# First Quarter 2011 Results

**Alexandria, 5th May 2011 –** Lecico Egypt (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) announces its consolidated results for first quarter of 2011.

## Highlights

### 1Q 2011

- Lecico revenue down 20% to LE 215.5 million (58.3% from sanitary ware)
- Sanitary ware revenue down 22% to LE 125.6 million, driven by a 27% decrease in volumes to 1.0 million pieces (64.8% exports)
- Tile revenue down 18% to LE 88.0 million, driven by a 19% decrease in volumes to 4.9 million square meters (17.9% exports)
- Brassware revenue LE 1.9 million driven by sales volume of 6,015 pieces.
- EBIT down 37% to LE 29.7 million, margin down 3.8 percentage pts to 13.8%
- Net profit down 54% to LE 12.5 million, margin down 4.2 percentage pt to 5.8%

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented: "These are 'interesting times', indeed. In the Middle East we have been witness to history being written. The courage and desire for change across the region is admirable indeed. But even - as in Egypt - a peaceful revolution brings with it weakening discipline and stability and increased confusion. Our operating environment in this first quarter was therefore very difficult and the negative numbers have been an automatic result of the upheaval across our region with production and sales days lost, lower consumer confidence and higher costs in Egypt and lost sales in Libya, our major regional market as it descended into civil war.

"We were lucky in that we have not suffered any damage to our property and our people. The dedication of all involved at Lecico during this period was exemplary and we all owe a debt of gratitude to our colleagues across the company for their courage and their dedication during these difficult times.

"In the last month we have seen a relative recovery in our local market for Sanitary ware and for tile. Our distribution network has proven quite resilient and has managed to take advantage of demand that was partially the result of an increase in popular and unregulated building throughout the country. The markets have begun to stabilize and failing further upheavals we are confident that the business will recover in Egypt particularly because of a renewed and popular commitment to public housing.

"But we are still in a period of uncertainty where there is a visible reluctance to make decisions. We are still in negotiations to finalize our insurance claims relating to our fire last year and are now several months delayed in launching our new tile plant due to bureaucratic difficulties in finalizing the delivery of natural gas to our new tile factory in Borg El Arab. In the current climate, it seems everyone is increasingly hesitant about taking any decisions.

"In Libya the situation is desperately harder. Violence and civil war have stopped all activities though we continue to talk to our distributors and thank God for their safety and continued well being.

"Our Middle Eastern business is strong so far and we are making inroads and increasing our market share in several markets. International markets are in somewhat better condition and we will benefit from the improved values of international currencies.

"In these uncertain times we continue to put emphasis on prudent management and marshalling of resources. We are confident that due to our strong economics our company will surmount the current uncertainties and return to growth as soon as possible."

Elie Baroudi, Lecico Egypt MD, added, “Our first goal is to try to recover lost sales volumes and hopefully the new markets and customers we are beginning to sell to in the second quarter will help us do just that. In the quarter we expect to launch sanitary ware sales to two new OEM customers - one of them quite significant in volume terms - as well as first sales to the Nordic markets. We are also aggressively pushing to grow exports of tiles to the Middle East outside of Libya and have promising prospects in that regard, although these need to be balanced against political risks to demand across the region.

"Lecico will also be looking to improved pricing and cost control to counter expected inflationary pressure and partially offset the impact of any sales volume weakness. I anticipate inflationary pressures in 2011 coming from global food prices, higher domestic wages and the need to finance a growing deficit in Egypt. Lecico increased prices over 2010 and this should drive increases in average prices for the whole of 2011. While we may need to continue to offer increased discounts to some markets or price more aggressively on a particular contract, this will hopefully continue to be balanced by the benefit on exports of a weakening Egyptian pound. We will be working to improve efficiencies and ensure that overhead costs continue to proportionally reduce. We hope that this combination of price increases and continued cost control will help us to alleviate some of the impact of cost inflation and weakness in demand over the rest of this year."

## Lecico Revenue and Profitability

| Profit and loss statement highlights | 1Q | | % |
|---|---|---|---|
| (LE m) | 2011 | 2010 | 11/10 |
| Sanitary ware | 125.6 | 161.6 | 78% |
| Tiles | 88.0 | 107.9 | 82% |
| Brassware | 1.9 | 0.0 | 0% |
| **Net sales** | **215.5** | **269.5** | **80%** |
| Sanitary ware/net sales (%) | 58.3% | 60.0% | (1.7%) |
| Cost of sales | (145.2) | (176.1) | 82% |
| Cost of sales/net sales (%) | (67.4%) | (65.3%) | 2.0% |
| **Gross profit** | **70.3** | **93.4** | **75%** |
| Gross profit margin (%) | 32.6% | 34.7% | (2.1%) |
| Distribution and administration (D&A) | (39.1) | (44.5) | 88% |
| D&A/net sales (%) | (18.1%) | (16.5%) | 1.6% |
| Net other operating income/ (expense) | (1.5) | (1.5) | 100% |
| Net other operating income/ (expense) net sales (%) | (0.7%) | (0.6%) | (0.1%) |
| **EBIT** | **29.7** | **47.4** | **63%** |
| EBIT margin (%) | 13.8% | 17.6% | (3.8%) |
| **Net profit** | **12.5** | **26.9** | **46%** |
| Net profit margin (%) | 5.8% | 10.0% | (4.2%) |

### 1Q 2011: Political upheavals impact sales volumes and margins

Lecico has faced significant disruption to its operations in the first quarter as a result of the revolution in Egypt and the ongoing conflict in Libya. In Egypt, the virtual closure of the economy resulting from nationwide political unrest and the wave of strikes and worker actions between late January through the middle of February resulted in reduced production throughout this period and six days where local and export activity was effectively stopped by port closures and lack of transport. Additionally, Lecico had a two-day general strike and work stoppage over the 12th and 13th of February and management negotiated a new compact with its workforce increasing average wages significantly, initiating several new benefits.

Libya, Lecico's largest regional export market, has effectively been closed since mid-February due to political instability and conflict in the country. In 2010, Libya accounted for 6% and 16% of the company's sanitary ware and tile sales volumes respectively.

Revenue decreased 20% year-on-year in the first quarter to reach LE 215.5 million. The drop in sales was due to a 27% decrease in sanitary ware volumes and a 19% decrease in tile square meters, largely as a result of political upheavals in Egypt and Libya affecting days of operation and market demand. Revenues were also impacted by a drop in exports to Europe reflecting continued demand weakness across Europe primarily in the UK and France, Lecico's two largest European export markets.

Gross profit decreased by 25% to reach LE 70.3 million, gross profit margin was down 2.1 percentage points year-on-year at 32.6%. The decrease in gross profit was mainly attributed to the decrease in sales and production volumes which reduced the company's economies of scale, compounded by the effects of lower net pricing in Egypt to stimulate sales and increased labour and energy costs.

In order to offset the demand impact of these political events, Lecico offered a 5% additional discount in both tile and sanitary ware to its Egyptian distributors to encourage local sales. This step helped minimize the drop in sales volumes for both segments but eroded much of the local price gains made over 2010.

Lecico's labour settlement following the two-day strike in February increased labour costs by approximately 27% (increasing cost of sales by just under 5%) from February onwards.

In comparison to the first quarter of 2010, Lecico's margins are also impacted by the energy price increases effective 1 July 2010. For Lecico, this translated into an approximately 17% increase in the cost of energy with natural gas at an average of US$ 2.2/mbtu and electricity at LE 0.25 per KWH. The total annualized effect of these energy price increases is expected to be around LE 10 million in additional expenses.

In absolute terms, D&A expenses decreased by 12% to LE 39.1 million year-on-year on the back of cost cutting initiatives but lower revenues saw proportional distribution and administration (D&A) expenses rise 1.6 percentage points to 18.1% of net sales compared to 16.5% in the first quarter of 2010.

Despite the drop in D&A expenses, EBIT fell by 37% year-on-year to reach LE 29.7 million for the first quarter of 2011 as a result of the drop in gross profits, with the EBIT margin decreasing to 13.8% compared to 17.6%.

Financing expenses were down 9% year-on-year during the first quarter of 2011 to reach LE 11.5 million compared to LE 12.6 million for the same period in 2010.

Lecico’s tax charges for the quarter were LE 3.9 million versus LE 8.4 million for the same period last year.

Net profit was down by 53% to reach LE 12.5 million, with the net profit margin decreasing 4.2 percentage point to 5.8%, compared with 10.0% in the same period last year.

## Segmental analysis

### Sanitary ware

**1Q:** Sanitary ware sales volume decreased by 27% or 373,000 pieces to 1.03 million pieces. The decline in volumes came primarily from the drop in demand in Egypt and Libya due to political upheaval and weaker exports to Lecico's main European markets.

Sales in Egypt were down 38% or 194,000 pieces year-on-year, while exports to Libya were down 46% or 38,000 pieces and exports to Europe were down 22% or 150,000 pieces.

Average sanitary ware prices were up 6% year-on-year to LE 122.3 per piece, as a result of better export pricing on the back of increases done over 2010 and the benefit of the weaker Egyptian pound.

Revenues were down 22% year-on-year at LE 125.6 million. Exports represented 64.8% of volumes compared to 60.2% in the first quarter of 2010.

Average cost was up 4% year-on-year at LE 84.6 per piece primarily as a result of lower production volumes reducing economies of scale and increases in energy prices and salaries.

Sanitary ware gross profit margin rose 1.1 percentage points to reach 30.8% but gross profit decreased by 19% to LE 38.7 million due to the drop in sales volumes.

| Sanitary ware segmental analysis | 1Q | | % |
|---|---|---|---|
| | 2011 | 2010 | 11/10 |
| Sanitary ware volumes (000 pcs) | | | |
| Egypt (000 pcs) | 317 | 511 | 62% |
| Lebanon (000 pcs) | 44 | 46 | 96% |
| Export (000 pcs) | 666 | 843 | 79% |
| **Total sanitary ware volumes (000 pcs)** | **1,027** | **1,400** | **73%** |
| Exports/total sales volume (%) | 64.8% | 60.2% | 4.6% |
| **Sanitary ware revenue (LE m)** | **125.6** | **161.6** | **78%** |
| Average selling price (LE/pc) | 122.3 | 115.4 | 106% |
| Average cost per piece (LE/pc) | 84.6 | 81.1 | 104% |
| Sanitary ware cost of sales | (86.9) | (113.6) | 76% |
| Sanitary ware gross profit | 38.7 | 48.0 | 81% |
| Sanitary ware gross profit margin (%) | 30.8% | 29.7% | 1.1% |

### Tiles

**1Q:** Tile sales volumes were down 19% year-on-year in the first quarter of 2011, to reach 4.9 million square meters as a result of weaker demand in Egypt and Libya.

Average net prices flat at LE 17.9 per square meter.

Tiles revenues fell 18% year-on-year to LE 88.0 million for the first quarter of 2011.

Average costs rose 14% year-on-year to reach LE 11.8 per square meter as a result of lower production volumes reducing economies of scale and increases in energy prices and salaries.

Gross profit for the quarter was down 33% year-on-year at LE 30.3 million and the segment's gross margin fell 7.7% to reach 34.4%.

| Tile segmental analysis | 1Q | | % |
|---|---|---|---|
| | 2011 | 2010 | 11/10 |
| Tile volumes (000 sqm) | | | |
| Egypt (000 sqm) | 3,528 | 4,135 | 85% |
| Lebanon (000 sqm) | 496 | 555 | 89% |
| Export (000 sqm) | 879 | 1,341 | 66% |
| **Total tile volumes (000 sqm)** | **4,903** | **6,031** | **81%** |
| Exports/total sales volume (%) | 17.9% | 22.2% | (4.3%) |
| **Tile revenue (LE m)** | **88.0** | **107.9** | **82%** |
| Average selling price (LE/sqm) | 17.9 | 17.9 | 100% |
| Average cost per sqm (LE/sqm) | 11.8 | 10.4 | 114% |
| Tile cost of sales | (57.7) | (62.5) | 92% |
| Tile gross profit | 30.3 | 45.4 | 67% |
| Tile gross profit margin (%) | 34.4% | 42.1% | (7.7%) |

## Brassware

**1Q:** In August 2010, the brassware segment which manufactures mixers and taps started operations in its Borg El Arab plant.

Sales volume for first quarter period were 6,015 pieces all in Egypt, up 31% from the fourth quarter of 2010 as a result of the roll-out of the products sales footprint and despite the impact of events in Egypt during the quarter.

Revenue for the first quarter was LE 1.9 million and gross profit was LE 1.3 million with the margin at 66.2%.

Revenue and margin for the period do not necessarily reflect normative run rates for this segment given the small volume of operation since startup.

From 2Q 2011, Lecico plans to offer a Lecico-branded economy range to complement its current luxury Sarrdesign brand offer, which should accelerate volumes growth but will also lower average prices and margins.

| Brassware segmental analysis | 2011 1Q | 2010 4Q |
|---|---|---|
| Brassware volumes ( pcs) | | |
| Egypt ( pcs) | 6,015 | 4,598 |
| **Total brassware volumes ( pcs)** | **6,015** | **4,598** |
| | | |
| **Brassware revenue (LE m)** | **1.9** | **1.5** |
| Average selling price (LE/pc) | 315.6 | 316.2 |
| Average cost per piece (LE/pc) | 106.7 | 34.5 |
| Brassware cost of sales | (0.6) | (0.2) |
| Brassware ware gross profit | 1.3 | 1.3 |
| Brassware gross profit margin (%) | 66.2% | 89.4% |

## Financial position

The value of Lecico's assets increased 6% at the end of March 31, 2011 to reach LE 1,922.3 million, driven primarily by an increase in cash, short term investments and inventories. Total liabilities were up 17% at LE 1095.1 million. Net debt to equity showed a small increase to 0.63x reflecting the increase in bank borrowings as a result of cash outflow to pay the cash dividend during 2010, capex for the new tile plant and increase in working capital.

## Recent developments and outlook

**Outlook for 2011:** The recent and ongoing political events in Egypt and the region are certain to have an effect on the company's activities in 2011. Although Egyptian market demand is recovering from its lowest point and business is no longer being impacted by security and rule of law issues, the situation remains unpredictable and demand is likely to remain depressed as a result of the significant slowdown in growth and a continued loss of consumer confidence.

The Libyan market remains effectively closed and this situation could continue for an extended period of time.

The company also expects continued weaker demand in our European export markets due in part to the risks of contagion within the Eurozone as a result of the Greek and Irish crisis. European sales were significantly weaker in the fourth quarter of 2010 and the company has no information to suggest this will not continue into 2011.

Lecico will be able to partially offset this weakness in core markets given the number of new markets, customers and products the company is in the process of launching in the first half of 2011. Furthermore the company is confident it can recover some of this through domestic, regional and export market share gains but this is a slow process and is likely to be only partially recoverable in the coming year.

**New tile plant launch delayed by lack of gas supply:** In tiles, where sales are recovering quickly following more aggressive domestic pricing and a tapping of regional markets, Lecico seems likely to return to full capacity utilization at some point in the second quarter. Unfortunately, the company's expansion efforts may be constrained at this point by its inability to secure timely government approval to connect its new tile plant to the natural gas grid. In fact, the factory has been awaiting approval and energy since February 2010 and the company is unable to get any real clarity on when approval will be granted. The first phase of this factory has an annual capacity of 6.4 million square meters of red body tiles and should have begun operations towards the end of the 1Q 2011. Lecico has invested around LE 145 million to date in the assets of this project and is currently carrying the costs of already recruited sufficient staff to run the first phase of operations. Management hopes that the plant will be able to finalize an energy contract soon and begin operations in 2Q 2011.

## About Lecico

Lecico (Stock symbols: LECIq.L; LECI LI; 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) | 1Q 2011 | 1Q 2010 | % 11/10 |
|---|---|---|---|
| **Net sales** | **215.5** | **269.5** | **80%** |
| Cost of sales | (145.2) | (176.1) | 82% |
| **Gross profit** | **70.3** | **93.4** | **75%** |
| Gross margin (%) | 32.6% | 34.7% | (2.1%) |
| Distribution expenses | (15.0) | (16.7) | 90% |
| Administrative expenses | (24.1) | (27.8) | 87% |
| Other Operating income | 0.6 | 0.4 | 144% |
| Other Operating expenses | (2.1) | (1.9) | 108% |
| **Operating profit (EBIT)** | **29.7** | **47.4** | **63%** |
| Operating (EBIT) margin (%) | 13.8% | 17.6% | (3.8%) |
| Investment revenues | 0.0 | 0.1 | - |
| Finance income | 1.5 | 1.7 | 88% |
| Finance expense | (11.5) | (12.6) | 91% |
| **Profits before tax and minority (PBTM)** | **19.7** | **36.6** | **54%** |
| PBTM margin (%) | 9.1% | 13.6% | (4.4%) |
| Income tax | (5.2) | (8.4) | 62% |
| Deferred tax | 1.1 | 1.0 | 109% |
| **Net Profit after tax (NPAT)** | **15.6** | **29.2** | **53%** |
| NPAT margin (%) | 7.2% | 10.8% | (3.6%) |
| Employee profit participation | (3.2) | (3.0) | 107% |
| **Net profit before minority interest** | **12.4** | **26.2** | **47%** |
| Minority interest | 0.1 | 0.7 | 15% |
| **Net Profit** | **12.5** | **26.9** | **46%** |
| Net profit margin (%) | 5.8% | 10.0% | (4.2%) |

## Lecico Egypt consolidated balance sheet

| Balance Sheet (LE m) | 31-Mar-11 | 31-Dec-10 | /111/FY10 ( |
|---|---|---|---|
| Cash and short-term investments | 150.1 | 112.4 | 134% |
| Inventory | 522.0 | 473.3 | 110% |
| Receivables | 344.3 | 318.4 | 108% |
| Related parties -debit balances | 41.2 | 42.6 | 97% |
| **Total current assets** | **1057.7** | **946.7** | **112%** |
| | | | |
| Net fixed assets | 648.7 | 663.3 | 98% |
| Intangible assets | 23.2 | 23.1 | 101% |
| Prepaid long-term rent | 1.6 | 1.7 | 95% |
| Projects in progress | 163.7 | 150.0 | 109% |
| Available for sale investments | 4.6 | 4.4 | 105% |
| Long-term notes receivable | 22.8 | 22.8 | 100% |
| **Total non-current assets** | **864.6** | **865.3** | **100%** |
| **Total assets** | **1,922.3** | **1,812.0** | **106%** |
| | | | |
| Banks overdraft | 620.1 | 557.1 | 111% |
| Current portion of long-term liabilities | 48.6 | 56.9 | 85% |
| Trade and notes payable | 101.8 | 69.3 | 147% |
| Other current payable | 208.3 | 128.1 | 163% |
| Related parties -credit balances | 4.9 | 4.4 | 111% |
| Provisions | 18.6 | 18.8 | 99% |
| **Total current liabilities** | **1002.4** | **834.6** | **120%** |
| | | | |
| Long-term loans | 0.0 | 11.5 | - |
| Other long-term liabilities | 63.7 | 62.4 | 102% |
| Provisions | 10.5 | 9.9 | 106% |
| Deferred tax | 18.5 | 19.6 | 94% |
| **Total non-current liabilities** | **92.7** | **103.4** | **90%** |
| **Total liabilities** | **1095.1** | **938.0** | **117%** |
| | | | |
| **Minority interest** | **2.3** | **2.9** | **80%** |
| Issued capital | 300.0 | 300.0 | 100% |
| Reserves | 309.2 | 294.3 | 105% |
| Retained earnings | 203.3 | 182.0 | 112% |
| Net profit for the year | 12.5 | 94.8 | 13% |
| **Total equity** | **824.9** | **871.1** | **95%** |
| **Total equity, minorities and liabilities** | **1,922.3** | **1,812.0** | **106%** |

## Lecico Egypt consolidated cash flow statement

| Cash flow statement | Q1 | | % |
|---|---|---|---|
| (LE m) | 2011 | 2010 | 11/10 |
| **Cash Flow from operating activities** | | | |
| Net profit for the period | 12.5 | 26.9 | 46% |
| Depreciation and translation adjustment | 19.3 | 20.3 | 95% |
| Intangible assets amortisation and translation adjustment | (0.1) | 0.8 | - |
| Income tax expense | 5.2 | 8.4 | 61% |
| Income tax paid | (0.6) | (0.8) | 78% |
| Deferred income tax | (1.1) | (1.0) | 109% |
| Prepaid rent expense | 0.1 | 0.1 | 87% |
| Capital gains | (0.0) | 0.0 | - |
| Provided provisions and translation adjustment | 2.9 | 0.6 | 477% |
| Employee share in net profit | 3.2 | 3.0 | 106% |
| Increase (Decrease) in minority interest | (0.6) | (1.5) | 39% |
| Increase (Decrease) in translation reserve | 2.8 | (2.0) | - |
| (Increase) Decrease in Inventory | (49.0) | 0.4 | - |
| (Increase) Decrease in Receivables | (25.4) | (46.9) | 54% |
| Increase (Decrease) in Payables | 45.3 | 16.7 | 271% |
| Utilised Provisions | (1.4) | (2.4) | 56% |
| Increase (Decrease) in Other Long Term Liabilities | 1.2 | (2.0) | - |
| Payments for acquiring current investment | 3.4 | (7.3) | - |
| **Net cash from operating activities** | **17.6** | **13.3** | **132%** |
| **Cash flow from investing activities** | | | |
| Additions to fixed assets and projects | (18.5) | (26.6) | 69% |
| Intangible assets | 0.0 | (0.1) | - |
| Net change in available for sale investments | (0.1) | 0.0 | - |
| Proceeds from sales of fixed assets | 0.1 | 0.0 | - |
| Increase (Decrease) in long-term notes receivable | 0.0 | (0.1) | - |
| **Net cash from investing activities** | **(18.5)** | **(26.9)** | **69%** |
| **Cash flow from financing activities** | | | |
| Increase (Decrease) in long-term loans | (11.5) | (15.2) | 75% |
| Increase (Decrease) in current portion of long term liabilities | (8.3) | 3.1 | - |
| Dividends paid | (1.3) | (2.5) | 51% |
| **Net cash from financing activities** | **(21.0)** | **(14.6)** | 144% |
| **Net change in cash & cash equivalent during the period** | **(21.9)** | **(28.2)** | **78%** |
| Net cash and cash equivalent at beginning of the period | (518.2) | (300.3) | 173% |
| **Net cash and cash equivalent at the end of the period** | **(540.1)** | **(328.5)** | **164%** |