked. So it was little bit longer than a normal break, which happen normally.

PK Chand: Yeah. Just to add what Abdallah said, see, in the third quarter in UAE the drop was 6.4%, but if you see the yearly figures, yearly figures, it is up by 1.3%. So what Abdallah said is that in the third quarter definitely because of the holidays and others, there was a decline, but overall, if you see nine months of this year to nine months of that -- the last year, the revenue in UAE is up 1.3%.

Alok Nawani: And so far in the fourth quarter, are you seeing positive trends by way of revenue growth or?

Company Representative: Yes, yes. So we are in line with the last year quarter, yeah.

Alok Nawani: Okay. Thank you very much.

Company Representative: Welcome.

Operator: Our next question comes from Noura Al Agil, Al Ahli Capital Riyad. Madam, please go ahead.

Noura Al Agil: Hi. Thank you, gentlemen, for the presentations. I have three questions. I will go to the first one. I don't know if you can give us the breakdown of the sales in Saudi. How much of which is to government and how much is to private? Hello?

Company Representative: Yeah. Look, sorry, sorry, so we don't have like a breakup. Normally, we are not selling directly from here to – we don't have the breakup of what our distributor or our joint venture company in Saudi sold. So we don't have it exactly so, but we will take it and we will try to send it to you.

Noura Al Agil: Okay. Thank you. My other question is about the other income we saw drop. Can you elaborate further on that? And what does this include?

Company Representative: Yeah. As far as other income drop is concerned, in the last year, there were certain abnormal items on sale of assets etc., and that is why the income has dropped. So if you really want to understand what is going to be the future of other income, the current trend should be taken as the trend because last year other income was abnormally higher because of certain transactions which we had taken for sale of assets or some strategic decisions.

Noura Al Agil: Okay. And what does it constitute of, like what's the breakdown of the other income?

Company Representative: I have got the breakdown, but there are several items. So the main is like, you know, gain for sale of assets, scrap sale, sale of fixed assets, insurance claim. So there are several acts.

Noura Al Agil: Okay. So to going forward, we should use the 2015, sorry 2016 level…

Company Representative: Yes.

Noura Al Agil: Okay. My last question was on the Italy, the warehousing in Italy. Where exactly in Italy is it?

Company Representative: It is in Sassuolo near Bologna.

Noura Al Agil: There is no look from that as we saw the hurricanes and also you don’t expect any risk on the warehouse?

Company Representative: Hurricane? Hurricane? Right.

Company Representative: No, honestly, that is why we selected Italy as the hub of most of the Italian factory and it is the logistic hub for all Europe. Noura Al Agil: Okay. Thank you.

Company Representative: Welcome.

Operator: Our next question comes from Ankit Gupta, SHUAA Capital. Sir, please go ahead.

Ankit Gupta: Hello, gentlemen. Thank you for taking this call. I have two questions. One is related to Indian government recent steps on demonetization. I was wondering are you seeing any material impact on your business and if you can give some color on the outlook on the Indian business in lieu of the same? Second is related to Iran. We heard that they have changed certain gas pricing mechanism over there. If you can provide some color on the same, that would be appreciated. Thank you.

Company Representative: Look, in India, the act of demonetization is so recent, so as we are like player, which we deal, you know, all big players, and we don’t have anything which work in black money or other so will not have impact on us. For sure, as what we hear from India that the market will have some disturbance for a period, but for us it’s a good time for us to prepare, you know, we are going into restructuring, and we are hopeful by next year to have a different business model in India. This will help us because this will put a more burden on the unorganized setor in India. Regarding Iran, we did not get intimated from our team that any changes on gas price for us or any changes at least for us did not set up.

Ankit Gupta: Can you provide us a color on how much are you paying for gas over there at this point in time?

Company Representative: It is $1.50.

Company Representative: It is almost $1.5 per million BTU].

Ankit Gupta: Thank you very much.

Company Representative: Welcome.

Operator: Our following question is from Joe Francis, Bahrain National Holding. Sir, please go ahead.

Joe Francis: Hi. Thanks for taking me question. My question is regarding the gas cost, which is at 95%. Does it mean that the cost advantage is only 5% now against European gas pricing?

Company Representative: No, that's not what it means. That is the level of premium we currently pay over European peers which has never been higher. We used to pay less than them but with a decline in gas prices, , they are benefiting from the lower oil price while our prices are fixed. We don't disclose how much we pay for gas, it's just to give you an idea of the relative energy cost advantage they have currently.

Joe Francis: Yeah. And when do you think conversion from ceramic capacity to GP will be done?

Company Representative: We already started six months back converting 4 million. It takes times to finish it. We started production in October. Joe Francis: Okay. And given the US dollar strengthening as a recent trend, and assuming that you export from UAE to Europe, and the Euro is weakening against USD, how much impact do you see going forward? Your competitor is coming down against European producers, right?

Company Representative: See, as far as the Euro currency is concerned, throughout 2016 if you see it is in the range of 1.09 to 1.12 in that range. Throughout the year if you see that has been the range, and currently also it is in that range.

Joe Francis: Okay. Okay. Okay. Thanks. Thanks for taking out the call.

Company Representative: And as far as our exposure to Euro is concerned, more or less we are fully hedged because we import many items from European countries, and we sell to Europe, so that is more or less hedged.

Joe Francis: Okay. Okay. Great. Great. Thank you.

Operator: Ladies and gentlemen, I would like to remind you, if you have any further questions, please press 01 on your telephone keypad. Thank you for holding. Ladies and gentlemen, I would like to remind you, if you have any further questions, please press 01 on your telephone keypad. Thank you for holding. We have a question from Christopher Clube, Pioneer Investment. Sir, please go ahead.

Christopher Clube: Good afternoon, gentlemen. So my first question is understanding the drop in sales in Saudi. I suppose the outlook looks pretty kind of bleak in Saudi Arabia in the construction sector government expansion etc., for the foreseeable future. Is there any market you can redirect the volumes that you would have sold in Saudi Arabia too? Are you stepping up your sales assets in Europe?

Company Representative: Hey, Chris, thank you for your question. Going back, we are a company which sell to more than 150 countries. So in 2012 where the boomg happened in this region, especially Saudi, we converted, or at least we converted the focus from other markets to Saudi Arabia or to the region, which was more interesting for us. So yes, we started. So we have options. We started our effort to restart or to restrengthen the network we have and this is our plan. For sure, Saudi will remain we did not enter into the price war in the region as we have a global network already setup. We are different than the local manufacturers by having a global brand in which we are investing to grow in various distribution channels, this is the focus of our team now.

Christopher Clubve: Okay. Do you have any visibility on the inventory levels at the distributors in Saudi Arabia? Have they destocked a great deal over the last quarter?

Company Representative:.T traders have a high inventory level with them.

Christopher Cleave: Okay. So the levels of inventory is still very high. This wasn't about destocking. This is there haven't been any significant destocking that you have at the distributor level, the wholesale level?

Company Representative: But you know, I could not exactly hear your question.

Christopher Clube: Oh, sorry.

Company Representative: Or what is your question – yeah.

Christopher Clube: So I was asking whether you thought the inventory levels were still very, very high at the wholesale level and the distributor level in Saudi Arabia?

Company Representative: Visibility is low on demand right now. Trading conditions from dealers we know and have bene in the business for a long time, 25 years or more as bad as they have ever seen them . So the quarter four will give us more visibility in what is happening.

Christopher Clube: Okay. And the second question I have concerning the gas price, I was slightly confused, how much – are you paying more for your gas in the European manufacturers? And if so, how much more?

Company Representative: Look, before the oil prices went down, we were at better position, but over the last year or two the market price for gas prices fell and we did not benefit while our E European peers did. y.

Christopher Clubve: So going forward, do you have any visibility on the gas price that you were paying?

Company Representative: What? Sorry, sorry, I missed it. What you said?

Christopher Cleave: Do you know that whether the gas price that you pay in UAE is going to go down over the next 12 monhts?

Company Representative: We don't have – honestly, we don't have visibility. I said we have – we buy from - we experienced several times, we buy from RAK Gas and they have a blended sources, and we come to know by end of the month. So we cannot predict anything there.

Christopher Clube: So there is no, you are not aware of long-term contracts with their suppliers, you don't know you had any way of telling which direction the gas price is going to go in?

Company Representative: Well, honestly, honestly, we don't have visibility.

Christopher Clube: Okay. Have you ever considered building a captive power plant?

Christopher Cleave: We have a captive power plant, which we have it since many years. But it does not cover all what we need. That is why we have our captive power plant. We already if you see now we started with the co-generation, and we invested almost 20 million dirham there. We started the last month, and we have a very, very impressive result with a payback is almost less than 2 years.

Christopher Clube: Okay. But this is not for the majority of your fuel cost? It's just for some, just for a little amount.

Company Representative: Yeah, yeah, but the co-generation, you know, we take the heat from the kiln where we converted also and power while generating our power, we used part of it. Yeah. So this will give us, we made a test in only one plant. This will give us almost 2 Megawatt which we use, but we are now moving into other factories which we can get more -- more power from there.

Christopher Clube: Okay. Thank you very much.

Operator: Ladies and gentlemen, as a reminder, if you have any further questions, please press 0 1 on your telephone keypad. Thank you for holding. Ladies and gentlemen, as a reminder, if you have any further questions, please press 0 1 on your telephone keypad. Thank you for holding. We have no further question. Dear speaker, back to you for the conclusion.

Philip Kanaan: Thank you, Abdallah. That concludes today's conference. We do appreciate everyone's participation. Please have a great day.

Abdallah Massaad: Thank you very much. Thank you for all.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.