Third Quarter 2017 Results

Alexandria, 12th November 2017 – Lecico Egypt (Stock symbols: LCSW.CA; LECI EY) announces its consolidated results for third quarter 2017.

Highlights

3Q 2017

- Lecico revenue up 88% to LE 633.6 million (62.6% from sanitary ware)
- Sanitary ware revenue up 104% to LE 396.7 million, volumes up 3% to 1.3 million pieces (59.2% exports)
- Tile revenue up 67% to LE 216.2 million, volumes up 3% to 6.0 million square meters (15.5% exports)
- Brassware revenue up 57% to LE 20.7 million, sales volume fell 18% to 28,081 pieces
- EBIT profit of LE 35.8 million compared to EBIT loss of LE 14.7 million in 3Q 2016
- Net loss of LE 5.2 million compared to net loss of LE 49.1 million in 3Q 2016

9M 2017

- Lecico revenue up 76% to LE 1,765.4 million (61.9% from sanitary ware)
- Sanitary ware revenue up 96% to LE 1,092.9 million, volumes up 4% to 3.7 million pieces (59.6% exports)
- Tile revenue up 51% to LE 614.7 million, volumes fell 4% to 17.5 million square meters (13.3% exports)
- Brassware revenue up 49% to LE 57.8 million, sales volume fell 25% to 82,561 pieces
- EBIT profit of LE 136.1 million compared to EBIT loss of LE 60.6 million in 9M 2016
- Net profit of LE 27.2 million compared to net loss of LE 129.6 million in 9M 2016

Lecico Egypt Chairman, Gilbert Gargour, commented “The results of the quarter are the consequence of a number of unusual occurrences: continuing its policy of reducing subsidies, the government has caused a substantial rise in the cost of petrol, diesel and electricity; in addition the reduced production around the Eid holiday has put pressure on our costs of goods sold; finally, to combat inflation the Central Bank has pushed interest rates to still higher levels.

"The elements above have all contributed to our costs and we have not had, during the quarter the necessary time to adjust our prices for these higher costs.

"Nevertheless, our results are still fundamentally positive with strong revenue growth and positive cash flow from operations. We are in a much stronger position this year than in the past few years and I am confident we will continue to build on this into the year ahead.

"I look forward to 2018 to be a watershed year for Egypt and for Lecico. We hope to benefit as inflation rates come down sharply from the high 30%+ levels seen following the floatation of the Pound. This should bring with it a reduction in the high cost of borrowing in Egypt over the coming year, which should have a significant direct impact on our P&L but also stimulate the Egyptian economy spurring investment and demand benefiting us operationally.

"In addition, we look forward to a record year for sanitary ware exports with strong growth in Europe.

"I thank all the shareholders who shared our continued belief in the company during the extremely challenging results of the last couple of years and I assure you everyone at Lecico is working to continue to deliver a strong recovery and return to earnings in the times ahead."

Taher Gargour, Lecico Egypt CEO, added, "Despite record quarterly revenues and the highest sanitary ware export volumes in over three years, we reported a loss of LE 5.2 million in the third quarter as cost inflation in Egypt and reduced sanitary ware production eroded our margins in exports quarter-on-quarter. However, on a positive note, Lecico's core operations were marginally cash flow positive in the quarter – although debt increased due to the purchase of treasury shares – as we reduced inventories and improved working capital. This is an important milestone in our recovery.

"Sanitary ware export volumes for the quarter were up 8% quarter-on-quarter as we continued to roll out our new OEM and export business in Germany and Central Europe and we saw an improvement in activity in the Middle East. Middle East exports of tiles also helped tile export volumes reach their highest level over a year.

"Lecico – and the Egyptian market – faced another round of inflationary pressure following government-led cost hikes in July – diesel and petrol up over 50%, electricity up 46%, another interest rate hike of two percentage points; and a hike in sales tax.

"Egyptian sales volumes which were growing steadily over the previous quarter slowed significantly in August and September after a spike in sales in July in anticipation of the inflation-led price increases during the month. Lecico raised prices at the end of July and despite a weak environment, we have further raised prices in October to try and offset some of the margin impacts we are seeing.

"Sanitary ware production was reduced to its lowest level in a year during the quarter – despite strong sales numbers – as we destocked some of the inventories accumulated in the first half. Production in the quarter was around 9% lower than the average of the first half. As a result of this reduction in production we destocked in the quarter reducing inventories. This reduction added to our unit costs in the quarter but allowed us to better manage our cash and working capital.

"Net debt increased LE 47 million in the quarter due to the company's investment of LE 48.2 million to buy 10% of Lecico stock as treasury shares. So operationally we generated a very small amount of cash during the quarter. For me this improvement in working capital and cashflow is an important milestone in our recovery as we have not seen a positive cash flow quarter-on-quarter since we started facing losses in the second half of 2015.

"Looking forward, we are likely to face continued demand pressure in Egypt as we come into the winter season which will keep pressure on our results.

"Sanitary ware should see some quarter-on-quarter improvement as any local slowdown and seasonality should be partially offset by continued growth in exports of sanitary ware as we continue to roll out supply to new customers and markets. Production is likewise expected to ramp up to meet growing demand which should help reduce marginally the cost inflation seen in the third quarter.

"On the other, tiles will be under pressure with limited prospects to offset shrinking Egyptian demand with more exports. We are looking to add more routes to market in Egypt but this is not likely to significantly offset any seasonal slowdown.

"We still have a lot to do to reach the levels of cash flow and sustainable profitability I think we can achieve, and we will focus on continued sales growth, combined with cost reduction and working capital improvement as necessary parts of this. Although the operating environment remains challenging and we will continue to have to balance between P&L and balance sheet, I am confident we can build on the improvements seen so far this year in the years ahead."

Lecico Revenue and Profitability

Profit and loss statement highlights	3Q		%	9M		%
(LE m)	2017	2016	17/16	2017	2016	17/16
Sanitary ware	396.7	194.1	204%	1092.9	557.5	196%
Tiles	216.2	129.5	167%	614.7	406.1	151%
Brassware	20.7	13.2	157%	57.8	38.8	149%
Net sales	**633.6**	**336.7**	**188%**	**1,765.4**	**1,002.3**	**176%**
Sanitary ware/net sales (%)	62.6%	57.6%	5.0%	61.9%	55.6%	6.3%
Cost of sales	(508.1)	(314.0)	162%	(1,374.7)	(921.5)	149%
Cost of sales/net sales (%)	(80.2%)	(93.3%)	(13.1%)	(77.9%)	(91.9%)	(14.1%)
Gross profit	**125.5**	**22.7**	**553%**	**390.7**	**80.8**	**483%**
Gross profit margin (%)	19.8%	6.7%	13.1%	22.1%	8.1%	14.1%
Distribution and administration (D&A)	(81.3)	(48.6)	167%	(233.7)	(146.9)	159%
D&A/net sales (%)	(12.8%)	(14.4%)	(1.6%)	(13.2%)	(14.7%)	(1.4%)
Net other operating income/ (expense)	(8.5)	11.2	-	(20.9)	5.4	(386%)
Net other operating income/ (expense) net sales (%)	(1.3%)	3.3%	-	(1.2%)	0.5%	-
EBIT	**35.8**	**(14.7)**	**-**	**136.1**	**(60.6)**	**-**
EBIT margin (%)	5.6%	-	-	7.7%	-	-
Net profit (loss)	**(5.2)**	**(49.1)**	**11%**	**27.2**	**(129.6)**	**-**
Net profit margin (%)	-	-	-	1.5%	-	-

3Q 2017: Strong top line offset by cost inflation and diseconomies of scale in production

The third quarter results show record revenues driven primarily by sanitary ware exports. However, gross margins shrunk quarter on quarter due to significant cost inflation and a decision by the Company to reduce sanitary ware production in order to destock and reduce working capital. In July as government raised electricity prices by 46%, diesel and petrol by 50%, added 1% to sales tax and 2% to interest rates with low production and high fixed costs, all these factors led to a loss in the third quarter. The drop in gross margins and the higher interest cost led to a loss of LE 5.2 million for the quarter.

Sanitary ware exports to UK, Europe and to OEM customers all were up year-on-year, offsetting the reduction in sales in Egypt and in regional exports. Average prices in sanitary ware improved year-on-year reflecting the cumulative effect of price increases over last year and the impact of floatation of the Egyptian Pound on average export prices.

Tile exports rose significantly year-on-year, offsetting the reduction in sales in Egypt and Lebanon. Average prices in tiles improved year-on-year reflecting the cumulative effect of price increases done at the end of last year and in January and July 2017 following the floatation of the Egyptian Pound.

Lecico revenues for the third quarter increased by 88% year-on-year to LE 633.6 million (3Q 2016: LE 336.7 million) as a result of higher volumes in sanitary and tiles segments as well as the price increases done locally and the inflation in the price of all exports. Quarter-on-Quarter revenues increased by 8% (2Q 2017: LE 586.0 million).

Lecico's cost of goods sold rose 62% year-on-year to LE 508.1 million (3Q 2016: LE 314.0 million) primarily as a result of the change in the value of the Egyptian Pound and the subsequent high inflation in Egypt since the floatation in November 2016.

Lecico's gross profit for the third quarter increased 453% year-on-year to LE 125.5 million (3Q 2016: LE 22.7 million). Lecico's gross profit margin was 19.8% compared to 6.7% in the same period last year. Quarter-on-quarter gross profit decreased by 4.4% (2Q 2017: LE 131.3 million) and Lecico's gross margin decreased 2.6 percentage points (2Q 2017: 22.4%) with the margin squeezed by quarter-on-quarter inflation in Egypt and the reduction of sanitary ware production.

In absolute terms, distribution and administration (D&A) expenses increased significantly by 67% to LE 81.3 million, but as a percentage points of net sales proportional D&A expenses were down by 1.6 percentage points to 12.8% compared to 14.4% in the third quarter of 2016.

The company reported LE 8.5 million in net other operating expenses compared to net other operating income of LE 11.2 million in the third quarter of 2016. The operating income in 3Q 2016 was primarily due to LE 9.2 million reversals of expired provisions.

The company reported an operating profit (EBIT) of LE 35.8 million for the quarter compared to an operating loss of LE 14.7 million in the same period last year. Lecico's EBIT margin for the quarter was 5.6%. Quarter-on-quarter EBIT decreased by 25% (2Q 2017: LE 47.7 million) and Lecico's EBIT decreased 2.5 percentage points (2Q 2017: 8.1%).

Net financing expenses rose 64.8% year-on-year during the third quarter of 2017 to reach LE 41.7 million compared to LE 25.3 million in the same period in 2016 due to a doubling of domestic interest rates and an increase in gross debt primarily as a result of the impact of the floatation on Lecico's foreign currency borrowings.

Lecico reported net tax charges of LE 3.5 million versus a tax charges of LE 6.8 million in the third quarter of 2016.

The company reported net loss LE 5.2 million for the third quarter compared to net loss LE 49.1 million for the same period last year.

9M 2017: Sanitary ware exports drive improvement in profitability

Lecico revenues for the first nine months were increased by 76% year-on-year to LE 1,765.4 million reflecting the increase in average prices coming from the impact of the floatation on exports and Egyptian costs and prices.

Revenues increased significantly in all segments but only sanitary ware sales volumes have grown year-on-year as growing export sales offset shrinking local market volumes.

As a result, gross profit increased by 383% to reach LE 390.7 million and the Company's gross profit margin was up 14.1 percentage points to 22.1% compared to 8.1% in the same period last year.

In absolute terms, distribution and administration (D&A) expenses increased by 59% to LE 233.7 million, but as a percentage points of net sales proportional D&A expenses were down by 1.5 percentage points to 13.2% compared to 14.7% in the same period last year.

The company reported LE 20.9 million in net other operating expenses compared to net other operating expenses of LE 5.4 million in the same period last year.

The company reported an operating profit (EBIT) of LE 136.1 million for the nine months compared to an operating loss of LE 60.6 million in the same period last year. Lecico's EBIT margin for the nine months was 7.7%.

Financing expenses increased by 48% year-on-year in 2017 to reach LE 110.7 million compared to the same period in 2016 due to increase in borrowings and significantly higher interest rates for the Egyptian Pound.

Lecico recorded net tax charges of LE 19.0 million versus LE 10.7 million tax charges for the same period last year. The tax charge in the first nine months 2017 includes LE 4 million taxes on inter-company dividends.

Lecico reported net profit of LE 27.2 million compared to net loss of LE 129.6 million in the same period last year. Lecico's net margin for the first nine month of 2017 was 1.5%.

Segmental analysis

Sanitary ware

3Q: Sanitary ware sales volume increased by 3% to 1.3 million pieces (up 38,130 pieces) Sales in Egypt decreased by 10% (down 56,752 pieces), sales in Lebanon increased by 12% (up 4,541 pieces) and sales in export increased by 13% (up 90,342 pieces).

Quarter-on-quarter sales volumes increased by 11.8% (up 139,000 pieces) largely as a result of a 18.7% increase in sales in Egypt (up 78,058 pieces), export volumes increased by 8.0% (up 57,415 pieces) and sales in Lebanon increased by 9.3% (up 3,530 pieces).

Average sanitary ware prices were up 98% year-on-year to LE 301.4 per piece reflecting the impact of the floatation of the Egyptian Pound on average export prices as well as the cumulative effect of price increases done in Egypt over the last year. Quarter-on-quarter average prices were down 1.2% (2Q 2017: LE 305.2) due to sales mix in exports to Europe and increased sales to the Middle East.

Revenues rose 104% year-on-year at LE 396.7 million (3Q 2016: LE 194.1 million) as a result of higher volumes as well as the price increases done locally and the inflation in the price of all exports. Quarter-on-quarter revenues rose 10.4% (2Q 2017: LE 359.2 million).

Average cost of sales rose 66% year-on-year at LE 216.2 per piece due to higher costs following the floatation of the Egyptian Pound, subsequent high inflation in Egypt and government programs to remove subsidies and increase revenue collection. Quarter-on-quarter the average cost of sales rose 6.3% primarily due to a reduction in production and the July increases in electricity, petrol and diesel fuel.

Gross profit increased 306% to LE 112.2 million (3Q 2016: LE 27.6 million) and the margin improved 14.1 percentage points to 28.3% (3Q 2016: 14.2%). Quarter-on-quarter gross profit decreased 6.3% (2Q 2017: LE 119.8 million) and the margin dropped 5 percentage points (2Q 2017: 33.3%) as a result of lower average prices and higher average costs.

Sanitary ware segmental analysis	3Q		%	9M		%
	2017	2016	17/16	2017	2016	17/16
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	496	553	90%	1,406	1,538	91%
Lebanon (000 pcs)	41	37	112%	109	111	98%
Export (000 pcs)	779	688	113%	2,231	1,962	114%
Total sanitary ware volumes (000 pcs)	**1,316**	**1,278**	**103%**	**3,745**	**3,611**	**104%**
Exports/total sales volume (%)	59.2%	53.8%	5.3%	59.6%	54.3%	5.2%
Sanitary ware revenue (LEm)	**396.7**	**194.1**	**204%**	**1092.9**	**557.5**	**196%**
Average selling price (LE/pc)	301.4	151.8	198%	291.8	154.4	189%
Average cost per piece (LE/pc)	216.2	130.2	166%	197.8	130.3	152%
Sanitary ware cost of sales	(284.5)	(166.4)	171%	(740.7)	(470.4)	157%
Sanitary ware gross profit	112.2	27.6	406%	352.1	87.1	404%
Sanitary ware gross profit margin (%)	28.3%	14.2%	14.0%	32.2%	15.6%	16.6%

9M: Sanitary ware sales volume increased by 4% to 3.7 million pieces (up 134,172 pieces). Sales in Export increased by 14% (up 269,009 pieces). Growth in export came from UK, Germany, Europe, Africa and OEM markets. Sales in Egypt decreased by 9% (down 132,688 pieces) and sales in Lebanon decreased by 2% (down 2,149 pieces).

Average sanitary ware prices were up 89% year-on-year to LE 291.8 per piece reflecting the impact of the floatation of the Egyptian Pound on average export prices as well as the cumulative effect of price increases done in Egypt over the last year.

Revenues were up 96% year-on-year at LE 1,093 million. Exports represented 59.6% of volumes compared to 54.3% in 2016.

Average cost of sales rose 52% at LE 197.8 per piece due to higher costs following the floatation of the Egyptian Pound, subsequent high inflation in Egypt and government programs to remove subsidies and increase revenue collection.

Gross profit increased 304% to LE 352.1 million (9M 2016: LE 87.1 million) and the margin improved 16.6 percentage points to 32.2% (9M 2016: 15.6%).

Tiles

3Q: Tile sales volumes increased by 3% year-on-year (up 185,417 square meters) to reach 6.0 million square meters in the third quarter of 2017. Growth in sales came from export which increased by 159% (up 570,861 square meters), while sales in Egypt decreased by 7% (down 357,846 square meters) and sales in Lebanon decreased by 14% (down 27,598 square meters).

Quarter-on-quarter sales volumes decreased by 0.6% (down 37,000 square meters) mainly as a result of 5.3% reduction in sales in Egypt (down 275,000 square meters). Sales in export increased by 28.3% (up 205,000 square meters). Sales in Lebanon increased by 23.7% (up 33,000 square meters).

Average net prices rose 62% at LE 36.1 per square meter reflecting the cumulative effect of price increases done in Egypt over the last year and the impact of the floatation of the Egyptian Pound on average export prices. Quarter-on-quarter average prices were up 2.6% (2Q 2017: LE 35.2) due to an increase in export products and a late July price increase in Egypt.

Tiles revenues were up 67% year-on-year at LE 216.2 million in the nine months of 2017 (3Q 2016: LE 129.5 million). Quarter-on-quarter revenues were up 1.7% (2Q 2017: LE 212.6 million).

Average costs rose 47% year-on-year to reach LE 35.1 per square meter reflecting the cumulative effect of high inflation and government mandated cost increases over the last year and the impact of floatation of the Egyptian Pound on average imported input costs. Quarter-on-quarter average costs rose 2.6% (2Q 2017: LE 34.2 per square meter) primarily due to the July increases in the cost of electricity, petrol and diesel fuel.

Lecico reported a gross profit in the tile segment of LE 5.6 million for the third quarter compared to a gross loss of LE 9.6 million in the same period last year. The gross margin in the third quarter 2017 was 2.6%. Quarter-on-quarter gross profit decreased 13.8% (2Q 2017: LE 6.5 million) and the margin down 0.5 percentage point (2Q 2017: 3.1%).

Tile segmental analysis	3Q		%	9M		%
	2017	2016	17/16	2017	2016	17/16
Tile volumes (000 sqm)						
Egypt (000 sqm)	4,896	5,254	93%	14,720	15,399	96%
Lebanon (000 sqm)	172	200	86%	427	755	57%
Export (000 sqm)	929	358	259%	2,330	2,118	110%
Total tile volumes (000 sqm)	**5,997**	**5,812**	**103%**	**17,477**	**18,271**	**96%**
Exports/total sales volume (%)	15.5%	6.2%	9.3%	13.3%	11.6%	1.7%
Tile revenue (LEm)	**216.2**	**129.5**	**167%**	**614.7**	**406.1**	**151%**
Average selling price (LE/sqm)	36.1	22.3	162%	35.2	22.2	158%
Average cost per sqm (LE/sqm)	35.1	23.9	147%	34.3	23.2	148%
Tile cost of sales	(210.6)	(139.1)	151%	(599.5)	(424.0)	141%
Tile gross profit	5.6	(9.6)	-	15.2	(17.9)	-
Tile gross profit margin (%)	2.6%	-	-	2.5%	-	-

9M: Tile sales volumes decreased by 4% year-on-year (down 793,987 square meters) to reach 17.5 million square meters. Sales in Egypt decreased by 4% (down 678,744 square meters), sales in Lebanon decreased by 43% (down 327,597 square meters), While sales in export increased by 10% (up 212,353 square meters).

Average net prices rose 58% at LE 35.2 per square meter reflecting the cumulative effect of price increases done in Egypt over the last year and the impact of the floatation of the Egyptian Pound on average export prices.

Tiles revenues were up 51% year-on-year at LE 614.7 million in the nine months of 2017 (9M 2016: LE 406.1 million).

Average costs rose 48% year-on-year to reach LE 34.3 per square meter as a result of the impact of the floatation on hard currency linked costs and due to general high inflation in Egyptian Pound based costs.

First nine months reported a tile gross profit of LE 15.2 million compared to a gross loss of LE 17.9 million in the same period last year. The gross margin in the first nine months 2017 was 2.5%.

Brassware

3Q: Sales volumes for the third quarter 2017 decreased by 18% to reach 28,081 pieces compared to 34,053 pieces in the same period last year. Quarter-on-quarter sales volumes were up 36% (2Q 2017: 20,637 pieces).

Average net prices rose 90% to reach LE 735.9 per piece (3Q 2016: LE 387.4) due to significant price increases done to adjust the increase in input and production costs as a result of the floatation. Quarter-on-quarter prices rose 7% (2Q 2017: LE 687.1).

Revenue for the quarter was up 57% year-on-year to reach LE 20.7 million (3Q 2016: LE 13.2 million). Quarter-on-quarter revenue was up 45.7% (2Q 2017: LE 14.2 million). Brassware's percentage of consolidated revenues 3.3%, while the percentage for the same period last year was 3.9% of Lecico sales.

Average cost per piece rose 85% to LE 461.0 per piece reflecting changing mix and the result of the impact of the floatation on imported inputs. Quarter-on-quarter average cost per piece rose 3.7% (2Q 2017: LE 444.6 per piece).

Gross profit increased 65% to LE 7.7 million (3Q 2016: LE 4.7 million) and the margin improved 1.8 percentage points to 37.4% (3Q 2016: 35.6%). Quarter-on-quarter gross profit increased 54% (2Q 2017: LE 5 million) and the gross margin up 2.1 percentage points (2Q 2017: 35.3%).

Brassware's percentage of consolidated gross profits fell to 6.1% of Lecico gross profits (3Q 2016: 20.7%) due to the improvement in profitability for Lecico's other segments.

Brassware segmental analysis	3Q 2017	3Q 2016	% 17/16	9M 2017	9M 2016	% 17/16
Brassware volumes (pcs)						
Egypt (pcs)	27,921	33,433	84%	82,401	108,408	76%
Export (pcs)	160	620	26%	160	988	16%
Total brassware volumes (pcs)	**28,081**	**34,053**	**82%**	**82,561**	**109,396**	**75%**
Exports/total sales volume (%)	0.6%	1.8%	(1.3%)	0.2%	0.9%	(0.7%)
Brassware revenue (LE m)	**20.7**	**13.2**	**157%**	**57.8**	**38.8**	**149%**
Average selling price (LE/pc)	735.9	387.4	190%	700.6	354.8	197%
Average cost per piece (LE/pc)	461.0	249.7	185%	417.4	248.4	168%
Brassware cost of sales	(12.9)	(8.5)	152%	(34.5)	(27.2)	127%
Brassware ware gross profit	7.7	4.7	165%	23.4	11.6	201%
Brassware gross profit margin (%)	37.4%	35.6%	1.8%	40.4%	30.0%	10.4%

9M: Sales volumes for 2017 decreased by 25% to reach 82,561 pieces compared to 109,396 pieces for same period of 2016.

Average net prices rose 97% to reach LE 700.6 per piece (9M 2016: LE 354.8) due to product mix and significant price increases done to adjust the increase in input and production costs as a result of the floatation.

Revenue for 2017 was up 49% year-on-year to reach LE 57.8 million (9M 2016: LE 38.8 million). Brassware's percentage of consolidated revenues was 3.3%, while the percentage for the same period last year was 3.9% of Lecico sales.

Average cost per piece rose 68% to LE 417.4 per piece reflecting changing mix and the result of the impact of floatation on imported inputs.

Gross profit increased 101% to LE 23.4 million (9M 2016: LE 11.6 million) and the margin improved 10.4 percentage points to 40.4% (9M 2016: 30.0%).

Financial Position

In the third quarter, Lecico acquired 10% of the outstanding shares of the company as treasury stock for a total cost of LE 48.2 million.

The value of Lecico's assets increased by 7% at the end of September 30, 2017 to reach LE 2,985 million. Quarter-on-quarter, Lecico's assets decreased by 1.5% (2Q 2017: LE 3,033.5 million)

Total liabilities rose 11% at LE 1,993.8 million. Quarter-on-quarter Lecico's total liabilities rose marginally (2Q 2017: LE 1,992.8 million)

Gross debt increased 11% or LE 142.4 million to reach LE 1,461.4 million compared to LE 1,319 million at the end of 2016. Quarter-on-quarter Lecico's gross debt decreased by 1.5% (2Q 2017: LE 1,481.8 million) despite the financing cost of the treasury share acquisition.

Net debt rose 24% or LE 222 million to reach LE 1,163.6 million compared to LE 941.7 million at the end of 2016. Quarter-on-Quarter net debt increased 4.2% (2Q 2017: LE 1,116.7 million) after financing the cost of the treasury share acquisition.

Net debt to equity increased 24% to reach 1.18x compared to 0.95x at the end of 2016. Quarter-on-quarter net debt to equity increased 9.3% (2Q 2017: 1.08x) as a result of the growth in debt and the reduction of equity following the treasury share acquisition.

Recent developments and outlook

Outlook for 4Q17 and 2018: Lecico is expected to report a profit for the year despite expecting some seasonality to affect sales volumes in the fourth quarter.

Sales in Egypt have shown an improvement quarter-on-quarter but this slowed sharply over the course of 3Q and we can expect seasonality to result in lower sales overall in the fourth quarter. The Company similarly expects to see a drop off in sales to the Middle East in the quarter.

The Company expects to see continued sanitary ware export growth and to benefit from the effect of the floatation on export business and the prices increases done in the local market following the floatation.

In 3Q 2017, the Company saw the impact of several cost increases enacted in interest rates, fuel and electricity costs and resultant general inflation.

In 3Q 2017, sanitary ware costs were also negatively impacted by the decision to cut production and destock despite record sales.

Lecico has raised prices in the local market to offset these cost increases over 2016 and 2017, most recently in July and October, which should help improve revenues and average prices in the fourth quarter.

In the fourth quarter the company is also expecting a benefit from increased quarter-on-quarter production of sanitary ware to meet continued growth in demand in Europe.

Despite these positives and in light of expected soft demand domestically and regionally, the fourth quarter will remain a challenging one for Lecico.

Expectations for 2018 will – to a large extent – depend on how the floatation continues, at what rate it stabilizes, where interest rates and local inflation goes and what effect this has on domestic costs and consumption over the rest of the year.

Sales volumes are expected to improve in 2018, particularly sanitary ware exports to Europe. Local market and regional demand are harder to estimate but many experts predict improved growth in Egypt with lower inflation, a reduction in interest rates and the benefits of an improved balance of payments all posited to help drive a recovery in demand in the year ahead.

A positive trend in local demand and any significant reduction in the cost of money would both help reinforce the positive trend in Lecico's performance seen in 2017 to date.

In spite of expectations of an improvement in demand for the Company's products in 2018, the challenges facing Lecico and the tactics to deal with it remain unchanged. The Company will continue to invest in defending and gaining market share in Egypt and the Company will continue to pursue new export markets while simultaneously working to reduce expenses, overheads and working capital.

About Lecico

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

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

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

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Forward-looking statements

This release may contain certain "forward-looking statements", relating to the Company's business, which can be identified by the use of forward-looking terminology such as "will", "planned", "expectations", "forecast" or similar expressions, or by discussions of strategy, plans or intentions. Such statements may include descriptions of investments planned or currently under development by the company and the anticipated impact of these investments. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.

Lecico Egypt consolidated income statement

Income statement						
	3Q		%	9M		%
(LE m)	2017	2016	17/16	2017	2016	17/16
Net sales	**633.6**	**336.7**	**188%**	**1,765.4**	**1,002.3**	**176%**
Cost of sales	(508.1)	(314.0)	162%	(1,374.7)	(921.5)	149%
Gross profit	**125.5**	**22.7**	**553%**	**390.7**	**80.8**	**483%**
Gross margin (%)	19.8%	6.7%	13.1%	22.1%	8.1%	14.1%
Distribution expenses	(39.7)	(20.6)	193%	(110.4)	(59.0)	187%
Administrative expenses	(41.6)	(28.1)	148%	(123.3)	(87.9)	140%
Other Operating income	4.3	12.5	34%	12.4	19.6	63%
Other Operating expenses	(12.7)	(1.3)	992%	(33.3)	(14.2)	235%
Operating profit (loss) (EBIT)	**35.8**	**(14.7)**	**-**	**136.1**	**(60.6)**	**-**
Operating (EBIT) margin (%)	5.6%	-	-	7.7%	-	-
Investment revenues	6.4	0.1	10125%	6.4	3.0	210%
Finance income	2.9	2.8	106%	17.9	14.5	124%
Finance expense	(44.6)	(28.1)	159%	(110.7)	(75.0)	148%
Profits (loss) before tax and minority (PBTM)	**0.5**	**(40.0)**	**-**	**49.7**	**(118.1)**	**-**
PBTM margin (%)	0.1%	-	-	2.8%	-	-
Income tax	(4.0)	(8.7)	46%	(19.8)	(15.2)	130%
Deferred tax	0.5	1.8	26%	0.8	4.6	18%
Net Profit (loss) after tax (NPAT)	**(3.0)**	**(46.8)**	**6%**	**30.7**	**(128.7)**	**-**
NPAT margin (%)	-	-	-	1.7%	-	-
Minority interest	(2.1)	(2.3)	93%	(3.6)	(0.8)	427%
Net Profit (loss)	**(5.2)**	**(49.1)**	**11%**	**27.2**	**(129.6)**	**-**
Net profit margin (%)	-	-	-	1.5%	-	-

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	30-Sep-17	31-Dec-16	9M 17/FY16 (%)
Cash and short-term investments	297.8	377.4	79%
Inventory	1086.2	889.8	122%
Receivables	777.4	690.7	113%
Related parties -debit balances	55.0	66.3	83%
Total current assets	**2,216.4**	**2,024.2**	**109%**
Net fixed assets	634.0	689.2	92%
Intangible assets	29.1	28.6	102%
Prepaid long-term rent	0.0	0.2	0%
Projects in progress	72.3	13.7	529%
Available for sale investments	13.2	13.6	97%
Long-term notes receivable	20.5	24.6	83%
Total non-current assets	**769.0**	**769.8**	**100%**
Total assets	**2,985.3**	**2,794.0**	**107%**
Banks overdraft	1383.3	1204.4	115%
Current portion of long-term liabilities	46.5	47.3	98%
Trade and notes payable	197.6	179.8	110%
Other current payable	286.4	236.6	121%
Related parties -credit balances	3.4	2.1	164%
Provisions	9.7	19.6	49%
Total current liabilities	**1,926.9**	**1,689.8**	**114%**
Long-term loans	31.6	67.3	47%
Provisions	10.2	10.7	95%
Deferred tax	25.2	25.8	98%
Total non-current liabilities	**67.0**	**103.8**	**65%**
Total liabilities	**1,993.8**	**1,793.6**	**111%**
Minority interest	**1.5**	**5.2**	**29%**
Issued capital	400.0	400.0	100%
Treasury stock	(48.2)	0.0	-
Reserves	572.7	579.7	99%
Retained earnings	38.4	65.6	58%
Net Profit (Loss) for the period / year	27.2	(50.1)	-
Total equity	**990.0**	**995.2**	**99%**
Total equity, minorities and liabilities	**2,985.3**	**2,794.0**	**107%**

Lecico Egypt consolidated cash flow

Cash flow statement	9M		%
(LE m)	2017	2016	17/16
Cash Flow from operating activities			
Net profit for the period	27.2	(129.6)	-
Depreciation and translation adjustment	76.7	72.8	105%
Intangible assets amortization and translation adjustment	(0.5)	(0.1)	383%
Income tax expense	19.8	15.2	130%
Income tax paid	(12.4)	(17.1)	73%
Deferred income tax	(0.6)	(5.0)	12%
Prepaid rent expense	0.2	0.2	89%
Capital gains	1.7	(0.8)	-
Provided provisions and translation adjustment	19.4	11.5	169%
Reversal of expired provision	(1.0)	(13.5)	7%
Employee share in net profit	27.1	25.3	107%
Increase (Decrease) in minority interest	(3.7)	1.7	-
Increase (Decrease) in translation reserve	15.8	29.4	54%
(Increase) Decrease in Inventory	(194.8)	52.9	-
(Increase) Decrease in Receivables	(70.9)	(88.8)	80%
Increase (Decrease) in Payables	66.9	29.7	225%
Utilized Provisions	(34.9)	(10.7)	326%
Increase (Decrease) in Other Long Term Liabilities	0.0	(0.2)	0%
Difference result from discounting of long term notes receivable	(0.6)	4.6	-
Net cash from operating activities	**(64.6)**	**(22.4)**	**288%**
Cash flow from investing activities			
Additions to fixed assets and projects	(83.3)	(42.1)	198%
Intangible assets	(0.0)	(0.1)	0%
Net change in available for sale investments	0.4	(0.8)	-
Proceeds from sales of fixed assets	1.6	2.1	75%
Increase (Decrease) in long-term notes receivable	4.7	(24.0)	-
Net cash from investing activities	**(76.6)**	**(64.9)**	**118%**
Cash flow from financing activities			
Increase (Decrease) in long-term loans	(35.7)	1.6	-
Increase (Decrease) in current portion of long term liabilities	(0.9)	(4.3)	20%
Employees Dividends paid	(32.6)	(29.8)	110%
Net cash from financing activities	**(69.2)**	**(32.5)**	**213%**
Net change in cash & cash equivalent during the period	**(210.3)**	**(119.8)**	**176%**
Net cash and cash equivalent at beginning of the period	(827.0)	(658.7)	126%
Net cash and cash equivalent at the end of the period	**(1,037.3)**	**(778.5)**	**133%**