First quarter 2016 Results

Alexandria, 23rd May 2016 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for first quarter 2016.

Highlights

1Q 2016

- Lecico revenue fell 3% to LE 319.0 million (52.1% from sanitary ware)
- Sanitary ware revenue fell 6% to LE 166.3 million, sales volumes fell 9% to 1.12 million pieces (49.2% exports)
- Tile revenue fell 2% to LE 138.8 million, sales volumes up 7% to 6.5 million square meters (15.6% exports)
- Brassware revenue up 17% to LE 13.9 million, sales volume up 34% to 40,787 pieces
- First quarter reported negative EBIT LE 18.8 million.
- First quarter reported net loss LE 41.3 million compared to net profit of LE 2.2 million.

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented "The first quarter show some improvement from the fourth quarter of 2015 but the significant loss is still unsatisfactory.

"As I said in our fourth quarter report, we continue to feel the pressure of an accumulation of negative factors that our company has faced: weakening demand in Egypt and regional export markets; overcapacity and price competition in the tiles segment; a significant increase in cost due to the extraordinary increase in the cost of energy in mid-2014.

"In the first quarter of this year, we can see some improvement in our sales volumes in Egypt and this has helped a quarter-on-quarter reduction in our operating and net losses. I believe that a part of this limited improvement is due to the work begun on improving our market share in Egypt since late last year, principally: reorganizing and strengthening our sales force; introducing new product lines in tile; introducing new distributors; and starting a program to directly incentivize and support the small traders.

"We have a number of further initiatives to protect and grow our market share over the rest of the year, including: offering further new product lines in tiles; opening a distribution center in Upper Egypt; and developing our below-the-line marketing in Egypt. However, the situation remains extremely challenging and as long as the market remains in over-capacity; we will likely continue to see local prices and volumes stagnate and even if we can improve Lecico's market share in such an environment, quarterly losses seem likely to continue for some time.

"Hopefully the currency devaluation done – which is good news for us in our export businesses – is the beginning of a series of reforms and economic stimulus that will return Egypt to substantial growth over the next 12 to 18 months. We are also confident that we shall overcome the current difficulties with the support of our Lecico family of management, staff and distribution."

Taher Gargour, Lecico Egypt MD, added, "In addition to the initiatives taken to boost our local market share – some of which have been outlined by the Chairman in his statement – we have also been working on cutting costs and working on inventory reduction and cash collection to try and deliver the best possible cash flow position in light of reduced gross profits.

"In the first quarter this has been a mixed success further distorted by the devaluations impact on our overseas working capital. Overall working capital did grow in the quarter, but reductions in inventory in real terms and new systems for control of receivables give me confidence that we will see this improve over the coming quarters.

"Although the devaluation worsened our balance sheet position in Egyptian Pound terms it is good news for us operationally. We continue to have more of our revenue than costs in hard currency allowing us to absorb any devaluation and see a small improvement in our operating results. The devaluation significantly improves our export returns and allows us to quote more competitively for new business without sacrificing margins.

"In terms of cost cutting, we can see an improvement in our gross margins and we can see our lowest level of overheads – barring exceptional other expenses – in the last two years. We will work hard to keep these savings ongoing and to unlock further value in the coming quarters.

"On all fronts we will continue to take decisive actions in response to the difficult operating environment we are in. Although the near term will remain extremely challenging, I am confident this will leave us stronger as a company and help us best utilize our significant advantages and strengths."

Lecico Revenue and Profitability

Profit and loss statement highlights	1Q		%
(LE m)	2016	2015	16/15
Sanitary ware	166.3	176.0	94%
Tiles	138.8	141.3	98%
Brassware	13.9	11.9	117%
Net sales	**319.0**	**329.2**	**97%**
Sanitary ware/net sales (%)	52.1%	53.5%	(1.3%)
Cost of sales	(284.2)	(256.2)	111%
Cost of sales/net sales (%)	(89.1%)	(77.8%)	11.2%
Gross profit	**34.8**	**73.0**	**48%**
Gross profit margin (%)	10.9%	22.2%	(11.3%)
Distribution and administration (D&A)	(45.7)	(49.2)	93%
D&A/net sales (%)	(14.3%)	(14.9%)	(0.6%)
Net other operating income/ (expense)	(8.0)	(1.0)	777%
Net other operating income/ (expense) net sales (%)	(2.5%)	(0.3%)	2.2%
EBIT	**(18.8)**	**22.8**	**-**
EBIT margin (%)	-	6.9%	-
Net profit	**(41.3)**	**2.2**	**-**
Net profit margin (%)		0.7%	-

1Q 2016: Weaker sales and higher unit production costs drive a significant net loss.

Lecico revenues for the first quarter were decreased by 3% year-on-year to LE 319.0 million. Lecico has seen improvement in demand in Egypt and Lebanon in all segments but this was offset by a reduction in sanitary ware export volumes and in tile prices year-on-year.

Sanitary ware exports to Europe, the Middle East and to OEM customers all were down year-on-year, offsetting the growth in sales in Egypt and Lebanon. Average prices in sanitary ware improved year-on-year reflecting the cumulative effect of price increases over the year and the impact of the March devaluation of the Egyptian Pound on average export prices.

Tile volumes show an improvement over the same period last year and over the average sales volume of the full year of 2015. However, increased competition and oversupply in the market has put pressure on pricing with average tile prices down 8% year-on-year despite a higher value mix of products in comparison.

Year-on-year average unit costs rose primarily as a result of continued reduced production. Given the worsening sales picture in the second half of 2015, the Company is continuing to adjust production on a month-by-month basis to try to minimize stock growth and minimize any cash outflows – albeit at the expense of production costs and profitability. The Company was able to reduce inventories quarter-on-quarter but this was offset in our financials by the restatement of our overseas inventories following the March devaluation of the Egyptian Pound.

As a result of weaker export sales volumes, lower tile prices and higher unit production costs, gross profit decreased by 52% to reach LE 34.8 million. The Company's gross profit margin fell 11.3 percentage points to 10.9% compared to 22.2% for the same period last year.

In absolute terms, D&A expenses decreased by 7% to LE 45.7 million on the back of cost savings throughout the year. Proportional D&A expenses drop 0.6 percentage points to 14.3% of net sales compared to 14.9% in the first quarter of 2015.

The Company also reported LE 8.0 million in net other operating expense compared to LE 1.0 million in the first quarter of 2015. This was primarily due to an LE 7.5 million expense of marking down to present value the new long-term receivables. Long-term receivables increased LE 26.1 million to reach a value of LE 37.9 million in the quarter as the Company rescheduled some of the receivables of its local market customers.

Lecico recorded an EBIT loss of LE 18.8 million for the quarter compared to an EBIT profit of LE 22.8 million in the first quarter of 2015.

Financing expenses were up 7% year-on-year during the first quarter of 2016 to reach LE 21.8 million compared to the same period in 2015 as a result of higher borrowings, the impact of the March devaluation of the Egyptian Pound and increasing interest rate by central bank of Egypt.

Lecico recorded net tax charges for the quarter of LE 4.9 million versus LE 0.6 million tax charges for the same period last year. The tax charge for this quarter was increased by an exceptional charge of LE 5.4 million due to the government decision that taxes on inter-company dividends are not subject to deduction due to operational profitability. The Company will need to consider this in future decisions about inter-company profit transfers.

Lecico reported net loss for the first quarter of LE 41.3 million compared to net profit LE 2.2 million for the same period last year.

Segmental analysis

Sanitary ware

1Q: Sanitary ware sales volume decreased by 9% to 1.12 million pieces (down 115,000 pieces) largely as a result of export falling 26% (198,000 pieces), this reduction in exports offset by higher sales in Egypt, which rose 14% (64,000 pieces).

Average sanitary ware prices were up 4% year-on-year to LE 147.9 per piece as a result of price increases done in July 2015 and despite a shift towards lower-priced Egyptian sales (Exports were 49.2% of sales in the quarter compared to 60.6% in the same period last year). Average price and cost for the quarter also saw some limited impact from the devaluation of the Egyptian pound, pushing up export prices and unit costs.

Revenues fell 6% year-on-year at LE 166.3 million.

Average cost of sales up 10% at LE 118.9 per piece due to reduced production and the impact of the March devaluation on energy costs and other imported inputs.

With the lower volume of sales, the Cost of Sales was flat at LE 133.7 million.

Sanitary ware gross profit margin fell 4.1 percentage points to reach 19.6% and gross profits fell 22% to LE 32.6 million.

Sanitary ware segmental analysis	1Q		%
	2016	2015	16/15
Sanitary ware volumes (000 pcs)			
Egypt (000 pcs)	534	470	114%
Lebanon (000 pcs)	37	18	207%
Export (000 pcs)	553	751	74%
Total sanitary ware volumes (000 pcs)	**1,124**	**1,239**	**91%**
Exports/total sales volume (%)	49.2%	60.6%	(11.4%)
Sanitary ware revenue (LE m)	**166.3**	**176.0**	**94%**
Average selling price (LE/pc)	147.9	142.1	104%
Average cost per piece (LE/pc)	118.9	108.4	110%
Sanitary ware cost of sales	(133.7)	(134.3)	100%
Sanitary ware gross profit	32.6	41.7	78%
Sanitary ware gross profit margin (%)	19.6%	23.7%	(4.1%)

Tiles

1Q: Tile sales volumes increased by 7% year-on-year (0.4 million square meters) to reach 6.5 million square meters in the first quarter of 2016.

Sales to Egypt were up 6% (0.3 million square meters) with continued pressure on demand and oversupply. Exports were flat despite the political situation in Libya and the economic constraints in other parts of the Middle East continuing to negatively affect demand.

Average net prices fell 8% at LE 21.3 per square meter as a result of promotions and price reductions done over 2015 in the face of increased competition. The Company took the decision to reduce prices in Libya in the fourth quarter of 2015 and is actively seeking new export markets at competitive prices to offset the drop in overall sales which has had an effect on average export prices but helped quarter-on-quarter sales volumes.

Tiles revenues were down 2% year-on-year at LE 138.8 million in the first quarter of 2015.

Average costs rose 14% year-on-year to reach LE 21.6 per square meter due to the Company's decision to reduce production in light of weaker demand and the impact of the March devaluation on energy costs and other imported inputs.

With the higher volume of sales, the Cost of Sales rose 22% to reach LE 140.4 million.

First quarter reported a tile gross loss of LE 1.6 million compared a gross profit of LE 26.2 million in the first quarter of 2015.

Tile segmental analysis	1Q		%
	2016	2015	16/15
Tile volumes (000 sqm)			
Egypt (000 sqm)	5,181	4,877	106%
Lebanon (000 sqm)	310	210	148%
Export (000 sqm)	1,012	1,011	100%
Total tile volumes (000 sqm)	**6,503**	**6,098**	**107%**
Exports/total sales volume (%)	15.6%	16.6%	(1.0%)
Tile revenue (LE m)	**138.8**	**141.3**	**98%**
Average selling price (LE/sqm)	21.3	23.2	92%
Average cost per sqm (LE/sqm)	21.6	18.9	114%
Tile cost of sales	(140.4)	(115.1)	122%
Tile gross profit	(1.6)	26.2	-
Tile gross profit margin (%)	-	18.5%	-

Brassware

1Q: Sales volumes for first quarter increased by 34% to reach 40,787 pieces compared to 30,411 pieces in first quarter of 2015.

Average net prices fell 12% to reach LE 341.8 per piece due to product mix and additional discounted prices on several projects.

Revenue for the quarter was up 17% year-on-year to reach LE 13.9 million.

Average cost per piece rose 10% to LE 246.3 per piece reflecting an inventory adjustment, changing mix and the impact of March devaluation on imported inputs.

With the larger volumes of sales, the Cost of Sales rose 47% to reach LE 10.0 million.

Brassware gross profit margins fell 14.7 percentage points to reach 28.0% and gross profits decreased by 23% to reach LE 3.9 million for the quarter.

Brassware segmental analysis	1Q		%
	2016	2015	16/15
Brassware volumes (pcs)			
Egypt (pcs)	40,787	30,072	136%
Export (pcs)	0	339	0%
Total brassware volumes (pcs)	**40,787**	**30,411**	**134%**
Exports/total sales volume (%)	0.0%	1.1%	(1.1%)
Brassware revenue (LE m)	**13.9**	**11.9**	**117%**
Average selling price (LE/pc)	341.8	390.6	88%
Average cost per piece (LE/pc)	246.3	224.1	110%
Brassware cost of sales	(10.0)	(6.8)	147%
Brassware ware gross profit	3.9	5.1	77%
Brassware gross profit margin (%)	28.0%	42.6%	(14.7%)

Financial position

The value of Lecico's assets increased by 6% at the end of March 31, 2016 at LE 2,292.8 million.

Working capital, cash and debt all increased in the quarter. The March devaluation of the Egyptian Pound was a significant factor in this increase, offsetting a reduction in inventory and accounting for approximately 30% of the increase in receivables and net debt in the quarter.

Total liabilities were up 11% at LE 1,463.7 million.

Gross debt increased 16% or LE 146.4 million to reach LE 1,070.8 million. Approximately LE 53 million of the LE 146.4 million was due to a restatement of foreign currency borrowings. Net debt rose 13% or LE 99.8 million to reach LE 856.2 million compared to LE 756.4 million at the end of 2015. Approximately LE 34 million of the LE 99.8 million was due to a restatement of foreign currency holdings and borrowings, reflecting a negative net cash flow from operations in 2016.

With growing net debt and losses for the year driving down equity, net debt to equity increased 14% to reach 1.04x compared to 0.91x at the end of 2015.

Recent developments and outlook

Outlook for 2016: The market slowdown seen from the beginning of the 2nd half of 2015 continued in the first quarter of 2016 and seems to be extending into the early summer.

The Company continues to face a challenging demand picture compounded by the price reductions enacted over 2015 to fight off competition. The challenge facing the company in this environment is to defend and gain market share and try to reach new markets to offset lost volumes. However, it will be challenging to make a significant turnaround in performance in the short-term given the amount of local and regional competition going after the same objectives.

In the face of overcapacity in Egypt and increasingly aggressive competition from competitors in the industry, Lecico is in the midst of a number of offensive measures to defend and grow market shares.

In terms of offensive measures to gain market share, over the course of 2015, Lecico did a number of price reductions in tiles both in the local market and in export.

In the second half of 2015 the Company began delivering all sanitary ware, allowing for a tighter control on distribution; as well as offering better service.

In the fourth quarter of 2015, the Company introduced a range of new sizes and inkjet printing technology into its tile production allowing the company to offer more products and compete in more market segments. Already in the first quarter the Company has felt the benefit of this in increased tile sales quarter-on-quarter.

During the first quarter of 2016, Lecico launched its designated trader program offering marketing support and incentives to our distributors best retailers directly. The number of designated traders has now reached 128 and is expected to grow significantly over the course of the year.

Lecico also reorganized its local sales team to take advantage of the marketing skills it developed as a direct distributor itself. In early 2Q 2016, the sales team enacted a new price list and stream-lined its discount system in the local market. This should drive a marginal 1.5% increase in tile prices and around a 5% increase in sanitary ware prices from 2Q 2016 onwards. Furthermore, the new discount system is expected to drive a reduction in local market receivables with its increased focus on cash payments.

By mid-2Q 2016, the Company is expecting to double its capacity for producing the new sizes of tiles with inkjet printing. Currently, all available inkjet production (approximately 25% of total tile production) is operating at close to full capacity and this transfer of further production to inkjet is expected to drive further quarter-on-quarter growth.

In 2Q 2016, Lecico will launch its Upper Egypt Tile Distribution Center offering tiles by the pallet at ex-factory prices to local traders and distributors. It is expected that these better terms – combined with the new designated trader program – will let Lecico capture market share in tiles in Upper Egypt where the Company is currently underrepresented.

Nonetheless, all these actions are ongoing in an atmosphere of fierce competition and weaker demand.

On the cost side, higher energy prices since July 2014 and reduced demand remain a challenge. In July 2014, the government raised natural gas prices 133%, electricity 33% and diesel and petrol by over 60% creating the highest cost inflation Lecico has faced in its history. The Company estimates – based on 2013 production - unit cost of production increased by 20% as a result of the direct and secondary impact of these cost increases. This would have an annual cost of LE 200 million based on those same production numbers.

Defensively, the Company reduced its production capacity in tiles by 30% and in sanitary ware by 12% at the start of 2015. This reduces Lecico's absolute energy and labour costs and matches production to current sales levels. However, this inflates the unit production costs due to diseconomies of scale. This is likely to continue over this year as the Company remains focused on reducing stock levels to improve its working capital position.

Management hopes – with government investment plans and barring any radical cost inflation – that demand will recover over the coming year. Furthermore, the Company's initiatives to increase market share and enter new markets should drive some improvement year-on-year if market conditions are constant or gradually improving.

Lecico will continue to do it's utmost to build market share in Egypt and the region and expand export activities to deliver the best possible performance and the fastest possible recovery in this challenging environment.

About Lecico

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

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

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

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	1Q		%
(LE m)	2016	2015	16/15
Net sales	**319.0**	**329.2**	**97%**
Cost of sales	(284.2)	(256.2)	111%
Gross profit	**34.8**	**73.0**	**48%**
Gross margin (%)	10.9%	22.2%	(11.3%)
Distribution expenses	(15.8)	(17.8)	88%
Administrative expenses	(29.9)	(31.3)	96%
Other Operating income	2.7	1.8	146%
Other Operating expenses	(10.7)	(2.9)	374%
Operating profit (EBIT)	**(18.8)**	**22.8**	**-**
Operating (EBIT) margin (%)	-	6.9%	-
Investment revenues	0.0	0.0	0%
Finance income	11.7	8.2	143%
Finance expense	(21.8)	(20.4)	107%
Profits before tax and minority (PBTM)	**(28.9)**	**10.6**	**-**
PBTM margin (%)	-	3.2%	-
Income tax	(6.1)	(1.8)	340%
Deferred tax	1.2	1.2	-
Net Profit after tax (NPAT)	**(33.8)**	**10.0**	**-**
NPAT margin (%)	(10.6%)	3.0%	-
Employee profit participation	(7.6)	(7.7)	99%
Net profit before minority interest	**(41.5)**	**2.3**	**-**
Minority interest	0.2	(0.1)	-
Net Profit	**(41.3)**	**2.2**	**-**
Net profit margin (%)	-	0.7%	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	31-Mar-16	31-Dec-15	3M15/FY15 (%)
Cash and short-term investments	214.6	168.0	128%
Inventory	704.6	701.0	101%
Receivables	538.8	496.7	108%
Related parties -debit balances	78.2	62.2	126%
Total current assets	**1,536.3**	**1,427.9**	**108%**
Net fixed assets	663.4	678.3	98%
Intangible assets	23.0	22.1	104%
Prepaid long-term rent	0.3	0.4	85%
Projects in progress	25.2	12.5	201%
Available for sale investments	6.6	5.8	113%
Long-term notes receivable	37.9	11.8	321%
Total non-current assets	**756.5**	**730.9**	**104%**
Total assets	**2,292.8**	**2,158.8**	**106%**
Banks overdraft	947.4	826.7	115%
Current portion of long-term liabilities	45.1	37.7	120%
Trade and notes payable	99.5	109.6	91%
Other current payable	216.3	211.7	102%
Related parties -credit balances	0.7	0.4	165%
Provisions	36.0	35.5	102%
Total current liabilities	**1,345.1**	**1221.7**	**110%**
Long-term loans	78.3	60.0	130%
Other long-term liabilities	0.2	0.3	52%
Provisions	10.7	9.8	109%
Deferred tax	29.4	30.6	96%
Total non-current liabilities	**118.6**	**100.8**	**118%**
Total liabilities	**1,463.7**	**1,322.5**	**111%**
Minority interest	**6.8**	**5.8**	**118%**
Issued capital	400.0	400.0	100%
Reserves	398.7	376.2	106%
Retained earnings	64.9	119.5	54%
Net profit (Loss) for the year	(41.3)	(65.1)	63%
Total equity	**822.3**	**830.6**	**99%**
Total equity, minorities and liabilities	**2,292.8**	**2,158.8**	**106%**

Lecico Egypt consolidated cash flow

Cash flow statement	1Q		%
(LE m)	2016	2015	16/15
Cash Flow from operating activities			
Net profit for the period	(41.3)	2.2	-
Depreciation and translation adjustment	18.9	25.8	73%
Intangible assets amortisation and translation adjustment	(0.8)	(0.0)	5479%
Income tax expense	6.1	1.8	336%
Income tax paid	(2.7)	(0.7)	-
Deferred income tax	(1.2)	(1.4)	-
Prepaid rent expense	0.1	0.1	100%
Capital gains	(0.6)	(0.0)	2042%
Provided provisions and translation adjustment	8.9	5.0	179%
Reversal of expired provision	(0.7)	(4.1)	17%
Employee share in net profit	7.6	7.7	99%
Increase (Decrease) in minority interest	1.1	(1.4)	-
Increase (Decrease) in translation reserve	33.0	18.4	180%
(Increase) Decrease in Inventory	(4.5)	(37.4)	12%
(Increase) Decrease in Receivables	(63.5)	(22.3)	285%
Increase (Decrease) in Payables	(16.4)	(22.5)	73%
Utilised Provisions	(0.7)	(1.0)	63%
Increase (Decrease) in Other Long Term Liabilities	(0.2)	(0.0)	1846%
(Payments) / Received for acquiring current investment	0.0	57.9	0%
Difference result from discounting of long term notes receivables	0.0	(0.5)	-
Net cash from operating activities	**(56.6)**	**27.5**	**-**
Cash flow from investing activities			
Additions to fixed assets and projects	(17.0)	(12.7)	134%
Intangible assets	(0.1)	(0.1)	157%
Net change in available for sale investments	(0.8)	(0.3)	228%
Proceeds from sales of fixed assets	0.9	0.2	440%
Increase (Decrease) in long-term notes receivable	(26.1)	7.1	-
Net cash from investing activities	**(43.2)**	**(5.7)**	**752%**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	18.3	(10.9)	-
Increase (Decrease) in current portion of long term liabilities	7.4	0.0	-
Net cash from financing activities	**25.7**	**(10.9)**	**-**
Net change in cash & cash equivalent during the period	**(74.1)**	**10.9**	**-**
Net cash and cash equivalent at beginning of the period	(658.7)	(546.7)	120%
Net cash and cash equivalent at the end of the period	**(732.8)**	**(535.9)**	**137%**