Third Quarter 2018 Results

Alexandria, 13th November 2018 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for the third quarter of 2018.

Highlights

3Q 2018

- Lecico revenue up 9% to LE 691.2 million (62.9% from sanitary ware)
- Sanitary ware revenue up 10% to LE 435.1 million, volumes up 7% to 1.41 million pieces (68.5% exports)
- Tile revenue up 9% to LE 235.8 million, volumes down 4% to 5.8 million square meters (21% exports)
- Brassware revenue down 2% to LE 20.3 million, sales volume down 15% to 23,888 pieces
- EBIT profit of LE 5.3 million compared to LE 35.8 million in 3Q 2017
- Net loss of LE 50.9 million compared to net loss of LE 5.2 million in 3Q 2017

9M 2018

- Lecico revenue up 16% to LE 2,049.2 million (60.5% from sanitary ware)
- Sanitary ware revenue up 13% to LE 1,239.5 million, volumes up 7% to 4 million pieces (64.8% exports)
- Tile revenue up 22% to LE 752.1 million, volumes up 10% to 19.3 million square meters (18.2% exports)
- Brassware revenues flat at LE 57.6 million, sales volume fell 11% to 73,211 pieces
- EBIT profit of LE 170 million compared to EBIT profit of LE 136.1 million in 9M 2017
- Net loss of LE 21.5 million compared to net profit of LE 27.2 million in 9M 2017

Lecico Egypt Chairman, Gilbert Gargour, commented "The third quarter results have been disappointing though predictable under the continuing austerity the economy is facing under. Continuing high interest rates, a spike in already high inflation and rumors of further currency adjustments have caused our local market to weaken significantly. In a cyclical business with heavy fixed costs, this loss of volume is very costly.

"The continued inflation of local costs compounded by a sharp drop in local sales reduced Lecico's revenue and margins and resulted in a significant loss for the quarter. The continued inflation in local costs is also reducing the profitability of our export business which otherwise remains strong and growing.

"Lecico had as usual continued to try and offset the inflationary pressure of subsidy removals in July 2018 through a double-digit local price increase. Unfortunately, the sharp drop in Egyptian demand quarter-on-quarter meant that the proportional domestic sales fell, reducing the impact of the price increase and the Company had to reduce production quarter-on-quarter.

"The positive news is that exports continue to grow and reached record levels. We are still hopeful about the outlook for Egyptian demand in the medium term.

"Lecico has a strong global competitive advantage, our financial performance has been under pressure because of a confluence of external shocks over the past years. I remain convinced that there are significant profits and cash flows to unlock from Lecico in a more stable, balanced operating environment and with the improvements we have made and continue to make to our business model and operations in this trying period.

"Lecico also has a strong competitive advantage in the local market due to the diversity of its sources of revenue. This will win through in the end, and we need to be patient and consistent."

Taher Gargour, Lecico Egypt CEO, added, "The main negative factor impacting our numbers in the quarter was a sharp slowdown in sales in Egypt. Domestic sales fell 14% quarter-on-quarter despite a price increase of around 13% as sanitary ware sales volumes in Egypt fell 16% quarter-on-quarter and tile volumes fell 26%. This sharp drop in our sales reflected an industry-wide slowdown in retail sales in the quarter. The slowdown could have many causes including the increase in inflation following the round of subsidy removals in late June and early July; the extended holidays in the quarter that reduced trading days by almost 10% quarter-on-quarter; and the impact of the start of the school year on purchasing power.

"In the light of lower sales, we kept sanitary ware production running at the reduced levels of the second quarter and we cut tile production 8% quarter-on-quarter with corresponding diseconomies of scale compounding the inflationary spike seen in the quarter. Month-on-month Headline CPI inflation, which had averaged 0.6% in the first five months of the year rose to average 2.6% a month from June through September following a round of subsidy removal which saw diesel petrol prices increase 50%, electricity prices increase 26% and water increase 50% among other adjustments. The Company roughly estimates that the effect of these increases translates into a 7% increase on our cost of goods sold, which is pretty close to the cumulative increase in monthly inflation though since these increases were implemented.

"More positively, our working capital is going in the right direction. The slowdown in sales saw our inventory grow with some tile stock build-up and growth in raw materials and imported inputs which have a longer lead time and are slow to adjust, still overall working capital was reduced thanks to an increase in payables. Working capital days also improved overall quarter-on-quarter. Unfortunately, the drop in operating profits meant negative cash flow despite negative working capital and our lowest quarterly net finance expense charge so far this year.

"I hope we can continue to reduce inventories over the coming periods and we will continue to push to reduce receivables days and absolute value in the quarter through an increased focus on collection in Egypt and the beginning of factoring for a limited list of our export clients in the fourth quarter. We will be working to increase the base of our factoring over 2019.

"Overall, the quarter was extremely challenging and the impact of the sharp slowdown in sales in Egypt and the spike in inflation combined with high interest rates were a stronger headwind than anticipated. The fourth quarter will remain challenging on core operations with the likelihood of a seasonal slowdown in Europe towards the end of the quarter.

"Looking forward, we are to some extent forced to weather the cyclical negatives of Egypt's economic reforms, which we hope will bring a period of strong recovery for the country and our Company in due course. We believe that Egyptian rates will come down over time and that the Pound will adjust to keep its competitiveness, but we cannot begin to know when and how this will happen. In the meantime, we will try to rebuild margins from these levels regardless of any improvement in the external operating environment. We will continue to build sales volumes and this will allow us to increase production and unlock economies of scale over time. We will continue to push up prices both in export and local markets as aggressively as we can in our competitive environment. We will also continue to find cost savings in our daily operations. We will continue to work towards unlocking working capital and reducing our asset footprint. We will continue to adjust debt mix to minimize interest while remaining conscious of exchange rate risk. Through these efforts, we will continue to work towards the best possible result despite our challenges."

Lecico Revenue and Profitability

Profit and loss statement highlights	3Q		%	9M		%
(LE m)	2018	2017	18/17	2018	2017	18/17
Sanitary ware	435.1	396.7	110%	1239.5	1092.9	113%
Tiles	235.8	216.2	109%	752.1	614.7	122%
Brassware	20.3	20.7	98%	57.6	57.8	100%
Net sales	**691.2**	**633.6**	**109%**	**2,049.2**	**1,765.4**	**116%**
Sanitary ware/net sales (%)	62.9%	62.6%	0.3%	60.5%	61.9%	(1.4%)
Cost of sales	(586.0)	(508.1)	115%	(1,676.0)	(1,374.7)	122%
Cost of sales/net sales (%)	(84.8%)	(80.2%)	4.6%	(81.8%)	(77.9%)	3.9%
Gross profit	**105.2**	**125.5**	**84%**	**373.2**	**390.7**	**96%**
Gross profit margin (%)	15.2%	19.8%	(4.6%)	18.2%	22.1%	(3.9%)
Distribution and administration (D&A)	(88.8)	(81.3)	109%	(257.3)	(233.7)	110%
D&A/net sales (%)	(12.8%)	(12.8%)	0.0%	(12.6%)	(13.2%)	(0.7%)
Net other operating income/ (expense)	(11.2)	(8.5)	132%	54.1	(20.9)	(259%)
Net other operating income/ (expense) net sales (%)	(1.6%)	(1.3%)	0.3%	2.6%	(1.2%)	-
EBIT	**5.3**	**35.8**	**15%**	**170.0**	**136.1**	**125%**
EBIT margin (%)	0.8%	5.6%	(4.9%)	8.3%	7.7%	0.6%
Net profit (loss)	**(50.9)**	**(5.2)**	**982%**	**(21.5)**	**27.2**	**-**
Net profit margin (%)	-	-	-	-	1.5%	-

3Q 2018: Drop in domestic market and high inflation drives LE 50.9m net loss

A year-on-year and quarter-on-quarter volume led drop in sales in Egypt compounded a significant increase in costs over the past twelve months to lead to a drop in gross margins and profits that pushed the Company into a LE 50.9m net loss for the quarter.

Lecico revenues for the third quarter increased by 9% year-on-year to reach LE 691.2 million (3Q 2017: LE 633.6 million) as a result of higher export volumes in sanitary ware and tiles as well as price growth. Export revenues rose 22% year-on-year to reach LE 394.7 million (3Q 2017: LE 322.5 million) while domestic revenues fell 5% year-on-year to reach LE 296.5 million (3Q 2017: LE 311.1 million).

Quarter-on-Quarter revenues decreased by 2% (2Q 2018: LE 705 million) with export growth offset by a drop in domestic sales. Export revenues rose 9% quarter-on-quarter to reach LE 394.7 million (2Q 2018: LE 361 million) while domestic revenues fell 14% quarter-on-quarter to reach LE 296.5 million (2Q 2018: LE 344 million).

Lecico’s cost of goods sold rose 15% year-on-year to LE 586 million (3Q 2017: LE 508.1 million) as a result of reduced production in sanitary ware and the high inflation in Egypt over the past twelve months. Cumulative headline CPI was 14% for the past twelve months and sanitary ware production for the quarter was reduced 7% year-on-year.

Lecico’s gross profit for the third quarter decreased 16% year-on-year to LE 105.2 million (3Q 2017: LE 125.5 million). Lecico’s gross profit margin decreased 4.6 percentage points to 15.2% compared to 19.8% in the same period last year.

Quarter-on-quarter gross profit decreased by 15% (2Q 2018: LE 124.4 million) and Lecico's gross margin decreased 2.4 percentage points (2Q 2018: 17.6%).

In absolute terms, distribution and administration (D&A) expenses increased by 9% to LE 88.8 million (3Q 2017: LE 81.3 million), and proportional D&A expenses were the same as last year 12.8%.

Quarter-on-quarter distribution and administration (D&A) expenses increased 2% (2Q 2018: LE 86.9 million) and proportional D&A expenses were up by 0.5 percentage points (2Q 2018: 12.3%).

Lecico reported LE 11.2 million in net other operating expenses compared to net other operating expenses of LE 8.5 million in the third quarter of 2017

Quarter-on-quarter the Company reported LE 44.4 million in net other operating income in the second quarter 2018 primarily as result of LE 51 million from the sale of a piece of land.

Lecico's operating profit (EBIT) for the third quarter decreased 85% to LE 5.3 million (3Q 2017: 35.8 million). Lecico's EBIT margin for the quarter was 0.8% (3Q 2017: 5.6%).

Quarter-on-quarter EBIT decreased by 94% (2Q 2018: LE 81.8 million) and Lecico's EBIT margin decreased 10.8 percentage points (2Q 2018: 11.6%). Excluding the one-off gain of LE 51 million from selling land in the second quarter, Lecico's EBIT decreased 83% quarter-on-quarter and operating margins decreased 3.6 percentage points.

Net financing expenses rose 35% year-on-year during the third quarter of 2018 to reach LE 56.4 million compared to LE 41.7 million in the same period in 2017, due to growth in debt and a higher proportion of local borrowing. Foreign exchange losses of LE 1.9 million in the quarter compared to LE 1 million gain in 3Q 2017 were also a factor.

Quarter-on-quarter net financing expenses decreased 17% (2Q 2018: LE 68.2 million) primarily due to foreign exchange losses of LE 1.9 million in the quarter compared to LE 10.0 million losses in 2Q 2018.

Lecico reported net loss LE 50.9 million in the third quarter compared to net loss LE 5.2 million in the same period last year. Quarter-on-quarter Lecico reported net gain LE 4.9 million in the second quarter 2018 due to the one-off capital gain from land sales LE 51 million.

9M 2018: LE 21.5m net loss as high inflation and destock squeeze sanitary ware margins

Lecico revenues for the nine months were increased by 16% year-on-year to LE 2,049.2 million (9m 2017: LE 1,765.4million) on the back of higher sales volumes and the cumulative effect of prices increases done over the past twelve months.

Lecico's cost of goods sold rose 22% year-on-year to LE 1,676 million (9m 2017: LE 1,374.7 million) as a result of reduced production in sanitary ware and the high inflation in Egypt over the past twelve months. Cumulative headline CPI was 20% over 2017 and sanitary ware production was for the nine months was reduced 8% from the same period last year.

Gross profit decreased by 4% to reach LE 373.2 million (9m 2017: LE 390.7 million) and the Company's gross profit margin was down 3.9 percentage points to 18.2% (9m 2017: 22.1%).

In absolute terms, distribution and administration (D&A) expenses increased by 10% to LE 257.3 million (9m 2017: LE 233.7 million), but proportional D&A expenses were down by 0.7 percentage points to 12.6% of net sales compared to 13.2% in the first nine months of 2017.

Lecico reported LE 54.1 million in net other operating income compared to net other operating expenses of LE 20.9 million in the first nine months of 2017 primarily as result of LE 76.5 million in one-off gains realized in the first half of 2018.

Operating profit (EBIT) increased 25% to reach LE 170 million (9m 2017: LE 136.1 million) and the Company's EBIT margin increased 0.6 percentage points to 8.3% (9m 2017: 7.7%). Excluding the one-off gains of LE 76.5 million in the first nine months, Lecico would have reported an operating profit of LE 93.5 million for the first nine months with a margin of 4.6%.

Financing expenses were increased 90% year-on-year during 2018 to reach LE 176.5 million compared to the same period in 2017 due to foreign exchange losses (LE 6.8 million loss versus LE 11.6 million gain in 9M 2017) combined with higher borrowings and higher interest rates for the Egyptian Pound.

Lecico reported net loss of LE 21.5 million compared to net profit of LE 27.2 million in the same period last year.

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 98 million.

Segmental analysis

Sanitary ware

3Q: Sanitary ware sales volumes increased by 7% (up 95,440 pieces). Export volumes grew 24% (up 188,937 pieces), while sales volumes in Egypt decreased 18% (down 87,048 pieces) and sales volumes in Lebanon decreased 16% (down 6,449 pieces).

Quarter-on-quarter total sales volumes increased by 4% (up 58,877 pieces). Sales in Egypt decreased by 16% (down 75,421 pieces), while export volumes increased 15% (up 126,415 pieces) and sales in Lebanon increased by 29% (up 7,882 pieces).

Average sanitary ware prices increased by 2% year-on-year at LE 308.2 per piece (3Q 2017: LE 301.4) reflecting the higher proportion of export sales (68.5% of sales volume in 3Q 2018 vs. 59.2% in 3Q 2017) and the cumulative effect of price increases done in Egypt over the past twelve months offset by changing product mix and discounted sales of some stagnant and obsolete stock in the quarter.

Quarter-on-quarter average prices were up 1% (2Q 2018: LE 303.9) with a 15% increase in local prices offset by changing mix and a lower proportion of local sales (29% of sales volume in 3Q 2018 vs. 35.8% in 2Q 2018).

Revenues rose 10% year-on-year at LE 435.1 million (3Q 2017: LE 396.7 million).

Quarter-on-quarter revenues were up 6% (2Q 2018: LE 411.1 million). The proportional value of export sales volumes was up 6.4 percentage points quarter-on-quarter (2Q 2018: 62.2%) as exports rose and local sales fell.

Average cost of sales per piece rose 15% year-on-year at LE 248 per piece due to lower production (down 7%) and high inflation in Egypt. Quarter-on-quarter, the average cost of sales rose 7% partly as a result of the spike in inflation in the quarter (2Q 2018: LE 231.1 per piece).

Gross profit fell 24% to LE 85.1 (3Q 2017: LE 112.2) and the margin decreased by 8.7 percentage points to 19.6% (3Q 2017: 28.3%). Quarter-on-quarter gross profit decreased by 14% (2Q 2018: LE 98.4 million) and the margin decreased 4.4 percentage point (2Q 2018: 23.9%).

Sanitary ware segmental analysis	3Q		%	9M		%
	2018	2017	18/17	2018	2017	18/17
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	409	496	82%	1,332	1,406	95%
Lebanon (000 pcs)	35	41	84%	82	109	76%
Export (000 pcs)	967	779	124%	2,603	2,231	117%
Total sanitary ware volumes (000 pcs)	**1,412**	**1,316**	**107%**	**4,017**	**3,745**	**107%**
Exports/total sales volume (%)	68.5%	59.2%	9.4%	64.8%	59.6%	5.2%
Sanitary ware revenue (LE m)	**435.1**	**396.7**	**110%**	**1239.5**	**1092.9**	**113%**
Average selling price (LE/pc)	308.2	301.4	102%	308.5	291.8	106%
Average cost per piece (LE/pc)	248.0	216.2	115%	233.0	197.8	118%
Sanitary ware cost of sales	(350.0)	(284.5)	123%	(935.9)	(740.7)	126%
Sanitary ware gross profit	85.1	112.2	76%	303.6	352.1	86%
Sanitary ware gross profit margin (%)	19.6%	28.3%	(8.7%)	24.5%	32.2%	(7.7%)

9M: Sanitary ware sales volume increased by 7% to 4 million pieces (up 272,082 pieces). Sales in Egypt decreased by 5% (down 73,315 pieces) and Sales in Lebanon decreased by 24% (down 26,364 pieces), while sales in Export increased by 17% (up 371,761 pieces). Growth in export came from the UK, South Africa and OEM markets.

Average sanitary ware prices were up 6% year-on-year to LE 308.5 per piece reflecting the cumulative effect of price increases over the last twelve months.

Revenues were up 13% year-on-year at LE 1,239.5 million. Exports represented 64.8% of volumes compared to 59.6% in 2017.

Average cost of sales rose 18% at LE 233 per piece due to lower production (down 8%) and high inflation in Egypt.

Gross profit decreased 14% to LE 303.6 million (9m 2017: LE 352.1 million) and the margin fell 7.7 percentage points to 24.5% (9m 2017: 32.2%).

Tiles

3Q: Tile sales volumes decreased 4% year-on-year (down 230,146 square meters) to reach 5.8 million square meters in the third quarter of 2018. Export volumes grew 30% (up 281,301 square meters), while sales volumes in Egypt decreased 10% (down 489,752 square meters) and sales volumes in Lebanon decreased 13% (down 21,695 square meters).

Quarter-on-quarter sales volumes decreased 20% (down 1.5 million square meters) mainly as a result of 27% decrease in sales in Egypt (down 1.6 million square meters), while sales in export increased 9% (up 104,000 square meters) and sales in Lebanon increased 20% (up 25,000 square meters).

Average net prices rose 13% year-on-year to LE 40.9 per square meter reflecting the cumulative effect of price increases done in Egypt over the last twelve months.

Quarter-on-quarter average prices were up 8% (2Q 2018: LE 38) reflecting the increased proportion of export sales and the increase done in prices in the local market in July.

Tiles revenues were up 9% year-on-year at LE 235.8 million in the third quarter of 2018 (3Q 2017: LE 216.2 million).

Quarter-on-quarter revenues were down 14% (2Q 2018: LE 274.2 million).

Average costs rose 10% year-on-year to reach LE 38.7 per square meter as production was up 2% year-on-year offsetting some of the effect of high inflation over the last year.

Quarter-on-quarter average costs increased by 10% (2Q 2018: LE 35.2 per square meter) due to an 8% reduction in production to try and limit stock build up and the impact of the spike in inflation in the quarter.

Gross profit rose 122% to LE 12.5 million (3Q 2017: LE 5.6 million) and the margin increased by 2.7 percentage points to 5.3% (3Q 2017: 2.6%).

Quarter-on-quarter gross profit decreased 38% (2Q 2018: LE 20.1 million) and the margin fell 2 percentage points (2Q 2018: 7.3%) due to diseconomies of scale and cost inflation.

Tile segmental analysis	3Q 2018	3Q 2017	% 18/17	9M 2018	9M 2017	% 18/17
Tile volumes (000 sqm)						
Egypt (000 sqm)	4,406	4,896	90%	15,441	14,720	105%
Lebanon (000 sqm)	150	172	87%	346	427	81%
Export (000 sqm)	1,210	929	130%	3,501	2,330	150%
Total tile volumes (000 sqm)	**5,766**	**5,996**	**96%**	**19,288**	**17,477**	**110%**
Exports/total sales volume (%)	21.0%	15.5%	5.5%	18.2%	13.3%	4.8%
Tile revenue (LE m)	**235.8**	**216.2**	**109%**	**752.1**	**614.7**	**122%**
Average selling price (LE/sqm)	40.9	36.1	113%	39.0	35.2	111%
Average cost per sqm (LE/sqm)	38.7	35.1	110%	36.4	34.3	106%
Tile cost of sales	(223.3)	(210.6)	106%	(701.2)	(599.5)	117%
Tile gross profit	12.5	5.6	222%	50.9	15.2	335%
Tile gross profit margin (%)	5.3%	2.6%	2.7%	6.8%	2.5%	4.3%

9M: Tile sales volumes increased by 10% year-on-year (up 1.8 million square meters) to reach 19.3 million square meters. Sales in Egypt increased by 5% (up 720,317 square meters) and sales in export increased by 50% (up 1.2 million square meters), while sales in Lebanon decreased by 19% (down 80,448 square meters).

Average net prices rose 11% at LE 39 per square meter reflecting the cumulative effect of price increases over twelve months.

Tiles revenues were up 22% year-on-year at LE 752.1 million in the first nine months of 2018 (9m 2017: LE 614.7 million).

Average costs rose 6% year-on-year to reach LE 36.4 per square meter as 5% higher production helped offset the high inflation in Egypt over the past twelve months.

Gross profit increased 235% to reach LE 50.9m (9m 2017: LE 15.2m) and the margin increased by 4.3 percentage points to 6.8% (9m 2017: 2.5%).

Brassware

3Q: Sales volumes for the third quarter 2018 decreased by 15% to reach 23,888 pieces (3Q 2017: 28,081 pieces). Quarter-on-quarter sales volumes were down 12% (2Q 2018: 27,045 pieces).

Average net prices rose 16% to reach LE 850.9 per piece (3Q 2017: LE 735.9) with the changing mix obscuring some of the price increase done over the period. Quarter-on-quarter prices increased by 17% (2Q 2018: LE 728.6).

Revenue for the quarter decreased 2% year-on-year to reach LE 20.3 million (3Q 2017: LE 20.7 million). Quarter-on-quarter revenues increased by 3% (2Q 2018: LE 19.7 million). Brassware accounted for 2.9% of the quarter's revenues, compared to 3.3% in the same period last year.

Average cost per piece rose 15% to LE 528.2 per piece (3Q 2017: LE 461 per piece) reflecting changing mix and the impact of high inflation in Egypt. Quarter-on-quarter average cost per piece increased by 3% (2Q 2018: LE 513.1 per piece) reflecting changing mix.

Gross profit for the third quarter is flat year-on-year as at LE 7.7 million and the gross margin rose 0.6 percentage points to 37.9%. Quarter-on-quarter gross profit increased by 32% (2Q 2018: LE 5.8 million) and the gross margin rose 8.3 percentage points (2Q 2018: 29.6%).

Brassware's percentage of consolidated gross profits increased to 7.3% of Lecico gross profits (3Q 2017: 6.1%). Quarter-on-quarter brassware's percentage of consolidated gross profits increased by 2.6 percentage point (2Q 2018: 4.7%).

Brassware segmental analysis	3Q		%	9M		%
	2018	2017	18/17	2018	2017	18/17
Brassware volumes (pcs)						
Egypt (pcs)	23,885	27,921	86%	71,287	82,401	87%
Export (pcs)	3	160	2%	1,924	160.00	1203%
Total brassware volumes (pcs)	**23,888**	**28,081**	**85%**	**73,211**	**82,561**	**89%**
Exports/total sales volume (%)	0.0%	0.6%	(0.6%)	2.6%	0.2%	2.4%
Brassware revenue (LE m)	**20.3**	**20.7**	**98%**	**57.6**	**57.8**	**100%**
Average selling price (LE/pc)	850.9	735.9	116%	787.2	700.6	112%
Average cost per piece (LE/pc)	528.2	461.0	115%	531.6	417.4	127%
Brassware cost of sales	(12.6)	(12.9)	97%	(38.9)	(34.5)	113%
Brassware ware gross profit	7.7	7.7	100%	18.7	23.4	80%
Brassware gross profit margin (%)	37.9%	37.4%	0.6%	32.5%	40.4%	(7.9%)

9M: Sales volumes for 2018 decreased by 11% to reach 73,211 pieces compared to 82,561 pieces for same period of 2017.

Revenues for 2018 are flat year-on-year as at LE 57.6 million.

Brassware's percentage of consolidated revenues 2.8%, while the percentage for the same period last year was 3.3% of sales.

Average net prices rose 12% to reach LE 787.2 per piece (9m 2017: LE 700.6 per piece) due to product mix and price increases done over the last twelve months.

Average cost per piece rose 27% to LE 531.6 per piece (9m 2017: LE 417.4 per piece) reflecting changing mix and the effect of high inflation over the last year.

Gross profit decreased 20% to LE 18.7 million (9M 2017: LE 23.4 million) and the margin fell 7.9 percentage points to 32.5% (9M 2017: 40.4%).

Brassware's percentage of consolidated gross profits decreased to 5% of Lecico gross profits (9m 2017: 6%).

Financial Position

The value of Lecico's assets increased by 9% at the end of September 30, 2018 to reach LE 3,215 million (2017: LE 2,960.1 million) primarily as a result of growth in receivables, cash and inventories over the first nine months of 2018.

Total liabilities were up 14% at LE 2,223.7 million (2017: LE 1,955.4 million) as debts and payables grew.

Gross debt increased 13% or LE 196.5 million to reach LE 1,653.6 million compared to LE 1,457.1 million at the end of 2017.

Net debt rose 9% or LE 101.8 million to reach LE 1,297.6 million compared to LE 1,195.8 million at the end of 2017.

Net debt to equity increased by 10% to reach 1.33x compared to 1.21x at the end of 2017.

Recent developments and outlook

Outlook for 4Q 2018 and 2019: The acceleration of cost inflation and the slowdown in the Egyptian market were the key factors that put additional pressure on Lecico's margins and working capital in the third quarter. Looking forward, we expect inflation to slow but continue and we do not anticipate any scope for any further price increases in 2018. The only real variable to improve results quarter-on-quarter then is sales and the corresponding increase or decrease in production with its effect on unit cost. While early trading in the quarter is positive, the Company anticipates a typical seasonal slowdown towards the end of the year which means sales are not expected to be significantly improved quarter-on-quarter in the fourth quarter. Accordingly, Lecico expects a challenging close to the year on core operations.

Lecico is looking to reduce other inventories and limit working capital growth in the quarter, but the effect of this on cash flow depends on fluctuations in demand and sales. The Company expects to move at least a further 10% of its debt from local market borrowing to lower-cost foreign currency debt but this will be done over the quarter and so will not have a material effect on expenses until the start of 2019.

Looking forward to 2019, the Company is expecting to continue growing export sales and will be increasing export prices over the course of the first half of the year. Lecico also expects to see an improvement in domestic consumption in line with forecasts of improved GDP growth for Egypt. However, the market is expecting further subsidy removals to spike inflation during the course of the year and sees limited scope for a sharp or speedy reduction in interest rates. The market is also not expecting a significant or speedy adjustment in exchange rates to the relative competitiveness of exports – and Lecico's export margins – are expected to remain under pressure for much of the year.

Consequently, profitability in the 2019 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.

In spite of expectations of an improvement in demand for the Company's products in 2019, the challenges facing Lecico and the tactics to deal with it remain unchanged. Lecico 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.

For additional information, please contact:

Taher G. Gargour
Telephone: +203 518 0011
Fax: +203 518 0029
E-mail: tgargour@lecico.com

Visit our website at: www.lecico.com

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	3Q		%	9M		%
(LE m)	2018	2017	18/17	2018	2017	18/17
Net sales	**691.2**	**633.6**	**109%**	**2,049.2**	**1,765.4**	**116%**
Cost of sales	(586.0)	(508.1)	115%	(1,676.0)	(1,374.7)	122%
Gross profit	**105.2**	**125.5**	**84%**	**373.2**	**390.7**	**96%**
Gross margin (%)	15.2%	19.8%	(4.6%)	18.2%	22.1%	(3.9%)
Distribution expenses	(41.2)	(39.7)	104%	(120.6)	(110.4)	109%
Administrative expenses	(47.6)	(41.6)	115%	(136.7)	(123.3)	111%
Other Operating income	4.8	4.3	113%	91.3	12.4	738%
Other Operating expenses	(16.0)	(12.7)	125%	(37.2)	(33.3)	112%
Operating profit (EBIT)	**5.3**	**35.8**	**15%**	**170.0**	**136.1**	**125%**
Operating (EBIT) margin (%)	0.8%	5.6%	(4.9%)	8.3%	7.7%	0.6%
Investment revenues	5.1	6.4	80%	5.1	6.4	80%
Finance income	1.4	2.9	46%	4.3	17.9	24%
Finance expense	(57.7)	(44.6)	130%	(180.8)	(110.7)	163%
(Loss) Profit before tax and minority (PBTM)	**(46.0)**	**0.5**	**-**	**(1.3)**	**49.7**	**-**
PBTM margin (%)	-	0.1%	-	-	2.8%	-
Income tax	(8.5)	(4.0)	212%	(29.2)	(19.8)	147%
Deferred tax	0.3	0.5	69%	5.2	0.8	621%
Net (Loss) Profit after tax (NPAT)	**(54.2)**	**(3.0)**	**1787%**	**(25.3)**	**30.7**	**-**
NPAT margin (%)	-	-	-	-	1.7%	-
Minority interest	3.3	(2.1)	-	3.9	(3.6)	-
Net (Loss) Profit	**(50.9)**	**(5.2)**	**982%**	**(21.5)**	**27.2**	**-**
Net profit margin (%)	-	-	-	-	1.5%	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Sep-18	31-Dec-17	9M18/FY17 (%)
Cash and short-term investments	356.0	261.3	136%
Inventory	1165.1	1133.8	103%
Receivables	902.6	744.3	121%
Related parties -debit balances	35.0	38.7	91%
Total current assets	**2,458.8**	**2,178.0**	**113%**
Net fixed assets	639.5	690.7	93%
Intangible assets	28.8	29.2	99%
Projects in progress	52.3	21.9	239%
Available for sale investments	13.4	13.2	101%
Long-term notes receivable	22.3	27.1	82%
Total non-current assets	**756.2**	**782.1**	**97%**
Total assets	**3,215.0**	**2,960.1**	**109%**
Banks overdraft	1615.2	1390.5	116%
Current portion of long-term liabilities	33.4	46.6	72%
Trade and notes payable	220.1	185.8	118%
Other current payable	320.5	269.6	119%
Related parties -credit balances	2.2	2.1	104%
Provisions	0.4	7.5	5%
Total current liabilities	**2,191.7**	**1,902.0**	**115%**
Long-term loans	5.0	20.0	25%
Provisions	9.3	10.6	88%
Deferred tax	17.6	22.8	77%
Total non-current liabilities	**31.9**	**53.4**	**60%**
Total liabilities	**2,223.7**	**1,955.4**	**114%**
Minority interest	**18.9**	**18.7**	**101%**
Issued capital	400.0	400.0	100%
Treasury stock	0.0	(48.2)	0%
Reserves	574.1	558.5	103%
Retained earnings	19.8	38.5	51%
Net (Loss) Profit for the period/year	(21.5)	37.2	-
Total equity	**972.5**	**986.1**	**99%**
Total equity, minorities and liabilities	**3,215.0**	**2,960.1**	**109%**

Lecico Egypt consolidated cash flow

Cash flow statement	9M		%
(LE m)	2018	2017	18/17
Cash Flow from operating activities			
Net (Loss) profit for the period	(21.5)	27.2	-
Depreciation and translation adjustment	79.2	76.7	103%
Intangible assets amortization and translation adjustment	0.4	(0.5)	-
Income tax expense	29.2	19.8	147%
Income tax paid	(11.2)	(12.4)	90%
Deferred income tax	(5.2)	(0.6)	865%
Prepaid rent expense	0.0	0.2	0%
Capital gains	(50.9)	1.7	-
Provided provisions and translation adjustment	25.6	19.4	132%
Reversal of expired provision	(0.1)	(1.0)	6%
Employee share in net profit	36.5	27.1	135%
Increase (Decrease) in minority interest	0.2	(3.7)	-
Increase (Decrease) in translation reserve	7.9	15.8	50%
(Increase) Decrease in Inventory	(31.4)	(194.8)	16%
(Increase) Decrease in Receivables	(155.6)	(70.9)	220%
Increase (Decrease) in Payables	66.4	66.9	99%
Utilized Provisions	(32.9)	(34.9)	94%
Increase (Decrease) in Other Long Term Liabilities	0.0	0.0	-
Difference result from discounting of long term notes receivables	(2.6)	(0.6)	451%
Net cash from operating activities	**(65.9)**	**(64.6)**	**102%**
Cash flow from investing activities			
Additions to fixed assets and projects	(68.5)	(83.3)	82%
Intangible assets	0.01	(0.00)	-
Net change in available for sale investments	(0.1)	0.4	-
Proceeds from sales of fixed assets	61.0	1.6	3832%
Increase (Decrease) in long-term notes receivable	7.4	4.7	159%
Net cash from investing activities	**(0.2)**	**(76.6)**	**0%**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	(15.0)	(35.7)	42%
Increase (Decrease) in current portion of long term liabilities	(13.2)	(0.9)	1539%
(Increase) Decrease in treasury stock	0.0	(48.2)	0%
Employees Dividends paid	(35.7)	(32.6)	110%
Net cash from financing activities	**(63.9)**	**(117.4)**	**54%**
Net change in cash & cash equivalent during the period	**(130.0)**	**(258.5)**	**50%**
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	**(1,259.2)**	**(1,085.5)**	**116%**