Second Quarter 2016 Results

Alexandria, 14th August 2016 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for second quarter 2016.

Highlights

2Q 2016

- Lecico revenue fell 12% to LE 346.6 million (56.9% from sanitary ware)
- Sanitary ware revenue up 2% to LE 197.1 million, sales volumes fell 10% to 1.21 million pieces (59.6% exports)
- Tile revenue fell 27% to LE 137.8 million, sales volumes fell 24% to 6.0 million square meters (12.6% exports)
- Brassware revenue fell 4% to LE 11.7 million, sales volume up 1% to 34,556 pieces
- Second quarter reported negative EBIT LE 10.2 million compared to net profit of LE 27.4 million
- Second quarter reported net loss LE 39.1 million compared to net profit of LE 3.9 million

1H 2016

- Lecico revenue fell 8% to LE 665.6 million (54.6% from sanitary ware)
- Sanitary ware revenue fell 2% to LE 363.4 million, sales volumes fell 10% to 2.3 million pieces (54.6% exports)
- Tile revenue fell 16% to LE 276.6 million, sales volumes fell 11% to 12.5 million square meters (14.1% exports)
- Brassware revenue up 7% to LE 25.6 million, sales volume up 17% to 75,343 pieces
- First Half reported negative EBIT LE 29.0 million compared to net profit of LE 50.2 million
- The company reported net loss of LE 80.4 million compared to net profit of LE 6.1 million

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented "The second quarter shows some improvement from the first quarter and is the second quarter of consecutive improvement from our lowest point in the fourth quarter of last year. However, the significant loss in the quarter is still unsatisfactory.

"We continue to face an extremely challenging operating environment: 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 second quarter of 2016, these challenges have been compounded by increased pressure on the currency which has led to a significant increase in interest rates that is constricting spending and investment.

"Despite these challenges, we can see some consecutive improvement in our revenues quarter-on-quarter. I believe that a part of this 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 new product lines in tiles; opening a distribution center in Upper Egypt; and developing our below-the-line marketing in Egypt. I hope we will be able to begin to discuss the results of these additional efforts in the next quarterly results note.

"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. That said, I think Lecico will be able to continue to show improvement quarter-on-quarter as our efforts to grow market share, expand exports and cut costs continue to bear fruit.

"The market is expecting another currency devaluation – which will be good for us in our export businesses – which we can hope will be the beginning of a series of reforms and economic stimulus. If so, this could be a catalyst that will return Egypt to substantial growth over the next 12 to 18 months and relieve some of the pressures we are facing.

"Whatever the external pressures and challenges, we are confident that we have a strategy to improve our relative position and performance. We will continue to improve and adapt our strategy and tactics to 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 second quarter and for the first half, we can see some success from this strategy. In terms of working capital, inventories are down from the start of the year and we have been able to reduce working capital quarter-on-quarter this quarter. All of this has helped us to offset the cash impact of losses and reduce the growth in our net debt.

"Despite this our net debt has grown by LE 116 million since the start of year which certainly which is a cause for concern. The good news is that a significant part of this increase in debt was caused by the March devaluation worsening our balance sheet position in Egyptian Pound terms and that our debt only grew by LE 16 million in the second quarter.

"This focus on cash flow has become increasingly important as the ongoing uncertainty over the Egyptian currency has led to a 30% increase in the cost of money as the Central Bank of Egypt has raised interest rates by three percentage points to 11.75%. We are negotiating with our lenders to avoid some of this increase in the cost of borrowing as well as doing our best to limit debt growth.

"In terms of cost cutting, our gross margins for the first half have improved from the low point of 4Q 2015 and we continue to reduce our operating losses quarter-on-quarter although the impact of the March devaluation has driven up our consolidated overheads.

"Excluding the impact of any further devaluation on our balance sheet and operating costs, I hope to be able to deliver continued inventory and working capital reductions over the coming quarter to continue to minimize debt growth whatever the operating circumstances.

"Of course, any further devaluation – while bad for our balance sheet position in Egyptian Pound terms – will be 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. Any devaluation also significantly improves our export returns and allows us to quote more competitively for new business without sacrificing margins.

"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	2Q		%	1H		%
(LE m)	2016	2015	16/15	2016	2015	16/15
Sanitary ware	197.1	194.0	102%	363.4	370.0	98%
Tiles	137.8	188.7	73%	276.6	330.0	84%
Brassware	11.7	12.1	96%	25.6	24.0	107%
Net sales	**346.6**	**394.9**	**88%**	**665.6**	**724.1**	**92%**
Sanitary ware/net sales (%)	56.9%	49.1%	7.7%	54.6%	51.1%	3.5%
Cost of sales	(307.1)	(314.3)	98%	(591.2)	(570.5)	104%
Cost of sales/net sales (%)	(88.6%)	(79.6%)	9.0%	(88.8%)	(78.8%)	10.0%
Gross profit	**39.6**	**80.6**	**49%**	**74.4**	**153.6**	**48%**
Gross profit margin (%)	11.4%	20.4%	(9.0%)	11.2%	21.2%	(10.0%)
Distribution and administration (D&A)	(51.9)	(52.2)	99%	(97.7)	(101.4)	96%
D&A/net sales (%)	(15.0%)	(13.2%)	1.8%	(14.7%)	(14.0%)	0.7%
Net other operating income/ (expense)	2.2	(0.9)	-	(5.8)	(2.0)	297%
Net other operating income/ (expense) net sales (%)	0.6%	(0.2%)	-	(0.9%)	(0.3%)	0.6%
EBIT	**(10.2)**	**27.4**	**-**	**(29.0)**	**50.2**	**-**
EBIT margin (%)	-	7.0%	-	-	6.9%	-
Net profit	**(39.1)**	**3.9**	**-**	**(80.4)**	**6.1**	**-**
Net profit margin (%)	-	1.0%	-	-	0.8%	-

2Q 2016: Weak demand and diseconomy of scales drive a significant net loss.

While 2Q 2016 results show a quarter-on-quarter improvement, the Company remains at a significant loss and year-on-year results continue to show a sharp deterioration in performance as the company fell into significant quarterly losses from 4Q 2015.

Lecico revenues for the second quarter were decreased by 12% year-on-year to LE 346.6 million. The drop in sales comes primarily from tile sales weakness with limited growth in sanitary ware revenues.

Quarter-on-quarter revenues increased by 8% (1Q 2016: LE 319.0 million).

Sanitary ware sales volumes in Egypt and in export where down year-on-year but revenues grew as a result of higher average prices 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.

Year-on-year average unit costs in tiles and sanitary ware rose primarily as a result of continued reduced production but also a result of the impact of the March devaluation of the Egyptian pound on imported inputs and energy – which is paid in Egyptian Pounds at a dollar-linked price.

Gross profit decreased by 51% to reach LE 39.6 million. The Company’s gross profit margin fell 9.0 percentage points to 11.4% compared to 20.4% for the same period last year

Quarter-on-quarter, gross profit increased by 13% (1Q 2016: LE 34.8 million) and the company’s gross margin was up 0.5 percentage points (1Q 2016: 10.9%).

In absolute terms, distribution and administration (D&A) expenses decreased by 1% to LE 51.9 million. Proportional D&A expenses were up 1.8 percentage points to 15.0% of net sales compared to 13.2% in the second quarter of 2015.

Quarter-on-quarter absolute D&A expenses rose 13% (1Q 2016: LE 45.7 million) and proportional D&A expenses rose 0.7 percentage points (1Q 2016: 14.3%).

The company reported LE 2.2 million in net other operating income compared to net other operating expenses of LE 0.9 million in the second quarter of 2015.

The company also reported an operating (EBIT) loss of LE 10.2 million for the quarter compared to positive EBIT LE 27.4 million in the same period last year.

Quarter-on-quarter, EBIT losses decreased 46% (1Q 2016: LE 18.8 million loss) and the loss fell from 6% of sales in 1Q 2016 to 3% of sales in 2Q 2016.

Financing expenses were rose 25% year-on-year during the second quarter of 2016 to reach LE 25.1 million compared to the same period in 2015 due to increase both of interest rates from Central Bank of Egypt and an increase in gross debt by 21%. The Central bank raised interest rates by 3 percentage points over the course of the first half of 2016 representing a 30% increase in the cost of borrowing in Egyptian Pounds which will significantly affect the company going forward.

Lecico recorded a tax saving for the quarter and negative minority interests which helped reduce total Taxes, Profit Share and Minorities charge to LE 6.8 million compared to LE 8.8 million in the same period last year.

The company reported net loss LE 39.1 million compared to net profit LE 3.9 million last year.

Quarter-on-quarter, the net loss decreased 5% (1Q 2016: LE 41.3 million loss) – a significant improvement given the exceptional LE 11.3 million positive Exchange Variance in 1Q 2016 - and the loss fell from 13% of sales in 1Q 2016 to 11% of sales in 2Q 2016.

1H 2016: Cost inflation and weaker markets drive sharp drop in profitability

Lecico revenues for the first half were decreased by 8% year-on-year to LE 665.6 million. Lecico has seen weak demand in all segments except brassware.

As a result, gross profit decreased by 52% to reach LE 74.4 million and the Company's gross profit margin fell 10.0 percentage points to 11.2% compared to 21.2% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses decreased by 4% to LE 97.7 million. Proportional D&A expenses were up 0.7 percentage points to 14.7% of net sales compared to 14.0% in 2015.

The Company reported LE 5.8 million in net other operating expenses. This was primarily due to an LE 7.5 million expense of marking down to present value the new long-term receivables.

The Company reported negative EBIT L.E 29.0 million compared to operating profits LE 50.2 million in the same period last year.

Financing expenses were increased 16% year-on-year during 2016 to reach LE 46.9 million compared to the same period in 2015 due to increase in borrowings (Net debt increased by 15% over 2015) and significantly higher interest rates for the Egyptian Pound which accounts for around 80% of company borrowings.

Lecico recorded net tax charges of LE 3.8 million versus LE 1.4 million tax charges for the same period last year. The tax charge 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 of LE 80.4 million compared to net profit of LE 6.1 million in in the same period last year.

Segmental analysis

Sanitary ware

2Q: Sanitary ware sales volume decreased by 10% to 1.2 million pieces (down 141,517 pieces) largely as a result of 19% lower sales in Egypt (down 104,000 pieces) and export sales falling by 6% (down 45,000 pieces). This was offset by a 26% year-on-year improvement in sales in Lebanon (up 8,000 pieces).

Sales in Egypt were also weaker quarter-on-quarter (down 83,000 pieces) reflecting the impact of reduced spending in Ramadan and an absence of the traditional seasonal boost to sales typically seen in Summer.

Average sanitary ware prices were up 13% year-on-year to LE 163.1 per piece as a result of price increases done in April and June 2016 and despite a shift towards lower-priced Egyptian sales (59.6% of sales in the quarter compared to 56.7% 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 rose 2% year-on-year at LE 197.1 million.

Average cost of sales up 11% at LE 129.8 per piece due to reduced production by 21% (250,000 Pieces) compared to second quarter of 2015 and the impact of the March devaluation on energy costs and other imported inputs. Reduced production year-on-year was in part due to Ramadan falling in June versus July in 2015. During Ramadan sanitary ware production is reduced to accommodate the impact of fasting on worker's productivity.

Despite the lower volume of sales, the cost of sales remained flat at LE 156.9 million.

Sanitary ware gross profit margin rose 1.6 percentage points to reach 20.4% and gross profits rose 10% to LE 40.2 million.

Sanitary ware segmental analysis	2Q		%	1H		%
	2016	2015	16/15	2016	2015	16/15
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	451	555	81%	985	1,024	96%
Lebanon (000 pcs)	37	29	126%	74	47	157%
Export (000 pcs)	721	766	94%	1,274	1,517	84%
Total sanitary ware volumes (000 pcs)	**1,209**	**1,350**	**90%**	**2,333**	**2,589**	**90%**
Exports/total sales volume (%)	59.6%	56.7%	2.9%	54.6%	58.6%	(4.0%)
Sanitary ware revenue (LE m)	**197.1**	**194.0**	**102%**	**363.4**	**370.0**	**98%**
Average selling price (LE/pc)	163.1	143.7	113%	155.8	142.9	109%
Average cost per piece (LE/pc)	129.8	116.7	111%	124.6	112.7	110%
Sanitary ware cost of sales	(156.9)	(157.5)	100%	(290.6)	(291.8)	100%
Sanitary ware gross profit	40.2	36.5	110%	72.8	78.2	93%
Sanitary ware gross profit margin (%)	20.4%	18.8%	1.6%	20.0%	21.1%	(1.1%)

1H: Sanitary ware sales volume decreased by 10% to 2.3 million pieces (down by 255,952 pieces). Export volumes fell 16% (243,364 pieces) primarily as a result of drop in exports to UK, Middle East and OEM markets which was partially offset by good growth in sales to

Europe and Sub-Saharan Africa. Sales in Egypt were down 4% due to the drop in sales in the Second quarter. Sales in Lebanon grew 57% year-on-year.

Average sanitary ware prices were up 9% year-on-year to LE 155.8 per piece as a result of price increases in April and June 2016.

Revenues fell 2% year-on-year at LE 363.4 million. Exports represented 54.6% of volumes compared to 58.6% in 2015.

Average cost of sales rose 11% at LE 124.6 per piece due to lower production and diseconomies of scale.

Gross profit margin fell 1.1 percentage points to reach 20.0% and gross profits fell 7% to LE 72.8 million.

Tiles

2Q: Tile sales volumes decreased by 24% year-on-year (1.9 million square meters) to reach 5.95 million square meters in the second quarter of 2016.

Sales to Egypt were down 19% (1.2 million square meters) with continued pressure on demand exacerbated by industry-wide oversupply. Exports were down 45% (0.6 million square meters) with the political situation in Libya and the economic constraints in other parts of the Middle East continuing to negatively affect demand. Sales in Lebanon were down 32% (0.1 million square meters).

Average net prices fell 3% at LE 23.1 per square meter as a result of promotions done in the face of increased competition. In Egypt tile prices show a good improvement quarter-on-quarter due to sales mix and the Egyptian Pound price inflation in export sales. The limited price increases done early in the quarter in Egypt were essentially negated by promotions done in June to encourage sales.

Tiles revenues fell 27% year-on-year to LE 137.8 million in the second quarter of 2016.

Average costs rose 25% year-on-year to reach LE 23.8 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 imported inputs.

With the lower volume of sales, the Cost of Sales fell 5% to reach LE 141.5 million.

Second quarter reported a tile gross loss of LE 3.7 million compared a gross profit of LE 39.4 million in the second quarter of 2015.

Tile segmental analysis	2Q		%	1H		%
	2016	2015	16/15	2016	2015	16/15
Tile volumes (000 sqm)						
Egypt (000 sqm)	4,964	6,164	81%	10,145	11,042	92%
Lebanon (000 sqm)	245	359	68%	555	569	98%
Export (000 sqm)	748	1,353	55%	1,760	2,364	74%
Total tile volumes (000 sqm)	**5,957**	**7,876**	**76%**	**12,460**	**13,975**	**89%**
Exports/total sales volume (%)	12.6%	17.2%	(4.6%)	14.1%	16.9%	(2.8%)
Tile revenue (LE m)	**137.8**	**188.7**	**73%**	**276.6**	**330.0**	**84%**
Average selling price (LE/sqm)	23.1	24.0	97%	22.2	23.6	94%
Average cost per sqm (LE/sqm)	23.8	19.0	125%	22.6	18.9	120%
Tile cost of sales	(141.5)	(149.3)	95%	(281.9)	(264.4)	107%
Tile gross profit	(3.7)	39.4	-	(5.3)	65.6	-
Tile gross profit margin (%)	-	20.9%	-	-	19.9%	-

1H: Tile sales volumes decreased by 11% year-on-year (1.52 million square meters) to reach 12.46 million square meters. Sales in Egypt fell 8% (0.9 million square meters) and regional export markets fell 26% (0.6 million square meters).

Average net prices were down 6% at LE 22.2 per square meter, reflecting the impact of price reductions done over the course of 2015 and promotions done in the first half of 2016.

Tiles revenues fell 16% year-on-year to LE 276.6 million in the first half of 2016.

Average costs rose 20% year-on-year to reach LE 22.6 per square meter due to Company's decision to reduce production by 30% in the face of lower sales in domestic and export markets. In 1H 2016 this was compounded by the impact of the March devaluation on energy and imported inputs of tile production.

First half reported a tile gross loss of LE 5.3 million compared a gross profit of LE 65.6 million in the first half of 2015.

Brassware

2Q: Sales volumes for second quarter increased by 1% to reach 34,556 pieces compared to 34,202 pieces in second quarter of 2015.

Average net prices fell 5% to reach LE 338.0 per piece due to product mix and additional discounted prices on several projects.

Revenue for the quarter fell 4% year-on-year to reach LE 11.7 million.

Average cost per piece up 15% to LE 249.8 per piece reflecting an inventory adjustment and changing mix and the impact of March devaluation on imported inputs.

Brassware gross profit margins fell 12.8 percentage points to reach 26.1% and gross profits decreased by 36% to reach LE 3.0 million for the quarter.

Brassware segmental analysis	2Q		%	1H		%
	2016	2015	16/15	2016	2015	16/15
Brassware volumes (pcs)						
Egypt (pcs)	34,188	34,182	100%	74,975	64,254	117%
Export (pcs)	368	20	1838%	368	359	102%
Total brassware volumes (pcs)	**34,556**	**34,202**	**101%**	**75,343**	**64,613**	**117%**
Exports/total sales volume (%)	1.1%	0.1%	1.0%	0.5%	0.6%	(0.1%)
Brassware revenue (LE m)	**11.7**	**12.1**	**96%**	**25.6**	**24.0**	**107%**
Average selling price (LE/pc)	338.0	355.2	95%	340.1	371.9	91%
Average cost per piece (LE/pc)	249.8	216.9	115%	247.9	220.3	113%
Brassware cost of sales	(8.6)	(7.4)	116%	(18.7)	(14.2)	131%
Brassware ware gross profit	3.0	4.7	64%	6.9	9.8	71%
Brassware gross profit margin (%)	26.1%	38.9%	(12.8%)	27.1%	40.8%	(13.6%)

1H: Sales volumes for 2016 increased by 17% to reach 75,343 pieces compared to 64,613 pieces for same period of 2015.

Average net prices fell 9% to reach LE 340.1 per piece due to product mix and additional discounted prices on several projects.

Revenue for 2016 rose 7% year-on-year to reach LE 25.6 million.

Average cost per piece rose 13% to LE 247.9 per piece reflecting an inventory adjustment and changing mix and the impact of March devaluation on imported inputs.

Brassware gross profit margins fell 13.6 percentage points to reach 27.1% and gross profit decreased by 29% to reach LE 6.9 million.

Financial position

The value of Lecico's assets increased by 7% at the end of June 30, 2016 at LE 2,309.8 million.

Compared to the start of the year, working capital and debt have both grown with reductions in inventory and growth in payables offset by increased receivables. 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. Quarter-on-quarter – without any further devaluation in the currency - working capital has actually been reduced with the reduction in inventory outpacing the growth in receivables.

Total liabilities were up 15% at LE 1,522.7 million.

Gross debt increased 21% or LE 194.19 million to reach LE 1,118.6 million. Approximately LE 53 million of the LE 194.19 million was due to a restatement of foreign currency borrowings. Net debt rose 15% or LE 115.32 million to reach LE 871.7 million compared to LE 756.4 million at the end of 2015. Approximately LE 34 million of the LE 115.32 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 22% to reach 1.11x compared to 0.91x at the end of 2015.

Recent developments and outlook

Outlook for 2016: The year-on-year weakness in the market seen in the first half of 2016 is continuing in the early months of the second half with markets remaining weak after the end of Ramadan and its feast holidays. This continues the trend of domestic market weakness and the significant reduction in exports due to regional security issues that the company has been facing for two years now.

The Company continues to face a challenging Egyptian demand picture compounded by significant oversupply in tiles which necessitated material price reductions in 2015 to fight off competition. In the first half of 2016, the Company has done a couple of limited price increases but competition has necessitated a series of rolling promotions that negated these increases in tiles.

The challenge facing the Company remains to defend and gain market share and try to reach new markets to offset lost volumes in the face of overcapacity in Egypt and increasingly aggressive competition.

In order to face these challenges, the Company has embarked on a number of projects to try and grow sales while simultaneously working to reduce expenses, overheads and working capital.

In terms of offensive measures to gain market share, over the course of 2015 and the first half of 2016, Lecico did a number of price reductions in tiles both in the local market and in export.

In 2015, the Company began delivering sanitary ware and introduced a range of new sizes and inkjet printing technology into its tile production

During the first half of 2016, Lecico launched its designated trader program offering marketing support and incentives to our distributors best retailers directly.

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 drove a marginal 1.5% increase in tile prices and around a 5% increase in sanitary ware prices although this was offset by promotions done in late 2Q.

Furthermore, the new discount system is drove a reduction in local market receivables quarter-on-quarter with its increased focus on cash payments. The reduction in Egyptian receivables helped limit the quarter-on-quarter overall increase in receivables.

Looking forward to the second half of 2016, Lecico is launching a new price list in August which is expected to raise average tile prices by about 4% and sanitary ware by 3%. The Company believes the nature of these increases – which are not direct – will be accepted by the market despite oversupply. However, these increases will likely be partially offset by limited duration promotions done to face competitors in slower months.

In August, 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.

By the end of September, 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.

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

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. Lecico remains focused on reducing stock levels and working capital to minimized debt growth so these lower production levels are likely to continue over this year as the Company remains focused on reducing stock levels.

Lecico has also embarked on a number of cost saving initiatives designed to cut LE 60 million out of cost of goods sold and expenses. Many of these cost savings are not coming into effect until late 2016 and early 2017. Furthermore, they will be done in the face of ongoing cost inflation with Egyptian inflation running in low double digits.

From the nadir of 4Q 2015 results, Lecico's strategy of fighting for market share and cutting costs has led to growing quarter-on-quarter revenues and an improvement in quarter-on-quarter operating and net losses. The Company hopes to be able to continue this recovery and is doing all it can to accelerate it but it remains 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.

Lecico will continue to do its utmost to build market share in Egypt and the region and expand export activities while working to unlock savings and reduce working capital 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.

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Forward-looking statements

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Lecico Egypt consolidated income statement

Income statement	2Q		%	1H		%
(LE m)	2016	2015	16/15	2016	2015	16/15
Net sales	**346.6**	**394.9**	**88%**	**665.6**	**724.1**	**92%**
Cost of sales	(307.0)	(314.3)	98%	(591.2)	(570.5)	104%
Gross profit	**39.6**	**80.6**	**49%**	**74.4**	**153.6**	**48%**
Gross margin (%)	11.4%	20.4%	(9.0%)	11.2%	21.2%	(10.0%)
Distribution expenses	(22.6)	(20.0)	113%	(38.4)	(37.9)	101%
Administrative expenses	(29.3)	(32.2)	91%	(59.3)	(63.5)	93%
Other Operating income	4.4	2.1	216%	7.1	3.9	183%
Other Operating expenses	(2.3)	(3.0)	76%	(12.9)	(5.8)	221%
Operating (loss) profit (EBIT)	**(10.2)**	**27.4**	**-**	**(29.0)**	**50.2**	**-**
Operating (EBIT) margin (%)	-	6.9%	-	-	6.9%	-
Investment revenues	3.0	2.4	122%	3.0	2.4	122%
Finance income	0.0	2.9	1%	11.7	11.1	106%
Finance expense	(25.1)	(20.1)	125%	(46.9)	(40.5)	116%
Profits (loss) before tax and minority (PBTM)	**(32.3)**	**12.7**	**-**	**(61.2)**	**23.3**	**-**
PBTM margin (%)	-	3.2%	-	-	3.2%	-
Income tax	(0.4)	(1.3)	31%	(6.5)	(3.1)	209%
Deferred tax	1.6	0.5	320%	2.7	1.7	162%
Net (loss) Profit after tax (NPAT)	**(31.2)**	**11.8**	**-**	**(65.0)**	**21.8**	**-**
NPAT margin (%)	-	3.0%	-	-	3.0%	-
Employee profit participation	(9.2)	(7.6)	122%	(16.9)	(15.3)	110%
Net profit before minority interest	**(40.4)**	**4.2**	**-**	**(81.9)**	**6.5**	**-**
Minority interest	1.3	(0.3)	-	1.5	(0.4)	-
Net (loss) Profit	**(39.1)**	**3.9**	**-**	**(80.4)**	**6.1**	**-**
Net profit margin (%)	-	1.0%	-	-	0.8%	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Jun-16	31-Dec-15	6M16/FY15 (%)
Cash and short-term investments	246.9	168.0	147%
Inventory	680.6	701.0	97%
Receivables	555.7	496.7	112%
Related parties -debit balances	85.7	62.2	138%
Total current assets	**1,568.9**	**1,427.9**	**110%**
Net fixed assets	640.4	678.3	94%
Intangible assets	22.5	22.1	102%
Prepaid long-term rent	0.3	0.4	70%
Projects in progress	33.5	12.5	268%
Available for sale investments	6.6	5.8	113%
Long-term notes receivable	37.7	11.8	319%
Total non-current assets	**741.0**	**730.9**	**101%**
Total assets	**2,309.8**	**2,158.8**	**107%**
Banks overdraft	1009.4	826.7	122%
Current portion of long-term liabilities	39.2	37.7	104%
Trade and notes payable	113.1	109.6	103%
Other current payable	220.1	211.7	104%
Related parties -credit balances	0.8	0.4	183%
Provisions	31.4	35.5	89%
Total current liabilities	**1,414.0**	**1221.7**	**116%**
Long-term loans	70.0	60.0	117%
Other long-term liabilities	0.2	0.3	49%
Provisions	10.7	9.8	109%
Deferred tax	27.9	30.6	91%
Total non-current liabilities	**108.7**	**100.8**	**108%**
Total liabilities	**1,522.7**	**1,322.5**	**115%**
Minority interest	**5.2**	**5.8**	**90%**
Issued capital	400.0	400.0	100%
Reserves	397.6	376.2	106%
Retained earnings	64.7	119.5	54%
Net Loss for the period / year	(80.4)	(65.1)	124%
Total equity	**781.9**	**830.6**	**94%**
Total equity, minorities and liabilities	**2,309.8**	**2,158.8**	**107%**

Lecico Egypt consolidated cash flow

Cash flow statement	1H		%
(LE m)	2016	2015	16/15
Cash Flow from operating activities			
Net profit for the period	(80.4)	6.1	-
Depreciation and translation adjustment	46.7	51.0	91%
Intangible assets amortisation and translation adjustment	(0.3)	(0.2)	168%
Income tax expense	6.5	3.1	209%
Income tax paid	(9.1)	(9.0)	101%
Deferred income tax	(2.7)	(2.0)	140%
Prepaid rent expense	0.1	0.1	100%
Capital gains	(0.8)	(0.0)	2847%
Provided provisions and translation adjustment	10.2	6.6	155%
Reversal of expired provision	(3.7)	(6.2)	60%
Employee share in net profit	16.9	15.3	110%
Increase (Decrease) in minority interest	(0.6)	(1.4)	39%
Increase (Decrease) in translation reserve	31.8	27.8	114%
(Increase) Decrease in Inventory	20.1	(8.8)	-
(Increase) Decrease in Receivables	(87.9)	(75.2)	117%
Increase (Decrease) in Payables	27.6	18.9	146%
Utilised Provisions	(4.1)	(4.7)	88%
Increase (Decrease) in Other Long Term Liabilities	(0.2)	(0.2)	93%
(Payments) / Received for acquiring current investment	0.0	57.9	0%
Difference result from discounting of long term notes receivable	6.2	(1.8)	-
Net cash from operating activities	**(23.6)**	**77.5**	**-**
Cash flow from investing activities			
Additions to fixed assets and projects	(30.9)	(38.0)	81%
Intangible assets	(0.1)	(0.1)	96%
Net change in available for sale investments	(0.8)	(0.3)	228%
Proceeds from sales of fixed assets	1.9	0.5	403%
Increase (Decrease) in long-term notes receivable	(32.1)	13.1	-
Net cash from investing activities	**(61.9)**	**(24.9)**	**249%**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	10.0	(21.8)	-
Increase (Decrease) in current portion of long term liabilities	1.5	(1.3)	-
Employees & Dividends paid	(29.8)	(51.2)	58%
Net cash from financing activities	**(18.3)**	**(74.2)**	**25%**
Net change in cash & cash equivalent during the period	**(103.8)**	**(21.7)**	**479%**
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	**(762.5)**	**(568.4)**	**134%**