Lecico Egypt S.A.E. Annual Report and Accounts 2017

Lecico

ANNUAL REPORT 2017

Lecico is one of the world's largest sanitary ware producer and a significant tile producer in Egypt and Lebanon. With over 50 years of operation, Lecico has developed into a major exporter by producing competitively priced sanitary ware to exacting European quality standards. Today, Lecico is one of the largest suppliers of sanitary ware to Europe and the Middle East.

COMPANY OVERVIEW

OPERATIONAL REVIEW

FINANCIAL STATEMENTS

2017 HIGHLIGHTS

- Sales rose 61% to LE 2,406.5 million due to significant average price increases resulting from the floatation of the Egyptian Pound and subsequent +30% inflation in Egypt for 2017.
- Gross profits grew 247% to LE 531.9 million due to a dramatic export-led increase in sanitary ware margins and a return to profitability in tiles.
- Net profit of LE 37.2 million compared to losses in 2016 of LE 50.1 million and LE 65.1 million in 2015.

EBIT profit (LE)
181.9m

Sales
+61%

Net Profit (LE)
37.2m

Gross profit
+247%

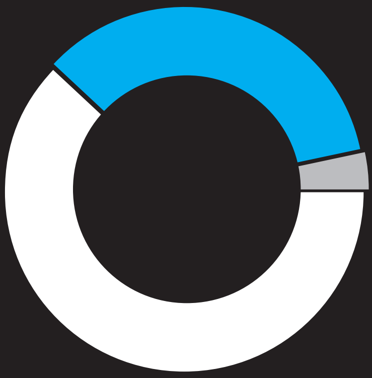
MARKET HIGHLIGHTS

Sales volumes grew throughout our export markets due to the effective flotation of the Egyptian Pound.

Business split
Geographical sales split

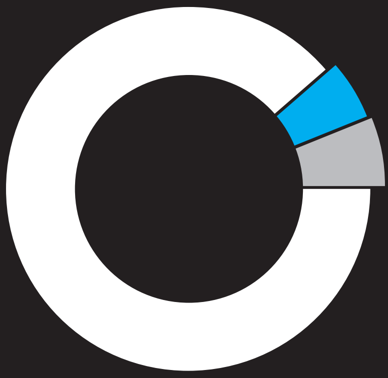
- Egypt **40.2%**
- Lebanon **6.4%**
- UK **18.3%**
- Germany **4.5%**
- Rest of Europe **4.5%**
- OEM **12.5%**
- Middle East **8.2%**
- Other **5.5%**

Revenue split
Sanitary ware, Tiles and Brassware



- Sanitary ware **62.2%**
- Tiles **34.5%**
- Brassware **3.3%**

Gross profit split
Sanitary ware, Tiles and Brassware



- Sanitary ware **88.7%**
- Tiles **5.2%**
- Brassware **6.1%**

United Kingdom

Sales value rose 108% largely due to the effective floatation of the Egyptian Pound on pricing. Volumes grew 19% to 1,134,000 pieces. Lecico's UK sales accounted for 18% of revenues (2016: 14%).

OEM Manufacturing

Sales value rose 135% largely due to the effective floatation of the Egyptian Pound on pricing. Volumes grew 20% to 810,000 pieces. OEM manufacturing accounted for 12% of revenues (2016: 9%).

Sub Saharan Africa

Sales value rose 156% largely due to the effective floatation of the Egyptian Pound on pricing. Sanitary ware volumes grew 42% to 329,000 pieces. Tiles volumes grew 196% to 340,000 sqm. Sub-Saharan Africa accounted for 5% of revenues (2016: 3%).

Germany

Sales value grew 109% largely due to the effective floatation of the Egyptian Pound on pricing. Volumes grew 24% to 319,000 pieces. Germany accounted for 4% of revenues (2016: 3%).

Middle East exports

Exports to the Middle East grew 69% largely due to the effective floatation of the Egyptian Pound on pricing. Sanitary ware volumes fell 10% and tile volumes rose 12%. Middle Eastern exports accounted for 8% of revenues (2016: 8%).

Egypt

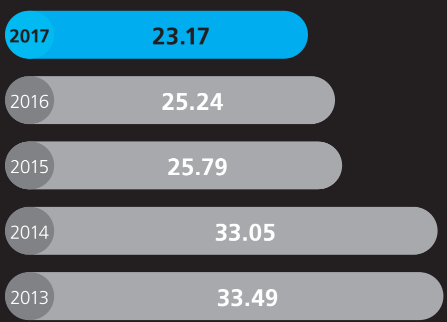
Sales value rose 25% with higher prices offsetting lower volumes. Sanitary ware volumes fell 16% and tiles volumes fell 11%. Egypt accounted for 42% of revenues (2016: 54%).

Lebanon

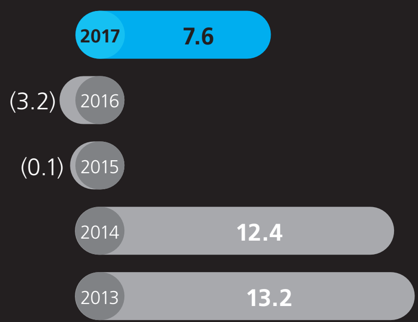
Sales value rose 69% largely due to the effective floatation of the Egyptian Pound on pricing. Sanitary ware volumes fell 4% and tiles volumes fell 42%. Lebanon accounted for 6% of revenues (2016: 6%).

FINANCIAL HIGHLIGHTS

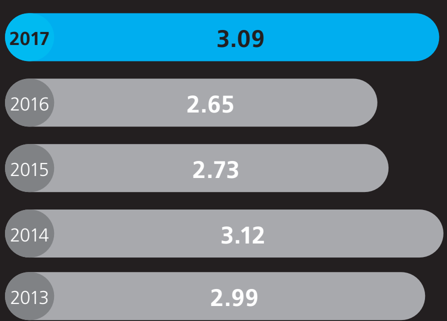
Tiles sales volume
million sqm



EBIT margin
%



Sanitary ware export volume
million pieces



Sanitary ware sales volume
million pieces

Five year summary

LE millions	2013	2014	2015	2016	**2017**	CAGR
Net sales	1,501.0	1,573.2	1,370.5	1,496.4	2,406.5	13%
Gross profit	408.7	388.8	216.2	153.3	531.9	7%*
EBIT	197.9	194.8	(1.0)	(48.3)	181.9	(2%)
Net profit	(18.0)	91.6	(65.1)	(50.1)	37.2	-
Reported EPS	(0.3)	1.1	(0.8)	(0.6)	0.5	-
Adjusted EPS**	(0.2)	1.1	(0.8)	(0.6)	0.5	-
Cash and equivalents	350.0	245.7	168.0	377.4	261.3	(7%)
Total assets	2,200.8	2,202.0	2,158.8	2,794.0	2,960.1	8%
Total debt	947.4	877.0	924.4	1,319.1	1,457.1	11%
Net debt	597.4	631.3	756.4	941.7	1,195.8	19%
Total liabilities	1,370.6	1,306.1	1,322.4	1,793.6	1,955.4	9%
Minority interest	3.7	9.5	5.8	5.2	18.7	50%
Shareholders' equity	826.6	886.4	830.6	995.2	**986.1**	5%

* Adjust EPP only
** EPS Adjusted to include treasury shares and historic EPS adjusted retroactively to reflect various bonus issues

CHAIRMAN'S STATEMENT.

Lecico returned to profit in 2017 after two years of losses. This significant turnaround came as a result of the floatation of the Egyptian Pound which dramatically improved the returns on the Company's efforts of the past two years to grow exports, reduce costs and restructure our tile operations.

Export led recovery

Almost all our growth in gross profits came from our sanitary ware segment were our efforts to find new customers and markets in export led to a 16% growth in volumes in export in the same year that the floatation of the Egyptian Pound saw a huge improvement in the profitability of export activity from Egypt.

Our tile segment also saw a 20% growth in export volumes in 2017 as the Libyan market began to open and while competition in exports meant we had to reduce dollar prices during the year, we still improved margins.

Lecico's domestic sales were down in all our segments with high inflation and interest rates limiting consumer spending power. So again, without the strong growth in volumes in our export segment and the effect of floatation on the equivalent Egyptian Pound prices in these markets, the recovery of 2017 would not have happened.

The floatation was also the principal driver of 30%+ inflation in Egypt in 2017 and this forced all Egyptian manufacturers of tiles and sanitary ware to increase prices significantly in the domestic market. Lecico benefited from this more than most as we are unique in having over 50% of our revenues from export, which ensured that Lecico's domestic price increases were adding marginal value not offsetting cost inflation.

Tile restructuring completed

In 2017 Lecico also completed its tile factory restructuring reducing capacity from 35 million square meters per annum to 25 million and optimising production and factory layout to get the best possible cost structure and efficiency out of this reduced footprint. This project was begun in 2016 in light of our view that the tile market would remain extremely challenging with little prospect for profitable growth in the foreseeable future due the structural overcapacity of the segment and the large number of manufacturers.

Tile restructuring – supported by inflation-led price increases and increased export sales – allowed us to return to limited profitability in this segment after losses in 2016. Encouragingly, our tile margins improved over the course of the year and this puts us in a position to see continued improvement in this segment's profitability in the coming year; a necessity given how small the segment's contribution to gross profit remained in 2016.

Optimism in the face of challenge

We are still in an extremely challenging period: local market demand is weak and competition for market share aggressive and our margins are thin and susceptible to shocks. You can see this in the squeeze on our operations in the second half of the year as domestic inflation and higher interest rates ate into the benefits of the currency floatation.

I am optimistic that despite these challenges we can build on the results of 2017 in the coming year. In the local market, inflation is already coming down from the peak of last year and we can expect interest rate reductions to follow. Both should stimulate local consumption and have a material effect on our cost structure as well. In exports, we anticipate a record year with continued strong growth in Europe as well. Our regional market exports should also improve as we have seen a small but marked improvement in Libya and we continue to penetrate new markets for our tiles.

I thank all the shareholders who continued to believe in the Company and see value in it during the extremely challenging last couple of years. The results of 2017 are a small first step towards rewarding that belief and 2018 should be another.

Gilbert Gargour
Chairman

MANAGING DIRECTOR'S STATEMENT

The turnaround in our performance in 2017 – led by our sanitary ware segment and sanitary ware exports in particular – has been a massive step towards restoring Lecico to a strong and stable financial footing.

It has been a relief to see a return to profitability in 2017 after several years of significant losses. Margins are thin and the recovery is accordingly fragile, but we have reason to be hopeful that this will continue to improve.

Looking forward, the local market has been extremely slow in the first weeks of 2018 but I expect a stronger overall market for the year as dropping inflation growth and interest rates start to filter through to consumers.

Exports should likewise see reasonable growth over the year as sanitary ware exports to Europe are expected to grow and regional and African sales of both sanitary ware and tiles have shown improvement in late 2017 and early trading for 2018.

The year is also a watershed for Lecico as it shows the way forward for the Company is an increased focus on sanitary ware and exports. We can and must improve the profitability of our tile segment, but overcapacity and the plethora of manufacturers in Egypt will limit its potential going forward and for us it will be increasingly a limited support industry to sanitary ware.

Sanitary ware on the other hand, is a product where Egypt has significant advantages as a manufacturer and a supplier to Europe and Lecico has a significant advantage in its proven track record of producing export quality product and delivering international service levels. I believe our competitive advantage in sanitary ware is reasonably unique and challenging to replicate for our peers in Egypt and other relatively low-cost countries.

In order to deliver a strong and stable financial performance going forward from sanitary ware growth and some marginal improvement in tiles, we will need to continue to focus on cost reduction and working capital reduction to generate cash and reduce our debt steadily in the years ahead.

Our high levels of debt and the sharp increase in the cost of that debt in 2017 is having a profound impact on our bottom line and is itself consuming a large part of our cash flow from operations making debt reduction more challenging.

We have made important steps forward in cost reduction in the last two years both in operations and administration and distribution. Admittedly, these are impossible to see in our numbers given the high inflation in Egypt and the restatement of our foreign costs and subsidiaries.

In terms of working capital, we had some success in the latter half of 2017 reducing improving our receivable days and reducing receivables in absolute terms. I am optimistic we can do the same in 2018 despite expected growth.

However, our inventories grew substantially in 2017 – in part because of the inflationary impact of the floatation at the end of the previous year – but also as we tried to balance production with changing sales forecasts and continued weakness in Egypt. Stock reduction will be a key focus of 2018 with plans to reduce stock holdings in all our subsidiaries overseas and in Egypt through tighter control on stock build up and an increased push on reducing older inventories.

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 steps on the path to 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 recovery seen in 2017 in the years ahead.

Taher Gargour
Managing Director and CEO

SANITARY WARE

Revenues
LE million

2017	1,497
2016	834
2015	718
2014	747
2013	737

Gross profit
LE million

2017	472
2016	158
2015	112
2014	129
2013	141

Gross margin
%

2017	31
2016	19
2015	16
2014	17
2013	19

Revenue

+80%

1% in volume and
+77% in ASP

Pieces sold

5.0m pcs

1.8 million pieces in Egypt
and 3.2 million pieces outside

Gross profit

+198%

margin grew 12.5
percentage points
to 31.5%%

Sanitary ware sales volume increased by 1% to 5.1 million pieces (up 71,635 pieces). Export sales volumes increased 16% (up 435,897 pieces).

SANITARY WARE CONTINUED

Sanitary ware sales volume increased by 1% to 5.1 million pieces (up 71,635 pieces). Export sales volumes increased 16% (up 435,897 pieces) while sales in Egypt fell 16% (down 358,797 pieces) and sales in Lebanon decreased by 4% (down 5,465 pieces). Growth in export came from UK, Germany, Europe, Africa and OEM markets.

Average sanitary ware prices were up 77% year-on-year to LE 295.4 per piece reflecting the higher proportion of export sales (61% of sales volume in 2017 vs. 53% in 2016); the impact of the floatation of the Egyptian Pound on average export prices; and the cumulative effect of price increases done in Egypt over the last year.

Revenues were up 80% year-on-year to LE 1,497.3 million (2016: LE 834.0 million). Revenues increased steadily over the course of the year as did export volumes with the roll out of new customers and OEM relationships over the course of 218.

The average cost of sales per piece rose 50% to LE 202.7 (2016: LE 135.4 per piece) due to higher costs following the floatation of the Egyptian Pound with subsequent high inflation in Egypt further increased by mid-year cuts in fuel and electricity subsidies in Egypt. Cost of Goods Sold increased 52% to LE 1,025.7 million (2016: LE 675.6 million).

Gross profit increased by 198% to reach LE 471.6 million (2016: LE 158.4 million). Gross profit was slightly lower in the second half following the reduction in fuel and electricity subsidies which led to a round of cost increases from local suppliers. This was partially offset in the fourth quarter by further price increases.

The Company's gross profit margin was up 12.5 percentage points to 31.5% compared to 19.0% for the same period last year.

Sanitary ware sales accounted for 62.2% of the Company's consolidated sales in 2016 (2016: 55.7%).

Sanitary ware capacity and sales by volume

000s pieces	2013	2014	2015	2016	**2017**	CAGR
Sanitary ware capacity	6,750	6,750	6,750	6,750	6,750	0.0%
Sanitary ware sales volume	5,676	5,335	4,835	4,990	5,061	(2.8%)
Capacity utilisation (%)	84%	79%	72%	74%	75%	
Egypt sales volume	2,494	2,066	1,995	2,183	1,825	(7.5%)
Lebanon sales volume	192	150	109	151	146	(6.6%)
Export sales volume	2,990	3,118	2,730	2,655	3,091	0.8%
Exports as a % of total sales (%)	52.7%	58.4%	56.5%	53.2%	61.1%	

Sanitary ware exports by volume

000s pieces	2013	2014	2015	2016	**2017**	CAGR
UK	1,010.1	1,073.7	1,009.0	950.4	1,134.0	2.9%
Germany	66.8	56.7	80.5	257.1	318.8	47.8%
Other Europe	320.2	316.1	252.6	286.2	270.4	(%4.1)
Middle East and North Africa	844.9	784.4	457.2	253.9	228.1	(27.9%)
Sub-Saharan Africa	154.4	195.9	217.6	232.4	329.2	20.8%
OEM	593.7	691.5	713.4	674.8	810.1	8.1%
Total exports	**2,990.1**	**3,118.2**	**2,730.2**	**2,654.7**	**3,090.6**	0.8%

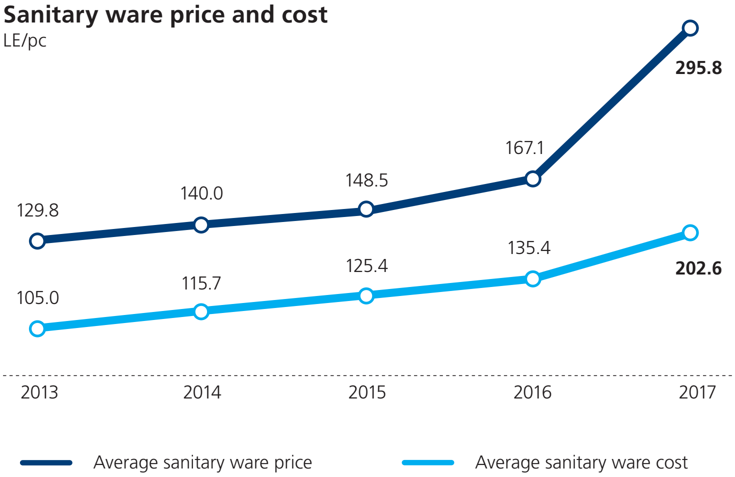
Sanitary ware analysis

	FY		%
Volume (000s pieces)	2016	2017	16/17
Egypt	2,183	1,825	84%
Lebanon	151	146	96%
Exports	2,655	3,091	116%
Total volume	**4,990**	**5,061**	**101%**
Average selling price	167.1	295.8	177%
Revenue	834.0	1,497.3	180%
Cost of sales	675.6	1,025.7	152%
Average cost per sqm	135.4	202.7	150%
Gross profit	**158.4**	**471.6**	**298%**
Gross profit margin	19%	31%	13%

Sanitary ware sales accounted for 62.2% of the Company's consolidated sales in 2017.

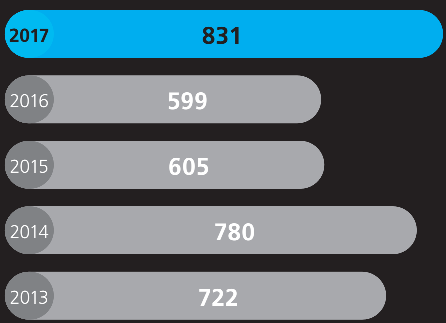
Sanitary ware price and cost

LE/pc

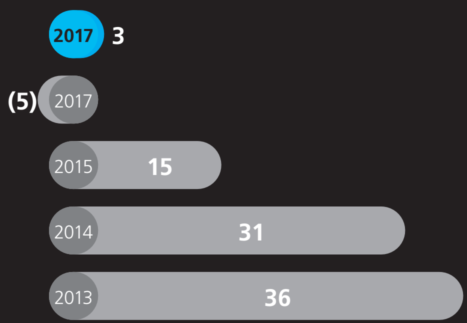


Tiles

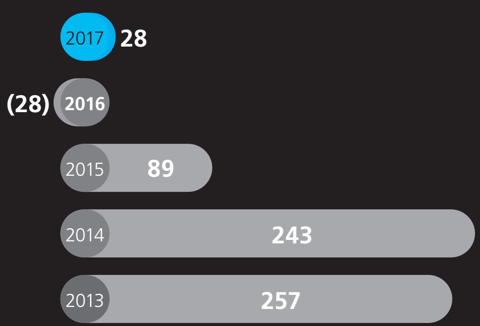
Revenues
LE million



Gross margin
%



Gross profit
LE million



Lecico's tile segment returned to profitability at the gross level in 2017.

Revenue

+39%

(-8% in volumes and
+51% in ASP

Gross profit

27.7m

compared to LE 28.1million
gross loss in 2016

Square meters sold

23.2 m sqm

19.0 m sqm in Egypt and
4.2 m sqm outside

TILES CONTINUED

Management estimates that capacity has increased by some 30% in the past three years. This capacity was being absorbed until the export market for Egyptian tile was sharply reduced in mid-2014 and beyond as a result of civil war in Libya and political instability around the region. The local market has therefore been asked to absorb an impossible amount of excess capacity. This has led to scramble for market share with downward pressure on prices throughout the past few years.

Lecico's tile segment returned to profitability at the gross level in 2017 from losses in 2016. The inflationary impact of floatation of the Egyptian Pound forced local producers to increase prices despite overcapacity in the industry.

Lecico's moves to reduce capacity from 35m square meters per annum to 25m square meters per annum and restructure production for an optimal cost at this lower production level was completed in 2017 and gave the Company some relative offset for cost inflation during the year.

The Company took a decision to offset inflation with prices despite the risk to sales volumes and was protected from a significant drop in its domestic sales volumes by a limited recovery in export markets.

Tile sales volumes decreased by 8% year-on-year (down 2.1 million square meters) to reach 23.2 million square meters. Sales in Egypt decreased by 11% (down 2.3 square meters), sales in Lebanon decreased by 42% (down 397,957 square meters), while sales in export increased by 20% (up 606,072 square meters). The growth in exports was largely due to increased sales in Libya in the second half of the year.

Average net prices rose 51% at LE 35.9 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 39% year-on-year at LE 830.7 million in 2017 (FY 2016: LE 599.5 million).

Average costs per square meter rose 39% year-on-year to reach LE 34.7 (2016: LE 24.9 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.

Cost of Goods Sold rose 28% to LE 803.0 million in 2017 (FY 2016: LE 627.6 million).

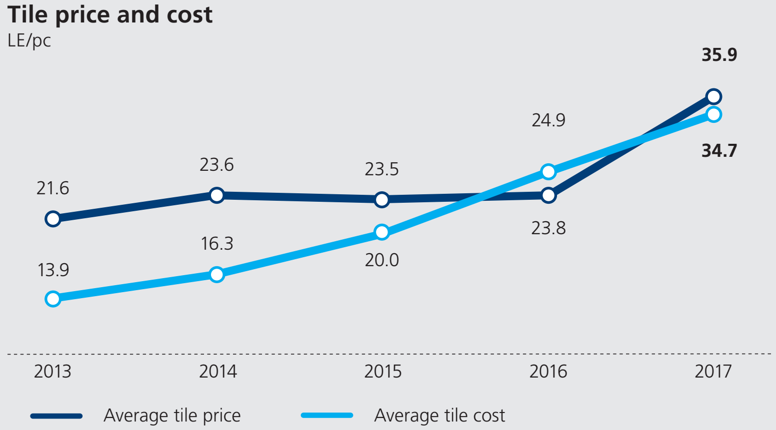
Lecico's tile segment reported a gross profit of LE 27.7 million compared to a gross loss of LE 28.1 million in 2016. The gross margin in 2017 was 3.3%.

Average costs per square meter rose 39% year-on-year to reach LE 34.7.

Tile capacity and sales by volume

000s sqm	2013	2014	2015	2016	**2017**	CAGR
Tile capacity	33,000	36,000	36,000	36,000	36,000	2.2%
Tile sales volume	33,492	33,045	25,787	25,237	23,171	(8.8%)
Capacity utilisation (%)	101%	92%	72%	70%	64%	
Egypt sales volume	23,910	25,457	20,581	21,270	18,994	(5.6%)
Lebanon sales volume	1,906	1,603	1,074	956	558	(26.4%)
Export sales volume	7,676	5,985	4,132	3,012	3,618	(17.1%)
Exports as a % of total sales (%)	22.9%	18.1%	16.0%	11.9%	15.6%	

Tile price and cost



Tile analysis

Volume (000s pieces)	FY 2016	FY **2017**	% 16/17
Egypt	21,270	18,994	89%
Lebanon	956	558	58%
Exports	3,012	3,618	120%
Total volume	**25,237**	**23,171**	**92%**
Average selling price	23.8	35.9	151%
Revenue	599.5	830.7	139%
Cost of sales	627.6	803.0	128%
Average cost per sqm	24.9	34.7	139%
Gross profit	**(28.1)**	**27.7**	–
Gross profit margin	–	3%	–

Brassware

Revenues
LE million

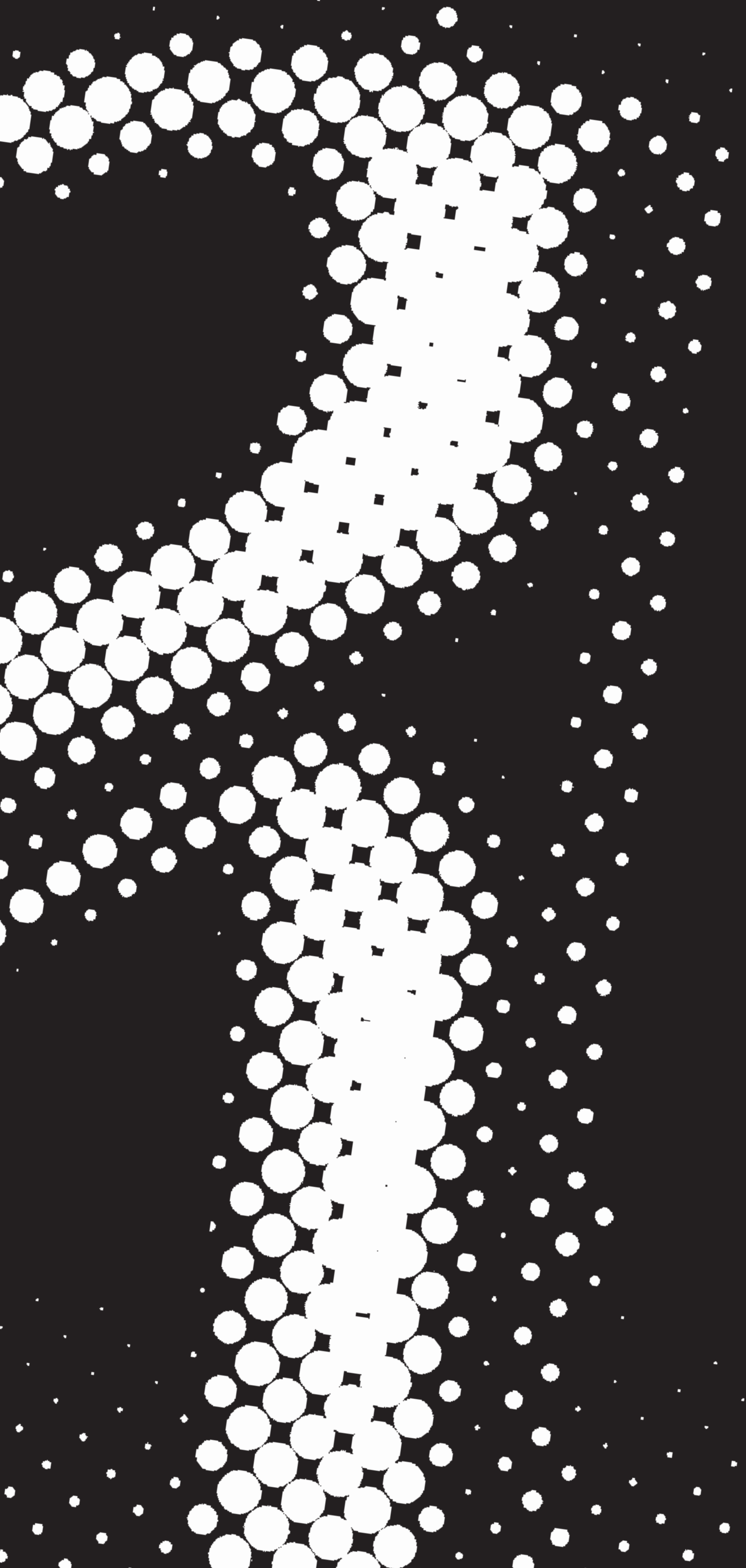
2017	78
2016	63
2015	47
2014	46
2013	42

Gross margin
%

2017	42
2017	37
2015	32
2014	37
2013	27

Gross profit
LE million

2017	33
2016	23
2015	15
2014	17
2013	11



Revenue growth

+25%

-29% in volumes
and +74% in ASP

Growth in gross margin

+5.0pct pt

41.5% vs. 36.6% in 2016

Gross profit

+42%

LE 32.6 million vs.
LE 23.0 million in 2016

2017 was a year of revenue-led growth in Lecico's brassware section.

BRASSWARE CONTINUED

2017 was a year of revenue-led growth in Lecico's brassware section. Lower priced products under the Lecico brand were significantly impacted by relatively larger price increases than competition following the floatation of the Egyptian Pound and the subsequent high inflation over the year as the Company decided to pass on all inflation and protect its margins. The Company's higher priced Sarrdesign brand also faced challenging circumstances as inflation and high interest rates limited the market demand in all segments.

Sales volumes for 2017 decreased by 29% to reach 108,631 pieces compared to 151,945 pieces for 2016.

Average net prices rose 74% to reach LE 722.5 per piece (FY 2016: LE 414.5) 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 25% year-on-year to reach LE 78.5 million (FY 2016: LE 63.0 million). However the strong growth in revenues for Lecico's other segments saw brassware's percentage of consolidated revenues fall to 3.3% compared to 4.2% for FY 2016.

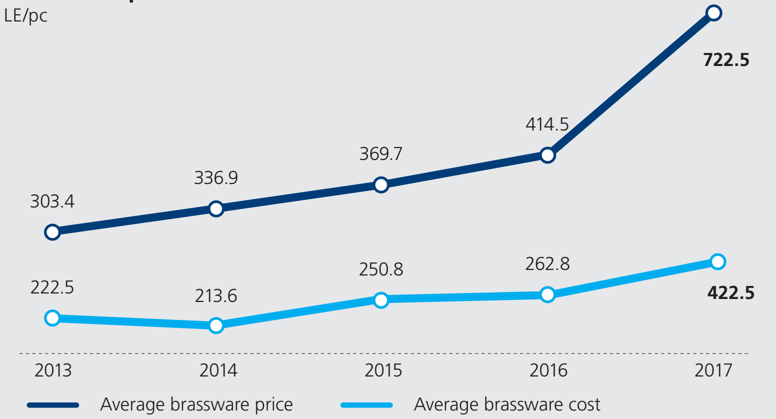
Average cost per piece rose 61% to LE 422.4 per piece reflecting the changing mix and the result of the impact of floatation on imported inputs.

Gross profit increased 42% to LE 32.6 million (FY 2016: LE 23.0 million) and the margin improved 5 percentage points to 41.5% (FY 2016: 36.6%).

Brassware segmental analysis

Volume (000's pieces)	FY 2016	FY 2017	% 16/17
Brassware volumes (pcs)			
Egypt (pcs)	150,938	108,471	72%
Lebanon (000 pcs)	–	–	–
Export (pcs)	1,007	160	16%
Total brassware volumes (pcs)	**151,945**	**108,631**	**71%**
Exports/total sales volume (%)	0.7%	0.1%	(0.5%)
Brassware revenue (LE m)	**63.0**	**78.5**	**125%**
Average selling price (LE/pc)	414.5	722.5	174%
Average cost per piece (LE/pc)	262.8	422.4	161%
Brassware cost of sales	(39.9)	(45.9)	115%
Brassware ware gross profit	23.0	32.6	142%
Brassware gross profit margin (%)	36.6%	41.5%	5.0%

Brassware price and cost
LE/pc



Financial overview

FY 2017: Currency floatation and growing exports drive return to profitability in 2017

Lecico revenues for 2017 were increased by 61% year-on-year to LE 2,406.5 million despite a drop in overall volumes for the year. Revenues increased in all segments as average prices rose substantially. Export prices increased in Egyptian Pound terms following the floatation of the Egyptian Pound in late 2016 and local prices were increased significantly to offset the high inflation in costs in Egypt.

The cost of goods sold for the year increased 40% despite lower overall volumes reflecting cost inflation on imported and local inputs following the floatation of the Pound and the removal of significant subsidies on fuel and electricity in mid-2017.

Lecico, as a net exporter with a long position on foreign currency cash flows was a net beneficiary of the floatation of the Egyptian Pound. Particularly as the Company's export volumes grew significantly in the year and proportionally as local volumes fell.

In 2017, Lecico reported a net profit of LE 37.2 million.

As a result, gross profit increased by 247% to reach LE 531.9 million and the Company's gross profit margin was up 11.9 percentage points to 22.1% compared to 10.2% in 2016.

In absolute terms, distribution and administration (D&A) expenses increased by 58% to LE 323.7 million, but as a percentage points of net sales proportional D&A expenses were down by 0.3 percentage points to 13.4% compared to 13.7% in 2016.

The Company reported LE 26.4 million in net other operating expenses compared to net other operating income of LE 2.8 million in 2016.

The Company reported an operating profit (EBIT) of LE 181.9 million for 2017 compared to an operating loss of LE 48.3 million in 2016. Lecico's EBIT margin for 2017 was 7.6%.

Excluding gains from currency exchange variances resulted from Egyptian Pound's floatation in 4Q 2016, financing expenses increased by 51% year-on-year in 2017 to reach LE 136.2 million compared to 2016 due to increase in borrowings and significantly higher interest rates for the Egyptian Pound.

Lecico recorded net tax charges of LE 14.2 million versus LE 22.8 million tax charge for the 2016.

Lecico reported a net profit of LE 37.2 million compared to a net loss of LE 50.1 million in 2016. Lecico's net margin for 2017 was 1.5%.

Profit and loss statement highlights

LE m	FY 2017	FY 2016	% 17/16	FY 2015	FY 2014	FY 2013	13–17 CAGR%
Sanitary ware	1,497.3	834.0	180%	718.2	746.6	737.0	19%
Tiles	830.7	599.5	139%	605.4	780.5	722.4	4%
Brassware	78.5	63.0	125%	46.9	46.1	41.6	17%
Net sales	**2,406.5**	**1,496.4**	**161%**	**1,370.5**	**1,573.2**	**1,501.0**	**13%**
Sanitary ware/net sales (%)	62.2%	55.7%	6.5%	52.4%	47.5%	49.1%	
Cost of sales	(1,874.5)	(1,343.1)	140%	(1,154.3)	(1,184.5)	(1,092.3)	14%
Cost of sales/net sales (%)	(77.9%)	(89.8%)	11.9%	(84.2%)	(75.3%)	(72.8%)	
Gross profit	**531.9**	**153.3**	**347%**	**216.2**	**388.8**	**408.7**	**7%**
Gross profit margin (%)	22.1%	10.2%	11.9%	15.8%	24.7%	27.2%	
Distribution and administration (D&A)	(323.7)	(204.4)	158%	(199.9)	(194.6)	(205.4)	12%
D&A/net sales (%)	(13.4%)	(13.7%)	0.2%	(14.6%)	(12.4%)	(13.7%)	
Net other operating income	(26.4)	2.8	-	(17.4)	0.7	(5.3)	49%
Net other operating income/net sales (%)	(1.1%)	0.2%	(1.3%)	(1.3%)	0.0%	(0.4%)	
EBIT	**181.9**	**(48.3)**	**-**	**(1.0)**	**194.8**	**197.9**	(2%)
EBIT margin (%)	7.6%	(3.2%)	10.8%	(0.1%)	12.4%	13.2%	
Net profit	**37.2**	**(50.1)**	**-**	**(65.1)**	**91.6**	**(18.0)**	-
Net profit margin (%)	1.5%	-	-	-	5.8%	-	

Sanitary ware

Sanitary ware sales volume increased by 1% to 5.1 million pieces (up 71,635 pieces). Export sales volumes increased 16% (up 435,897 pieces) while sales in Egypt fell 16% (down 358,797 pieces) and sales in Lebanon decreased by 4% (down 5,465 pieces). Growth in export came from UK, Germany, Europe, Africa and OEM markets.

Average sanitary ware prices were up 77% year-on-year to LE 295.4 per piece reflecting the higher proportion of export sales (61% of sales volume in 2017 vs. 53% in 2016); the impact of the floatation of the Egyptian Pound on average export prices; and the cumulative effect of price increases done in Egypt over the last year.

Revenues were up 80% year-on-year at LE 1,497.3 million.

Average cost of sales rose 50% at LE 202.7 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 198% to LE 471.6 million (FY 2016: LE 158.4 million) and the margin improved 12.5 percentage points to 31.5% (FY 2016: 19.0%).

Tiles

Tile sales volumes decreased by 8% year-on-year (down 2.1 million square meters) to reach 23.2 million square meters. Sales in Egypt decreased by 11% (down 2.3 square meters), sales in Lebanon decreased by 42% (down 397,957 square meters), while sales in export increased by 20% (up 606,072 square meters).

Average net prices rose 51% to LE 35.9 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 39% year-on-year at LE 830.7 million in 2017 (FY 2016: LE 599.5 million).

Average cost per square meter rose 39% year-on-year to reach LE 34.7 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.

Cost of sales rose 28% to LE 803.0 million in 2017 (FY 2016: LE 627.6 million).

Tile segment reports gross profit of LE 27.7 million compared to a gross loss of LE 28.1 million in 2016. The gross margin in 2017 was 3.3%.

Brassware

Sales volumes for 2017 decreased by 29% to reach 108,631 pieces compared to 151,945 pieces for 2016.

Average net prices rose 74% to reach LE 722.5 per piece (FY 2016: LE 414.5) 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 25% year-on-year to reach LE 78.5 million (FY 2016: LE 63.0 million). Brassware's percentage of consolidated revenues was 3.3% compared to 4.2% for FY 2016.

Average cost per piece rose 61% to LE 422.4 per piece reflecting changing mix and the result of the impact of floatation on imported inputs.

Gross profit increased 42% to LE 32.6 million (FY 2016: LE 23.0 million) and the margin improved 5 percentage points to 41.5% (FY 2016: 36.6%).

FINANCIAL OVERVIEW CONTINUED

Financial position

The value of Lecico's assets increased by 6% at the end of December 31, 2017 to reach LE 2,960 million primarily as inventories and receivables increased following the floatation of the Egyptian Pound in November 2016.

Total liabilities rose 9% at LE 1,955.4 million as debt grew to cover the increase in working capital and the acquisition of Treasury shares. 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.

Gross debt increased 10% or LE 138 million to reach LE 1,457.1 million compared to LE 1,319.1 million at the end of 2016.

Net debt rose 27% or LE 254.1 million to reach LE 1,195.8 million compared to LE 941.7 million at the end of 2016.

Net debt to equity increased 28% to reach 1.2x compared to 0.9x at the end of 2016. Quarter-on-quarter net debt to equity increased 3% (3Q 2017: 1.18x).

Profit and loss	FY		%
LE m	2016	2017	17/16
Sanitary ware	834.0	1,497.3	180%
Tiles	599.5	830.7	139%
Brassware	63.0	78.5	125%
Net revenues	**1,496.4**	**2,406.5**	**161%**
Cost of sales	1,343.1	1,874.5	140%
Gross profit	**153.3**	**531.9**	**347%**
% of sales	10%	22%	12%
Selling expenses	86.0	146.6	170%
Administration expenses	115.6	203.4	176%
Overheads	**201.6**	**350.1**	**174%**
% of sales	(13%)	(15%)	
Operating Profit (EBIT)	**(48.3)**	**181.9**	**-**
% of sales	(3%)	8%	11%
Net financial expenses	(101.0)	(152.5)	151%
Dividend income	3.2	6.4	199%
Exchange variances	121.2	16.3	13%
Profit before tax	**(25.0)**	**52.1**	**-**
% of sales	(2%)	2%	4%
Taxes, profit share & minorities	(25.1)	(14.8)	59%
Net profit after tax	**(50.1)**	**37.2**	**-**
% of sales	-	2%	-
Sales volumes			
Sanitary ware – pices	4,990	5,061	101%
Tile – sqm	25,237	23,171	92%

Tile segmental analysis	FY		%	FY			13 –17
LE m	2017	2016	17/16	2015	2014	2013	CAGR%
Tile volumes (000 sqm)							
Egypt	18,994	21,270	89%	20,581	25,457	23,910	(6%)
Lebanon	558	956	58%	1,074	1,603	1,906	(26%)
Export	3,618	3,012	120%	4,132	5,985	7,676	(17%)
Total tile volumes	**23,171**	**25,237**	**92%**	**25,787**	**33,045**	**33,492**	**(9%)**
Exports/total sales volume (%)	15.6%	11.9%	3.7%	16.0%	18.1%	22.9%	
Tile revenue	**830.7**	**599.5**	**139%**	**605.4**	**780.5**	**722.4**	**4%**
Average selling price (LE/sqm)	35.9	23.8	151%	23.5	23.6	21.6	14%
Average cost per piece (LE/sqm)	34.7	24.9	139%	20.0	16.3	13.9	26%
Tile cost of sales	(803.0)	(627.6)	128%	(516.3)	(537.8)	(465.6)	15%
Tile gross profit	**27.7**	**(28.1)**	**-**	**89.1**	**242.6**	**256.8**	**(43%)**
Tile gross profit margin (%)	3.3%	-	-	14.7%	31.1%	35.5%	

Recent developments and outlook

Despite the challenging trading environment in Egypt and uncertainty about the impact of exchange rates on Lecico's trading and profitability, Lecico is expecting to see an improvement in 2018 led by export growth in sanitary ware.

Sales in Egypt have seen a sharp slowdown in the Winter season and this has continued in early trading for 2018. Competition – particularly on tiles – remains fierce and this limits Lecico's ability to raise prices and maintain volumes particularly in the first quarter. Looking forward for the rest of 2018, it is likely that the overall market will grow as inflation and interest rates come down, but the environment will remain challenging and competition will remain fierce.

Lecico raised local market prices in October and made a small increase in January, which should allow it to offer promotions and sales incentives in the first quarter without further reducing net prices. The Company will look to increase prices again in the Summer season.

In exports, the Company expects to see continued growth in sanitary ware sales to Europe and this should be the principal driver of volume growth in 2018. Exports to the Middle East – and Libya in particular – have shown some growth as market conditions improved towards the end of 2017. This has continued in early trading for 2018 and could be a good support for the year ahead.

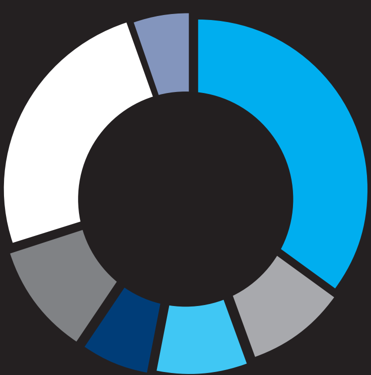
Profitability in 2018 will – to a large extent – depend on how the floatation continues, at what rate it stabilizes, where the euro and sterling go against the dollar. This will be the principal determinant of margins in Export. The Company is pushing through 2-3% price increases in export over the first months of 2018.

Margins should can expect support from a gradual reduction in interest rates over 2018, which will be support for local market growth as well.

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 we will continue to pursue new export markets while simultaneously working to reduce expenses, overheads and working capital.

Sanitary ware segmental analysis	FY		%	FY			13–17
LE m	2017	2016	17/16	2015	2014	2013	CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	1,825	2,183	84%	1,995	2,066	2,494	(8%)
Lebanon	146	151	96%	109	150	192	(7%)
Export	3,091	2,655	116%	2,730	3,118	2,990	1%
Total sanitary ware volumes	**5,061**	**4,990**	**101%**	**4,835**	**5,335**	**5,676**	**(3%)**
Exports/total sales volume (%)	61.1%	53.2%	7.9%	56.5%	58.4%	52.7%	
Sanitary ware revenue	**1,497.3**	**834.0**	**180%**	**718.2**	**746.6**	**737.0**	**19%**
Average selling price (LE/pc)	295.8	167.1	177%	149	140	130	23%
Average cost per piece (LE/pc)	202.7	135.4	150%	125	116	105	18%
Sanitary ware cost of sales	(1,025.7)	(675.6)	152%	(606.2)	(617.3)	(596.1)	15%
Sanitary ware gross profit	**471.6**	**158.4**	**298%**	**112.0**	**129.3**	**140.8**	**35%**
Sanitary ware gross profit margin (%)	31.5%	19.0%	12.5%	15.6%	17.3%	19.1%	

Exports by destination
Sanitary ware



- UK **37%**
- Germany **10%**
- Other Europe **9%**
- Middle East and North Africa **7%**
- Sub-Saharan Africa **11%**
- OEM **26%**

000s pieces	2017	% of total	2016	% of total	% 1716
UK	1,134.0	37%	950.4	36%	119%
Germany	318.8	10%	257.1	10%	124%
Other Europe	270.4	9%	286.2	11%	94%
Middle East and North Africa	228.1	7%	253.9	10%	0%
Sub-Saharan Africa	329.2	11%	232.4	9%	142%
OEM	810.1	26%	674.8	25%	120%
Total exports	**3,090.6**	**100%**	**2,654.7**	**100%**	**116%**

Corporate Social Responsibility

As one of Egypt's leading manufacturers, Lecico considers Corporate Social Responsibility (CSR) to be an integral part of the way it operates and an important contributor to its reputation. The Board takes regular account of the significance of social, environmental and ethical matters and the measures covered in this report are monitored and reviewed with the aim of continually improving performance.

Training and development

377 employees in the Quality Control Department have received external training in Occupational Health, Quality, etc. Customised training courses (Technical & Vocational) remains a key focus.

18 students have been trained as interns in our factories in different departments from Faculty of Engineering, Faculty of Fine Arts, Arab Academy of Science and technology, Faculty of Commerce and Workers' University.

Employee communications

Numbers of communication channels are in place including briefing meetings, worker boards and notice boards.

To further improve two-way communication, the Company has a Worker's Follow-Up Committee representing staff from all departments and factories that meets regularly with the Executive Board. Half of the members were replaced by new elected members from different departments across the Company.

Employment policy

Lecico's policy is to provide equal opportunities to all existing employees and anyone seeking to join. The Company is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, nationality or ethnic origin.

Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes on equal terms with other employees. If an employee becomes disabled during employment the Company makes every effort to enable them to continue employment, with re-training for alternative work where necessary.

The Company operates a number of employee pension schemes across its business including a retirement fund and has recently offered a tailored partial contribution private health insurance plan to its administrative staff. Lecico contributed over LE 8.3 million in pension contributions, accident and medical insurance and aids support for its staff in 2017.

Holidays and Pilgrimages

Lecico recognises the importance of a good work/life balance for its staff and offers several programmes to help staff make the most of their time outside of work. These programmes include organising and subsidising day trip and week-long holidays for its staff and their families in the summer; partially funding its staff's Haj and Omra pilgrimages and giving salary bonuses to the staff in Ramadan and around other key holidays.

In 2017, these programmes (pilgrimages/childbirth/death/marriage) included a total of 2,630 subsidised holiday days enjoyed by staff and a total expense of LE 290,900.

Community

Lecico believes it has a responsibility to contribute to the community through donations of goods, funds and time to charitable organisations and investing in the neighbourhoods around its factories. The Company also offers support to its staff and their families in times of medical emergency on a charitable basis.

The total value of the Company's donations during 2017 was LE 1.5 million (2016: LE 390,036) with the majority of this being donations of goods. It is the Company's policy not to make political donations and no political donations were made in the year 2017.

The Company also funded a local sporting facility rental and equipment for its workers to play football twice a week and organized a football tournament between different departments. This new benefit allowed a good opportunity to our employees to practice sports.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Environment and Health & Safety

Lecico is committed to developing its business in a responsible manner, protecting the health and safety of its employees and addressing evolving environmental issues and ensuring compliance with applicable legal requirements.

Special sessions about protection from Silicosis risks were delivered to 49 workers in Borg El Borg Factory.

In addition to the applied HSE systems, this year Lecico has developed the system of the protection from radioactive materials used in production. This was done through:

- Hiring a consultant specialised in the radioactive materials field.
- Installing new machineries to make the necessary measures related to these materials on regular basis.
- Maintaining a regular examination every 6 months for our employees who are exposed to these materials.

Lecico has well developed environmental, packaging and waste reduction policies that are communicated to all employees who are encouraged to participate in achieving the Company's goals.

All Lecico's factories in Egypt are certified for ISO 9001 (quality management systems), ISO 14001 (environmental) and ISO 18001 (Health and Safety). ISO 14001 is an internationally accepted certification for effective Environmental Management System (EMS). The standard is designed to address the delicate balance between maintaining profitability and reducing environmental impact. ISO 18001 is the internationally recognized certification for occupational health and safety management systems. It was developed by a selection of trade bodies, international standards and certification bodies to be compatible with ISO 9001 and ISO 14001, and help any company meet their health and safety obligations in an efficient manner.

Lecico's health and safety system complies with all the applicable Egyptian laws related to Occupational Health and safety and is audited annually from Bureau of Health and Safety and Egyptian Environmental Affairs Agency (EEAA) as follows:

- Labour Law number 12 issued on year 2003 that states the legislations of the requirements and precautions of occupational health and safety.
- Labour Law number 12 (2003) that states the legislations of Occupational Health and Safety and Securing Work Environment Subsidiary Clause which covers laws number 202 to 231 concerning definition and application, work site, construction and license, requirements of work environment, social and health care, OH&S inspection, planning of OH&S systems and securing work sites, and research and development systems and consultation.
- Law number 453 (1954) related to "License for industrial and commercial organizations" and amended by Law no. 68 (2016).
- Law number 79 (1975) related to Social Security and Law number 135 (2010) related to Social Insurance and Pensions.
- Environmental Law number 4 (1994) regarding environmental protection amended by Environmental Law number 9 (2009) and Environmental Law number 105 (2015).
- The Ministerial Executive Regulations number 338 (1995) amended by Ministerial decision number 1095 (2011), Ministerial decision number 964 (2015), Ministerial decision number 544 (2016), Ministerial decision number 618 (2017) and lately Ministerial decision number 1963 (2017).

Environmental Policy

All Lecico companies seek to:

- Minimise the use of all materials, supplies and energy – and wherever possible use renewable or recyclable materials.
- Minimise the quantity of waste produced in all aspects of our business.
- Adopt an environmentally sound transport policy.
- Communicate our environmental policy to all staff and encourage them to participate in the achievement of our goals.
- Supply and promote, wherever possible, those products, which contribute to energy conservation and do not damage the environment.
- Ensure that the Company continues to meet present and future environmental standards and legislation.

In 2017, the Company was audited and passed successfully all its recurring external audits, including:

- ISO-TUV SUD in compliance with ISO 9001: 2008, OHSAS 18001: 2007 and ISO 14001:200.
- Factory and Product audit to meet French national standards (NF.)
- Factory and Product audit to meet Dutch national standards (KIWA).
- Factory and Product audit to meet Swedish national standards (NORDTEST).
- Factory and product audit to meet Spanish national standards (AENOR).
- Factory and product audit to meet American national standards (IAPMO).

Packaging and Waste Reduction Policy

All Lecico companies seek to:

- Purchase recycled and recyclable packaging where practicable, including pallets and cartons.
- Return reusable pallets to suppliers and similarly recovering used pallets from customers.
- Reuse packaging opened at branch level for internal transfers and deliveries.
- Actively take part in recycling and reclamation schemes.
- Within its businesses embrace electronic communication aimed at significant reduction in internal paperwork throughout the Company.
- Ensure that the Company continues to meet present and future environmental standards and legislation.
- View copies of our quality certificates and environmental reports here.

We aim to minimise the use of all materials, supplies and energy and wherever possible use renewable or recyclable materials.

Board of Directors

Mr. Gilbert Gargour
Chairman

He has been a Director since 1981 and has served as Chairman and CEO since 1997. He is a citizen of Lebanon and the United Kingdom and holds an MBA from Harvard University. He is a co-owner of Intage and is the brother of Mr. Toufick Gargour and Mr Alain Gargour, both Lecico Directors and co-owners of Intage.

Mr.Taher Gargour
Managing Director and CEO

He joined Lecico in January 2005 and was appointed a Director in 2008. He was appointed Managing Director in July 2012. He is a citizen of Lebanon and the United States and holds an MA from SAIS-Johns Hopkins. Prior to joining Lecico, he worked for seven years in the EMEA research department of HSBC Securities, covering Egyptian equities and rising to head the EMEA research team. Taher Gargour is the son of Chairman, CEO and co-owner of Lecico Egypt, Mr. Gilbert Gargour.

Mr. Toufick Gargour
Non-executive Director

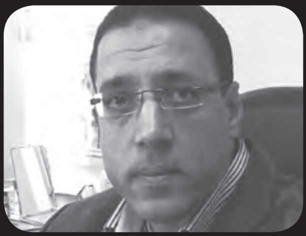
He has been a Director of the Company since 1974 and holds an IEP from INSEAD. In addition to being a Director at Lecico Egypt, he has been a Director of Lecico Lebanon since 1969 and a Director and co-owner of Intage. He served as the General Manager and as a Director of T. Gargour & Fils SAL (1968 to 1996) and Uniceramic Lebanon (1973 to 2000).

Mr. Alain Gargour*
Non-executive Director

He has been involved with Lecico since 1978 and has been a Director of the Company since 1997. He is a citizen of both Lebanon and the United Kingdom and holds an MBA from the University of Chicago. He is also the CEO and member of the board of Gargour Holdings S.A, Chairman of Lecico Lebanon and serves as a Director of Lecico UK and as a member of Lecico Egypt's Audit Committee. He is a Director of Intage.

Mr. Georges Ghorayeb
Executive Director

He has been a Director since 2003. A Lebanese citizen, he studied Electro Technical Engineering from 1971-1976 in INSAE (Lebanon) in coordination with CNAM (France). He joined Lecico Lebanon in 1970 and has served as Group Technical Director since 1993 and Managing Director of Lecico Lebanon since 1997.



Mr. Mohamed Hassan
Executive Director

He has been appointed as a Director in 2014. He is a citizen of Egypt with B.Sc. in Accounting from Alexandria University and an MBA from Arab Academy for Science, Technology & Maritime Transport. He joined Lecico in 1990 and has served as Financial Manager from 2000 to 2013 when he was promoted to Finance Director and asked to join the board.

Mr. Pertti Lehti
Executive Director

He has been a Director since 2002. He is a citizen of Finland and was a Senior Vice-President for Ceramics Production at Sanitec from October 2001 until July 2007. Prior to this, he was the Managing Director of Ido Bathroom Ltd. (Finland) (1995 to 2001) and Managing Director of Porsgrund Bad AS (Norway) (1993 to 1995). In 2011 he left his job as President and CEO of Finndomo, and joined Lecico as Supply Chain Director.

Eng. Aref Hakki*
Non-executive Director

He has been a Director since 1998. He is a citizen of Egypt with an engineering degree from Cambridge University and an MBA from Seattle University. He is also the Chairman and Chief Executive Officer of EMEC and on the boards of several other companies. Previously, he served as Chief Executive Officer of ABB Egypt (1978 to 1998) and as Chairman until 1999, after working for Brown Boveri in the US and Switzerland (1970 to 1978), was Chairman of Biscomisr from 2008 to 2015.

Dr. Hani Sarie-Eldin
Non-executive Director

He has been a Director since March 2010. He is a citizen of Egypt and holds a PhD in International Business Law from Queen Mary and Westfield College, University of London. Dr. Sarie-Eldin founded Sarie-Eldin & Partners Law Firm in 2007 and is the firm's Chairman. Prior to establishing the firm, he spent two years as Chairman of the Egyptian Capital Markets Authority and previously held senior positions in the Al-Futtaim Group and the Shalakany Law Office. Dr. Sarie-Eldin is currently a member of the Board of Directors of various Egyptian corporations and Banks.

Mr. Elie Baroudi*
Non-Executive Director

He has been a Director since 2003. He served as Managing Director of the company from September 2002 to June 2012. Prior to joining Lecico, he worked at American Express Bank for 22 years and served in various positions including Executive Director and Region Head for North and South East Asia (1991 to 1996), and Managing Director of American Express's Egyptian joint venture bank, Egyptian American Bank (1986 to 1990).

Dr. Rainer Simon
Non-executive Director

Dr. Rainer Simon has been a Director since March 2011. He is a German citizen and holds a doctorate of Economics from Saint Gallen (Switzerland). Dr. Simon is the owner of BirchCourt GmbH since 2005 and previously held senior positions at Continental AG, Keiper-Recaro GmbH and has been executive director of Grohe AG. Between 2002 and 2005 he was CEO and member of the Board of Sanitec AG and served as a board member of Lecico Egypt representing Sanitec. He presently serves as the Chairman of the Supervisory Board of Joyou AG Hamburg/ Nan'an China and is also a member of the Boards of Uponor OY Helsinki Finland, Haikui Seafood AG Hamburg / Dong Shan and HSIL Ltd. Gurgaon, India.

Mr. Mohamed S. Younes*
Non-executive Director

He has been a Director since 2004. He is a citizen of Egypt and the United States of America and holds an MBA from Harvard University. In addition to serving as a Lecico Director, he has been the Chairman of Concord International Investment Group since 1986 and served concurrently as the Chairman and Chief Executive Officer of Baring Brothers & Co's New York Corporate Finance affiliate from 1987 to 1992. Mr. Younes is currently a member of the Board of Directors of various Egyptian corporations and Banks. In addition to serving as a Lecico Director and the Chairman of its Audit Committee, he is a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association.

Name	Age	Representing	Appointed to the Board
Mr. Gilbert Gargour	75	Intage / Management	1981
Mr. Alain Gargour	65	Intage	1997
Mr. Toufick Gargour	76	Intage	1974
Mr. Ellie Baroudi	72	Independent	2003
Mr. Taher Gargour	48	Management	2008
Mr. Georges Ghorayeb	67	Management	2003
Mr. Mohamed Hassan	54	Management	2013
Mr. Pertti Lehti	59	Management	2002
Eng. Aref Hakki	83	Independent	1998
Dr. Hani Sarie-Eldin	52	Independent	2010
Dr. Rainer Simon	67	Independent	2011
Mr. Mohamed S. Younes	79	Independent	2004

* Member of Lecico Egypt Audit Committee

Financial statements

Auditor's report to the shareholders of Lecico Egypt (S.A.E.)

Qualified opinion

We have audited the consolidated financial statements of Lecico Egypt Company and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of such adjustments ,if any, as might have been determined to be necessary had the required financial information mentioned in the basis of qualified opinion been received, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for qualified opinion

Lebanese Ceramic Industries Co. S.A.L, (A Lebanese subsidiary) audit report was qualified in respect of the subsidiary's investment in "Murex Industries and Trading" which is classified as an investment in associate in the subsidiary's statement of financial position and is carried at cost at LBP 1.122 million equivalent to EGP 13.3 million as at 31 December 2017. The subsidiary's auditor was unable to obtain sufficient appropriate audit evidence about the classification of this investment and its measurement as at 31 December 2017 because they were not provided with the required financial information. Consequently, they were unable to determine whether any adjustments to the subsidiary's financial statements were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board of Accountants Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without qualifying our opinion we draw attention to note no. (22) to the consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on subsidiaries' country of incorporation.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision

During the year the Company provided for expected claims for an amount EGP 30.7 million also an amount of EGP 40.9 million was utilised out of the provision balance for the realized claims.

- We obtained a list of expected claims.
- We ensured that the expected claims are provided for where there is need for that.
- We ensured that the utilised portion of the provision is against realised claims.

Other information

Management is responsible for the other information. The other information comprises the information included in the Board of Directors report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Auditor's report to the shareholders of Lecico Egypt (S.A.E.)

Continued

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and presented fairly the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

  Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide management with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Hazem Hassan

Hossam Abdel Wahab
CPA no. 8581
Capital Market Register No. 380

Alexandria on March 5, 2018

Consolidated financial position

as at December 31, 2017

	Note	31/12/2017 LE	31/12/2016 LE
Non-current assets			
Property, plant and equipment	(11)	690,699,324	689,241,619
Projects in progress	(12)	21,866,338	13,659,594
Intangible assets	(13)	29,183,877	28,600,340
Other investments	(14)	13,221,600	13,589,603
Long-term notes receivable	(15)	27,144,059	24,576,010
Long-term pre-paid rent		–	157,335
Total non-current assets		**782,115,198**	**769,824,501**
Current assets			
Inventory	(16)	1,133,779,159	889,765,886
Trade and other receivables	(17)	782,930,154	757,058,076
Cash and cash equivalents	(18)	261,296,342	377,393,987
Total current assets		**2,178,005,655**	**2,024,217,949**
Total assets		**2,960,120,853**	**2,794,042,450**
Equity			
Share capital	(20)	400,000,000	400,000,000
Reserves	(21)	558,501,332	579,743,746
Retained earnings	(22)	38,524,669	65,577,244
Net profit/(Loss) for the year		37,220,802	(50,118,842)
Total equity attributable to equity holders of the Company		**1,034,246,803**	**995,202,148**
Treasury shares	(23)	(48,182,065)	–
		986,064,738	**995,202,148**
Non-controlling interests		18,665,774	5,242,453
Total equity		**1,004,730,512**	**1,000,444,601**
Non-current liabilities			
Long-term loans and borrowings	(24)	20,000,000	67,330,000
Deferred income tax	(26)	22,783,102	25,779,585
Provision	(27)	10,580,500	10,698,855
Total non-current liabilities		**53,363,602**	**103,808,440**
Current liabilities			
Banks overdrafts	(18)	1,390,477,701	1,204,388,912
Loans and borrowings	(28)	46,604,181	47,339,181
Trade and other payables	(29)	457,492,063	418,486,277
Provisions	(27)	7,452,794	19,575,039
Total current liabilities		**1,902,026,739**	**1,689,789,409**
Total liabilities		**1,955,439,341**	**1,793,597,849**
Total equity and liabilities		**2,960,120,853**	**2,794,042,450**

Notes (1) to (37) are an integral part of these consolidated financial statements.
Auditor's report attached.
March 5, 2018

Finance Director
Mohamed Hassan

Managing Director
Taher Gargour

Consolidated income statement

For the year ended December 31, 2017

	Note	31/12/2017 LE	31/12/2016 LE
Net sales		2,406,460,883	1,496,432,827
Cost of sales	(4)	(1,874,520,476)	(1,343,130,744)
Gross profit		**531,940,407**	**153,302,083**
Other Income	(5)	24,607,332	25,106,708
Distribution expenses		(146,616,199)	(86,025,367)
Administrative expenses		(177,048,433)	(118,390,828)
Other expenses	(6)	(51,001,252)	(22,330,362)
Result from operating activities		**181,881,855**	**(48,337,766)**
Investment income		6,377,963	3,206,008
Finance income	(7)	24,331,817	126,780,858
Finance expenses	(8)	(160,531,090)	(106,650,901)
(Loss) before tax		**52,060,545**	**(25,001,801)**
Current income tax expense	(9)	(17,448,689)	(26,574,137)
Deferred income tax		3,220,514	3,771,977
Net (loss)/profit for the year		**37,832,370**	**(47,803,961)**
Attributable to:			
Equity holders of the Company		37,220,802	(50,118,842)
Non-controlling interest		611,568	2,314,881
Net (loss)/profit for the year		**37,832,370**	**(47,803,961)**
Earnings/(Loss) per share (LE/Share)	(10)	**0.49**	**(0.63)**

Notes (1) to (37) are an integral part of these consolidated financial statements.

Consolidated statement of income

For the year ended December 31, 2017

	31/12/2017 LE	31/12/2016 LE
Other comprehensive income		
Net profit/(loss) for the year	37,832,370	(47,803,961)
Items that may be reclassified subsequently to income statement		
Foreign operations – foreign currency translation differences	(16,514,015)	209,583,180
Total other comprehensive income	**21,318,355**	**161,779,219**
Total comprehensive income attributable to:		
Equity holders of the Company	14,583,239	151,914,233
Non-controlling interests	6,735,116	9,864,986
Total other comprehensive income	**21,318,355**	**161,779,219**

Notes (1) to (37) are an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2017

	Note	Issued and paid up capital LE	Reserves LE	Retained earnings LE
Balance at December 31, 2015		**400,000,000**	**376,159,567**	**119,477,652**
Transfer to retained earnings		–	–	(65,066,133)
Transfer to legal reserve		–	1,551,104	(1,551,104)
Adjustments		–	–	12,716,829
Translation adjustment of foreign subsidiaries		–	202,033,075	–
Net loss for the year		–	–	–
Balance at December 31, 2016		**400,000,000**	**579,743,746**	**65,577,244**
Transfer to retained earnings		–	–	(50,118,842)
Transfer to legal reserve		–	1,395,151	(1,395,151)
Acquisition of treasury stocks	(23)	–	–	–
Adjustments		–	–	24,461,418
Translation adjustment of foreign subsidiaries		–	(22,637,565)	–
Net loss for the year		–	–	–
Balance at December 31, 2017		**400,000,000**	**558,501,332**	**38,524,669**

Notes (1) to (37) are an integral part of these consolidated financial statements.

Net (loss) for the year LE	LE	Equity of the Parent Company's shareholders LE	Non-controlling interest LE	**Total equity LE**
(65,066,133)	**–**	**830,571,086**	**5,779,218**	**836,350,304**
65,066,133	–	–	–	–
–	–	–	–	–
–	–	12,716,829	(10,401,751)	2,315,078
–	–	202,033,075	7,550,105	209,583,180
(50,118,842)	–	(50,118,842)	2,314,881	(47,803,961)
(50,118,842)	**–**	**995,202,148**	**5,242,453**	**1,000,444,601**
50,118,842	–	–	–	–
–	–	–	–	–
–	(48,182,065)	(48,182,065)	–	(48,182,065)
–	–	24,461,418	6,688,205	31,149,623
–	–	(22,637,565)	6,123,548	(16,514,017)
37,220,802	–	37,220,802	611,568	37,832,370
37,220,802	**(48,182,065)**	**986,064,738**	**18,665,774**	**1,004,730,512**

Consolidated statement of cash flow

For the year ended December 31, 2017

	Note	31/12/2017 LE	31/12/2016 LE
Cash flow from operating activities			
Net profit/(loss) for the year		37,220,802	(50,118,842)
Adjustments provided to reconcile net loss to net cash provided by operating activities			
Fixed assets depreciation and translation differences	(11)	101,127,595	43,241,979
Intangible assets amortisation and translation differences		(583,536)	(6,262,061)
Provided provisions and translation differences		31,868,288	81,167,868
Employees participation in net profit		35,921,547	33,719,174
Long-term prepaid rent expense		157,335	236,000
Capital gain		1,326,520	(1,033,579)
Income tax expense		17,448,689	26,574,137
Deferred income tax		(2,996,483)	(4,826,900)
Reversal of expired provision		(2,115,844)	(14,064,872)
Reversal of inventory impairment		(5,749,374)	(3,710,522)
Discounting of long-term notes receivables		2,281,951	3,059,466
Increase in non-controlling interests		13,423,321	(536,765)
Change in translation reserve		1,823,844	214,749,905
		231,154,655	**322,194,988**
Changes in working capital			
Change in inventory		(237,740,247)	(197,014,361)
Change in receivables		(21,858,078)	(251,238,380)
Change in payables		31,201,017	91,224,982
Payments for other long-term liabilities		–	(323,464)
Paid income tax		(12,955,782)	(25,035,105)
Utilised provisions		42,659,449	(17,149,680)
Net cash used in operating activities		**(56,729,124)**	**(77,341,020)**
Cash Flow from investing activities			
Payments for acquiring property, plant and equipment and projects in progress		(114,152,107)	(58,402,584)
Payments for intangible assets		–	(265,816)
Proceeds from other current investments		368,003	(7,747,815)
Proceeds from selling property, plant and equipment		2,034,894	4,065,970
Decrease for long-term notes receivable		(4,850,000)	(15,820,000)
Net cash used in investing activities		**(116,600,562)**	**(78,170,245)**
Cash Flow from financing activities			
(Payments)/proceeds for long-term loans		(48,065,000)	17,012,941
Payments to acquire treasury shares		(48,182,065)	–
Payments for employees' share in net profit		(32,609,683)	(29,772,811)
Net cash used in financing activities		**(128,856,748)**	**(12,759,870)**
Net change in cash and cash equivalents during the year		**(302,186,434)**	**(168,271,135)**
Cash and cash equivalents at beginning of the year	(18)	**(826,994,925)**	**(658,723,790)**
Cash and cash equivalents at the end of the year	(18)	**(1,129,181,359)**	**(826,994,925)**

Notes (1) to (37) are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the Year Ended December 31, 2017

1. Reporting entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2017 comprise the Parent Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

1.1 Lecico Egypt (the Parent)

Lecico Egypt (S.A.E.) was established on November 1st, 1975 according to the resolution of Ministry of Economics and Economic Co-operation number 142 of 1975. The Company is subject to law number 8 of 1997. The Parent Company's purpose is the production of all ceramic products including the production of sanitary ware and all kinds of tiles and entering into capital lease transactions.

1.2 Subsidiaries

The following is a list of the subsidiaries comprising the consolidated financial statements together with the respective percentage owned by the Parent:

	Country of Incorporation	**Ownership Interest 31/12/2017 %**	Ownership Interest 31/12/2016 %
Lecico for Ceramics Industries (S.A.E.)	Egypt	**99.99**	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	**99.83**	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	**99.33**	99.33
Lecico (UK) Ltd.	United Kingdom	**100.00**	100.00
Lecico for Investments Company Ltd.	United Kingdom	**100.00**	100.00
The Lebanese Ceramics Industries (S.A.L.)	Lebanon	**94.77**	94.77
International Ceramics (S.A.E.)	Egypt	**99.97**	99.97
Lecico for Trading and Distribution of Ceramics (S.A.E.)	Egypt	**70.00**	70.00
European Ceramics (S.A.E.)	Egypt	**99.97**	99.97
Lecico Plus for Trading (S.A.E.)	Egypt	**99.85**	99.85
Burg Armaturen Fabrik Sarrdesign (S.A.E.)	Egypt	**69.85**	69.85
Lecico – Algeria (S.A.R.L) *	Algeria	**–**	60.00

* This subsidiary was liquidated and its accounts was closed as at March 31, 2017 as per the liquidator report in Algeria. The net result of the liquidation of this subsidiary was included in the expenses in the consolidated income statement of the reporting period.

Notes to the consolidated financial statements

For the year ended December 31, 2017

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

2.3 Functional and presentation currency

The functional currency of the Company is Egyptian Pounds; each entity in the group determines its own functional currency and items included in the financial statements of each entity is measured using that functional currency.

The consolidated financial statements are presented in Egyptian Pounds (LE) which is the Company's functional currency.

2.3 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 36-12 – valuation of financial instruments.
- Note 36-11 – lease classification.
- Note 36-10 – measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets.
- Notes 36-15 – provisions and contingencies.
- Note 36-15-1 – measurement of defined benefit obligations.

2.4 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

3. Information about operating segments

Set out below is business segment information split into the sanitary ware segment, tiles segment and brassware segment:

	31/12/2017	31/12/2016
First: Sanitary Ware segment		
Sales volumes (in 000 pcs)		
Egypt	1,825	2,183
Lebanon	146	151
Export	3,091	2,655
Total sales volume (in 000 pcs)	**5,062**	**4,989**
Sales revenues (LE million)	1497.3	834
Average selling price (LE/pc)	295.8	167.1
Total cost of sales (LE million)	**1025.66**	**675.61**
Gross profit (LE million)	**471.6**	**158.4**
Second: Tile segment		
Sales volumes (in 000 m^2)		
Egypt	18,994	21,270
Lebanon	558	956
Export	3,618	3,012
Total sales volume (000 m^2)	**23,170**	**25,238**
Sales revenues (LE million)	830.7	599.5
Average selling price (LE/m^2)	35.9	23.8
Total cost of sales (LE million)	**803.0**	**627.6**
Gross profit (LE million)	**27.7**	**(28.1)**
Third: Brassware segment		
Sales volume (in pcs)		
Egypt	108,471	150,938
Export	160	1,007
Total sales volume (pcs)	**108,631**	**151,945**
Sales revenues (LE million)	78.5	63.0
Average selling price (LE/pc)	722.5	414.5
Total Cost of Sales (LE million)	**45.9**	**39.9**
Gross Profit (LE million)	**32.6**	**23**

4. Cost of sales after reclassification

	31/12/2017	31/12/2016
Cost of sales before reclassification	1,839,777,661	1,310,577,890
Add:		
Employees' share in net profit	34,742,815	32,552,854
Gross profit (LE million)	**1,874,520,476**	**1,343,130,744**

Notes to the consolidated financial statements

For the year ended December 31, 2017

5. Other income

	31/12/2017 LE	31/12/2016 LE
Capital gains – net	342,229	1,033,579
Scrap sales	7,374,213	3,297,311
Other revenues	14,775,046	6,710,946
Reversal of expired provision	2,115,844	14,064,872
	24,607,332	**25,106,708**

6. Other expenses

	31/12/2017 LE	31/12/2016 LE
Capital losses	1,668,749	–
Provided for potential losses and claims provision	30,717,995	10,900,000
Provided for end of service indemnity provision	2,450,000	–
Provided for impairment of clients	1,971,240	–
Amortization of intangible assets	6,212	3,198
Miscellaneous expenses	1,929,717	3,069,501
Remuneration of the Parent Company's board of directors	9,975,388	5,298,197
Discounting long-term notes receivables to its present value	2,281,951	3,059,466
	51,001,252	**22,330,362**

7. Finance income

	31/12/2017 LE	31/12/2016 LE
Interest revenues	8,026,180	5,623,448
Foreign exchange difference	16,305,637	121,157,410
	24,331,817	**126,780,858**

8. Finance expenses

	31/12/2017 LE	31/12/2016 LE
Interest expenses	160,531,090	106,650,901
	160,531,090	**106,650,901**

9. Current income tax

	31/12/2017 LE	31/12/2016 LE
Current income tax for the year	13,525,189	14,063,472
Tax imposed on dividends of the last years	3,923,500	12,510,665
	17,448,689	**26,574,137**

10. Earnings/(Loss) per share

The earning/(loss) per share for the year ended December 31, 2017 was computed as follows:

	31/12/2017 LE	31/12/2016 LE
Net profit/(loss) for the year (in LE)	37,220,802	(50,118,842)
Weighted average of the number of outstanding shares	76,666,667	80,000,000
Earnings/(loss) per share (LE/share)	**0.49**	**(0.63)**

11. Property, plant and equipment

	Land LE	Buildings LE	Leasehold Improvements LE	Machinery and equipment LE	Motor Vehicles LE	Tools LE	Furniture,office equipment and computers LE	**Total LE**
Cost								
At 01/01/2017	**168,814,987**	**404,105,737**	**12,882,851**	**1,144,963,409**	**72,199,566**	**116,145,081**	**35,883,276**	**1,954,994,907**
Translation differences	408,167	4,834,561	220,197	(5,626,601)	(331,657)	–	(160,519)	**(655,852)**
Year additions	6,173,550	10,429,616	1,400,806	68,932,444	1,529,411	15,877,350	1,603,538	**105,946,715**
Year disposals	–	(3,844,518)	–	(30,519,862)	(319,890)	–	(2,399)	**(34,686,669)**
At 31/12/2017	**175,396,704**	**415,525,396**	**14,503,854**	**1,177,749,390**	**73,077,430**	**132,022,431**	**37,323,896**	**2,025,599,101**
Accumulated depreciation								
At 01/01/2017	**–**	**180,913,647**	**7,647,716**	**892,045,133**	**64,426,643**	**89,006,285**	**31,713,864**	**1,265,753,288**
Translation differences	–	1,479,916	133,705	(5,206,239)	(350,807)	–	(160,558)	**(4,103,983)**
Year depreciation	–	17,377,594	2,916,258	68,126,620	3,262,927	11,512,398	1,379,930	**104,575,727**
Disposals' acc. depreciation	–	(567,992)	–	(30,511,500)	(244,823)	–	(940)	**(31,325,255)**
At 31/12/2017	**–**	**199,203,165**	**10,697,679**	**924,454,014**	**67,093,940**	**100,518,683**	**32,932,296**	**1,334,899,777**
Net book value at 31/12/2017	**175,396,704**	**216,322,231**	**3,806,175**	**253,295,376**	**5,983,490**	**31,503,748**	**4,391,600**	**690,699,324**
31/12/2016	**168,814,987**	**223,192,090**	**5,235,135**	**252,918,276**	**7,772,923**	**27,138,796**	**4,169,412**	**689,241,619**
Cost								
At 01/01/2016	**151,520,170**	**353,122,183**	**9,110,178**	**993,297,975**	**65,727,390**	**106,303,761**	**32,246,668**	**1,711,328,325**
Translation differences	17,294,817	49,095,872	1,166,533	127,694,558	16,060,096	–	3,766,867	**215,078,743**
Year additions	–	1,887,682	2,606,140	40,843,088	1,464,858	9,841,320	595,718	**57,238,806**
Year disposals	–	–	–	(16,872,212)	(11,052,778)	–	(725,977)	**(28,650,967)**
At 31/12/2016	**168,814,987**	**404,105,737**	**12,882,851**	**1,144,963,409**	**72,199,566**	**116,145,081**	**35,883,276**	**1,954,994,907**
Accumulated depreciation								
At 01/01/2016	**–**	**145,935,597**	**4,659,702**	**721,717,679**	**55,509,816**	**78,042,893**	**27,185,455**	**1,033,051,142**
Translation differences	–	19,663,152	662,464	114,201,855	13,856,378	–	3,719,629	**152,103,478**
Year depreciation	–	15,314,898	2,325,550	72,997,811	3,202,787	10,963,392	1,412,806	**106,217,244**
Disposals' acc. depreciation	–	–	–	(16,872,212)	(8,142,338)	–	(604,026)	**(25,618,576)**
At 31/12/2016	**–**	**180,913,647**	**7,647,716**	**892,045,133**	**64,426,643**	**89,006,285**	**31,713,864**	**1,265,753,288**
Net book value at 31/12/2016	**168,814,987**	**223,192,090**	**5,235,135**	**252,918,276**	**7,772,923**	**27,138,796**	**4,169,412**	**689,241,619**
31/12/2015	**151,520,170**	**207,186,586**	**4,450,476**	**271,580,296**	**10,217,574**	**28,260,868**	**5,061,213**	**678,277,183**

The Land and Buildings include properties at a cost of LE 1.8 million and LE 6.5 million respectively which were purchased by the Parent Company with an unregistered deed.

Notes to the consolidated financial statements

For the year ended December 31, 2017

12. Projects in progress

	31/12/2017 LE	31/12/2016 LE
Machinery under installation	5,241,816	5,865,507
Buildings under construction	165,960	3,897,509
Advance payment for purchasing fixed assets	2,103,753	409,896
Letters of credit for purchase of fixed assets	15,354,809	3,486,682
	21,866,338	13,659,594

13. Intangible assets

	Goodwill LE	Trademarks LE	Development & Other Costs LE	Other Intangibles LE	**Total LE**
Cost					
Balance at 01/01/2017	**25,722,950**	**57,227**	**12,076,035**	**2,278,573**	**40,134,785**
Translation differences	754,847	6,596	1,038,034	(61,655)	**1,737,822**
Balance at 31/12/2017	**26,477,797**	**63,823**	**13,114,069**	**2,216,918**	**41,872,607**
Amortisation & impairment losses					
Balance at 01/01/2017	–	39,479	11,494,966	–	**11,534,445**
Translation differences	–	4,935	1,002,015	–	**1,006,950**
Year amortisation	–	6,212	141,123	–	**147,335**
Balance at 31/12/2017	**–**	**50,626**	**12,638,104**	**–**	**12,688,730**
Carrying Amount at 31/12/2017	**26,477,797**	**13,197**	**475,965**	**2,216,918**	**29,183,877**
Carrying Amount at 31/12/2016	**25,722,950**	**17,748**	**581,069**	**2,278,573**	**28,600,340**

14. Other Investments

	Ownership %	31/12/2017 LE	31/12/2016 LE
Murex Industries and Trading (S.A.L.)	40.00	13,200,788	13,567,920
El-Khaleeg for Trading and Investment	99.90	99,900	99,900
Other investments	–	20,812	21,683
		13,321,500	13,689,503
Less:			
Impairment of investment in El-Khaleeg for Trading and Investment		(99,900)	(99,900)
		13,221,600	**13,589,603**

15. Long-term notes receivables

	31/12/2017 LE	31/12/2016 LE
Face value of long-term notes receivables	34,850,000	30,000,000
Discounting notes receivables to its present value*	(7,705,941)	(5,423,990)
Present value of long-term notes receivables	**27,144,059**	**24,576,010**

* The discounting of long-term notes receivables is computed according to the effective interest rate of the Parent Company.

16. Inventory

	31/12/2017 LE	31/12/2016 LE
Raw materials, consumables and spare parts	329,685,286	242,993,865
Work in process	77,945,641	56,478,950
Finished products	730,862,343	607,158,818
	1,138,493,270	**906,631,633**
Less:		
Impairment of inventory	(33,516,574)	(39,789,600)
	1,104,976,696	866,842,033
Letters of credit for purchasing goods	28,802,463	22,923,853
	1,133,779,159	**889,765,886**

The movement of the impairment of inventory through the year is as follows:

	Balance in 1/1/2017 LE	Translation differences LE	Impairment reversal LE	Balance in 31/1/2017 LE
Impairment of inventory	39,789,600	(523,652)	(5,749,374)	33,516,576
	39,789,600	**(523,652)**	**(5,749,374)**	**33,516,576**

17. Trade and other receivables

	Note no.	31/12/2017 LE	31/12/2016 LE
Trade receivables		600,165,542	502,896,111
Notes receivable		103,972,898	157,068,267
Sundry debtors		48,071,485	48,585,210
Suppliers – debit balances		497,552	2,375,726
Due from related parties – net	(30)	38,678,906	66,311,221
Tax administration – tax withheld		446,520	434,282
Tax administration – advance payment		6,117,065	4,699,076
Tax administration – sales tax		6,859,712	52,047
Other debit balances		90,264,321	88,589,064
Social security authority		1,825,026	2,204,319
Other prepaid expenses		8,337,058	8,866,264
Accrued revenues		367,040	1,663,460
		905,603,125	**883,745,074**
Less:			
Impairment of receivables		(122,672,971)	(126,686,971)
		782,930,154	**757,058,076**

The movement of the impairment of receivables through the year is as follows:

	Balance in 1/1/2017 LE	Translation differences LE	Impairment reversal LE	Utilised reversal LE	Balance in 31/1/2017 LE
Impairment of receivables	126,686,971	2,514,000	1,971,240	(3,471,240)	122,672,971
	126,686,971	**2 514 000**	**1,971,240**	**(3,471,240)**	**122,672,971**

Notes to the consolidated financial statements

For the year ended December 31, 2017

17. Trade and other receivables continued

Transactions with key management

- The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances), LE 4,042 (credit balances) as at December 31, 2017. These balances are included in sundry debtors in receivables and sundry creditors in payables.
- The Board of Directors of the Parent Company control 0.04% of the voting shares of the Parent Company.
- Emoluments for the Board of Directors of the Parent Company, for the year ended December 31, 2017 charged to the other operating expenses in the consolidated income statement amounted to LE 9,975,388 (December 31, 2016: LE 5,298,197).

18. Cash and cash equivalents

	31/12/2017 LE	31/12/2016 LE
Banks – time deposits	190,216,079	207,454,036
Banks – current accounts	63,366,395	146,982,339
Cash on hand	7,713,868	22,957,612
	261,296,342	**377,393,987**
Less:		
Bank overdrafts	(1,390,477,701)	(1,204,388,912)
Cash and cash equivalent for the purpose of cash flows statement	**(1,129,181,359)**	**(826,994,925)**

19. Bank overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts LE 1,747,459,000 and the unutilised amount is LE 668,880,100.

20. Share capital

21.1 Authorised capital

The authorised capital was determined to be LE 500 million distributed over 100 million shares with par value of LE 5 per share.

21.2 Issued and paid up capital

The issued and paid up capital was determined by an amount of LE 400 million, distributed over 80 million nominal shares. The par value of each share of LE 5 is fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company. All shares rank equally with regards to the Parent Company's residual assets.

21. Reserves

	Legal Reserve LE	Other Reserves* LE	Special Reserve Premium LE	Land Revaluation Surplus** LE	Translation Reserve LE	Total LE
Balance at December 31, 2015	**47,969,226**	**15,571,032**	**181,164,374**	**52,765,085**	**78,689,850**	**376,159,567**
Transferred to legal reserve	1,551,104	–	–	–	–	1,551,104
Translation adjustment for foreign subsidiaries	–	–	–	–	202,033,075	202,033,075
Balance at December 31, 2016	**49,520,330**	**15,571,032**	**181,164,374**	**52,765,085**	**280,722,925**	**579,743,746**
Transferred to legal reserve	1,395,151	–	–	–	–	1,395,151
Translation adjustment for foreign subsidiaries	–	–	–	–	(22,637,565)	(22,637,565)
Balance at December 31, 2017	**50,915,481**	**15,571,032**	**181,164,374**	**52,765,085**	**258,085,360**	**558,501,332**

* Other reserves include the Parent Company's share of the premium (LE 9.9 Million) received by Lecico for Ceramics Industries (subsidiary) for admitting a new shareholder through an increase in capital, such amount is not distributable according to local laws and regulations.

** Land revaluation surplus is represented in the adjusted value of the Parent Company's land in Khorshid and Abou-Quir that was revalued to reflect its fair value at the date of revaluation in the year 1997. The revaluation result was included in the revaluation surplus in the shareholders' equity and is not distributable or transferable to capital.

22. Retained earnings

At December 31, 2017 the retained earnings represent the retained earnings of the Parent Company and its share of the retained earnings of the consolidated subsidiaries. The Parent Company's management expects to reinvest the retained earnings in its subsidiaries.

23. Treasury shares

	No. of shares Acquired	31/12/2017 LE	31/12/2016 LE
Acquisition cost of the Parent Company's shares acquired on August 1, 2017 as per the approval of the Parent Company's board of directors and the Egyptian Stock Exchange Authority	8,000,000	48,182,065	–
		48,182,065	–

24. Loans and borrowings

	31/12/2017 LE	31/12/2016 LE
Commercial International Bank (CIB)		
The outstanding counter value of the loan granted to the Parent Company from CIB as a medium-term loan, to enable the Parent Company to repay its short-term debts granted from other local banks. This loan bear a variable interest that equal the "Corridor Offer Rate" declared by the 'Central Bank of Egypt' for the one-night loans in addition to a margin of 1.25%. The loan will be repaid over 8 consecutive quarterly instalments starting from January 2018 till October 2019. The subsidiary companies (i.e. Lecico for Ceramics Industries, European Ceramics and International Ceramics) have acknowledged to guarantee the Parent Company's jointly in the liability arisen from this loan.	40,000,000	60,000,000
The outstanding counter value loan granted from the CIB to the Parent Company amounted to USD 1.5 million. The loan will be repaid over 4 consecutive quarterly instalments starting from March 2018 till December, 2018. The interest rate is variable and equal the LIBOR rate for 3 months plus margin.	26,595,000	54,660,000
	66,595,000	**114,660,000**
Less:		
Instalments due within one year which are classified as current liabilities (note 27).	(46,595,000)	(47,330,000)
	20,000,000	**67,330,000**

All of the available balances under these loans from banks were drawn down.

Notes to the consolidated financial statements

For the year ended December 31, 2017

25. Other long-term liabilities

	31/12/2017 LE	31/12/2016 LE
Sales Tax Department (deferred sales tax related to imported machinery)	9,181	9,181
	9,181	9,181
Less:		
Instalments due within one year which are classified as current liabilities (Note 27)	(9,181)	(9,181)
Total other long-term liabilities	–	–

26. Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are attributable to the following:

	Assets 31/12/2017 LE	Liabilities 31/12/2017 LE	Assets 31/12/2016 LE	Liabilities 31/12/2016 LE
Accumulated losses carried forward	844,154	–	1,323,633	–
Property, plant and equipment	–	27,543,519	–	31,017,890
Inventory	3,876,263	–	3,914,672	–
Total deferred income tax (assets)/liabilities	**4,760,417**	**27,543,519**	**5,238,305**	**31,017,890**
Net deferred income tax liabilities	**–**	**22,783,102**	**–**	**25,779,585**

27. Provisions

	Balance as at 1/1/2017 LE	Translation Differences LE	Provided Provisions LE	Utilised Provisions LE	Reversed Provisions LE	Balance as at 31/12/2017 LE
Provision disclosed in the non-current liabilities						
End of service indemnity provision	7,461,187	(145,695)	2,450,000	2,119,208	(215,844)	7,430,440
Claims provision	3,237,668	(87,608)	–	–	–	3,150,060
	10,698,855	**(233,303)**	**2,450,000**	**2,119,208**	**(215,844)**	**10,580,500**
Provision disclosed in the current liabilities						
Potential losses and claims provision	19,575,039	–	30,717,996	40,940,241	(1,900,000)	7,452,794
	19,575,039	–	**30,717,996**	**40,940,241**	**(1,900,000)**	**7,452,794**
Total	**30,273,894**	**(233,303)**	**33,167,996**	**43,059,449**	**(2,115,844)**	**18,033,294**

28. Loans and borrowings

	31/12/2017 LE	31/12/2016 LE
Current portion of long-term loan	46,595,000	47,330,000
Current portion of other long-term liabilities	9,181	9,181
	46,604,181	**47,339,181**

29. Trade and other payables

	Note	31/12/2017 LE	31/12/2016 LE
Trade payable		149,022,800	134,498,909
Notes payable		36,752,214	45,252,319
Due to related parties	(30)	2,105,730	2,087,710
Social insurance authority and tax authority		12,831,360	14,457,305
Income tax payable		9,685,198	5,192,291
Accrued expenses		127,082,414	101,829,049
Deposits due to others		24,701	24,701
Sundry creditors		52,378,996	48,668,364
Sales tax administration – current account		17,104,696	19,558,284
Dividends payable		389,929	389,929
Creditors for purchasing fixed assets		1,789,030	1,683,282
Profit sharing provision for employees of certain group companies		44,686,177	41,374,317
Liabilities arisen from foreign currencies hedge contracts		3,638,817	3,469,817
		457,492,063	**418,486,277**

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30. Related parties

The Parent Company has a business relationship with its subsidiaries and affiliated companies.

	Nature of Transaction	Transaction Amount LE	31/12/2017 LE	31/12/2016 LE
Due from related parties				
Murex Industries and Trading (S.A.L.)	Sales	128,391,157	38,619,918	65,772,237
	Notes receivables	–	58,988	538,984
			38,678,906	**66,311,221**
El-khaleeg for Trading and Investment	Current	–	300,100	300,100
			38,979,006	**66,611,321**
Impairment for balance of El-khaleeg for Trading and Investment			(300,100)	(300,100)
Net of debit balances			**38,678,906**	**66,311,221**
Due to related parties				
Murex Industries and Trading (S.A.L.)	Purchase	10,443,837	703,882	59,565
LIFCO	Rent	354,191	1,058,824	725,514
Ceramics Management Services Ltd. (CMS)	Technical assistance fees	2,860,331	343,024	1,302,631
Total credit balances			**2,105,730**	**2,087,710**

31. Contingent liabilities

31.1 Letters of guarantee

The letters of guarantee issued from banks in favour of others are as follows:

Currency	**31/12/2017**	31/12/2016
LE	17,846,547	15,972,025

31.2 Letters of credit

Currency	**31/12/2017**	31/12/2016
LE	26,958,003	20,948,470

32. Litigation

The Electricity Utility Organisation in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 10.1 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

33. Capital commitment

The unexecuted portions of the capital commitments' contracts in respect to acquiring the fixed assets is LE 1.1 million as at December 31, 2017 (December 31, 2016: 18.6 million).

34. Financial instruments

The financial instruments are represented in cash balances, bank overdrafts, debtors and creditors. The book value of these instruments represents a reasonable estimate of their fair value.

The following are the summaries of the major methods and assumptions used in estimating their fair values of financial instruments:

- Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.
- Trade and other receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

35. Financial instruments risk management

35.1 Interest risk

The interest risk is represented in changes in interest rates which adversely affect the results of operations and cash flows. In financing its working capital the Parent depends on bank overdrafts at variable interest rates. In financing its expansion projects the Parent Company depends on equity and long-term loans at the best offered rates and conditions available.

35.2 Credit risk

Represented in the ability of the clients who have been granted credit to pay their debts and the probability that the Parent Company may lose all or part of these debts. This is considered one of the risks that confront the Company. To address this risk the Parent Company established selling policies so that credit would only be granted to well-known clients and where appropriate, obtaining adequate guarantees.

35.3 Foreign currency exchange rates fluctuations risk

Foreign currency exchange rate fluctuation risk is represented in exchange rate changes that affect payments in foreign currencies in addition to the revaluation of monetary assets and liabilities denominated in foreign currencies. Due to the volatility of foreign currency exchange rates, the foreign currency exchange rate fluctuations risk is considered high.

36. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

36.1 Basis of consolidation

a. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

b. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

d. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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36.2 Foreign currency

a. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

b. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income "OCI" and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest "NCI".

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

36.3 Revenues

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

36.4 Employee Benefits

36.4.1 Employees' pension

The holding company and two subsidiary companies (Lecico Ceramic Industries and European Ceramics) contribute 3% of the annual remuneration of employees in addition to 0.5% to 1% of the net profit for the year which is recognized during the year until approval by the General Assembly of Shareholders for annual distributions.

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Profitability of the employee's share of profit is recognised in the respective year.

36.5 Finance income and finance costs

The Company's finance income and finance costs include:

- Interest income;
- Interest expense;
- The net gain or loss on financial assets at fair value through profit or loss;
- The foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method.

36.6 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

a. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

b. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

36.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving average method. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

36.8 Property, plant and equipment

a. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

b. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

c. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative year.

Notes to the consolidated financial statements

For the year ended December 31, 2017

36.8 Property, plant and equipment continued

Assets	Years
Buildings	20-40 years
Lease hold improvements	3 years
Machinery and equipment	3- 16.67 years
Vehicles	3-10 years
Tools and supplies	5 years
Furniture, office equipment and computers	4-12.5 years

- Leasehold improvements are depreciated over the period of the contract or useful life of the lease which ever is less.
- Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

36.9 Projects in progress

This item represents the amounts spent for constructing or acquiring fixed assets. Whenever it is completed and ready for its intended use in operations, then, it is transferred to fixed assets. Projects in progress are recorded at cost, and not depreciated until transferred to fixed assets.

36.10 Intangible assets

36.10.1 Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment

In respect of acquisitions that have occurred, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Positive goodwill is stated at cost or deemed cost less accumulated impairment losses.

36.10.2 Intangible assets

Intangible assets which include the Trademark of Lecico UK and development costs are valued at cost, and amortized over ten years. Lecico Lebanon (a subsidiary) recognizes a payment to enter a lease agreement as an intangible assets this asset has an indefinite legal life, accordingly it is not amortized but is subjected to an annual impairment test.

36.10.3 Amortisation

Amortisation is charged to cost of intangible assets less their estimated residual value using straight line method over estimated useful lives of those assets and the amortisation charge is recognised as an expense in profit and loss. Good will is not amortised.

36.11 Leased assets

Capital leased assets which confer rights and obligations similar to those attached to owned assets are included in the fixed assets at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease and depreciated over their estimated useful life at rates applied to the identical assets. The liability is recorded in the long-term liabilities as a capital lease obligation (except for the current portion which is presented in current liabilities) in an amount equal to the utilised portion of the obligation after deducting the principal's portion of the paid instalments. The interest expense portion is recognized in the income statement.

36.11.1 Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

36.12 Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities category.

36.12.1 Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

36.12.2 Non-derivative financial assets – measurement

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

36.12.3 Held-to-maturity financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

36.12.4 Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

36.12.5 Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

36.12.6 Non-derivative financial liabilities – measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

36.13 Share capital

36.13.1 Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

36.13.2 Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as deduction from the total equity.

Notes to the consolidated financial statements

For the year ended December 31, 2017

36.14 Impairment

36.14.1 Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

36.14.2 Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

a. **Available-for-sale financial assets**

   Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

b. **Equity-accounted investees**

   An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

36.14.3 Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

36.15 Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

36.15.1 End of Services Benefit Fund (Defined Contribution Plan)

The Parent Company and two of its subsidiaries (Lecico for Ceramic Industries and European Ceramics) contributed to an employees End of Services Benefit fund. This contribution represents 3 % of the annual salaries. In addition, 0.5% to 1% of the annual net profit is recognised in the current year but pending the approval by the General Assembly Meeting along with annual dividends.

36.15.2

The Group policy on Employees' Profit Participation is to accrue these employees benefits in the year to which it relates.

36.16 Cash and cash equivalents

Cash and cash equivalent comprises cash balances and call deposits. For the purpose of preparing the cash flow statement, cash and cash equivalents are defined as balances of cash on hand, bank current accounts, notes receivable and time deposits with maturity of less than three months. The Bank overdrafts which are repayable on demand form an integral part of the company's cash management. Accordingly bank overdrafts are included as a component of cash and cash equivalents for the purpose of preparing the cash flow statement.

36.17 Borrowing cost

The borrowing cost, represented in interest expenses, is recognized in the income statement under the "Financing Expenses" account in the year in which it occurs.

Those borrowing costs to be considered as parts of a qualified fixed asset that take a substantial year to be prepared for its intended use are capitalised. This accounting treatment is applied consistently to all borrowing costs and all qualified fixed assets.

36.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

36.19 Consolidated cash flows statement

The cash flows statement is prepared according to the indirect method.

37. Tax status

Type of Tax	Years	Status
Corporate Tax	From inception till 2007	Tax dispute was finalised and all tax obligation was paid.
	2008/2012	The Parent Company's records were examined and informed by the related tax forms which was objected within the legal dates.
	2013/2016	The Parent Company's records were not examined yet.
Salary Tax	till 2008	The Parent Company has obtained a final settlement and paid all the tax obligations for these years.
	2009 till now	The Parent Company's records were not examined yet.
Stamp Duty	From inception till 2012	Tax dispute was finalised and all tax obligation arisen was paid.
	From 1/1/2013 till now	The Parent Company's records were not examined yet.
Sales Tax	Till 2014	The tax examination occurred and were paid all the tax obligations arisen.
	From 2015 till now	The Parent Company's records were not examined yet.

In-depth profit and loss summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sanitary Ware segment											
Sales volume (000s of pieces)	5,619	5,304	5,577	4,967	4,264	5,145	5,676	5,335	4,835	4,990	**5,061**
Exports as a percentage of total	57.8%	57.8%	60.3%	58.4%	56.9%	54.9%	52.7%	58.4%	56.5%	53.2%	**61.1%**
Average price (LE/piece)	118.9	122.7	111.4	115.0	125.9	121.8	129.8	140.0	148.5	167.1	**295.8**
Sanitary ware revenue	667.95	651.02	621.50	571.38	537.03	626.47	736.97	746.62	718.19	833.99	**1497.30**
Sanitary ware gross profit	238.14	214.40	184.08	165.81	109.93	114.11	140.82	129.29	111.96	158.38	**471.63**
Sanitary ware gross margin (%)	35.7%	32.9%	29.6%	29.0%	20.5%	18.2%	19.1%	17.3%	15.6%	19.0%	**31.5%**
Tile segment											
Sales volume (000s of sqm)	21,461	24,946	23,631	23,633	22,971	31,746	33,492	33,045	25,787	25,237	**23,171**
Exports as a percentage of total	24.2%	21.1%	24.3%	22.0%	16.5%	28.9%	22.9%	18.1%	16.0%	11.9%	**15.6%**
Average price (LE/sqm)	15.0	17.2	18.4	18.8	18.4	19.9	21.6	23.6	23.5	23.8	**35.9**
Tile revenue	321.53	429.63	433.70	444.90	421.80	631.83	722.40	780.48	605.40	599.46	**830.68**
Tile gross profit	100.09	156.29	189.04	187.27	130.98	222.42	256.78	242.63	89.15	(28.12)	**27.70**
Tile gross margin (%)	31.1%	36.4%	43.6%	42.1%	31.1%	35.2%	35.5%	31.1%	14.7%	–	**3.3%**
Consolidated profit and loss											
Net sales	989.48	1080.65	1,055.20	1,019.18	970.65	1,278.82	1,500.96	1,573.24	1,370.52	1,496.43	**2,406.46**
Sanitary ware (% of net sales)	67.5%	60.2%	58.9%	56.1%	55.3%	49.0%	49.1%	47.5%	52.4%	55.7%	**62.2%**
Gross profit	338.23	370.69	373.15	354.99	246.28	341.93	408.67	388.78	216.21	153.30	**531.94**
Gross margin (%)	34.2%	34.3%	35.4%	34.8%	25.4%	26.7%	27.2%	24.7%	15.8%	10.2%	**22.1%**
Sanitary ware (% of gross profit)	70.4%	57.8%	49.3%	46.7%	44.6%	33.4%	34.5%	33.3%	51.8%	103.3%	**88.7%**
Distribution and administrative expense	180.95	196.70	186.85	172.29	157.39	163.26	205.43	194.60	199.86	204.42	**323.66**
D&A expense/sales (%)	18.3%	18.2%	17.7%	16.9%	16.2%	12.8%	13.7%	12.4%	14.6%	13.7%	**13.4%**
EBIT	148.10	162.39	171.80	174.81	53.39	149.36	197.92	194.83	(1.01)	(48.34)	**181.88**
EBIT margin (%)	15.0%	15.0%	16.3%	17.2%	5.5%	11.7%	13.2%	12.4%	(0.1%)	(3.2%)	**7.6%**
Net financing expense	28.16	33.38	44.48	55.13	71.80	82.21	90.78	82.15	67.69	(20.13)	**(136.20)**
EBIT/Net financing expense (x)	5.3	4.9	3.9	3.2	0.7	1.8	2.2	2.4	0.0	2.4	**(1.3)**
Net profit	106.98	108.85	110.18	94.80	(20.60)	62.81	(18.00)	91.60	(65.10)	(50.12)	**37.22**
Net margin (%)	10.8%	10.1%	10.4%	9.3%	(2.1%)	4.9%	(1.2%)	5.8%	(4.8%)	(3.3%)	**1.5%**
Reported EPS (LE/share)	**5.54**	**2.81**	**2.75**	**1.58**	**(0.26)**	**0.79**	**(0.27)**	**1.14**	**(0.81)**	**(0.63)**	**0.47**
Adjusted EPS* (LE/share)	**1.34**	**1.36**	**1.38**	**1.19**	**(0.26)**	**0.79**	**(0.23)**	**1.14**	**(0.81)**	**(0.63)**	**0.49**

* EPS Adjusted to include treasury shares and historic EPS adjusted retroactively to reflect 2007 results 1:1 bonus issue.

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