



## Full Year 2017 Results

**Alexandria, 6<sup>th</sup> March 2018** – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for 2017.

### Highlights

#### 4Q 2017

- Lecico revenue up 30% to LE 641.1 million (63.1% from sanitary ware)
- Sanitary ware revenue up 46% to LE 404.4 million, volumes fell 5% to 1.32 million pieces (65.3% exports)
- Tile revenue up 12% to LE 216.0 million, volumes fell 18% to 5.7 million square meters (22.6% exports)
- Brassware revenue fell 15% to LE 20.7 million, sales volume fell 39% to 26,070 pieces
- EBIT profit of LE 45.8 million compared to EBIT profit of LE 12.3 million in 4Q 2016
- Net profit of LE 10.1 million compared to net profit of LE 79.5 million in 4Q 2016 (4Q 2016 profit includes LE 110.3 million exchange gain in November 2016)

#### FY 2017

- Lecico revenue up 61% to LE 2,406.5 million (62.2% from sanitary ware)
- Sanitary ware revenue up 80% to LE 1,497.3 million, volumes up 1% to 5.1 million pieces (61.1% exports)
- Tile revenue up 39% to LE 830.7 million, volumes fell 8% to 23.2 million square meters (15.6% exports)
- Brassware revenue up 25% to LE 78.5 million, sales volume fell 29% to 108,631 pieces
- EBIT profit of LE 181.9 million compared to EBIT loss of LE 48.3 million in 2016
- Net profit of LE 37.2 million compared to net loss of LE 50.1 million in 2016

Lecico Egypt Chairman, Gilbert Gargour, commented “Lecico returned to profit in 2017 thanks to the improved profitability of exports and the restructuring of tile operations to reduce capacity with a more optimized cost structure for this reduced capacity. The fourth quarter showed a good quarter-on-quarter improvement thanks to strong growth in exports of tiles and sanitary ware.

“We are still in an extremely challenging period: local market demand is weak and competition for market share aggressive and our margins are thin and susceptible to shocks. You can see this in the squeeze on our operations in the second half of the year as domestic inflation and higher interest rates ate into the benefits of the currency floatation.

“I am optimistic that despite these challenges we can build on the results of 2017 in the coming year. In the local market, inflation is already coming down from the peak of last year and we can expect interest rate reductions to follow. Both should stimulate local consumption and have a material effect on our cost structure as well. In exports, we anticipate a record year with continued strong growth in Europe as well. Our regional market exports should also improve as we have seen a small but marked improvement in Libya and we continue to penetrate new markets for our tiles.

“I thank all the shareholders who continued to believe in the company and see value in her during the extremely challenging last couple of years. The results of 2017 are a small first step towards rewarding that belief and 2018 should be another. We cannot propose a cash dividend on these results as we are still not generating cash in the year and our debt remains too high. However, we will be proposing at our AGM that the treasury shares we acquired in 2017 be distributed to shareholders, effectively increasing every shareholder’s stake in the Company by 10%.”

Taher Gargour, Lecico Egypt CEO, added, “Quarter-on-quarter, the fourth quarter shows revenue and margin growth coming from better average pricing for both tile and sanitary ware as the percentage of exports grew and we raised prices in the local market to offset cost increases in the previous quarter.

“Overall sales volumes in sanitary ware were flat and tile sales were down 5% quarter-on-quarter with the best quarterly export volumes in several years offset by weakness in the local market.

“During the quarter, Lecico’s operations were cash flow negative with some buildup of inventories and non-current assets offsetting the benefit of a reduction in receivables. Net debt increased LE 32 million in the quarter. Despite this, I am fairly positive about working capital management as I expect inventories to build up slightly around the seasonally slow winter months and I think we are making real progress in controlling receivables overall.

“It has been a relief to see a return to profitability in 2017 after several years of significant losses. Margins are thin and the recovery is accordingly fragile, but we have reason to be hopeful that this will continue to improve.

“Looking forward, the local market has been extremely slow in the first weeks of 2018 but I expect a stronger overall market for the year as dropping inflation growth and interest rates start to filter through to consumers.

“Exports should likewise see reasonable growth over the year as sanitary ware exports to Europe are expected to grow and regional and African sales of both sanitary ware and tiles have shown improvement in late 2017 and early trading for 2018.

“We still have a lot to do to reach the levels of cash flow and sustainable 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. Although the operating environment remains challenging and we will continue to have to balance between P&L and balance sheet, I am confident we can build on the recovery seen in 2017 in the years ahead.”

## Lecico Revenue and Profitability

Profit and loss statement highlights						
(LE m)	4Q		%	FY		%
	2017	2016	17/16	2017	2016	17/16
Sanitary ware	404.4	276.5	146%	1497.3	834.0	180%
Tiles	216.0	193.4	112%	830.7	599.5	139%
Brassware	20.7	24.2	85%	78.5	63.0	125%
<b>Net sales</b>	<b>641.1</b>	<b>494.1</b>	<b>130%</b>	<b>2,406.5</b>	<b>1,496.4</b>	<b>161%</b>
Sanitary ware/net sales (%)	63.1%	56.0%	7.1%	62.2%	55.7%	6.5%
Cost of sales	(499.8)	(421.6)	119%	(1,874.5)	(1,343.1)	140%
Cost of sales/net sales (%)	(78.0%)	(85.3%)	(7.4%)	(77.9%)	(89.8%)	(11.9%)
<b>Gross profit</b>	<b>141.3</b>	<b>72.5</b>	<b>195%</b>	<b>531.9</b>	<b>153.3</b>	<b>347%</b>
Gross profit margin (%)	22.0%	14.7%	7.4%	22.1%	10.2%	11.9%
Distribution and administration (D&A)	(90.0)	(57.5)	156%	(323.7)	(204.4)	158%
D&A/net sales (%)	(14.0%)	(11.6%)	2.4%	(13.4%)	(13.7%)	(0.2%)
Net other operating income/ (expense)	(5.5)	(2.6)	208%	(26.4)	2.8	(951%)
Net other operating income/ (expense) net sales (%)	(0.9%)	(0.5%)	0.3%	(1.1%)	0.2%	-
<b>EBIT</b>	<b>45.8</b>	<b>12.3</b>	<b>372%</b>	<b>181.9</b>	<b>(48.3)</b>	-
EBIT margin (%)	7.1%	2.5%	4.7%	7.6%	-	-
<b>Net profit (loss)</b>	<b>10.1</b>	<b>79.5</b>	<b>13%</b>	<b>37.2</b>	<b>(50.1)</b>	-
Net profit margin (%)	1.6%	16.1%	(14.5%)	1.5%	-	-

### 4Q 2017: Increased exports, improved margins and tax accrual reversal drive net profits

Lecico margins recovered quarter-on-quarter as export growth and local prices increases improved operating margins over 3Q 2017 and higher finance expenses were offset by reversal of excess tax accruals taken during the previous quarter.

Sanitary ware exports to UK, Germany, Africa and to OEM customers all were up year-on-year, offsetting the reduction in sales in Egypt. Average prices in sanitary ware improved year-on-year reflecting the cumulative effect of price increases over the last year and the increased percentage of higher priced exports sales.

Tile exports rose significantly year-on-year, but this was offset by the reduction in sales in Egypt and Lebanon. Average prices in tiles improved year-on-year reflecting the cumulative effect of local price increases done over the course of the year and the increased percentage of higher priced exports sales.

Lecico revenues for the fourth quarter increased by 30% year-on-year to LE 641.1 million (4Q 2016: LE 494.1 million) as a result of higher export volumes in sanitary and tiles segments, the price increase done locally over the year and the inflation in the price of all exports as the currency floated only in the middle of 4Q 2016.

Quarter-on-Quarter revenues increased by 1% (3Q 2017: LE 633.6 million) with volumes flat or lower but prices improved due to a local price increase in October and the increased proportion of higher average price exports.

Lecico's cost of goods sold rose 19% year-on-year to LE 499.8 million (4Q 2016: LE 421.6 million) primarily as a result of the change in the value of the Egyptian Pound and the subsequent high inflation in Egypt since the floatation in November 2016.

Lecico's gross profit for the fourth quarter increased 95% year-on-year to LE 141.3 million (4Q 2016: LE 72.5 million). Lecico's gross profit margin was 22% compared to 14.7% in the same period last year.

Quarter-on-quarter gross profit increased by 13% (3Q 2017: LE 125.5 million) and Lecico's gross margin increased 2.2 percentage points (3Q 2017: 19.8%).

In absolute terms, distribution and administration (D&A) expenses increased significantly by 56% to LE 90 million, as well as the percentage points of net sales proportional D&A expenses were up by 2.4 percentage points to 14% compared to 11.6% in the fourth quarter of 2016.

The company reported LE 5.5 million in net other operating expenses compared to net other operating expenses of LE 2.6 million in the fourth quarter of 2016.

The company reported an operating profit (EBIT) of LE 45.8 million for the quarter compared to an operating profit of LE 12.3 million in the same period last year. Lecico's EBIT margin for the quarter was 7.1% compared to 2.5% in the same period last year.

Quarter-on-quarter EBIT increased by 28% (3Q 2017: LE 35.8 million) and Lecico's EBIT increased 1.5 percentage points (3Q 2017: 5.6%).

Excluding gains from currency exchange variances resulted from Egyptian Pound's floatation in 4Q 2016, net financing expenses rose 46% year-on-year during the fourth quarter of 2017 to reach LE 43.4 million compared to LE 29.7 million in the same period in 2016 due to a doubling of domestic interest rates and an increase in gross debt primarily as a result of the impact of the floatation on Lecico's foreign currency borrowings.

Lecico reported net tax credit of LE 4.7 million versus a tax charge of LE 12.2 million in the fourth quarter of 2016.

The company reported net profit LE 10.1 million for the fourth quarter compared to net profit LE 79.5 million for the same period last year. The significant profit in 4Q 2016 was entirely due to foreign exchange gains resulting from the floatation of Egyptian Pound in November 2016.

### **FY 2017: Currency floatation and growing exports drive return to profitability in 2017**

Lecico revenues for 2017 increased by 61% year-on-year to LE 2,406.5 million reflecting the increase in average prices coming from the impact of the floatation on exports and Egyptian costs and prices.

Revenues increased significantly in all segments driven primarily by sanitary ware and tile exports offset shrinking local market volumes.

As a result, gross profit increased by 247% to reach LE 531.9 million and the Company's gross profit margin was up 11.9 percentage points to 22.1% compared to 10.2% in 2016.

In absolute terms, distribution and administration (D&A) expenses increased by 58% to LE 323.7 million, but as a percentage points of net sales proportional D&A expenses were down by 0.3 percentage points to 13.4% compared to 13.7% in 2016.

The company reported LE 26.4 million in net other operating expenses compared to net other operating income of LE 2.8 million in 2016.

The company reported an operating profit (EBIT) of LE 181.9 million for 2017 compared to an operating loss of LE 48.3 million in 2016. Lecico's EBIT margin for 2017 was 7.6%.

Excluding gains from currency exchange variances resulted from Egyptian Pound's floatation in 4Q 2016, financing expenses increased by 51% year-on-year in 2017 to reach LE 136.2 million compared to 2016 due to increase in borrowings and significantly higher interest rates for the Egyptian Pound.

Lecico recorded net tax charges of LE 14.2 million versus LE 22.8 million tax charges for 2016.

Lecico reported net profit of LE 37.2 million compared to net loss of LE 50.1 million in 2016. Lecico's net margin for 2017 was 1.5%.

## **Segmental analysis**

### **Sanitary ware**

**4Q:** Sanitary ware sales volume decreased by 5% to 1.3 million pieces (down 62,538 pieces). Sales in Egypt decreased by 35% (down 226,109 pieces), sales in Lebanon decreased by 8% (down 3,316 pieces) and sales in export increased by 24% (up 166,887 pieces).

Quarter-on-quarter total sales volumes are the same, but sales in Egypt decreased by 16% (down 77,320 pieces), sales in Lebanon decreased by 10% (down 3,966 pieces) while sales in export increased by 10% (up 81,032 pieces).

Average sanitary ware prices were up 53% year-on-year to LE 307.3 per piece reflecting the higher proportion of export sales (65% of sales volume in 4Q 2017 vs. 50% in 4Q 2016); the impact of the floatation of the Egyptian Pound on average export prices; and the cumulative effect of price increases done in Egypt over the last year.

Quarter-on-quarter average prices were up 2% (3Q 2017: LE 301.4) due to the higher proportion of exports and a price increase in October in Egypt.

Revenues rose 46% year-on-year at LE 404.4 million (4Q 2016: LE 276.5 million) as a result of higher export volumes as well as the price increases done locally and the inflation in the price of all exports. Quarter-on-quarter revenues rose 2% (3Q 2017: LE 396.7 million).

Average cost of sales rose 45% year-on-year at LE 216.5 per piece due to higher costs following the floatation of the Egyptian Pound, subsequent high inflation in Egypt and government programs to remove subsidies and increase revenue collection. Quarter-on-quarter the average cost of sales was marginally higher.

Gross profit increased 68% to LE 119.5 million (4Q 2016: LE 71.3 million) and the margin improved 3.8 percentage points to 29.5% (4Q 2016: 25.8%). Quarter-on-quarter gross profit increased 6.5% (3Q 2017: LE 112.2 million) and the margin increased 1.3 percentage points (3Q 2017: 28.3%) as a result of higher average prices.

Sanitary ware segmental analysis	4Q		%	FY		%
	2017	2016		17/16	2017	
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	419	645	65%	1,825	2,183	84%
Lebanon (000 pcs)	37	41	92%	146	151	96%
Export (000 pcs)	860	693	124%	3,091	2,655	116%
<b>Total sanitary ware volumes (000 pcs)</b>	<b>1,316</b>	<b>1,378</b>	<b>95%</b>	<b>5,061</b>	<b>4,990</b>	<b>101%</b>
Exports/total sales volume (%)	65.3%	50.2%	15.1%	61.1%	53.2%	7.9%
<b>Sanitary ware revenue (LE m)</b>	<b>404.4</b>	<b>276.5</b>	<b>146%</b>	<b>1497.3</b>	<b>834.0</b>	<b>180%</b>
Average selling price (LE/pc)	307.3	200.6	153%	295.8	167.1	177%
Average cost per piece (LE/pc)	216.5	148.9	145%	202.7	135.4	150%
Sanitary ware cost of sales	(284.9)	(205.3)	139%	(1025.7)	(675.6)	152%
Sanitary ware gross profit	119.5	71.3	168%	471.6	158.4	298%
Sanitary ware gross profit margin (%)	29.5%	25.8%	3.8%	31.5%	19.0%	12.5%

**FY:** Sanitary ware sales volume increased by 1% to 5.1 million pieces (up 71,635 pieces). Export sales volumes increased 16% (up 435,897 pieces) while sales in Egypt fell 16% (down 358,797 pieces) and sales in Lebanon decreased by 4% (down 5,465 pieces). Growth in export came from UK, Germany, Europe, Africa and OEM markets.

Average sanitary ware prices were up 77% year-on-year to LE 295.4 per piece reflecting the higher proportion of export sales (61% of sales volume in 2017 vs. 53% in 2016); the impact of the floatation of the Egyptian Pound on average export prices; and the cumulative effect of price increases done in Egypt over the last year.

Revenues were up 80% year-on-year at LE 1,497.3 million.

Average cost of sales rose 50% at LE 202.7 per piece due to higher costs following the floatation of the Egyptian Pound, subsequent high inflation in Egypt and government programs to remove subsidies and increase revenue collection.

Gross profit increased 198% to LE 471.6 million (FY 2016: LE 158.4 million) and the margin improved 12.5 percentage points to 31.5% (FY 2016: 19.0%).

## Tiles

**4Q:** Tile sales volumes decreased 18% year-on-year (down 1.3 million square meters) to reach 5.7 million square meters in the fourth quarter of 2017. Growth in sales came from export which increased by 44% (up 393,679 square meters), while sales in Egypt decreased by 27% (down 1.6 million square meters) and sales in Lebanon decreased by 35% (down 70,202 square meters).

Quarter-on-quarter sales volumes decreased by 5% (down 304,000 square meters) mainly as a result of 13% reduction in sales in Egypt (down 622,000 square meters) and a 24% reduction in sales in Lebanon (down 41,000 square meters), while sales in export increased 39% (up 359,000 square meters).

Average net prices rose 37% at LE 37.9 per square meter reflecting the cumulative effect of price increases done in Egypt over the last year and the impact of the floatation of the Egyptian Pound on average export prices. Quarter-on-quarter average prices were up 5.2% (3Q 2017: LE 36.1) due to an increase in export products and a price increase in October in Egypt.

Tiles revenues were up 12% year-on-year at LE 216 million in the fourth quarter of 2017 (4Q 2016: LE 193.4 million). Quarter-on-quarter revenues are flat.

Average costs rose 22% year-on-year to reach LE 35.7 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 1.8% (3Q 2017: LE 35.1 per square meter).

Lecico reported a gross profit in the tile segment of LE 12.5 million for the fourth quarter compared to a gross loss of LE 10.2 million in the same period last year. The gross margin in the fourth quarter 2017 was 5.8%. Quarter-on-quarter gross profit increased 123% (3Q 2017: LE 5.6 million) and the margin improved by 3.2 percentage points (3Q 2017: 2.6%).

Tile segmental analysis	4Q		%	FY		%
	2017	2016		2017	2016	
Tile volumes (000 sqm)						
Egypt (000 sqm)	4,274	5,871	73%	18,994	21,270	89%
Lebanon (000 sqm)	131	201	65%	558	956	58%
Export (000 sqm)	1,288	894	144%	3,618	3,012	120%
<b>Total tile volumes (000 sqm)</b>	<b>5,693</b>	<b>6,966</b>	<b>82%</b>	<b>23,171</b>	<b>25,237</b>	<b>92%</b>
Exports/total sales volume (%)	22.6%	12.8%	9.8%	15.6%	11.9%	3.7%
<b>Tile revenue (LE m)</b>	<b>216.0</b>	<b>193.4</b>	<b>112%</b>	<b>830.7</b>	<b>599.5</b>	<b>139%</b>
Average selling price (LE/sqm)	37.9	27.8	137%	35.9	23.8	151%
Average cost per sqm (LE/sqm)	35.7	29.2	122%	34.7	24.9	139%
Tile cost of sales	(203.5)	(203.6)	100%	(803.0)	(627.6)	128%
Tile gross profit	12.5	(10.2)	-	27.7	(28.1)	-
Tile gross profit margin (%)	5.8%	-	-	3.3%	-	-

**FY:** Tile sales volumes decreased by 8% year-on-year (down 2.1 million square meters) to reach 23.2 million square meters. Sales in Egypt decreased by 11% (down 2.3 square meters), sales in Lebanon decreased by 42% (down 397,957 square meters), while sales in export increased by 20% (up 606,072 square meters).

Average net prices rose 51% at LE 35.9 per square meter reflecting the cumulative effect of price increases done in Egypt over the last year and the impact of the floatation of the Egyptian Pound on average export prices.

Tiles revenues were up 39% year-on-year at LE 830.7 million in 2017 (FY 2016: LE 599.5 million).

Average costs rose 39% year-on-year to reach LE 34.7 per square meter as a result of the impact of the floatation on hard currency linked costs and due to general high inflation in Egyptian Pound based costs.

Cost of sales rose 28% to LE 803.0 million in 2017 (FY 2016: LE 627.6 million).

Tile segment reports gross profit of LE 27.7 million compared to a gross loss of LE 28.1 million in 2016. The gross margin in 2017 was 3.3%.

### **Brassware**

**4Q:** Sales volumes for the fourth quarter 2017 decreased by 39% to reach 26,070 pieces compared to 42,549 pieces in the same period last year. Quarter-on-quarter sales volumes were down 7% (3Q 2017: 28,081 pieces).

Average net prices rose 40% to reach LE 792.1 per piece (4Q 2016: LE 567.8) 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 8% (3Q 2017: LE 735.9).

Revenue for the quarter was down 15% year-on-year to reach LE 20.7 million (4Q 2016: LE 24.2 million). Quarter-on-quarter revenues are flat. Brassware accounted for 3.2% of the quarter's revenues, compared to 4.9% in the same period last year.

Average cost per piece rose 46% to LE 437.9 per piece reflecting changing mix and the result of the impact of the floatation on imported inputs. Quarter-on-quarter average cost per piece decreased by 5% (3Q 2017: LE 461.0 per piece).

Gross profit decreased 19% to LE 9.2 million (4Q 2016: LE 11.4 million) and the margin down 2.5 percentage points to 44.7% (4Q 2016: 47.2%). Quarter-on-quarter gross profit increased 20% (3Q 2017: LE 7.7 million) and the gross margin up 7.4 percentage points (3Q 2017: 37.4%).

Brassware's percentage of consolidated gross profits fell to 6.5% of Lecico gross profits (4Q 2016: 15.7%) due to the improvement in profitability for Lecico's other segments.

Brassware segmental analysis	4Q		%	FY		%
	2017	2016		2017	2016	
			17/16			17/16
Brassware volumes ( pcs)						
Egypt ( pcs)	26,070	42,530	61%	108,471	150,938	72%
Export ( pcs)	0	19	0%	160	1,007	16%
<b>Total brassware volumes ( pcs)</b>	<b>26,070</b>	<b>42,549</b>	<b>61%</b>	<b>108,631</b>	<b>151,945</b>	<b>71%</b>
Exports/total sales volume (%)	0.0%	0.0%	(0.0%)	0.1%	0.7%	(0.5%)
<b>Brassware revenue (LE m)</b>	<b>20.7</b>	<b>24.2</b>	<b>85%</b>	<b>78.5</b>	<b>63.0</b>	<b>125%</b>
Average selling price (LE/pc)	792.1	567.8	140%	722.5	414.5	174%
Average cost per piece (LE/pc)	437.9	299.8	146%	422.4	262.8	161%
Brassware cost of sales	(11.4)	(12.8)	89%	(45.9)	(39.9)	115%
Brassware ware gross profit	9.2	11.4	81%	32.6	23.0	142%
Brassware gross profit margin (%)	44.7%	47.2%	(2.5%)	41.5%	36.6%	5.0%

**FY:** Sales volumes for 2017 decreased by 29% to reach 108,631 pieces compared to 151,945 pieces for 2016.

Average net prices rose 74% to reach LE 722.5 per piece (FY 2016: LE 414.5) 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 25% year-on-year to reach LE 78.5 million (FY 2016: LE 63.0 million). Brassware's percentage of consolidated revenues was 3.3% compared to 4.2% for FY 2016.

Average cost per piece rose 61% to LE 422.4 per piece reflecting changing mix and the result of the impact of floatation on imported inputs.

Gross profit increased 42% to LE 32.6 million (FY 2016: LE 23.0 million) and the margin improved 5 percentage points to 41.5% (FY 2016: 36.6%).

## **Financial Position**

The value of Lecico's assets increased by 6% at the end of December 31, 2017 to reach LE 2,960 million primarily as inventories and receivables increased following the floatation of the Pound in November 2016.

Quarter-on-quarter, Lecico's assets decreased by 1% (3Q 2017: LE 2,985 million) as a result of a fall in receivables.

Total liabilities rose 9% at LE 1,955.4 million as debt grew to cover the increase in working capital and the acquisition of Treasury shares. In the third quarter, Lecico acquired 10% of the outstanding shares of the company as treasury stock for a total cost of LE 48.2 million.

Quarter-on-quarter Lecico's total liabilities decreased by 2% (3Q 2017: LE 1,993.8 million) as payables dropped and net debt increased marginally.

Gross debt increased 10% or LE 138 million to reach LE 1,457.1 million compared to LE 1,319.1 million at the end of 2016.

Quarter-on-quarter Lecico's gross debt decreased by 0.3% (3Q 2017: LE 1,461.4 million) despite the financing cost of the treasury share acquisition.

Net debt rose 27% or LE 254.1 million to reach LE 1,195.8 million compared to LE 941.7 million at the end of 2016. Quarter-on-Quarter net debt increased 2.8% (3Q 2017: LE 1,163.6 million).

Net debt to equity increased 28% to reach 1.2x compared to 0.9x at the end of 2016. Quarter-on-quarter net debt to equity increased 3% (3Q 2017: 1.18x).

## Recent developments and outlook

**Outlook for 2018:** Despite the challenging trading environment in Egypt and uncertainty about the impact of exchange rates on Lecico's trading and profitability, Lecico is expecting to see an improvement in 2018 led by export growth in sanitary ware.

Sales in Egypt have seen a sharp slowdown in the winter season and this has continued in early trading for 2018. Competition – particularly on tiles – remains fierce and this limits Lecico's ability to raise prices and maintain volumes particularly in the first quarter. Looking forward for the rest of 2018, it is likely that the overall market will grow as inflation and interest rates come down, but the environment will remain challenging and competition will remain fierce.

Lecico raised local market prices in October and made a small increase in January, which should allow it to offer promotions and sales incentives in the first quarter without further reducing net prices. The Company will look to increase prices again in the summer season.

In exports, the Company expects to see continued growth in sanitary ware sales to Europe and this should be the principal driver of volume growth in 2018. Exports to the Middle East – and Libya in particular – have shown some growth as market conditions improved towards the end of 2017. This has continued in early trading for 2018 and could be a good support for the year ahead.

Profitability in 2018 will – to a large extent – depend on how the floatation continues, at what rate it stabilizes, where the euro and sterling go against the dollar. This will be the principal determinant of margins in Export. The Company is pushing through 2-3% price increases in export over the first months of 2018.

Margins should can expect support from a gradual reduction in interest rates over 2018, which will be support for local market growth as well.

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.

## Dividend proposal and AGM

Lecico will hold its AGM on Wednesday, March 28<sup>th</sup> at 8:30 am in the Imperial Ballroom at the Hilton Alexandria Corniche (544 El Geish Street, Sidi Bishr, Alexandria).

Lecico will be presenting a review of its annual financial performance as outlined in this document at the AGM. The board will seek shareholder's approval to offer no cash dividend but to distribute its 8 million treasury shares to shareholders.

## **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)	4Q		%	FY		%
	2017	2016	17/16	2017	2016	17/16
<b>Net sales</b>	<b>641.1</b>	<b>494.1</b>	<b>130%</b>	<b>2,406.5</b>	<b>1,496.4</b>	<b>161%</b>
Cost of sales	(499.8)	(421.6)	119%	(1,874.5)	(1,343.1)	140%
<b>Gross profit</b>	<b>141.3</b>	<b>72.5</b>	<b>195%</b>	<b>531.9</b>	<b>153.3</b>	<b>347%</b>
Gross margin (%)	22.0%	14.7%	7.4%	22.1%	10.2%	11.9%
Distribution expenses	(36.2)	(27.0)	134%	(146.6)	(86.0)	170%
Administrative expenses	(53.8)	(30.5)	176%	(177.0)	(118.4)	150%
Other Operating income	12.2	5.5	222%	24.6	25.1	98%
Other Operating expenses	(17.7)	(8.1)	217%	(51.0)	(22.3)	228%
<b>Operating profit (loss) (EBIT)</b>	<b>45.8</b>	<b>12.3</b>	<b>372%</b>	<b>181.9</b>	<b>(48.3)</b>	-
Operating (EBIT) margin (%)	7.1%	2.5%	4.7%	7.6%	-	-
Investment revenues	(0.0)	0.2	-	6.4	3.2	199%
Finance income	6.4	112.3	6%	24.3	126.8	19%
Finance expense	(49.8)	(31.7)	157%	(160.5)	(106.7)	151%
<b>Profits (loss) before tax and minority (PBTM)</b>	<b>2.4</b>	<b>93.1</b>	<b>3%</b>	<b>52.1</b>	<b>(25.0)</b>	-
PBTM margin (%)	0.4%	18.8%	(18.5%)	2.2%	-	-
Income tax	2.4	(11.4)	-	(17.4)	(26.6)	66%
Deferred tax	2.4	(0.8)	-	3.2	3.8	85%
<b>Net Profit (loss) after tax (NPAT)</b>	<b>7.1</b>	<b>80.9</b>	<b>9%</b>	<b>37.8</b>	<b>(47.8)</b>	-
NPAT margin (%)	1.1%	16.4%	(15.3%)	1.6%	-	-
Minority interest	2.9	(1.5)	-	(0.6)	(2.3)	26%
<b>Net Profit (loss)</b>	<b>10.1</b>	<b>79.5</b>	<b>13%</b>	<b>37.2</b>	<b>(50.1)</b>	-
Net profit margin (%)	1.6%	16.1%	(14.5%)	1.5%	-	-

## Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	31-Dec-17	31-Dec-16	FY 17/FY16 (%)
Cash and short-term investments	261.3	377.4	69%
Inventory	1133.8	889.8	127%
Receivables	744.3	690.7	108%
Related parties -debit balances	38.7	66.3	58%
<b>Total current assets</b>	<b>2,178.0</b>	<b>2,024.2</b>	<b>108%</b>
Net fixed assets	690.7	689.2	100%
Intangible assets	29.2	28.6	102%
Prepaid long-term rent	0.0	0.2	0%
Projects in progress	21.9	13.7	160%
Available for sale investments	13.2	13.6	97%
Long-term notes receivable	27.1	24.6	110%
<b>Total non-current assets</b>	<b>782.1</b>	<b>769.8</b>	<b>102%</b>
<b>Total assets</b>	<b>2,960.1</b>	<b>2,794.0</b>	<b>106%</b>
Banks overdraft	1390.5	1204.4	115%
Current portion of long-term liabilities	46.6	47.3	98%
Trade and notes payable	185.8	179.8	103%
Other current payable	269.6	236.6	114%
Related parties -credit balances	2.1	2.1	101%
Provisions	7.5	19.6	38%
<b>Total current liabilities</b>	<b>1,902.0</b>	<b>1,689.8</b>	<b>113%</b>
Long-term loans	20.0	67.3	30%
Provisions	10.6	10.7	99%
Deferred tax	22.8	25.8	88%
<b>Total non-current liabilities</b>	<b>53.4</b>	<b>103.8</b>	<b>51%</b>
<b>Total liabilities</b>	<b>1,955.4</b>	<b>1,793.6</b>	<b>109%</b>
<b>Minority interest</b>	<b>18.7</b>	<b>5.2</b>	<b>356%</b>
Issued capital	400.0	400.0	100%
Treasury stock	(48.2)	0.0	-
Reserves	558.5	579.7	96%
Retained earnings	38.5	65.6	59%
Net Profit (Loss) for the year	37.2	(50.1)	-
<b>Total equity</b>	<b>986.1</b>	<b>995.2</b>	<b>99%</b>
<b>Total equity, minorities and liabilities</b>	<b>2,960.1</b>	<b>2,794.0</b>	<b>106%</b>

## Lecico Egypt consolidated cash flow

Cash flow statement (LE m)	FY		%
	2017	2016	17/16
<b>Cash Flow from operating activities</b>			
Net profit for the year	37.2	(50.1)	-
Depreciation and translation adjustment	101.1	43.2	234%
Intangible assets amortization and translation adjustment	(0.6)	(6.3)	9%
Income tax expense	17.4	26.6	66%
Income tax paid	(13.0)	(25.0)	52%
Deferred income tax	(3.0)	(4.8)	62%
Prepaid rent expense	0.2	0.2	67%
Capital gains	1.3	(1.0)	-
Provided provisions and translation adjustment	31.9	81.2	39%
Reversal of expired provision	(7.9)	(17.8)	44%
Employee share in net profit	35.9	33.7	107%
Increase (Decrease) in minority interest	13.4	(0.5)	-
Increase (Decrease) in translation reserve	1.8	214.7	1%
(Increase) Decrease in Inventory	(237.7)	(197.0)	121%
(Increase) Decrease in Receivables	(21.9)	(251.2)	9%
Increase (Decrease) in Payables	31.2	91.2	34%
Utilized Provisions	(46.5)	(17.1)	271%
Increase (Decrease) in Other Long Term Liabilities	0.0	(0.3)	0%
Difference result from discounting of long term notes receivables	2.3	3.1	75%
<b>Net cash from operating activities</b>	<b>(56.7)</b>	<b>(77.3)</b>	<b>73%</b>
<b>Cash flow from investing activities</b>			
Additions to fixed assets and projects	(114.2)	(58.4)	195%
Intangible assets	(0.0)	(0.3)	3%
Net change in available for sale investments	0.4	(7.7)	-
Proceeds from sales of fixed assets	2.0	4.1	50%
Increase (Decrease) in long-term notes receivable	(4.9)	(15.8)	31%
<b>Net cash from investing activities</b>	<b>(116.6)</b>	<b>(78.2)</b>	<b>149%</b>
<b>Cash flow from financing activities</b>			
Increase (Decrease) in long-term loans	(47.3)	7.3	-
Increase (Decrease) in current portion of long term liabilities	(0.7)	9.7	-
(Increase) Decrease in treasury stock	(48.2)	-	-
Employees Dividends paid	(32.6)	(29.8)	110%
<b>Net cash from financing activities</b>	<b>(128.9)</b>	<b>(12.8)</b>	<b>1010%</b>
<b>Net change in cash &amp; cash equivalent during the year</b>	<b>(302.2)</b>	<b>(168.3)</b>	<b>180%</b>
Net cash and cash equivalent at beginning of the year	(827.0)	(658.7)	126%
<b>Net cash and cash equivalent at the end of the year</b>	<b>(1,129.2)</b>	<b>(827.0)</b>	<b>137%</b>