



Second Quarter 2018 Results

Alexandria, 14th August 2018 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for second quarter 2018.

Highlights

2Q 2018

- Lecico revenue up 20% to LE 705 million (58.3% from sanitary ware)
- Sanitary ware revenue up 14% to LE 411.1 million, volumes up 15% to 1.35 million pieces (62.2% exports)
- Tile revenue up 29% to LE 274.2 million, volumes up 20% to 7.2 million square meters (15.3% exports)
- Brassware revenue up 39% to LE 19.7 million, sales volume up 31% to 27,045 pieces
- EBIT profit of LE 81.8 million (including LE 51 million exceptional capital gain) compared to LE 47.7 million in 2Q 2017
- Net profit of LE 4.9 million compared to net profit of LE 13.7 million in 2Q 2017

1H 2018

- Lecico revenue up 20% to LE 1,358 million (59.2% from sanitary ware)
- Sanitary ware revenue up 16% to LE 804.4 million, volumes up 7% to 2.6 million pieces (62.8% exports)
- Tile revenue up 30% to LE 516.3 million, volumes up 18% to 13.5 million square meters (16.9% exports)
- Brassware revenues flat at LE 37.3 million, sales volume fell 9% to 49,323 pieces
- EBIT profit of LE 164.8 million compared to EBIT profit of LE 100.3 million in 1H 2017
- Net profit of LE 29.3 million compared to net profit of LE 32.3 million in 1H 2017

Lecico Egypt Chairman, Gilbert Gargour, commented “Continued strong revenue growth in the quarter has been offset by weaker margins due to lower production in sanitary ware and continued high inflation. Gross margins fell to 18% in the quarter – compared to 22% – led by lower sanitary ware margins.

“The lack of adjustment in the Egyptian Pound for high inflation in Egypt and the continuation of very high interest rates in Egypt are also negatively impacting our profitability and this looks likely to continue well into the fourth quarter.

“Results were boosted by the exceptional income of LE 51 million from the sale of a piece of land in Egypt that had been used as a raw material warehouse before 2012. Without this one-off income, our operating profits would have been significantly lower year-on-year and we would have reported a bottom line loss.

“Despite the impact of margin squeeze in the quarter, we had some continued positive developments: our sanitary ware sales volumes continue to grow and reached record in the quarter; our tile business continues to slowly improve in both revenue and profitability; our overheads continue to fall proportionally as sales grow.

“We face some further challenges in the third quarter which will put further pressure on results: we are facing another bump in inflation following the government-led price increases in late June and early July; we are seeing weakness in the Euro and Sterling against the Egyptian Pound which will reduce export prices in Egyptian Pounds, the Eid holiday at the end of August will effectively shut down Egyptian and regional markets for a full week.

“We will try to offset these pressures with increased sanitary ware production and a local price increase. Sanitary ware production volumes are expected to be at least 15% higher than the second quarter in the third and the fourth quarters, with expected economies of scale helping to ameliorate inflation. We raised prices in the local market by 15% in July and will review opportunities for further price increases before the year end.

“We will do our best to maximize returns in the coming quarters. We are still working to rebuild results to sustainable levels after the shocks of the past few years and despite short-term challenges.”

Taher Gargour, Lecico Egypt CEO, added, “The reduction in margins the second quarter is the result of lower production in sanitary ware and the continued high inflation and cost of borrowing in Egypt. Looking ahead, we expect production to increase in the coming quarters, but the inflation spike expected from government-led cost increases in June and July will offset some of the returning economies of scale and we continue to face currency pressures on exports.

“We increased local prices in July to offset most of the expected inflation and we plan to reduce our finance expenses by reducing cash and gross debt now and switching a significant portion of our borrowing from Egyptian Pounds to foreign currency by the end of the third quarter. Hopefully between these actions and further opportunistic price increases we can offset the margin drop seen in the second quarter and deliver year-on-year growth in the second half of 2018 but it will remain challenging to do so.

“With the growth in sales volumes in the quarter, we had pressure on the absolute value of working capital and continued to see negative cash flows for the quarter despite a reduction in the absolute value of inventories quarter-on-quarter. I am confident we can continue to reduce inventories over the coming quarter despite higher production levels but I am not pleased that the absolute value of receivables rose in the quarter despite increased focus on collection in Egypt and abroad. We will have to work hard in coming quarters to have a chance to meet our target of reducing receivables and inventory in absolute values in 2018 particularly as sales grow.

“Overall, the quarter was challenging and the impact of high inflation and high interest rates remain a stronger headwind than anticipated. We will focus on continued sales growth, combined with cost reduction and working capital improvement. I hope that we can improve on this quarter’s results – excluding exceptionals - and get closer to the levels of cash flow and sustainable profitability I think we can achieve in the quarters ahead.”

Lecico Revenue and Profitability

| Profit and loss statement highlights | | | | | | |
|---|--------------|--------------|-------------|----------------|----------------|-------------|
| (LE m) | 2Q | | % | 1H | | % |
| | 2018 | 2017 | 18/17 | 2018 | 2017 | 18/17 |
| Sanitary ware | 411.1 | 359.2 | 114% | 804.4 | 696.2 | 116% |
| Tiles | 274.2 | 212.6 | 129% | 516.3 | 398.4 | 130% |
| Brassware | 19.7 | 14.2 | 139% | 37.3 | 37.2 | 100% |
| Net sales | 705.0 | 586.0 | 120% | 1,358.0 | 1,131.8 | 120% |
| Sanitary ware/net sales (%) | 58.3% | 61.3% | (3.0%) | 59.2% | 61.5% | (2.3%) |
| Cost of sales | (580.6) | (454.7) | 128% | (1,090.0) | (866.6) | 126% |
| Cost of sales/net sales (%) | (82.4%) | (77.6%) | 4.8% | (80.3%) | (76.6%) | 3.7% |
| Gross profit | 124.4 | 131.3 | 95% | 268.0 | 265.2 | 101% |
| Gross profit margin (%) | 17.6% | 22.4% | (4.8%) | 19.7% | 23.4% | (3.7%) |
| Distribution and administration (D&A) | (86.9) | (77.3) | 112% | (168.5) | (152.4) | 111% |
| D&A/net sales (%) | (12.3%) | (13.2%) | (0.9%) | (12.4%) | (13.5%) | (1.1%) |
| Net other operating income/ (expense) | 44.4 | (6.3) | - | 65.3 | (12.4) | (525%) |
| Net other operating income/ (expense) net sales (%) | 6.3% | (1.1%) | - | 4.8% | (1.1%) | - |
| EBIT | 81.8 | 47.7 | 171% | 164.8 | 100.3 | 164% |
| EBIT margin (%) | 11.6% | 8.1% | 3.5% | 12.1% | 8.9% | 3.3% |
| Net profit (loss) | 4.9 | 13.7 | 36% | 29.3 | 32.3 | 91% |
| Net profit margin (%) | 0.7% | 2.3% | (1.6%) | 2.2% | 2.9% | (0.7%) |

2Q 2018: Revenue growth and land sale offsets inflationary pressure and fx losses

Lecico reported good year-on-year and quarter-on-quarter top-line growth with record quarterly revenues. This was offset by margin pressure, interest expenses and fx losses. The Company also reported an exceptional LE 51 million capital gain on the sale of a plot of land in the quarter.

Lecico revenues for the second quarter increased by 20% year-on-year to reach a new record level of LE 705 million (2Q 2017: LE 586 million) as a result of higher export volumes in sanitary ware and strong tiles volume and price growth.

Quarter-on-Quarter revenues increased by 8% (1Q 2018: LE 653 million) with a 5% increase in sanitary ware revenues and 13% increase in tile revenues.

Lecico's cost of goods sold rose 28% year-on-year to LE 580.6 million (2Q 2017: LE 454.7 million) as a result of reduced production in sanitary ware and the high inflation in Egypt over the past twelve months.

Lecico's gross profit for the second quarter decreased 5% year-on-year to LE 124.4 million (2Q 2017: LE 131.3 million). Lecico's gross profit margin decreased 4.8 percentage points to 17.6% compared to 22.4% in the same period last year.

Quarter-on-quarter gross profit decreased by 13% (1Q 2018: LE 143.6 million) and Lecico's gross margin decreased 4.4 percentage points (1Q 2018: 22.0%).

In absolute terms, distribution and administration (D&A) expenses increased by 12% to LE 86.9 million, but proportional D&A expenses were down by 0.9 percentage points to 12.3% compared to 13.2% in the second quarter of 2017.

Quarter-on-quarter distribution and administration (D&A) expenses increased 6% (1Q 2018: LE 81.6 million) and proportional D&A expenses were down by 0.2 percentage (1Q 2018: 12.5%).

In June 2018, Lecico Egypt succeeded to sell an unused plot of land in Egypt previously used as a raw materials warehouse. The sale netted the company a gain of LE 51 million, booked in other operating income in this quarter.

Lecico's operating profit (EBIT) for the second quarter increased 71% to LE 81.8 million (2Q 2017: 47.7 million). Lecico's EBIT margin for the quarter was 11.6% compared to 8.1% in the same period last year. Excluding the one-off capital gain from selling land, Lecico's EBIT decreased 35% year-on-year to LE 30.8 million but operating margins fell 3.8 percentage points to 4.4%.

Quarter-on-quarter EBIT decreased by 1% (1Q 2018: LE 82.9 million) and Lecico's EBIT margin decreased 1.1 percentage points (1Q 2018: 12.7%). Excluding the one-off LE 25.5 million profit from gas mispricing in the first quarter and one-off gain of LE 51 million from selling land in the second quarter, Lecico's EBIT decreased 46% quarter-on-quarter and operating margins decreased 4.4 percentage points.

Net financing expenses rose 158% year-on-year during the second quarter of 2018 to reach LE 68.2 million compared to LE 26.4 million in the same period in 2017, primarily due to foreign exchange losses of LE 10.0 million in the quarter compared to an LE 7.7 million gain in 2Q 2017. Higher interest rates in Egypt, growth in debt and a higher proportion of local borrowing were also a factor in the higher cost of financing year-on-year.

Quarter-on-quarter net financing expenses rose 31% (1Q 2018: LE 51.9 million) primarily due to foreign exchange losses of LE 10.0 million in the quarter compared to an LE 5.1 million gain in 1Q 2018.

Lecico reported net tax charge of LE 8.9 million versus a tax charge of LE 7.1 million in the second quarter of 2017.

Lecico's net profit for the second quarter decreased 64% year-on-year to LE 4.9 million (2Q 2017: LE 13.7 million). Excluding the one-off capital gain from land sales, Lecico would have reported a net loss of LE 46.1 million. Lecico's net profit margin was 0.7% compared to 2.3% in the same period last year.

Quarter-on-quarter net profit decreased 80% (1Q 2018: LE 24.4 million) and Lecico's net margin was down 3 percentage points (1Q 2018: 3.7%).

1H 2018: Increased revenue and one-off profits offset inflation and fx pressure on margins

Lecico revenues for the first half were increased by 20% year-on-year to LE 1,358 million reflecting the cumulative effect of price increases done at the end of last year as well as the first half following the floatation of the Egyptian Pound. Sales volumes in sanitary and tiles were improved year-on-year due to growth in exports.

Gross profit increased by 1% to reach LE 268 million and the Company's gross profit margin down 3.7 percentage points to 19.7% compared to 23.4% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses increased by 11% to LE 168.5 million, but as a percentage points of net sales proportional D&A expenses were down by 1.1 percentage points to 12.4% compared to 13.5% in the first half of 2017.

The company reported LE 65.3 million in net other operating income compared to net other operating expenses of LE 12.4 million in the first half of 2017 primarily as result of LE 76.5 million in one-off gains.

The company reported an operating profit (EBIT) of LE 164.8 million for the first half compared to an operating profit of LE 100.3 million in the same period last year. Lecico's EBIT margin for the first half was 12.1%. Excluding the one-off gains of LE 76.7 million in the first half, Lecico would have reported an operating profit of LE 88.1 million for the first half with a margin of 6.5%.

Financing expenses were increased 135% year-on-year during 2018 to reach LE 120.1 million compared to the same period in 2017 due to foreign exchange losses (LE 4.9 million loss versus LE 10.6 million gain in 1H 2017) combined with higher borrowings and higher interest rates for the Egyptian Pound.

Lecico recorded net tax charges of LE 15.8 million versus LE 15.4 million tax charges for the same period last year.

Lecico reported net profit of LE 29.3 million compared to net profit of LE 32.3 million in the same period last year. Lecico's net margin for the first half of 2018 was 2.2%.

Excluding the one-off profit LE 25.5 million from historic gas mispricing in the first quarter and one-off capital gain LE 51 million from selling land in the second quarter, Lecico reported a net loss of LE 47.2 million.

Segmental analysis

Sanitary ware

2Q: Sanitary ware sales volumes increased by 15% (up 175,567 pieces). Export volumes grew 17% (up 119,937 pieces), also sales volumes in Egypt grew 16% (up 66,431 pieces), while sales volumes in Lebanon decreased 29% (down 10,801 pieces).

Quarter-on-quarter total sales volumes increased by 8% (up 99,733 pieces). Sales in Egypt increased by 11% (up 46,466 pieces), Export volumes increased 6% (up 46,722 pieces) and sales in Lebanon increased by 32% (up 6,545 pieces).

Average sanitary ware prices decreased marginally by 0.4% year-on-year at LE 303.9 per piece (2Q 2017: LE 305.2).

Quarter-on-quarter average prices were down 3% (1Q 2018: LE 313.9).

Revenues rose 15% year-on-year at LE 412.8 million (2Q 2017: LE 359.2 million) due to higher sales volumes. Exports represented 62% of volumes compared to 61% in the same period in 2017.

Quarter-on-quarter revenues were up 5% (1Q 2018: LE 393.4 million) due to higher sales volumes. The proportional value of export sales volumes was down slightly quarter-on-quarter (1Q 2018: 63%).

Average cost of sales per piece rose 14% year-on-year at LE 231.1 per piece due to lower production (down 11%) and high inflation in Egypt. Quarter-on-quarter the average cost of sales rose 6% due to lower production (down 17% quarter-on-quarter) (1Q 2018: LE 218 per piece).

Gross profit fell 18% to LE 98.4 (2Q 2017: LE 119.8) and the margin decreased by 9.4 percentage points to 23.9% (2Q 2017: 33.4%). Quarter-on-quarter gross profit decreased by 18% (1Q 2018: LE 120.2 million) and the margin decreased 6.6 percentage point (1Q 2018: 30.5%).

| Sanitary ware segmental analysis | 2Q | | % | 1H | | % |
|--|--------------|--------------|-------------|--------------|--------------|-------------|
| | 2018 | 2017 | | 2018 | 2017 | |
| Sanitary ware volumes (000 pcs) | | | | | | |
| Egypt (000 pcs) | 485 | 418 | 116% | 923 | 909 | 102% |
| Lebanon (000 pcs) | 27 | 38 | 71% | 47 | 67 | 70% |
| Export (000 pcs) | 841 | 721 | 117% | 1,635 | 1,453 | 113% |
| Total sanitary ware volumes (000 pcs) | 1,353 | 1,177 | 115% | 2,606 | 2,429 | 107% |
| Exports/total sales volume (%) | 62.2% | 61.3% | 0.9% | 62.8% | 59.8% | 3.0% |
| Sanitary ware revenue (LE m) | 411.1 | 359.2 | 114% | 804.4 | 696.2 | 116% |
| Average selling price (LE/pc) | 303.9 | 305.2 | 100% | 308.7 | 286.6 | 108% |
| Average cost per piece (LE/pc) | 231.1 | 203.4 | 114% | 224.8 | 187.8 | 120% |
| Sanitary ware cost of sales | (312.7) | (239.4) | 131% | (585.9) | (456.2) | 128% |
| Sanitary ware gross profit | 98.4 | 119.8 | 82% | 218.6 | 239.9 | 91% |
| Sanitary ware gross profit margin (%) | 23.9% | 33.4% | (9.4%) | 27.2% | 34.5% | (7.3%) |

1H: Sanitary ware sales volume increased by 7% to 2.6 million pieces (up 176,643 pieces). Sales in Egypt increased by 2% (up 13,733 pieces). Sales in Export increased by 13% (up 182,824 pieces). Growth in export came from the UK, Europe and OEM markets. Sales in Lebanon decreased by 30% (down 19,914 pieces).

Average sanitary ware prices were up 8% year-on-year to LE 308.7 per piece reflecting the cumulative effect of price increases over the last twelve months.

Revenues were up 16% year-on-year at LE 804.4 million. Exports represented 62.8% of volumes compared to 59.8% in 2017.

Average cost of sales rose 20% at LE 224.8 per piece due to lower production (down 9%) and high inflation in Egypt.

Gross profit decreased 9% to LE 218.6 million (1H 2017: LE 239.9 million) and the margin fell 7.3 percentage points to 27.2% (1H 2017: 34.5%).

Tiles

2Q: Tile sales volumes increased 20% year-on-year (up 1.2 million square meters) to reach 7.2 million square meters in the second quarter of 2018. Growth in sales came from a 53% increase in export volumes (up 381,647 square meters) and an 16% increase in Egyptian volumes (up 823,716 square meters). sales in Lebanon decreased 10% (down 13,851 square meters).

Quarter-on-quarter sales volumes increased 15% (up 931,024 square meters) mainly as a result of 19% increase in sales in Egypt (up 956,267 square meters) and an 76% increase in sales in Lebanon (up 53,940 square meters), which offset a 7% quarter-on-quarter reduction in exports (down 79,183 square meters).

Average net prices rose 8% year-on-year to LE 38 per square meter reflecting the cumulative effect of price increases done in Egypt over the last twelve months. Quarter-on-quarter average prices were marginally down 1% (1Q 2018: LE 38.5).

Tiles revenues were up 29% year-on-year at LE 274.2 million in the second quarter of 2018 (2Q 2017: LE 212.6 million). Quarter-on-quarter revenues were up 13% (1Q 2018: LE 242.1 million).

Average costs rose 3% year-on-year to reach LE 35.2 per square meter as production was up 18% year-on-year offsetting some of the effect of high inflation over the last year. Quarter-on-quarter average costs decreased by 1% (1Q 2018: LE 35.5 per square meter) as production rose 7% quarter-on-quarter with corresponding economies of scale.

Lecico reported a gross profit in the tile segment of LE 20.1 million for the second quarter compared to a gross profit of LE 6.5 million in the same period last year. The gross margin in the second quarter 2018 increased by 4.3 percentage points to 7.3% (2Q 2017: 3%).

Quarter-on-quarter gross profit increased 10% (1Q 2018: LE 18.3 million) but the margin fell marginally by 0.2 percentage points (1Q 2018: 7.5%).

| Tile segmental analysis | 2Q | | % | 1H | | % |
|-------------------------------------|--------------|--------------|-------------|---------------|---------------|-------------|
| | 2018 | 2017 | | 2018 | 2017 | |
| | | | 18/17 | | | 18/17 |
| Tile volumes (000 sqm) | | | | | | |
| Egypt (000 sqm) | 5,995 | 5,171 | 116% | 11,034 | 9,825 | 112% |
| Lebanon (000 sqm) | 125 | 139 | 90% | 196 | 255 | 77% |
| Export (000 sqm) | 1,106 | 724 | 153% | 2,291 | 1,402 | 163% |
| Total tile volumes (000 sqm) | 7,226 | 6,034 | 120% | 13,522 | 11,481 | 118% |
| Exports/total sales volume (%) | 15.3% | 12.0% | 3.3% | 16.9% | 12.2% | 4.7% |
| Tile revenue (LE m) | 274.2 | 212.6 | 129% | 516.3 | 398.4 | 130% |
| Average selling price (LE/sqm) | 38.0 | 35.2 | 108% | 38.2 | 34.7 | 110% |
| Average cost per sqm (LE/sqm) | 35.2 | 34.2 | 103% | 35.3 | 33.9 | 104% |
| Tile cost of sales | (254.1) | (206.1) | 123% | (477.9) | (388.9) | 123% |
| Tile gross profit | 20.1 | 6.5 | 311% | 38.4 | 9.6 | 402% |
| Tile gross profit margin (%) | 7.3% | 3.0% | 4.3% | 7.4% | 2.4% | 5.0% |

1H: Tile sales volumes increased by 18% year-on-year (up 2 million square meters) to reach 13.5 million square meters. Sales in Egypt increased by 12% (up 1.2 million square meters) and sales in export increased by 63% (up 889,914 square meters). Sales in Lebanon decreased by 23% (down 58,788 square meters).

Average net prices rose 10% at LE 38.2 per square meter reflecting the cumulative effect of price increases over twelve months.

Tiles revenues were up 30% year-on-year at LE 516.3 million in the first half of 2018 (1H 2017: LE 398.4 million).

Average costs rose 4% year-on-year to reach LE 35.3 per square meter as 7% higher production helped offset the high inflation in Egypt over the past twelve months.

First half reported a tile gross profit of LE 38.4 million compared to a gross profit of LE 9.6 million in the first half of 2017. The gross margin in the first half increased by 5 percentage points to 7.4% (1H 2017: 2.4%).

Brassware

2Q: Sales volumes for the second quarter 2018 increased by 31% to reach 27,045 pieces compared to 20,637 pieces in the same period last year. Quarter-on-quarter sales volumes were up 21% (1Q 2018: 22,278 pieces).

Average net prices rose 6% to reach LE 728.6 per piece (2Q 2017: LE 687.1) with the changing mix obscuring some of the price increase done over the period. Quarter-on-quarter prices decreased by 8% (1Q 2018: LE 790).

Revenue for the quarter rose 39% year-on-year to reach LE 19.7 million (2Q 2017: LE 14.2 million). Quarter-on-quarter revenues increased by 12% (1Q 2018: LE 17.6 million). Brassware accounted for 2.8% of the quarter's revenues, compared to 2.4% in the same period last year.

Average cost per piece rose 15% to LE 513.1 per piece reflecting changing mix and the result of the impact of high inflation in Egypt. Quarter-on-quarter average cost per piece decreased by 8% (1Q 2018: LE 557.8 per piece) reflecting changing mix.

Gross profit increased by 17% to LE 5.8 million (2Q 2017: LE 5 million) and the margin fell 5.7 percentage points to 29.6% (2Q 2017: 35.3%). Quarter-on-quarter gross profit increased by 13% (1Q 2018: LE 5.2 million) and the gross margin rose 0.2 percentage points (1Q 2018: 29.4%).

Brassware's percentage of consolidated gross profits increased to 4.6% of Lecico gross profits (2Q 2017: 3.8%). Quarter-on-quarter brassware's percentage of consolidated gross profits increased by 1 percentage point (1Q 2018: 3.6%).

| Brassware segmental analysis | 2Q | | % | 1H | | % |
|---------------------------------------|---------------|---------------|-------------|---------------|---------------|-------------|
| | 2018 | 2017 | | 2018 | 2017 | |
| Brassware volumes (pcs) | | | | | | |
| Egypt (pcs) | 25,445 | 20,637 | 123% | 47,402 | 54,480 | 87% |
| Export (pcs) | 1,600 | 0 | 0% | 1,921 | - | - |
| Total brassware volumes (pcs) | 27,045 | 20,637 | 131% | 49,323 | 54,480 | 91% |
| Exports/total sales volume (%) | 5.9% | 0.0% | 5.9% | 3.9% | 0.0% | 3.9% |
| Brassware revenue (LE m) | 19.7 | 14.2 | 139% | 37.3 | 37.2 | 100% |
| Average selling price (LE/pc) | 728.6 | 687.1 | 106% | 756.3 | 682.3 | 111% |
| Average cost per piece (LE/pc) | 513.1 | 444.6 | 115% | 533.3 | 395.0 | 135% |
| Brassware cost of sales | (13.9) | (9.2) | 151% | (26.3) | (21.5) | 122% |
| Brassware ware gross profit | 5.8 | 5.0 | 117% | 11.0 | 15.7 | 70% |
| Brassware gross profit margin (%) | 29.6% | 35.3% | (5.7%) | 29.5% | 42.1% | (12.6%) |

1H: Sales volumes for 2018 decreased by 9% to reach 49,323 pieces compared to 54,480 pieces for same period of 2017.

Revenues for 2018 are flat year-on-year as at LE 37.3 million.

Brassware's percentage of consolidated revenues 2.7%, while the percentage for the same period last year was 3.3% of sales.

Average net prices rose 11% to reach LE 756.3 per piece (1H 2017: LE 682.3) due to product mix and price increases done over the last twelve months.

Average cost per piece rose 35% to LE 533.3 per piece reflecting changing mix and the effect of high inflation over the last year.

Gross profit decreased 30% to LE 11 million (1H 2017: LE 15.7 million) and the margin fell 12.6 percentage points to 29.6% (1H 2017: 42.1%).

Financial Position

The value of Lecico's assets increased by 5% at the end of June 30, 2018 to reach LE 3,099.8 million (2017: LE 2,960.1 million) primarily as a result of growth in receivables and cash over the first six months of 2018 and despite a small drop in inventories.

Total liabilities were up 5% at LE 2,054.3 million (2017: LE 1,955.4 million) as debts and payables grew.

Gross debt increased 5% or LE 77.3 million to reach LE 1,534.4 million compared to LE 1,457.1 million at the end of 2017.

Net debt rose 5% or LE 54.5 million to reach LE 1,250.3 million compared to LE 1,195.8 million at the end of 2017.

Net debt to equity increased marginally by 0.53% to reach 1.22x compared to 1.21x at the end of 2017.

Recent developments and outlook

Outlook for 2018: The second quarter shows continued good top line growth with margins under pressure from cost inflation in Egypt and higher finance expenses.

Sales in Egypt and export are expected to continue to improve in the second half on the back of strong growth in government-led projects offsetting weakness in end consumer sales out of showrooms.

In exports, Lecico expects to see continued growth in sanitary ware sales to Europe and this should be the principal driver of volume growth in the second half of 2018. Exports to the Middle East – and Libya in particular – have shown some improvement so far in 2018 and this is expected to continue in the second half.

However, the company is facing a significant round of inflation due to a number of government-led cost increases in petrol, electricity, water and other subsidized utilities in late June and early July.

This inflation has also led most economists to reduce their expectations of the speed of interest rate reductions over the rest of the year.

The Company will also face some margin pressure from the weakness of the Sterling and the Euro against the dollar and the Egyptian Pound, which will reduce the profitability of our exports.

The Company has already done a significant price increase in the local market to offset most of the expected impact of this inflationary spike but is unable to pass this on in export markets. Local competition – particularly on tiles – remains strong, limiting the Company's ability to cover inflations impact on export through further local price increases.

Profitability in the second half of 2018 will likely remain under pressure from inflation and a lot depends on how the Euro and Sterling weaken or strengthen against the Egyptian Pound. The Company is looking to higher sales, local price increases and continued focus on efficiency gains and economies of scale to defend the gross margin.

Margins should expect support from a gradual reduction in interest rates but it now seems probable that any further rate reductions will occur in the last quarter of the year if at all. The Company significantly reduced its cash and gross debt position late in 2Q to help reduce interest expense and is looking to shift a significant proportion of debt into foreign currency by the end of 3Q to further reduce its interest expense payments.

In spite of expectations of an improvement in demand for the Company's products in 2018, the challenges facing Lecico and the tactics to deal with it remain unchanged. The Company will continue to invest in defending and gaining market share in Egypt and the Company will continue to pursue new export markets while simultaneously working to reduce expenses, overheads and working capital.

About Lecico

Lecico (Stock symbols: LCSW.CA; LECI EY) is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt, with over 50 years of experience in the industry and decades of experience as an exporter to developed markets.

Lecico benefits from significant cost advantages in labour, energy and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages to target the mass market with high quality pieces at competitive prices.

Lecico exports over half its sanitary ware production and has a significant presence in the United Kingdom and other European markets. Most of the Company's exports are done under the Lecico brand, although it also produces for a number of leading European brands.

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Forward-looking statements

This release may contain certain "forward-looking statements", relating to the Company's business, which can be identified by the use of forward-looking terminology such as "will", "planned", "expectations", "forecast" or similar expressions, or by discussions of strategy, plans or intentions. Such statements may include descriptions of investments planned or currently under development by the company and the anticipated impact of these investments. 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 or achievements of the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.

Lecico Egypt consolidated income statement

| Income statement | | | | | | |
|---|--------------|--------------|-------------|----------------|----------------|-------------|
| (LE m) | 2Q | | % | 1H | | % |
| | 2018 | 2017 | 18/17 | 2018 | 2017 | 18/17 |
| Net sales | 705.0 | 586.0 | 120% | 1,358.0 | 1,131.8 | 120% |
| Cost of sales | (580.6) | (454.7) | 128% | (1,090.0) | (866.6) | 126% |
| Gross profit | 124.4 | 131.3 | 95% | 268.0 | 265.2 | 101% |
| Gross margin (%) | 17.6% | 22.4% | (4.8%) | 19.7% | 23.4% | (3.7%) |
| Distribution expenses | (40.5) | (36.0) | 112% | (79.5) | (70.7) | 112% |
| Administrative expenses | (46.5) | (41.3) | 112% | (89.1) | (81.7) | 109% |
| Other Operating income | 55.5 | 4.1 | 1363% | 86.5 | 8.1 | 1066% |
| Other Operating expenses | (11.2) | (10.3) | 108% | (21.2) | (20.6) | 103% |
| Operating profit (EBIT) | 81.8 | 47.7 | 171% | 164.8 | 100.3 | 164% |
| Operating (EBIT) margin (%) | 11.6% | 8.1% | 3.5% | 12.1% | 8.9% | 3.3% |
| Investment revenues | 0.0 | 0.0 | 125% | 0.0 | 0.0 | 125% |
| Finance income | (3.3) | 10.0 | - | 3.0 | 15.0 | 20% |
| Finance expense | (64.9) | (36.4) | 178% | (123.0) | (66.1) | 186% |
| Profits before tax and minority (PBTM) | 13.7 | 21.3 | 64% | 44.7 | 49.2 | 91% |
| PBTM margin (%) | 1.9% | 3.6% | (1.7%) | 3.3% | 4.3% | (1.1%) |
| Income tax | (9.4) | (7.6) | 125% | (20.7) | (15.8) | 131% |
| Deferred tax | 0.5 | 0.5 | 102% | 4.9 | 0.4 | 1372% |
| Net Profit after tax (NPAT) | 4.7 | 14.2 | 33% | 28.9 | 33.8 | 86% |
| NPAT margin (%) | 0.7% | 2.4% | (1.8%) | 2.1% | 3.0% | (0.9%) |
| Minority interest | 0.2 | (0.5) | - | 0.4 | (1.4) | - |
| Net Profit | 4.9 | 13.7 | 36% | 29.3 | 32.3 | 91% |
| Net profit margin (%) | 0.7% | 2.3% | (1.6%) | 2.2% | 2.9% | (0.7%) |

Lecico Egypt consolidated balance sheet

| Balance Sheet (LE m) | 30-Jun-18 | 31-Dec-17 | 1H18/FY17 (%) |
|---|----------------|----------------|---------------|
| Cash and short-term investments | 284.1 | 261.3 | 109% |
| Inventory | 1138.5 | 1133.8 | 100% |
| Receivables | 891.0 | 744.3 | 120% |
| Related parties -debit balances | 25.5 | 38.7 | 66% |
| Total current assets | 2,339.2 | 2,178.0 | 107% |
| Net fixed assets | 650.1 | 690.7 | 94% |
| Intangible assets | 28.9 | 29.2 | 99% |
| Projects in progress | 46.2 | 21.9 | 211% |
| Available for sale investments | 13.3 | 13.2 | 101% |
| Long-term notes receivable | 22.2 | 27.1 | 82% |
| Total non-current assets | 760.6 | 782.1 | 97% |
| Total assets | 3,099.8 | 2,960.1 | 105% |
| Banks overdraft | 1490.9 | 1390.5 | 107% |
| Current portion of long-term liabilities | 33.4 | 46.6 | 72% |
| Trade and notes payable | 203.0 | 185.8 | 109% |
| Other current payable | 287.0 | 269.6 | 106% |
| Related parties -credit balances | 2.2 | 2.1 | 105% |
| Provisions | 0.4 | 7.5 | 5% |
| Total current liabilities | 2,017.0 | 1,902.0 | 106% |
| Long-term loans | 10.0 | 20.0 | 50% |
| Provisions | 9.3 | 10.6 | 88% |
| Deferred tax | 17.9 | 22.8 | 79% |
| Total non-current liabilities | 37.3 | 53.4 | 70% |
| Total liabilities | 2,054.2 | 1,955.4 | 105% |
| Minority interest | 20.0 | 18.7 | 107% |
| Issued capital | 400.0 | 400.0 | 100% |
| Treasury stock | (48.2) | (48.2) | 100% |
| Reserves | 573.7 | 558.5 | 103% |
| Retained earnings | 70.8 | 38.5 | 184% |
| Net Profit for the period/year | 29.3 | 37.2 | 79% |
| Total equity | 1025.6 | 986.1 | 104% |
| Total equity, minorities and liabilities | 3,099.8 | 2,960.1 | 105% |

Lecico Egypt consolidated cash flow

| Cash flow statement (LE m) | 1H | | % |
|---|------------------|------------------|-------------|
| | 2018 | 2017 | 18/17 |
| Cash Flow from operating activities | | | |
| Net profit for the period | 29.3 | 32.3 | 91% |
| Depreciation and translation adjustment | 53.4 | 49.8 | 107% |
| Intangible assets amortization and translation adjustment | 0.3 | (0.3) | - |
| Income tax expense | 20.7 | 15.8 | 131% |
| Income tax paid | (10.3) | (11.2) | 92% |
| Deferred income tax | (4.8) | (0.8) | 591% |
| Prepaid rent expense | 0.0 | 0.1 | 0% |
| Capital gains | (50.9) | 0.0 | - |
| Provided provisions and translation adjustment | 17.5 | 14.2 | 123% |
| Reversal of expired provision | (0.0) | (0.8) | 5% |
| Employee share in net profit | 22.7 | 18.2 | 124% |
| Increase (Decrease) in minority interest | 1.3 | (2.9) | - |
| Increase (Decrease) in translation reserve | 10.2 | 10.9 | 94% |
| (Increase) Decrease in Inventory | (4.8) | (201.5) | 2% |
| (Increase) Decrease in Receivables | (134.4) | (39.8) | 338% |
| Increase (Decrease) in Payables | 37.5 | 54.5 | 69% |
| Utilized Provisions | (24.9) | (22.5) | 111% |
| Difference result from discounting of long term notes receivables | (2.0) | (1.5) | 132% |
| Net cash from operating activities | (39.4) | (85.5) | 46% |
| Cash flow from investing activities | | | |
| Additions to fixed assets and projects | (47.1) | (63.6) | 74% |
| Intangible assets | (0.00) | (0.00) | 43% |
| Net change in available for sale investments | (0.1) | 0.1 | - |
| Proceeds from sales of fixed assets | 61.01 | 0.74 | 8257% |
| Increase (Decrease) in long-term notes receivable | 6.9 | 5.9 | 118% |
| Net cash from investing activities | 20.7 | (56.9) | - |
| Cash flow from financing activities | | | |
| Increase (Decrease) in long-term loans | (10.0) | (23.8) | 42% |
| Increase (Decrease) in current portion of long term liabilities | (13.2) | (0.2) | 6758% |
| Employees Dividends paid | (35.7) | (32.6) | 110% |
| Net cash from financing activities | (58.9) | (56.6) | 104% |
| Net change in cash & cash equivalent during the period | (77.7) | (199.0) | 39% |
| Net cash and cash equivalent at beginning of the period | (1,129.2) | (827.0) | 137% |
| Net cash and cash equivalent at the end of the period | (1,206.8) | (1,026.0) | 118% |