



## Second Quarter 2017 Results

Alexandria, 14<sup>th</sup> August 2017 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for second quarter 2017.

### Highlights

#### 2Q 2017

- Lecico revenue up 69% to LE 586.0 million (61.3% from sanitary ware)
- Sanitary ware revenue up 82% to LE 359.2 million, volumes fell 3% to 1.2 million pieces (61.3% exports)
- Tile revenue up 54% to LE 212.6 million, volumes up 1% to 6.0 million square meters (12.0% exports)
- Brassware revenue up 21% to LE 14.2 million, sales volume fell 40% to 20,637 pieces
- EBIT profit of LE 47.7 million compared to EBIT loss of LE 19.4 million in 2Q 2016
- Net profit of LE 13.7 million compared to net loss of LE 39.1 million in 2Q 2016

#### 1H 2017

- Lecico revenue up 70% to LE 1,131.8 million (61.5% from sanitary ware)
- Sanitary ware revenue up 92% to LE 696.2 million, volumes up 4% to 2.4 million pieces (59.8% exports)
- Tile revenue up 44% to LE 398.4 million, volumes fell 8% to 11.5 million square meters (12.2% exports)
- Brassware revenue up 45% to LE 37.2 million, sales volume fell 28% to 54,480 pieces
- EBIT profit of LE 100.3 million compared to EBIT loss of LE 45.9 million in 1H 2016
- Net profit of LE 32.3 million compared to net loss of LE 80.4 million in 1H 2016

Lecico Egypt Chairman, Gilbert Gargour, commented “I am pleased to report another quarter of profitability with growth in revenues quarter-on-quarter offset at the gross profit level by the effect of Ramadan in June. Sales in Egypt continue to improve month after month from March onwards and our export sales are significantly up from the second quarter thanks to improved regional and European sales values.

“I believe the two quarters of profitability and this quarter’s performance – despite of the negative effect of Ramadan – show a good first step in our recovery from the losses incurred in the second half of 2015 and throughout last year.

“It was on the basis of our confidence in our turnaround and the fact that this was not reflected in our share price that the board took a decision in late July to buy 10% of the Company shares as treasury stock. The acquisition was successfully completed at the end of July and I think time will show it an excellent investment.

“The results for the first half are still far from our true earnings potential and I believe we will see a steady improvement in the coming quarters with external pressures on profitability – diesel, petrol and electricity price increases, higher borrowing rates in Egypt and added sales tax – offset by local price increases and a growing proportion of export sales.

“I thank all the shareholders who continued to believe in the company during the extremely challenging results of the last couple of years and I assure you everyone at Lecico is working to continue to deliver a strong recovery and return to earnings in the times ahead.”

Taher Gargour, Lecico Egypt CEO, added, “The second quarter results show continued profitability and quarter-on-quarter topline growth. Gross margins are down quarter-on-quarter as reduced production in Ramadan increased unit costs for the quarter.

“I am pleased with our reasonable control on overhead costs which saw sales and administration expenses falling proportionally and offsetting some of the drop in margins for the quarter.

“Net debt increased LE 140 million or 14% in the quarter as working capital grew quarter-on-quarter. We continued to build stocks of finished goods despite using the Ramadan slowdown as a good opportunity to reduce finished goods stocks which had been building the first five months of the year. In terms of receivables, we were able to reduce Egyptian market receivables quarter-on-quarter despite growing sales month-on-month but this was offset by growth in export receivables.

“Of course, the increased net debt has an even larger impact on our P&L as rates were hiked in 2Q 2017 by a further two percentage points (around a 15% increase in cost of money).

“As a result of all these factors, profitability and profits are down quarter-on-quarter and are lower than I would like. I believe profitability will improve quarter-on-quarter in the coming period as we return to full production as our profitability in April and May was better than the average for monthly profit in the first quarter and the reduction in production led to losses in the month of June.

“In light of another round of government-led cost hikes in July – diesel and petrol up over 50%, electricity up 46%, another interest rate hike of two percentage points; and a hike in sales tax – the Company is facing inflationary pressures and we will work to offset this with local price increases and the benefit of better export prices thanks to the recovery of the sterling and the euro against the dollar.

“We still have a lot to do to reach the levels of profitability I think we can achieve, and we will focus on continued sales growth, combined with cost reduction and working capital improvement as necessary parts of this. The floatation and related price increases in the local market have made a big difference to our financial health and we must build on this in the coming quarters.”

## Lecico Revenue and Profitability

Profit and loss statement highlights						
(LE m)	2Q		%	1H		%
	2017	2016	17/16	2017	2016	17/16
Sanitary ware	359.2	197.1	182%	696.2	363.4	192%
Tiles	212.6	137.8	154%	398.4	276.6	144%
Brassware	14.2	11.7	121%	37.2	25.6	145%
<b>Net sales</b>	<b>586.0</b>	<b>346.6</b>	<b>169%</b>	<b>1,131.8</b>	<b>665.6</b>	<b>170%</b>
Sanitary ware/net sales (%)	61.3%	56.9%	4.4%	61.5%	54.6%	6.9%
Cost of sales	(454.7)	(316.0)	144%	(866.6)	(607.5)	143%
Cost of sales/net sales (%)	(77.6%)	(91.2%)	(13.6%)	(76.6%)	(91.3%)	(14.7%)
<b>Gross profit</b>	<b>131.3</b>	<b>30.6</b>	<b>429%</b>	<b>265.2</b>	<b>58.1</b>	<b>456%</b>
Gross profit margin (%)	22.4%	8.8%	13.6%	23.4%	8.7%	14.7%
Distribution and administration (D&A)	(77.3)	(52.2)	148%	(152.4)	(98.2)	155%
D&A/net sales (%)	(13.2%)	(15.1%)	(1.9%)	(13.5%)	(14.8%)	(1.3%)
Net other operating income/ (expense)	(6.3)	2.2	-	(12.4)	(5.8)	214%
Net other operating income/ (expense) net sales (%)	(1.1%)	0.6%	-	(1.1%)	(0.9%)	0.2%
<b>EBIT</b>	<b>47.7</b>	<b>(19.4)</b>	-	<b>100.3</b>	<b>(45.9)</b>	-
EBIT margin (%)	8.1%	-	-	8.9%	-	-
<b>Net profit</b>	<b>13.7</b>	<b>(39.1)</b>	-	<b>32.3</b>	<b>(80.4)</b>	-
Net profit margin (%)	2.3%	-	-	2.9%	-	-

### 2Q 2017: Continued recovery but Ramadan effect reduces profits quarter-on-quarter

Lecico continued to make profits for the second quarter in a row despite the impact of the month of Ramadan on costs reducing profits quarter-on-quarter.

Lecico has seen weaker demand year-on-year in Egyptian sanitary ware and brassware sales, while tiles rose slightly. Overall sales volumes were lower year-on-year but this was offset by an improvement in prices in all markets following the floatation of the Egyptian Pound.

Sanitary ware exports to UK, Europe and to OEM customers all were up year-on-year, offsetting the reduction in sales in Egypt and in regional exports. Average prices in sanitary ware improved year-on-year reflecting the cumulative effect of price increases over last year and the impact of floatation of the Egyptian Pound on average export prices.

Tile volumes show a slight improvement in sales volumes over the same period last year. Average prices in tiles improved year-on-year reflecting the cumulative effect of price increases done at the end of last year and in January 2017 following the floatation of the Egyptian Pound.

Lecico revenues for the second quarter increased by 69% year-on-year to LE 586.0 million (2Q 2016: LE 346.6 million). Quarter-on-Quarter revenues increased by 7% (1Q 2017: LE 545.8 million) despite lower volumes in sanitary and brassware segments due to the price increases done locally and the inflation in the price of all exports.

Lecico's cost of goods sold rose 44% year-on-year to LE 454.7 million (2Q 2016: LE 316.0 million) as a result of the impact of floatation on hard currency linked costs and due to general high inflation in Egyptian Pound based costs.

Lecico gross profit for the second quarter increased 329% year-on-year to LE 131.3 million (2Q 2016: LE 30.6 million). Lecico's gross profit margin was 22.4% compared to 8.8% in the same period last year. Quarter-on-quarter gross profit decreased by 2.0% (1Q 2017: LE 133.9 million) and Lecico's gross margin decreased 2.1 percentage points (1Q 2017: 24.5%).

In absolute terms, distribution and administration (D&A) expenses increased significantly by 48% to LE 77.3 million, but as a percentage points of net sales proportional D&A expenses were down by 1.9 percentage points to 13.2% compared to 15.1% in the second quarter of 2016.

The company reported LE 6.3 million in net other operating expenses compared to net other operating income of LE 2.2 million in the second quarter of 2016. The operating income in 2Q 2016 was primarily due to LE 2.5 million reversals of expired provisions.

The company reported an operating profit (EBIT) of LE 47.7 million for the quarter compared to an operating loss of LE 19.4 million in the same period last year. Lecico's EBIT margin for the quarter was 8.1%. Quarter-on-quarter EBIT decreased by 9% (1Q 2017: LE 52.6 million) and Lecico's EBIT decreased 1.5 percentage points (1Q 2017: 9.6%).

Net financing expenses rose 5% year-on-year during the second quarter of 2017 to reach LE 26.4 million compared LE 25.1 million to the same period in 2016 due to a significant increase of interest rates from Central Bank of Egypt and an increase in gross debt primarily as a result of the impact of the floatation on Lecico's foreign currency borrowings.

The increase in finance expense was offset by an exchange gain LE 7.7 million in the quarter compared to exchange loss LE 1.4 million in the second quarter of 2016

Lecico reported net tax charges of LE 7.1 million versus a tax credit of LE 1.1 million in the second quarter of 2016 due to tax charges of LE 4 million on subsidiaries' dividends.

The company reported net profit LE 13.7 million for the second quarter compared to net loss LE 39.1 million for the same period last year. Lecico's net margin for the quarter was 2.3%. Quarter-on-quarter net profit was down 27% (1Q 2017: LE 18.6 million) primarily as a result of the impact of reduced production in Ramadan.

### **1H 2017: Increased revenue and improved gross margins return Lecico to net profitability**

Lecico revenues for the first half were increased by 70% year-on-year to LE 1,131.8 million reflecting the cumulative effect of price increases done at the end of last year as well as the first quarter following the floatation of the Egyptian Pound. Sales volumes in sanitary ware improved year-on-year due to growth in exports while tiles and brassware sales volumes were down year-on-year.

As a result, gross profit increased by 356% to reach LE 265.2 million and the Company's gross profit margin up 14.7 percentage points to 23.4% compared to 8.7% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses increased by 55% to LE 152.4 million, but as a percentage points of net sales proportional D&A expenses were down by 1.3 percentage points to 13.5% compared to 14.8% in the first half of 2016.

The company reported LE 12.4 million in net other operating expenses compared to net other operating expenses of LE 5.8 million in the first half of 2016.

The company reported an operating profit (EBIT) of LE 100.3 million for the first half compared to an operating loss of LE 45.9 million in the same period last year. Lecico's EBIT margin for the first half was 8.9%.

Financing expenses were increased 41% year-on-year during 2017 to reach LE 66.1 million compared to the same period in 2016 due to increase in borrowings and significantly higher interest rates for the Egyptian Pound.

Lecico recorded net tax charges of LE 15.4 million versus LE 3.8 million tax charges for the same period last year. The tax charge in the first half 2017 includes LE 4 million taxes on inter-company dividends.

Lecico reported net profit of LE 32.3 million compared to net loss of LE 80.4 million in the same period last year. Lecico's net margin for the first half of 2017 was 3%.

## Segmental analysis

### Sanitary ware

**2Q:** Sanitary ware sales volume decreased by 3% to 1.2 million pieces (down 31,450 pieces) Sales in Egypt decreased by 7% (down 32,574 pieces), sales in Lebanon increased by 2% (up 692 pieces) and sales in export are as the same period last year.

Quarter-on-quarter sales volumes decreased by 6% (down 74,758 pieces) largely as a result of a 14.8% drop in sales in Egypt (down 72,663 pieces). Sales in Lebanon increased by 27.9% (up 8,233 pieces), while export volumes decreased by 1.4% (down 10,327 pieces).

Average sanitary ware prices were up 87% year-on-year to LE 305.2 per piece reflecting the cumulative effect of price increases over last year and in January 2017, as well as the impact of floatation of the Egyptian Pound on average export prices. Quarter-on-quarter average prices were up 13.4% (1Q 2017: LE 269.1) as a result of the full impact of floatation on the quarter, an increased percentage of higher-priced export sales in the quarter and local prices increases done in early 2017.

Revenues rose 82% year-on-year at LE 359.2 million (2Q 2016: LE 197.1 million). Quarter-on-quarter revenues rose 6.6% (1Q 2017: LE 336.9 million) despite lower volumes as a result of better pricing.

Average cost of sales rose 50% year-on-year at LE 203.4 per piece due to higher costs following the floatation of the Egyptian Pound and various price increases enacted by the government in electricity, fuel and sales tax. Quarter-on-quarter the average cost of sales rose 17% primarily due to reduced production in June as a result of Ramadan.

Gross profit increased 265% to LE 119.8 million (2Q 2016: LE 32.8 million) and the margin improved 16.7 percentage points to 33.3% (2Q 2016: 16.7%) in the same period last year. Quarter-on-quarter gross profit decreased 0.3% (1Q 2017: LE 120.1 million) and the margin dropped 2.4 percentage points (1Q 2017: 35.7%) primarily as a result of the impact of higher costs of production in June.

Sanitary ware segmental analysis	2Q		%	1H		%
	2017	2016	17/16	2017	2016	17/16
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	418	451	93%	909	985	92%
Lebanon (000 pcs)	38	37	102%	67	74	91%
Export (000 pcs)	721	721	100%	1,453	1,274	114%
<b>Total sanitary ware volumes (000 pcs)</b>	<b>1,177</b>	<b>1,209</b>	<b>97%</b>	<b>2,429</b>	<b>2,333</b>	<b>104%</b>
Exports/total sales volume (%)	61.3%	59.6%	1.6%	59.8%	54.6%	5.2%
<b>Sanitary ware revenue (LE m)</b>	<b>359.2</b>	<b>197.1</b>	<b>182%</b>	<b>696.2</b>	<b>363.4</b>	<b>192%</b>
Average selling price (LE/pc)	305.2	163.1	187%	286.6	155.8	184%
Average cost per piece (LE/pc)	203.4	135.9	150%	187.8	130.3	144%
Sanitary ware cost of sales	(239.4)	(164.3)	146%	(456.2)	(303.9)	150%
Sanitary ware gross profit	119.8	32.8	365%	239.9	59.5	403%
Sanitary ware gross profit margin (%)	33.3%	16.7%	16.7%	34.5%	16.4%	18.1%

**1H:** Sanitary ware sales volume increased by 4% to 2.4 million pieces (up 96,042 pieces). Sales in Export increased by 14% (up 178,667 pieces). Growth in export came from UK, Europe, Africa and OEM markets. Sales in Egypt decreased by 8% (down 75,936 pieces), sales in Lebanon decreased by 9% (down 6,690 pieces).

Average sanitary ware prices were up 84% year-on-year to LE 286.6 per piece reflecting the cumulative effect of price increases over last year and in January 2017, as well as the impact of floatation of the Egyptian Pound on average export prices.

Revenues were up 92% year-on-year at LE 696.2 million. Exports represented 59.8% of volumes compared to 54.6% in 2016.

Average cost of sales rose 44% at LE 187.8 per piece as a result of the impact of floatation on hard currency linked costs and due to general high inflation in Egyptian Pound based costs.

Gross profit increased 303% to LE 239.9 million (1H 2016: LE 59.5 million) and the margin improved 18.1 percentage points to 34.5% (1H 2016: 16.4%).

## **Tiles**

**2Q:** Tile sales volumes increased by 1% year-on-year (77,084 square meters) to reach 6.0 million square meters in the second quarter of 2017. Sales in Egypt increased by 4% (206,629 square meters), sales in Lebanon decreased by 43% (down 105,507 square meters) and sales in export decreased by 3% (down 24,039 square meters).

Quarter-on-quarter sales volumes in all markets increased by 10.8% (up 587,196 square meters) mainly as a result of 11.1% growth in sales in Egypt (up 517,782 square meters). Sales in Lebanon increased by 19.5% (up 22,638 square meters) and export volumes increased by 6.9% (up 46,776 square meters).

Average net prices rose 52% at LE 35.2 per square meter reflecting the cumulative effect of price increases over last year and in January 2017 and the impact of floatation of the Egyptian Pound on average export prices. Quarter-on-quarter average prices were up 3.2% (1Q 2017: LE 34.1).

Tiles revenues were up 54% year-on-year at LE 212.6 million in the second quarter of 2017 (2Q 2016: LE 137.8 million). Quarter-on-quarter revenues were up 14.4% (1Q 2017: LE 185.8 million).

Average costs rose 42% year-on-year to reach LE 34.2 per square meter reflecting the cumulative effect of high inflation and government mandated cost increases over the last year and the impact of floatation of the Egyptian Pound on average imported input costs. Quarter-on-quarter average costs rose 2% (1Q 2017: LE 33.6 per square meter) as result of reduced production and diseconomies of scale in Ramadan.

Lecico reported a gross profit in the tile segment of LE 6.5 million for the second quarter compared to a gross loss of LE 5.3 million in the same period last year. The gross margin in the second quarter 2017 was 3.1%. Quarter-on-quarter gross profit increased 109% (1Q 2017: LE 3.1 million) and the margin rose 1 percentage point (1Q 2017: 2%) as a result of higher sales volumes and average prices.

Tile segmental analysis	2Q		%	1H		%
	2017	2016		2017	2016	
			17/16			17/16
Tile volumes (000 sqm)						
Egypt (000 sqm)	5,171	4,964	104%	9,825	10,145	97%
Lebanon (000 sqm)	139	245	57%	255	555	46%
Export (000 sqm)	724	748	97%	1,402	1,760	80%
<b>Total tile volumes (000 sqm)</b>	<b>6,034</b>	<b>5,957</b>	<b>101%</b>	<b>11,481</b>	<b>12,460</b>	<b>92%</b>
Exports/total sales volume (%)	12.0%	12.6%	(0.6%)	12.2%	14.1%	(1.9%)
<b>Tile revenue (LE m)</b>	<b>212.6</b>	<b>137.8</b>	<b>154%</b>	<b>398.4</b>	<b>276.6</b>	<b>144%</b>
Average selling price (LE/sqm)	35.2	23.1	152%	34.7	22.2	156%
Average cost per sqm (LE/sqm)	34.2	24.0	142%	33.9	22.9	148%
Tile cost of sales	(206.1)	(143.1)	144%	(388.9)	(284.9)	136%
Tile gross profit	6.5	(5.3)	-	9.6	(8.3)	-
Tile gross profit margin (%)	3.1%	-	-	2.4%	-	-

**1H:** Tile sales volumes decreased by 8% year-on-year (down 978,550 square meters) to reach 11.5 million square meters. Sales in Egypt decreased by 3% (down 320,649 square meters), sales in Lebanon decreased by 54% (down 299,694 square meters) and sales in export decreased by 20% (down 358,207 square meters) as a result of the political situation in Libya and the economic constraints in other parts of the Middle East.

Average net prices rose 56% at LE 34.7 per square meter reflecting the cumulative effect of price increases over last year and in January 2017 and the impact of floatation of the Egyptian Pound on average export prices.

Tiles revenues were up 44% year-on-year at LE 398.4 million in the first half of 2017 (1H 2016: LE 276.6 million).

Average costs rose 48% year-on-year to reach LE 33.9 per square meter as a result of the impact of floatation on hard currency linked costs and due to general high inflation in Egyptian Pound based costs.

First half reported a tile gross profit of LE 9.6 million compared to a gross loss of LE 8.3 million in the first half of 2016. The gross margin in the first half 2017 was 2%.

## Brassware

**2Q:** Sales volumes for second quarter decreased by 40% to reach 20,637 pieces compared to 34,556 pieces in the same period last year. Quarter-on-quarter sales volumes were down 39% (1Q 2017: 33,843 pieces).

Average net prices rose 103% to reach LE 687.1 per piece (2Q 2016: LE 338.0) due to significant price increases done to adjust the increase in input and production costs as a result of the floatation. Quarter-on-quarter prices rose 1.1% (1Q 2017: LE 679.4).

Revenue for the quarter was up 21% year-on-year to reach LE 14.2 million (2Q 2016: LE 11.7 million). Quarter-on-quarter revenue was down 38.3% (1Q 2017: LE 23.0 million) with higher

prices offset by lower volumes. Brassware's percentage of consolidated revenues 2.4%, while the percentage for the same period last year was 3.4% of Lecico sales.

Average cost per piece rose 78% to LE 444.6 per piece reflecting changing mix and the result of the impact of floatation on imported inputs. Quarter-on-quarter average cost per piece rose 21% (1Q 2017: LE 364.7 per piece) with significantly lower sales and production numbers leading to some diseconomies of scale.

Gross profit increased 64% to LE 5 million (2Q 2016: LE 3 million) and the margin improved 9.2 percentage points to 35.3% (2Q 2016: 26.1%). Quarter-on-quarter gross profit decreased 53% (1Q 2017: LE 10.7 million) and the gross margin fell 11 percentage points (1Q 2017: 46.3%).

Brassware's percentage of consolidated gross profits fell to 3.8% of Lecico gross profits (2Q 2016: 10%) due to the improvement in profitability for Lecico's other segments.

Brassware segmental analysis	2Q		%	1H		%
	2017	2016	17/16	2017	2016	17/16
Brassware volumes ( pcs)						
Egypt ( pcs)	20,637	34,188	60%	54,480	74,975	73%
Export ( pcs)	-	368	0%	-	368	0%
<b>Total brassware volumes ( pcs)</b>	<b>20,637</b>	<b>34,556</b>	<b>60%</b>	<b>54,480</b>	<b>75,343</b>	<b>72%</b>
Exports/total sales volume (%)	0.0%	1.1%	(1.1%)	0.0%	0.5%	(0.5%)
<b>Brassware revenue (LE m)</b>	<b>14.2</b>	<b>11.7</b>	<b>121%</b>	<b>37.2</b>	<b>25.6</b>	<b>145%</b>
Average selling price (LE/pc)	687.1	338.0	203%	682.3	340.1	201%
Average cost per piece (LE/pc)	444.6	249.8	178%	395.0	247.9	159%
Brassware cost of sales	(9.2)	(8.6)	106%	(21.5)	(18.7)	115%
Brassware ware gross profit	5.0	3.0	164%	15.7	6.9	225%
Brassware gross profit margin (%)	35.3%	26.1%	9.2%	42.1%	27.1%	15.0%

**1H:** Sales volumes for 2017 decreased by 28% to reach 54,480 pieces compared to 75,343 pieces for same period of 2016.

Average net prices rose 101% to reach LE 682.3 per piece (1H 2016: LE 340.1) due to product mix and significant price increases done to adjust the increase in input and production costs as a result of the floatation.

Revenue for 2017 was up 45% year-on-year to reach LE 37.2 million (1H 2016: LE 25.6 million). Brassware's percentage of consolidated revenues 3.3%, while the percentage for the same period last year was 3.8% of Lecico sales.

Average cost per piece rose 59% to LE 395.6 per piece reflecting changing mix and the result of the impact of floatation on imported inputs.

Gross profit increased 125% to LE 15.7 million (1H 2016: LE 6.9 million) and the margin improved 15.0 percentage points to 42.1% (1H 2016: 27.1%).

## **Financial Position**

The value of Lecico's assets increased by 9% at the end of June 30, 2017 to reach LE 3,033.5 million.

Total liabilities were up 11% at LE 1,992.8 million.

Gross debt increased 12% or LE 162.7 million to reach LE 1,481.8 million compared to LE 1,319 million at the end of 2016.

Net debt rose 19% or LE 175.1 million to reach LE 1,116.7 million compared to LE 941.7 million at the end of 2016.

Net debt to equity increased 14% to reach 1.08x compared to 0.95x at the end of 2016.

## **Recent developments and outlook**

**Outlook for the rest of 2017:** Lecico is expected to continue to deliver profits for the rest of the year. The Company expects to see continued sanitary ware export growth and to benefit from the effect of the floatation on export business and the prices increases done in the local market following the floatation. Offsetting these positives is continued softness in Egyptian and regional markets.

Sales in Egypt have shown an improvement quarter-on-quarter and this looks set to continue in 3Q 2017 supporting continued revenue growth.

In light of the floatation, the Company has seen a sharp increase in the value of its exports, costs and assets. In late 2016 and early 2017, the Company pushed through several price increases in the local market to cover the increase in costs expected from the floatation.

In 3Q 2017, the Company will see the impact of several cost increases enacted in interest rates, fuel and electricity costs and resultant general inflation. At the same time, the Company is raising prices in Egypt to offset this in July and August and is expecting a benefit from increased quarter-on-quarter production following the impact of Ramadan in 2Q 2017.

Depending on how the floatation continues, at what rate it stabilizes, where interest rates and local inflation goes and what effect this has on domestic costs and consumption over the rest of the year, the Company should see an improvement on the results of the first half in the coming quarters.

In spite of the overall positive effect of the floatation and increases in local prices, the challenges facing the Company 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.

Lecico management expects to deliver bottom line profits for the remainder of 2017 and to see continued growth in export volumes and revenues as the year progresses.

## **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 and Lebanon, 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		%
	2017	2016	17/16	2017	2016	17/16
<b>Net sales</b>	<b>586.0</b>	<b>346.6</b>	<b>169%</b>	<b>1,131.8</b>	<b>665.6</b>	<b>170%</b>
Cost of sales	(454.7)	(316.0)	144%	(866.6)	(607.5)	143%
<b>Gross profit</b>	<b>131.3</b>	<b>30.6</b>	<b>429%</b>	<b>265.2</b>	<b>58.1</b>	<b>456%</b>
Gross margin (%)	22.4%	8.8%	13.6%	23.4%	8.7%	14.7%
Distribution expenses	(36.0)	(22.6)	159%	(70.7)	(38.4)	184%
Administrative expenses	(41.3)	(29.6)	140%	(81.7)	(59.8)	137%
Other Operating income	4.1	4.4	92%	8.1	7.1	114%
Other Operating expenses	(10.3)	(2.3)	459%	(20.6)	(12.9)	159%
<b>Operating profit (loss) (EBIT)</b>	<b>47.7</b>	<b>(19.4)</b>	<b>-</b>	<b>100.3</b>	<b>(45.9)</b>	<b>-</b>
Operating (EBIT) margin (%)	8.1%	-	-	8.9%	-	-
Investment revenues	0.0	3.0	0%	0.0	3.0	0%
Finance income	10.0	0.0	55346%	15.0	11.7	128%
Finance expense	(36.4)	(25.1)	145%	(66.1)	(46.9)	141%
<b>Profits (loss) before tax and minority (PBTM)</b>	<b>21.3</b>	<b>(41.6)</b>	<b>-</b>	<b>49.2</b>	<b>(78.1)</b>	<b>-</b>
PBTM margin (%)	3.6%	-	-	4.3%	-	-
Income tax	(7.6)	(0.4)	1843%	(15.8)	(6.5)	242%
Deferred tax	0.5	1.6	31%	0.4	2.7	13%
<b>Net Profit (loss) after tax (NPAT)</b>	<b>14.2</b>	<b>(40.4)</b>	<b>-</b>	<b>33.8</b>	<b>(81.9)</b>	<b>-</b>
NPAT margin (%)	2.4%	-	-	3.0%	-	-
Minority interest	(0.5)	1.3	-	(1.4)	1.5	-
<b>Net Profit (loss)</b>	<b>13.7</b>	<b>(39.1)</b>	<b>-</b>	<b>32.3</b>	<b>(80.4)</b>	<b>-</b>
Net profit margin (%)	2.3%	-	-	2.9%	-	-

## Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Jun-17	31-Dec-16	6M 17/FY16 (%)
Cash and short-term investments	365.1	377.4	97%
Inventory	1092.3	889.8	123%
Receivables	752.9	690.7	109%
Related parties -debit balances	44.7	66.3	67%
<b>Total current assets</b>	<b>2,254.9</b>	<b>2,024.2</b>	<b>111%</b>
Net fixed assets	658.9	689.2	96%
Intangible assets	28.9	28.6	101%
Prepaid long-term rent	0.0	0.2	25%
Projects in progress	57.1	13.7	418%
Available for sale investments	13.5	13.6	99%
Long-term notes receivable	20.2	24.6	82%
<b>Total non-current assets</b>	<b>778.7</b>	<b>769.8</b>	<b>101%</b>
<b>Total assets</b>	<b>3,033.5</b>	<b>2,794.0</b>	<b>109%</b>
Banks overdraft	1391.1	1204.4	116%
Current portion of long-term liabilities	47.1	47.3	100%
Trade and notes payable	207.7	179.8	116%
Other current payable	253.0	236.6	107%
Related parties -credit balances	2.5	2.1	118%
Provisions	13.0	19.6	67%
<b>Total current liabilities</b>	<b>1,914.5</b>	<b>1,689.8</b>	<b>113%</b>
Long-term loans	43.6	67.3	65%
Other long-term liabilities	0.0	0.0	-
Provisions	9.8	10.7	91%
Deferred tax	25.0	25.8	97%
<b>Total non-current liabilities</b>	<b>78.3</b>	<b>103.8</b>	<b>75%</b>
<b>Total liabilities</b>	<b>1,992.8</b>	<b>1,793.6</b>	<b>111%</b>
<b>Minority interest</b>	<b>2.4</b>	<b>5.2</b>	<b>45%</b>
Issued capital	400.0	400.0	100%
Reserves	576.8	579.7	99%
Retained earnings	29.3	65.6	45%
Net Profit (Loss) for the period / year	32.3	(50.1)	-
<b>Total equity</b>	<b>1038.4</b>	<b>995.2</b>	<b>104%</b>
<b>Total equity, minorities and liabilities</b>	<b>3,033.5</b>	<b>2,794.0</b>	<b>109%</b>

## Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	1H		%
	2017	2016	
<b>Cash Flow from operating activities</b>			
Net profit for the period	32.3	(80.4)	-
Depreciation and translation adjustment	49.8	46.7	107%
Intangible assets amortization and translation adjustment	(0.3)	(0.3)	100%
Income tax expense	15.8	6.5	242%
Income tax paid	(11.2)	(9.1)	123%
Deferred income tax	(0.8)	(2.7)	30%
Prepaid rent expense	0.1	0.1	100%
Capital gains	0.0	(0.8)	0%
Provided provisions and translation adjustment	14.2	10.2	139%
Reversal of expired provision	(0.8)	(3.7)	23%
Employee share in net profit	18.2	16.9	108%
Increase (Decrease) in minority interest	(2.9)	(0.6)	520%
Increase (Decrease) in translation reserve	10.9	31.8	34%
(Increase) Decrease in Inventory	(201.5)	20.1	-
(Increase) Decrease in Receivables	(39.8)	(87.9)	45%
Increase (Decrease) in Payables	54.5	27.6	197%
Utilized Provisions	(22.5)	(4.1)	549%
Increase (Decrease) in Other Long Term Liabilities	0.0	(0.2)	0%
Difference result from discounting of long term notes receivables	(1.5)	6.2	-
<b>Net cash from operating activities</b>	<b>(85.5)</b>	<b>(23.6)</b>	<b>362%</b>
<b>Cash flow from investing activities</b>			
Additions to fixed assets and projects	(63.6)	(30.9)	206%
Intangible assets	(0.0)	(0.1)	0%
Net change in available for sale investments	0.1	(0.8)	-
Proceeds from sales of fixed assets	0.7	1.9	38%
Increase (Decrease) in long-term notes receivable	5.9	(32.1)	-
<b>Net cash from investing activities</b>	<b>(56.9)</b>	<b>(61.9)</b>	<b>92%</b>
<b>Cash flow from financing activities</b>			
Increase (Decrease) in long-term loans	(23.8)	10.0	-
Increase (Decrease) in current portion of long term liabilities	(0.2)	1.5	-
Employees Dividends paid	(32.6)	(29.8)	110%
<b>Net cash from financing activities</b>	<b>(56.6)</b>	<b>(18.3)</b>	<b>310%</b>
<b>Net change in cash &amp; cash equivalent during the period</b>	<b>(199.0)</b>	<b>(103.8)</b>	<b>192%</b>
Net cash and cash equivalent at beginning of the period	(827.0)	(658.7)	126%
<b>Net cash and cash equivalent at the end of the period</b>	<b>(1,026.0)</b>	<b>(762.5)</b>	<b>135%</b>