Lecico Egypt S.A.E. Annual Report and Accounts 2018

ANNUAL REPORT
2018

Lecico

LECICO IS ONE OF THE WORLD'S LARGEST SANITARY WARE PRODUCERS AND A SIGNIFICANT TILE PRODUCER IN EGYPT AND LEBANON. WITH OVER 50 YEARS IN 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.

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HIGHLIGHTS

SALES ROSE 12% TO LE 2,705.5 MILLION. THIS WAS LARGELY DUE TO INCREASED TILE SALES IN EGYPT AND EXPORT AND SANITARY WARE EXPORTS.

GROSS PROFIT SHRUNK 12% TO LE 470.4 MILLION DUE TO SIGNIFICANT INFLATION IN COSTS AND LIMITED SCOPE FOR PRICE INCREASES IN EXPORT MARKETS.

NET LOSSES OF LE 114.3 MILLION COMPARED AS DROP IN GROSS PROFITS IS COMPOUNDED BY HIGHER INTEREST EXPENSE FOLLOWING AN INCREASE IN DEBTS AND INTEREST RATES IN 2017.

+12%

SALES

54%

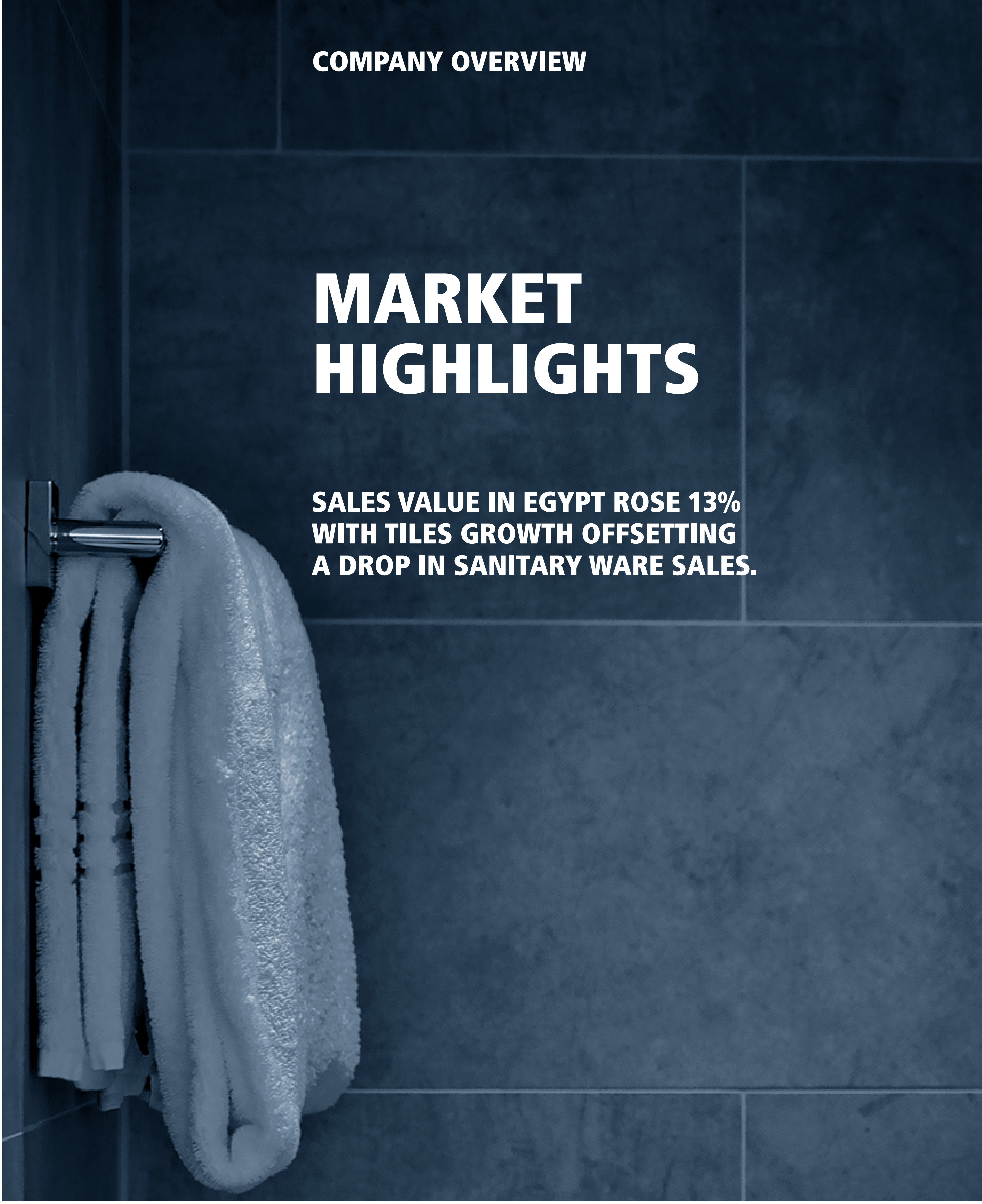
EXPORTS

–12%

GROSS PROFIT

150.7M

EBIT PROFIT (LE)



MARKET HIGHLIGHTS

SALES VALUE IN EGYPT ROSE 13% WITH TILES GROWTH OFFSETTING A DROP IN SANITARY WARE SALES.

United Kingdom
Sales value rose 12%. Volumes grew 8% to 1,225,000 pieces. Lecico's UK sales accounted for 18% of revenues (2017: 18%).

OEM Manufacturing
Sales value rose 44% largely due to launch of new customers products. Volumes grew 42% to 1,150,000 pieces (2017: 810,000 pieces). OEM manufacturing accounted for 16.1% of revenues (2017: 12.5%).

Sub Saharan Africa
Sales value rose 13% with sanitary ware growth in South Africa and tiles growth in the rest of Africa. Sanitary ware volumes grew 15% to 378,000 pieces. Tiles volumes grew 45% to 491,000 sqm. Sub-Saharan Africa accounted for 5.3% of revenues (2017: 5.3%).

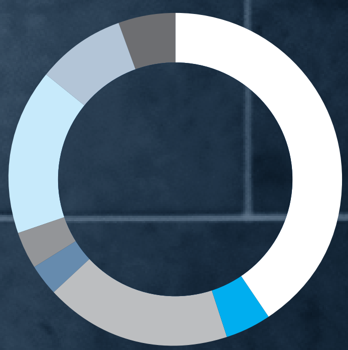
France
Lecico began selling significant volumes in France for the first time since closing operations there in 2013. The Company sold 45,000 pieces and France accounted for 0.6% of revenues (2017: 0.0%).

Middle East exports
Exports to the Middle East grew 19% largely due to tile sales and recovery in the Libyan market. Sanitary ware volumes were flat year-on-year and tile volumes rose 27%. Middle Eastern exports accounted for 8.6% of revenues (2017: 8.2%).

Egypt
Sales value rose 13% with tiles growth offsetting a drop in sanitary ware sales. Sanitary ware volumes were down 5% at 1.7 million pieces and tiles volumes rose 9% to 20.7 million square meters. Egypt accounted for 42.0% of revenues (2017: 41.8%).

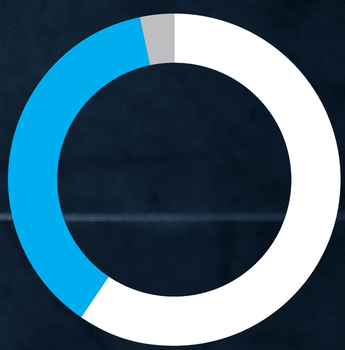
Lebanon
Sales value fell 24% on the back of a continued slowdown in the market. Sanitary ware volumes fell 27% to 106,000 pieces and tiles volumes fell 14% to 478,000 square meters. Lebanon accounted for 4.3% of revenues (2017: 6.4%).

Business split
Geographical sales split



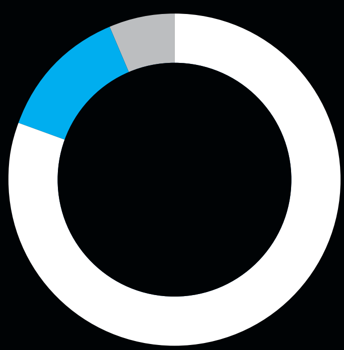
Egypt **40.7%**
Lebanon **4.3%**
UK **18.3%**
Germany **3.0%**
Rest of Europe **3.6%**
OEM **16.1%**
Middle East **8.6%**
Other **5.4%**

Revenue split
Sanitary ware, Tiles and Brassware



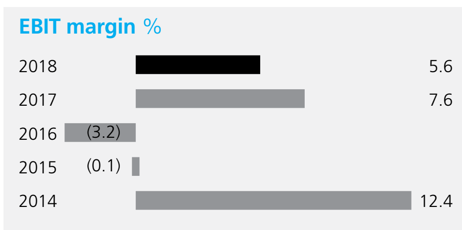
Sanitary ware **59.7%**
Tiles **37.1%**
Brassware **3.2%**

Gross profit split
Sanitary ware, Tiles and Brassware



Sanitary ware **80.8%**
Tiles **13.0%**
Brassware **6.2%**

FINANCIAL HIGHLIGHTS



Five year summary

LE millions	2014	2015	2016	2017	**2018**	CAGR
Net sales	1,573.2	1,370.5	1,496.4	2,406.5	2,705.5	15%
Gross profit	388.8	216.2	153.3	531.9	470.4	5%*
EBIT	194.8	-1.0	(48.3)	181.9	150.7	(6%)
Net profit	91.6	(65.1)	(50.1)	37.2	(114.3)	–
Reported EPS	1.1	-0.8	(0.6)	0.5	(1.4)	–
Adjusted EPS**	1.1	-0.8	(0.6)	0.5	(1.5)	–
Cash and equivalents	245.7	168.0	377.4	261.3	186.9	(7%)
Total assets	2,202.0	2,158.8	2,794.0	2,960.1	2,806.5	6%
Total debt	877.0	924.4	1,319.1	1,457.1	1,352.1	11%
Net debt	631.3	756.4	941.7	1,195.8	1,165.2	17%
Total liabilities	1,306.1	1,322.4	1,793.6	1,955.4	1,903.4	10%
Minority interest	9.5	5.8	5.2	18.7	22.8	24%
Shareholders' equity	886.4	830.6	995.2	986.1	**880.4**	(0%)

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

Tiles sales volume million sqm

Sanitary ware export volume million pieces

Sanitary ware sales volume million pieces

CHAIRMAN'S STATEMENT

LECICO CONTINUES TO SUFFER FROM COST INFLATION AND INTEREST RATES IN THE HIGH TEENS.

Cost inflation outpaces pricing
Inflation at that level is difficult to pass on to price particularly in an economy that is not growing rapidly. We have had some success in pushing up prices in the local market but find it difficult to do so in the export market particularly as the Egyptian Pound has stabilized against foreign currencies.

Interest rates at that level are very costly to Lecico and contribute largely to the slow economic growth. Under continued austerity measures and high inflation, the local market slowed in the second half of the year and this in turn increased competition resulting in a 3.7% drop in revenue from local markets compared to the first half of the year, despite price increases.

We are as a consequence looking at extraordinary ways in which to improve our current position.

Italian JV exited
As part of our continued focus on controlling costs and cash flow, Lecico Egypt exited its Italian joint venture Stile at the end of 2018. The business, which was started in 2009, has been making small losses in Euros that now translate into significant Egyptian pound losses of LE 10 million.

Lebanon Restructuring in 2019

We have also decided to tackle a similar situation in Lecico Lebanon which has also seen a sharp deterioration in revenues and volumes as real estate and economic activity in the country has slowed sharply in the past few years. The subsidiary is now a significant contributor to our net losses despite its small size in overall sales. In 2018, Lecico Lebanon had a net loss of LE 55 million. As a result, we have decided to take action.

Our management has spent significant time reviewing the actions that we need to take and preparing a comprehensive restructuring plan for that business. Our plan, which is not yet complete in all its details, is to:

1 Reduce production aggressively in Lebanon with a view of liquidating significant stocks, generating cash and reducing manufacturing costs as much as possible;

2 restructure the business to produce important operational savings;

3 coordinate the production and sale of sanitary ware and tile between Lebanon and Egypt in the most efficient manner which should generate better returns given the competitive advantages of Egypt; and

4 dispose of real estate that is surplus to our operational requirements in Lebanon and which has been valued at just over USD 30 million in late 2016.

Our first priority is to generate cash from reduced working capital and restructure our cost base. We envisage that while there will be some one-time costs upon its implementations its outcome would be positive in future years.

The restructuring of Lebanon and the continued focus on cost and cash efficiency in exports will be an important part of turning around Lecico Egypt's consolidated performance in coming years. Hopefully this will be accompanied by an improvement in the economy with lower interest rates and improved demand.

New Directors
As we face these challenging times, we are introducing a change to our board to better advise us on our strategy for the coming years. I am pleased to add to the board in 2019 two new independent board members – Karim Zahran and Colin Sykes – who bring very different skill sets and experience to our board and as members of our Audit Committee. Colin is an experienced manager with an accountancy background who knows Lecico extremely well and brings a lot of European and UK experience as well. Karim's experience running a large and successful family business in Egypt brings an entrepreneurial approach and a good understanding of Egypt to the board. You can read more about the changes to the board in the Annual Report.

Working hard in difficult times
I can only reassure you that your management is working very hard, and in my view quite effectively in order to surmount these difficult times and circumstances. The Lebanese restructuring is a very important part of that effort and we shall keep you posted on developments.

Gilbert Gargour
Chairman

MANAGING DIRECTOR'S STATEMENT

THE MAIN NEGATIVE FACTOR IMPACTING OUR NUMBERS IN 2018 WAS THE EROSION IN SANITARY WARE MARGINS AS COST INFLATION IN EGYPT OUTPACED OUR ABILITY TO RAISE PRICES – PARTICULARLY IN OUR EXPORT MARKETS.

Exchange rate head-wind
In 2019, we expect a marked improvement in operational efficiency in sanitary ware and further costs reduction programs in tiles. However, we face significant headwinds from inflation and exchange rates that mean it will be hard to make a significant improvement in margins absent some significant macro-economic changes. Indeed, the recent appreciation of the Egyptian Pound and weakness in the Sterling and the Euro have already left us starting 2019 in a worse position.

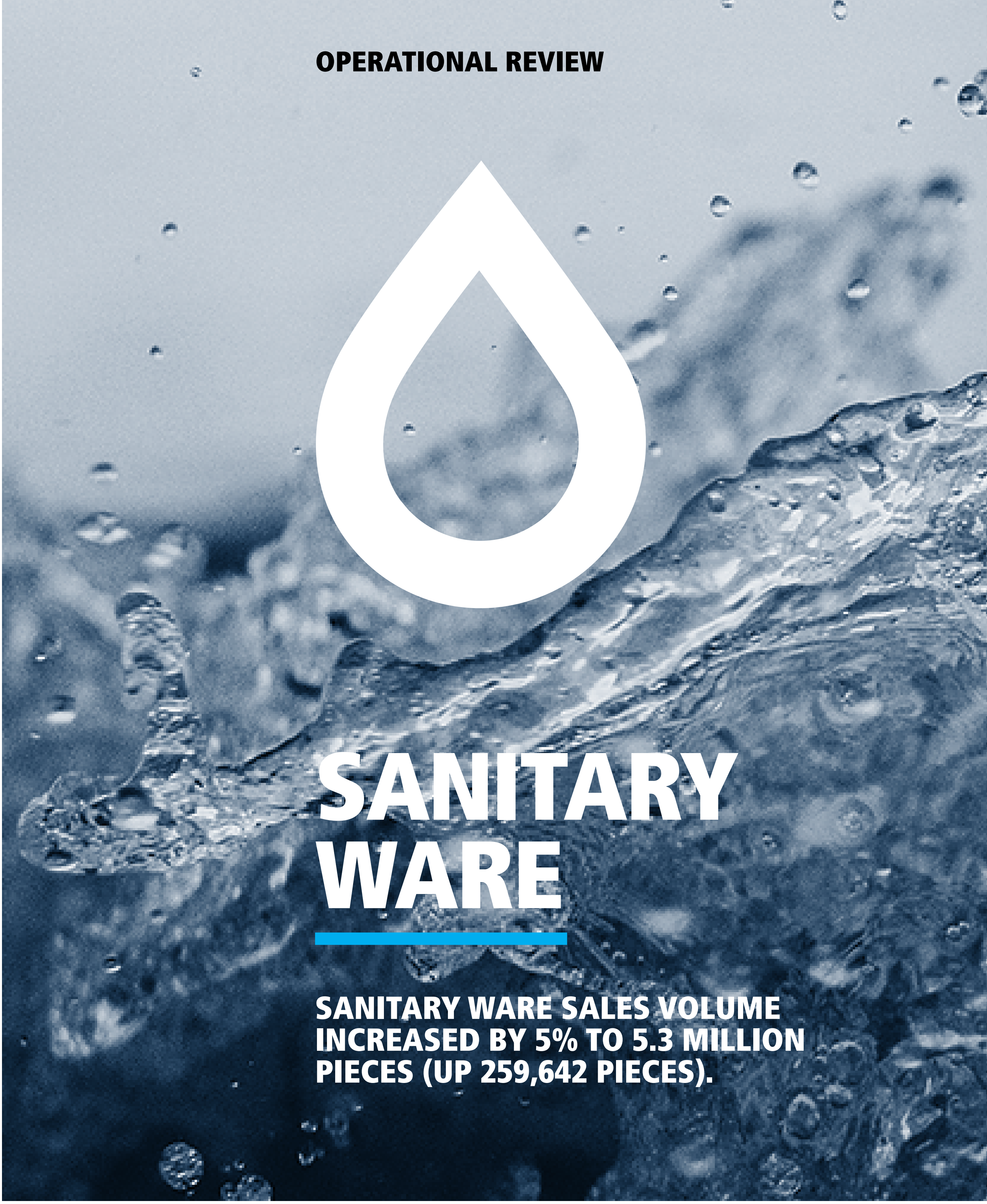
Improving working capital
I am pleased however that despite the operational pressures over 2018, we were able to reduce working capital over the year enough to generate LE 29 million in net cash flows. This is the first time in over four years that we have been able to reduce debt and it is a significant achievement for us as debt reduction remains a key factor in the sustainability of our business and the return to long term profitability.

In 2018, our net finance expense was greater than our EBITDA. We believe the cost of money will come down significantly in Egypt over the coming year or two and we are working to shift our borrowing to include more foreign currency debt, but reducing debt remains a key to sustainable cash profit over the medium term.

I hope we can continue to reduce inventories and receivables and I believe the restructuring of our Lebanese operations will provide a significant source of cash over the coming years. We should see stock come down sharply over the coming two years as Lecico Lebanon destocks and the sale of the land will significantly reduce our overall debt. The conditions of the Lebanese market mean we cannot expect a land sale in the immediate future nor predict the value of the sale, but I hope we will be able to sell these assets in the coming years. I hope to share with you our plans for restructuring Lebanon in more details over the course of 2019.

Fighting for margin in 2019
Looking forward in 2019 and excluding any one-off costs from restructuring, we are to some extent forced to weather the cyclical negatives of Egypt's economic reforms. In the meantime, we will try to defend and rebuild margins by growing sales volumes; unlocking efficiency gains and cutting costs; pushing up prices in export and local markets; and unlocking working capital and reducing our asset footprint. We will continue to adjust debt mix to minimize interest while remaining conscious of exchange rate risk. Through these efforts, we will continue to work towards the best possible result despite our challenges.

Taher Gargour
Managing Director and CEO



SANITARY WARE

SANITARY WARE SALES VOLUME INCREASED BY 5% TO 5.3 MILLION PIECES (UP 259,642 PIECES).

+8%

REVENUE
+5% IN VOLUME AND
+3% IN ASP

5.3M

PIECES SOLD
1.7 M PIECES IN EGYPT
AND 3.6 MILLION
PIECES OUTSIDE

+13%

EXPORT VOLUMES
GROWTH IN EXPORT
VOLUMES DRIVEN BY
UK AND OEM SALES

Revenues LE million

2018	1,617
2017	1,497
2016	834
2015	718
2014	747

Gross profit LE million

2018	380
2017	472
2016	158
2015	112
2014	129

Gross margin %

2018	24
2017	31
2016	19
2015	16
2014	17

SANITARY WARE

Sanitary ware sales volume increased by 5% to 5.3 million pieces (up 259,642 pieces). Export volumes grew by 13% (up 395,476 pieces), while sales volume in Egypt decreased 5% (down 96,399 pieces) and sales in Lebanon decreased by 27% (down 39,436 pieces).

Export growth came primarily from OEM and white label sales in Europe and own-brand sales in the UK with good growth in the smaller segment of Sub-Saharan Africa. Growth of Middle East exports was flat with growth in Libya offsetting shrinking volumes in the rest of the Middle East.

Average sanitary ware prices were up 3% year-on-year to LE 303.9 per piece with price increases offset by a growing proportion of lower-priced project sales in Egypt.

Revenues were up 8% year-on-year at LE 1,617.2 million. Exports represented 65.5% of volumes compared to 61.1% in 2017.

The average cost of sales per piece rose 15% to LE 232.5 (2017: LE 202.7 per piece) due to lower production (down 8%) and high inflation in Egypt further increased by mid-year cuts in fuel and electricity subsidies in Egypt. Cost of Goods Sold increased 21% to LE 1,236.9 million (2017: LE 1,025.7 million).

Gross profit decreased 19% to LE 380.3 million (FY 2017: LE 471.6 million) and the margin fell 8 percentage points to 23.5% (FY 2017: 31.5%). Gross profit and margins were significantly lower in the second half following the reduction in fuel and electricity subsidies which led to a round of cost increases from local suppliers.

Sanitary ware sales accounted for 59.8% of the Company's consolidated sales in 2018 (2017: 62.2%).

SANITARY WARE SALES ACCOUNTED FOR 59.8% OF THE COMPANY'S CONSOLIDATED SALES IN 2018

65.5%

2018 EXPORTS REPRESENTED 65.5% OF VOLUMES COMPARED TO 61.1% IN 2017

Sanitary ware capacity and sales by volume

000s pieces	2014	2015	2016	2017	**2018**	CAGR
Sanitary ware capacity	6,750	6,750	6,750	6,750	6,750	0.0%
Sanitary ware sales volume	5,335	4,835	4,990	5,061	5,321	(0.1%)
Capacity utilisation (%)	79%	72%	74%	75%	79%	
Egypt sales volume	2,066	1,995	2,183	1,825	1,728	(4.4%)
Lebanon sales volume	150	109	151	146	106	(8.2%)
Export sales volume	3,118	2,730	2,655	3,091	3,486	2.8%
Exports as a % of total sales (%)	58.4%	56.5%	53.2%	61.1%	65.5%	

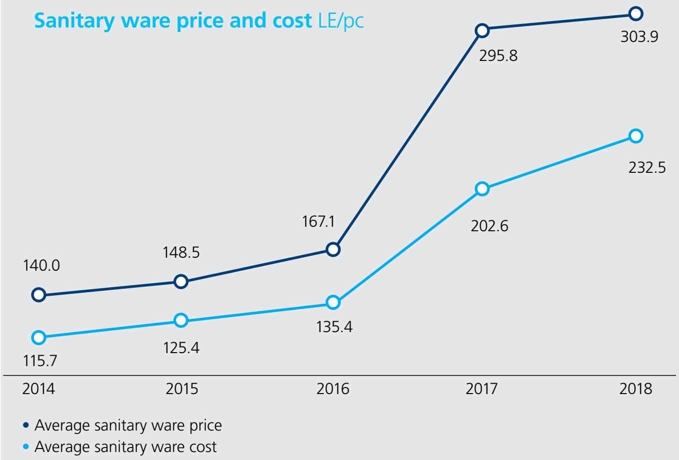
Sanitary ware exports by volume

000s pieces	2014	2015	2016	2017	**2018**	CAGR
UK	1,073.7	1,009.0	950.4	1,134.0	1,225.2	3.4%
Germany	56.7	80.5	257.1	318.8	244.7	44.2%
Other Europe	316.1	252.6	286.2	270.4	260.4	(%4.7)
Middle East and North Africa	784.4	457.2	253.9	228.1	227.9	(26.6%)
Sub-Saharan Africa	195.9	217.6	232.4	329.2	378.1	17.9%
OEM	691.5	713.4	674.8	810.1	1,149.7	13.6%
Total exports	**3,118.2**	**2,730.2**	**2,654.7**	**3,090.6**	**3,486.1**	2.8%

Sanitary ware analysis

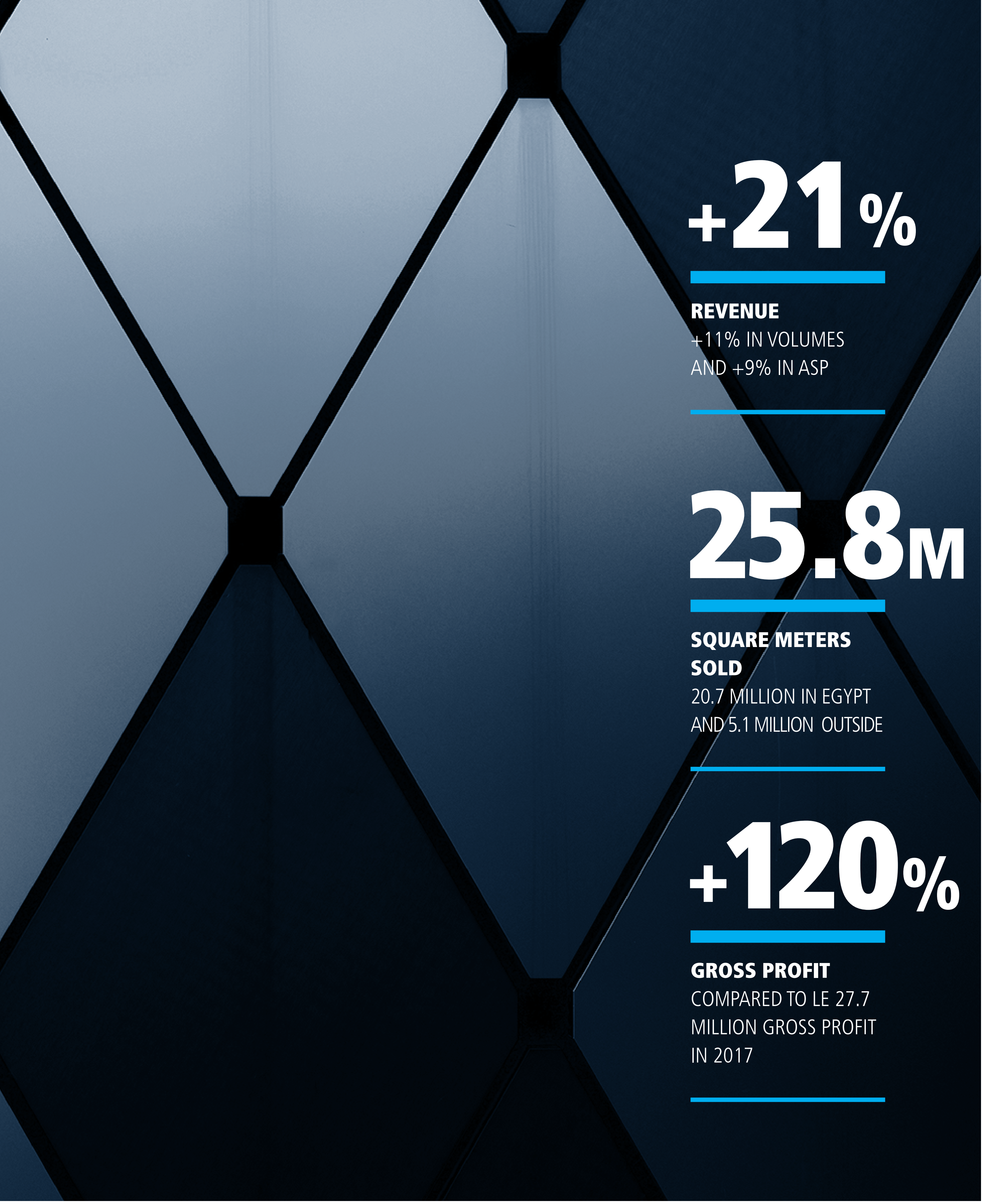
	FY		**%**
Volume (000s pieces)	2017	**2018**	18/17
Egypt	1,825	1,728	95
Lebanon	146	106	73
Exports	3,091	3,486	113
Total volume	**5,061**	**5,321**	**105**
Average selling price	295.8	303.9	103
Revenue	1,497.3	1,617.2	108
Cost of sales	1,025.7	1,236.9	121
Average cost per piece	202.7	232.5	115
Gross profit	**471.6**	**380.3**	**81**
Gross profit margin	31%	24%	(8)

Sanitary ware price and cost LE/pc



TILES

TILE SALES VOLUMES INCREASED BY 11% YEAR-ON-YEAR TO REACH 25.8 MILLION SQUARE METERS.



+21%

REVENUE
+11% IN VOLUMES AND +9% IN ASP

25.8M

SQUARE METERS SOLD
20.7 MILLION IN EGYPT AND 5.1 MILLION OUTSIDE

+120%

GROSS PROFIT
COMPARED TO LE 27.7 MILLION GROSS PROFIT IN 2017

Revenues LE million

2018	1,002
2017	831
2016	599
2015	605
2014	780

Gross profit LE million

2018	61
2017	28
2016	(28)
2015	89
2014	243

Gross margin %

2018	6
2017	3
2016	(5)
2015	15
2014	31

TILES

TILES REVENUES WERE UP 21% YEAR-ON-YEAR AT LE 1,002.4 MILLION IN 2018.

Tile sales volumes increased by 11% year-on-year (up 2.6 million square meters) to reach 25.8 million square meters. Sales in Egypt increased by 9% (up 1.7 million square meters) and sales in export increased by 27% (up 992,937 square meters), while sales in Lebanon decreased by 14% (down 79,437 square meters).

Tile Export growth came from the Middle East and Sub-Saharan Africa. Lecico's tile market in Sub-Saharan Africa remains small but is growing rapidly. Sales volume to Sub-Saharan Africa grew 45% year-on-year and accounted for 10.6% of total export volumes (2017: 9.4%).

Average net prices rose 9% at LE 38.9 per square meter (2017: LE 35.9 per square meter) reflecting the cumulative effect of price increases over twelve months and an increased proportion of export sales offsetting an increase in the proportion of lower priced project sales in Egypt. Exports accounted for 17.9% of sales (2017: 15.6%).

Tiles revenues were up 21% year-on-year at LE 1,002.4 million in 2018 (FY 2017: LE 830.7 million).

Average costs per square meter rose 5% year-on-year to reach LE 36.6 (2017: LE 34.7 per square meter) as efficiency gains and cost saving projects helped offset the high inflation in Egypt over the past twelve months.

Cost of Goods Sold rose 17% to LE 941.4 million (2017: LE 803.0 million).

Gross profit increased 120% to reach LE 61 million (FY 2017: LE 27.7 million) and the margin increased by 2.8 percentage points to 6.1% (FY 2017: 3.3%).

Tile analysis

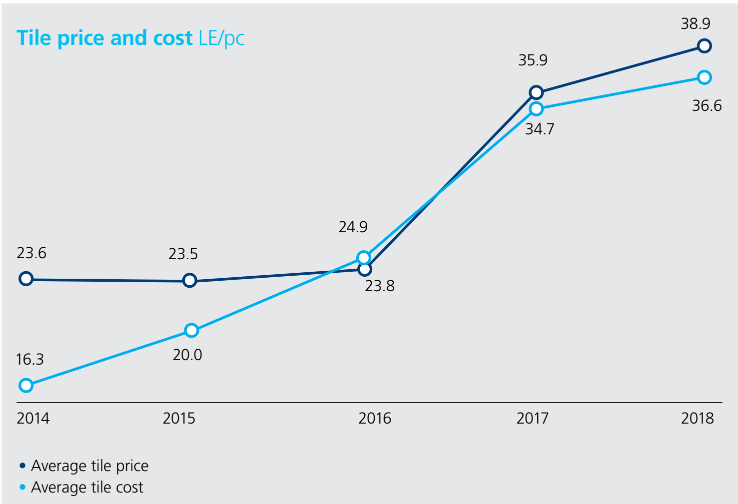
Volume (000s pieces)	FY 2017	FY 2018	% 18/17
Egypt	18,994	20,666	109
Lebanon	558	478	86
Exports	3,618	4,611	127
Total volume	**23,171**	**25,755**	**111**
Average selling price	35.9	38.9	109
Revenue	830.7	1,002.4	121
Cost of sales	803.0	941.4	117
Average cost per sqm	34.7	36.6	105
Gross profit	**27.7**	**61.0**	**220**
Gross profit margin	3%	6%	3

Tile capacity and sales by volume

000s sqm	2014	2015	2016	2017	2018	CAGR
Tile capacity	36,000	36,000	36,000	36,000	36,000	0.0%
Tile sales volume	33,045	25,787	25,237	23,171	25,755	(6.0%)
Capacity utilisation (%)	92%	72%	70%	64%	72%	
Egypt sales volume	25,457	20,581	21,270	18,994	20,666	(5.1%)
Lebanon sales volume	1,603	1,074	956	558	478	(26.1%)
Export sales volume	5,985	4,132	3,012	3,618	4,611	(6.3%)
Exports as a % of total sales (%)	18.1%	16.0%	11.9%	15.6%	17.9%	

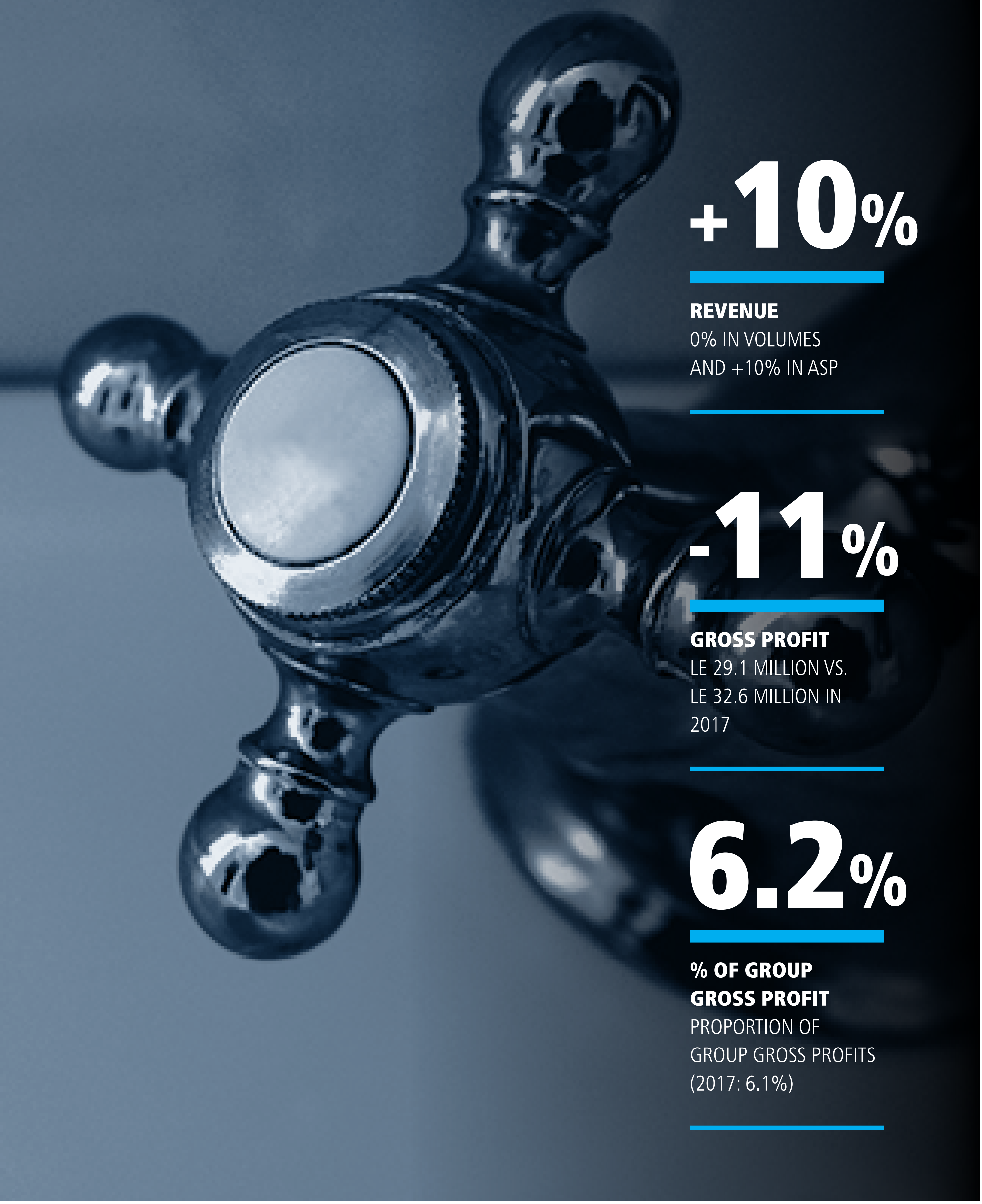
+45%

GROWTH IN SALES VOLUME TO SUB-SAHARAN AFRICA



BRASSWARE

AVERAGE NET PRICES ROSE 10% TO REACH LE 793.6 PER PIECE DUE TO PRODUCT MIX AND PRICE INCREASES.



+10%

REVENUE
0% IN VOLUMES AND +10% IN ASP

-11%

GROSS PROFIT
LE 29.1 MILLION VS. LE 32.6 MILLION IN 2017

6.2%

% OF GROUP GROSS PROFIT
PROPORTION OF GROUP GROSS PROFITS (2017: 6.1%)

Revenues LE million

2018	86
2017	78
2016	63
2015	47
2014	46

Gross profit LE million

2018	29
2017	33
2016	23
2015	15
2014	17

Gross margin %

2018	34
2017	42
2016	37
2015	32
2014	37

BRASSWARE

Sales volumes for 2018 are flat year-on-year as at 108,000 pieces. Sales volumes in Egypt fell 2%, but the drop was covered by some limited exports to Lebanon. Market demand remained constrained in Egypt with projects continuing to cover for shrinking showroom sales. Lower priced products under the Lecico brand continued to see significant reduction in sales in 2018 offsetting growth in the Sarrdesign brand.

Average net prices rose 10% to reach LE 793.6 per piece (FY 2017: LE 722.5 per piece) due to product mix and price increases done over the last twelve months.

Revenues for the year increased 10% year-on-year to reach LE 86 million (FY 2017: LE 78.5 million).

Brassware's percentage of consolidated revenues 3.2%, while the percentage for last year was 3.3% of sales.

Average cost per piece rose 24% to LE 524.9 per piece (FY 2017: LE 422.4 per piece) reflecting changing mix and the effect of high inflation over the last year.

Gross profit decreased 11% to LE 29.1 million (FY 2017: LE 32.6 million) and the margin fell 7.7 percentage points to 33.9% (FY 2017: 41.5%).

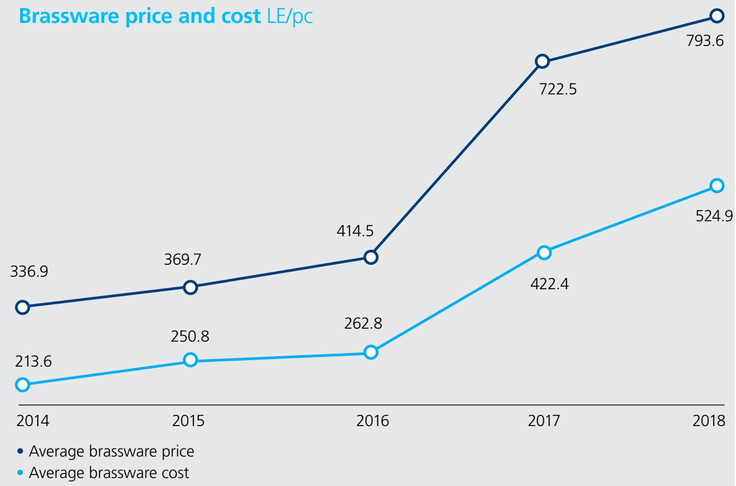
Brassware's percentage of consolidated gross profits increased to 6.2% of Lecico gross profits (FY 2017: 6.1%).

THE DROP IN SALES VOLUMES IN EGYPT WAS COVERED BY SOME LIMITED EXPORTS.

Brassware segmental analysis

Volume (000's pieces)	FY 2017	FY 2018	% 18/17
Egypt	108,471	106,371	98
Export	160	1,940	1,213
Total volumes	**108,631**	**108,311**	**100**
Exports/total sales volume (%)	0.1%	1.8%	1.6
Revenue (LE m)	**78.5**	**86.0**	**110**
Average selling price (LE/pc)	722.5	793.6	110
Average cost per piece (LE/pc)	422.4	524.9	124
Cost of sales	(45.9)	(56.9)	124
Gross profit	32.6	29.1	89
Gross profit margin (%)	41.5%	33.9%	(7.7)

Brassware price and cost LE/pc



AVERAGE COST PER PIECE ROSE 24% TO LE 524.9 PER PIECE.

FINANCIAL OVERVIEW

FY 2018: Return to loss as high inflation and destock squeeze margins

Lecico revenues for the year 2018 increased by 12% year-on-year to LE 2,705.5 million (FY 2017: LE 2,406.5 million) on the back of higher revenue in all segments and the cumulative effect of prices increases done over the past twelve months raising the average prices in all segments. Average price increases were offset by an increased reliance on lower-priced project sales in Egypt.

Lecico's cost of goods sold rose 19% year-on-year to LE 2,235.1 million (FY 2017: LE 1,874.5 million) as a result of high inflation in Egypt and a reduction in sanitary ware production to allow destocking.

Gross profit decreased by 12% to reach LE 470.4 million (FY 2017: LE 531.9 million) and the Company's gross profit margin was down 4.7 percentage points to 17.4% (FY 2017: 22.1%) as the increases in pricing done failed to keep pace with inflation over the year.

In absolute terms, distribution and administration (D&A) expenses increased by 8% to LE 349.9 million (FY 2017: LE 323.7 million), but proportional D&A expenses were down by 0.5 percentage points to 12.9% of net sales compared to 13.4% in last year.

Lecico reported LE 30.2 million in net other operating income compared to net other operating expenses of LE 26.4 million in the last year primarily as result of LE 50.9 million in one-off gains from the sale of real estate in the second quarter.

Operating profit (EBIT) decreased 17% to reach LE 150.7 million (FY 2017: LE 181.9 million) and the Company's EBIT margin decreased 2 percentage points to 5.6% (FY 2017: 7.6%).

Financing expenses were increased 68% year-on-year during 2018 to reach LE 228.1 million compared to last year due to foreign exchange losses (LE 8.6 million loss versus LE 16.3 million gain in 2017) combined with higher borrowings and higher interest rates for the Egyptian Pound.

Lecico reported net tax charge of LE 39.3 million versus a tax charge of LE 14.2 million in last year.

Lecico reported net loss of LE 114.3 million compared to net profit of LE 37.2 million in the last year.

Sanitary ware

Growing export sales in OEM and white label in Europe drove sales volume growth of 5% to reach 5.3 million pieces (up 259,642 pieces). Export volumes grew by 13% (up 395,476 pieces), while sales volume in Egypt decreased 5% (down 96,399 pieces) and sales in Lebanon decreased by 27% (down 39,436 pieces).

Average sanitary ware prices were up 3% year-on-year to LE 303.9 per piece with price increases offset by a growing proportion of lower-priced project sales in Egypt.

Revenues were up 8% year-on-year at LE 1,617.2 million. Exports represented 65.5% of volumes compared to 61.1% in 2017.

Average cost of sales rose 15% at LE 232.5 per piece due to lower production (down 8%) and high inflation in Egypt.

Gross profit decreased 19% to LE 380.3 million (FY 2017: LE 471.6 million) and the margin fell 8 percentage points to 23.5% (FY 2017: 31.5%).

Profit and loss statement highlights

LE m	FY 2018	FY 2017	% 18/17	FY 2016	FY 2015	FY 2014	14–18 CAGR%
Sanitary ware	1617.2	1497.3	108%	834.0	718.2	746.6	21%
Tiles	1002.4	830.7	121%	599.5	605.4	780.5	6%
Brassware	86.0	78.5	110%	63.0	46.9	46.1	17%
Net sales	**2,705.5**	**2,406.5**	**112%**	**1,496.4**	**1,370.5**	**1,573.2**	**15%**
Sanitary ware/net sales (%)	59.8%	62.2%	(2.4%)	55.7%	52.4%	47.5%	
Cost of sales	(2235.1)	(1874.5)	119%	(1343.1)	(1154.3)	(1184.5)	17%
Cost of sales/net sales (%)	(82.6%)	(77.9%)	(4.7%)	(89.8%)	(84.2%)	(75.3%)	
Gross profit	**470.4**	**531.9**	**88%**	**153.3**	**216.2**	**388.8**	**5%**
Gross profit margin (%)	17.4%	22.1%	(4.7%)	10.2%	15.8%	24.7%	
Distribution and administration (D&A)	(349.9)	(323.7)	108%	(204.4)	(199.9)	(194.6)	16%
D&A/net sales (%)	(12.9%)	(13.4%)	0.5%	(13.7%)	(14.6%)	(12.4%)	
Net other operating income (expense)	30.2	(26.4)	–	2.8	(17.4)	0.7	161%
Net other operating income/net sales (%)	1.1%	(1.1%)	–	0.2%	(1.3%)	0.0%	
EBIT	**150.7**	**181.9**	**83%**	**-48.3**	**-1.0**	**194.8**	(6%)
EBIT margin (%)	5.6%	7.6%	(2.0%)	(3.2%)	(0.1%)	12.4%	
Net profit	**(114.3)**	**37.2**	–	**(50.1)**	**(65.1)**	**91.6**	–
Net profit margin (%)	–	**1.5%**	–	–	–	**5.8%**	

Tiles

Tile sales volumes increased by 11% year-on-year (up 2.6 million square meters) to reach 25.8 million square meters. Sales in Egypt increased by 9% (up 1.7 million square meters) and sales in export increased by 27% (up 992,937 square meters), while sales in Lebanon decreased by 14% (down 79,437 square meters).

Average net prices rose 9% at LE 38.9 per square meter reflecting the cumulative effect of price increases over twelve months despite an increase in the proportion of lower priced project sales in Egypt year-on-year.

Tiles revenues were up 21% year-on-year at LE 1,002.4 million in 2018 (FY 2017: LE 830.7 million).

Average costs rose 5% year-on-year to reach LE 36.6 per square meter as efficiency gains and cost saving projects helped offset the high inflation in Egypt over the past twelve months.

Gross profit increased 120% to reach LE 61 million (FY 2017: LE 27.7 million) and the margin increased by 2.8 percentage points to 6.1% (FY 2017: 3.3%).

Brassware

Sales volumes for 2018 are flat year-on-year as at 108,000 pieces with growth in the Sarrdesign brand sales offset by a drop in Lecico brand brassware.

Average net prices rose 10% to reach LE 793.6 per piece (FY 2017: LE 722.5 per piece) due to product mix and price increases done over the last twelve months.

Revenues for the year increased 10% year-on-year to reach LE 86 million (FY 2017: LE 78.5 million).

Brassware's percentage of consolidated revenues was 3.2%, compared to 3.3% of sales in 2017.

Average cost per piece rose 24% to LE 524.9 per piece (FY 2017: LE 422.4 per piece) reflecting changing mix and the effect of high inflation over the last year.

Gross profit decreased 11% to LE 29.1 million (FY 2017: LE 32.6 million) and the margin fell 7.7 percentage points to 33.9% (FY 2017: 41.5%).

Brassware's percentage of consolidated gross profits increased to 6.2% of Lecico gross profits (FY 2017: 6.1%).

Financial position

The value of Lecico's assets decreased by 5% at the end of December 31, 2018 to reach LE 2,806.5 million (2017: LE 2,960.1 million) primarily as a result of decrease in cash, inventory and fixed assets during the year 2018.

Total liabilities were down 3% at LE 1,903.4 million (2017: LE 1,955.4 million) primarily as a result of decrease in overdrafts and loans during the year 2018.

Gross debt decreased 7% or LE 105 million to reach LE 1,352.1 million compared to LE 1,457.1 million at the end of 2017.

Net debt decreased 3% or LE 30.6 million to reach LE 1,165.2 million compared to LE 1,195.8 million at the end of 2017.

Net debt to equity increased by 9.1% to reach 1.32x compared to 1.21x at the end of 2017.

Working capital decreased 6% or LE 86.7 million to reach LE 1,336 million compared to LE 1,422.7 million at the end of 2017.

FINANCIAL OVERVIEW

Profit and loss	FY		%
LE m	2017	2018	18/17
Sanitary ware	1,497.3	1,617.2	108%
Tiles	830.7	1,002.4	121%
Brassware	78.5	86.0	110%
Net revenues	**2,406.5**	**2,705.5**	**112%**
Cost of sales	1,874.5	2,235.1	119%
Gross profit	**531.9**	**470.4**	**88%**
% of sales	22%	17%	(5%)
Selling expenses	146.6	157.3	107%
Administration expenses	203.4	162.5	80%
Overheads	**350.1**	**319.8**	**91%**
% of sales	15%	12%	(3%)
Operating profit (EBIT)	**181.9**	**150.7**	**83%**
% of sales	8%	6%	(2%)
Net financial expenses	(152.5)	(219.6)	144%
Dividend income	6.4	5.1	80%
Exchange variances	16.3	(8.6)	(52%)
Profit before tax	**52.1**	**(72.4)**	**–**
% of sales	2%	–	–
Taxes & minorities	(14.8)	(42.0)	283%
Net profit after tax	**37.2**	**(114.3)**	**–**
% of sales	2%	–	–
Sales volumes			
Sanitary ware – pices	5,061	5,321	105%
Tile – sqm	23,171	25,755	111%

Recent developments and outlook

While early trading for 2019 has been slow expectations are for improved sales in 2019. The Company is expecting to continue growing exports and also expects to see an improvement in domestic consumption in line with forecasts of improved GDP growth for Egypt. Lecico will be increasing prices over the course of the first half of the year.

Expectations are for continued cost pressure as inflation in Egypt – while lower year-on-year – will be affected by further subsidy reductions. Lecico may benefit from a reduction in interest rates but the speed and magnitude of this are hard to predict. The Company aims to offset inflation with increased production and cost saving initiatives but margins are likely to remain under pressure. Lecico is looking to continue to reduce inventories and customer payment terms to try and continue to stabilize or reduce debt as it did in 2018. The Company expects to move around 7% of its debt from local currency borrowing to lower-cost foreign currency over the course of the first half of 2019 which will help reduce finance costs.

Consequently, profitability in 2019 will likely remain under pressure from inflation and a lot depends on how large a price increase can be pushed through in Egypt during the year and how the Euro and Sterling perform against the Pound. The recent appreciation in the Egyptian Pound and strength of the dollar will put trading results under pressure.

Lecico Lebanon restructuring

In order to optimise its cost structure, improve cash flows and unlock asset values, Lecico has initiated a review of its Lebanese operation and is in the process of developing and implementing an overall strategic restructuring plan for its Lebanese subsidiary. The Lebanese business – faced with a shrinking market and increased competition – has found itself with negative results and cash flows over the past years and it has built up significant stocks of inventories and debt.

The restructuring plan in financial and operational areas envisages a significant reduction in production in Lebanon with plans to significantly reduce inventories over the coming years while moving the majority of production to Egypt. The Company is also doing a full market review to look for opportunities to grow market share in Lebanon over the coming years. In parallel, Lecico Lebanon is looking to sell significant real estate assets surplus to its operational needs in order to unlock cash. Current Lebanese market conditions may not be conducive for a quick sale of this land but some 28,000 sqm of land are now offered in the market for sale and the lands were appraised at a value of just over USD 30 million in late 2016.

The ultimate outcome of the restructuring plan cannot be estimated yet Management expects a positive outlook following its implementation. Management intends to present a more detailed view of this restructuring to investors in the coming months and to report on the progress of this restructuring on a quarterly basis in their Results Newsletter.

Tile segmental analysis LE m	FY 2018	2017	% 18/17	FY 2016	2015	2014	14–18 CAGR%
Tile volumes (000 sqm)							
Egypt	20,666	18,994	109%	21,270	20,581	25,457	(5%)
Lebanon	478	558	86%	956	1,074	1,603	(26%)
Export	4,611	3,618	127%	3,012	4,132	5,985	(6%)
Total tile volumes	**25,755**	**23,171**	**111%**	**25,237**	**25,787**	**33,045**	**(6%)**
Exports/total sales volume (%)	17.9%	15.6%	2.3%	11.9%	16.0%	18.1%	
Tile revenue	**1002.4**	**830.7**	**121%**	**599.5**	**605.4**	**780.5**	**6%**
Average selling price (LE/sqm)	38.9	35.9	109%	23.8	23.5	23.6	13%
Average cost per piece (LE/sqm)	36.6	34.7	105%	24.9	20.0	16.3	22%
Tile cost of sales	(941.4)	(803.0)	117%	(627.6)	(516.3)	(537.8)	15%
Tile gross profit	**61.0**	**27.7**	**220%**	**(28.1)**	**89.1**	**242.6**	**(29%)**
Tile gross profit margin (%)	6.1%	3.3%	2.8%	–	14.7%	31.1%	

Sanitary ware segmental analysis LE m	FY 2018	2017	% 18/17	FY 2016	2015	2014	14–18 CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	1,728	1,825	95%	2,183	1,995	2,066	(4%)
Lebanon	106	146	73%	151	109	150	(8%)
Export	3,486	3,091	113%	2,655	2,730	3,118	3%
Total sanitary ware volumes	**5,321**	**5,061**	**105%**	**4,990**	**4,835**	**5,335**	**(0%)**
Exports/total sales volume (%)	65.5%	61.1%	4.5%	53.2%	56.5%	58.4%	
Sanitary ware revenue	**1617.2**	**1497.3**	**108%**	**834.0**	**718.2**	**746.6**	**21%**
Average selling price (LE/pc)	303.9	295.8	103%	167	149	140	21%
Average cost per piece (LE/pc)	232.5	202.7	115%	135	125	116	19%
Sanitary ware cost of sales	(1236.9)	(1025.7)	121%	(675.6)	(606.2)	(617.3)	19%
Sanitary ware gross profit	**380.3**	**471.6**	**81%**	**158.4**	**112.0**	**129.3**	**31%**
Sanitary ware gross profit margin (%)	23.5%	31.5%	(8.0%)	19.0%	15.6%	17.3%	

Exports by destination
Sanitary ware

UK **35%**
Germany **7%**
Other Europe **7%**
Middle East and North Africa **7%**
Sub-Saharan Africa **11%**
OEM **33%**

000s pieces	2018	% of total	2017	% of total	% 18/17
UK	1,225.2	35%	1,134.0	37%	108%
Germany	244.7	7%	318.8	10%	77%
Other Europe	260.4	7%	270.4	9%	96%
Middle East and North Africa	227.9	7%	228.1	7%	100%
Sub-Saharan Africa	378.1	11%	329.2	11%	115%
OEM	1,149.7	33%	810.1	26%	142%
Total exports	**3,486.1**	**100%**	**3,090.6**	**100%**	**113%**

CORPORATE SOCIAL RESPONSIBILITY

377

TRAINING

377 EMPLOYEES HAVE RECEIVED TRAINING IN OCCUPATIONAL HEALTH AND QUALITY CONTROL

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 of 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 prohibits 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 8.291 million in pension contributions, accident and medical insurance and aids support for its staff in 2018.

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.

2,046

SUBSIDISED HOLIDAYS
ENJOYED BY STAFF WITH A TOTAL COST OF LE 436,800

Holidays and Pilgrimages

Lecico recognises the importance of a good work/life balance for its staff and offers several programmes to help them make the most of their time outside of work. These programmes include organising and subsidising day trips and week-long holidays for them 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 2018, these programmes (pilgrimages/ childbirth/death/marriage) included a total of 2,046 subsidised holiday days enjoyed by staff and a total expense of LE 436,800.

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 2018 was 232,000 L.E (2017: 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 as such no political donations were made in the year 2017.

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

CORPORATE SOCIAL RESPONSIBILITY

WHERE POSSIBLE WE USE RECYCLED PACKAGING, INCLUDING PALLETS AND CARTONS.

49

HEALTH & SAFETY
SPECIAL SESSIONS EDUCATING WORKERS ON PREVENTING AND PROTECTION AGAINST SILICOSIS AT THE BORG EL BORG FACTORY.

Health, Safety & Environment

Lecico is committed to developing its business in a responsible manner, protecting the health and safety of its employees, 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. These policies and goals are communicated to all employees, who are encouraged to participate in achieving our 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 relating 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 (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, 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).

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 14001:2004
- 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.

BOARD OF DIRECTORS

Mr. Gilbert Gargour
Chairman

Board Member: 1981 – present
Age: 76
Nationality: Lebanese and British

A Director since 1981, Gilbert has served as Chairman and CEO since 1997. He 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 of whom are Lecico Directors and co-owners of Intage.

Mr. Taher Gargour
CEO and Managing Director

Board Member: 2008 – present
Age: 49
Nationality: Lebanese and American

Taher joined Lecico in January 2005, appointed a Director in 2008 and Managing Director in July 2012. He 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. Alain Gargour
Non-executive Director

Board Member: 1997 – present
Age: 66
Nationality: Lebanese and British

Involved with Lecico since 1978, Alain has been a Director of the Company since 1997. He 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, serves as a Director of Lecico UK and as a member of Lecico Egypt's Audit Committee. He is a Director of Intage.

Mr. Toufick Gargour
Non-executive Director

Board Member: 1974 – present
Age: 77
Nationality: Lebanese

A Director of the Company since 1974, he 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 is 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. Georges Ghorayeb
Executive Director

Board Member: 2003 – present
Age: 68
Nationality: Lebanese

A Director since 2003, 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. Elie Baroudi
Non-Executive Director
Audit Committee Chairman

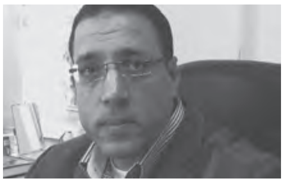
Board Member: 2003 – present
Age: 73
Nationality: Lebanese and American

Elie served as Managing Director 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).

Eng. Aref Hakki
Non-executive Director

Board Member: 1998 – 2018
Age: 84
Nationality: Egyptian

Aref holds 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.



Mr. Mohamed Hassan
Executive Director

Board Member: 2013 – present
Age: 55
Nationality: Egyptian

A Director since 2014, 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
Non-executive Director

Board Member: 2002 – present
Age: 60
Nationality: Finnish

A Director since 2002, 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). Pertti Lehti served as Supply Chain Director at Lecico from 2011 – 2018.

Dr. Hani Sarie-Eldin
Non-executive Director

Board Member: 2010 – present
Age: 53
Nationality: Egyptian

Hani holds a PhD in International Business Law from Queen Mary and Westfield College, University of London. He 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. He is currently a member of the Board of Directors of various Egyptian corporations and Banks.

BOARD OF DIRECTORS

Dr. Rainer Simon
Non-executive Director
Audit Committee Member

Board Member: 2011- present
Age: 68
Nationality: German

Rainer 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. Karim Zahran
Independent Director
Audit Committee Member

Board Member: 2019 – present
Age: 34
Nationality: Egyptian

Karim is the CEO at Zahran Retail Group, and he held numerous positions prior to joining Zahran Group. He held the position of Deputy Regional Manager of Group SEB, a major French home appliance company. He was also the Head of Brokerage at Beltone Securities Brokerage and the Investment Manager at Compass Capital. Zahran held multiple positions in the investment arm of HSBC in New York, USA, Citigroup's private bank and ACE Group in Geneva, Switzerland, focusing on dealing with foreign investment funds interested in investing in the Middle East markets. Zahran is also a Board member at CI Capital Holding. Zahran holds a Bachelor degree in Business Administration specialising in Financial Management and a Bachelor degree in Economics from Boston University, USA.

Mr. Colin J Sykes
Independent Director
Audit Committee Member

Board Member: 2019 – present
Age: 59
Nationality: British

Colin is currently Managing Director of Aqualisa Products, a leading supplier of showers in the UK. He has over 30 years of finance and management experience, having previously served as Acting CEO and CFO of yacht maker Fairline, Interim CFO of Ideal Standard, and previously as CFO of B3 Cable Solutions, GB Auto and Lecico Egypt. He holds an MBA from Fuqua School of Business, Duke University and a BA in Accounting Sciences from the University of South Africa.

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FINANCIAL STATEMENTS

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

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 2018, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 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 opinion

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 the following notes:

1 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.

2 Note no. (36) to the consolidated financial statements. Which describes the planned restructuring of the subsidiary company "Lecico Lebanon". The ultimate outcome of this restructuring cannot presently be determined and involves certain uncertainties, yet management believes that it will reflect positively on the results and cash flows for the future. Our opinion is not modified in respect of this matter.

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 32.1 million also an amount of EGP 40.1 million was utilized 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 utilized portion of the provision is against realized 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.

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

KPMG Hazem Hassan

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

Alexandria on February 27, 2019

Consolidated financial position

as at December 31, 2018

	Note	31/12/2018 LE	31/12/2017 LE
Non-current assets			
Property, plant and equipment	(11)	676,839,170	690,699,324
Projects in progress	(12)	6,193,098	21,866,338
Intangible assets	(13)	31,812,753	29,183,877
Other investments	(14)	13,352,482	13,221,600
Long-term notes receivable	(15)	16,167,323	27,144,059
Total non-current assets		**744,364,826**	**782,115,198**
Current assets			
Inventory	(16)	1,087,160,690	1,133,779,159
Trade and other receivables	(17)	788,153,388	782,930,154
Cash and cash equivalents	(18)	186,869,031	261,296,342
Total current assets		**2,062,183,109**	**2,178,005,655**
Total assets		**2,806,547,935**	**2,960,120,853**
Equity			
Share capital	(20)	400,000,000	400,000,000
Reserves	(21)	573,385,524	558,501,332
Retained earnings	(22)	21,302,879	38,524,669
Net (loss)/profit for the year		(114,332,969)	37,220,802
Total equity attributable to equity holders of the Company		**880,355,434**	**1,034,246,803**
Treasury shares	(23)	–	(48,182,065)
		880,355,434	**986,064,738**
Non-controlling interests		22,752,335	18,665,774
Total equity		**903,107,769**	**1,004,730,512**
Non-current liabilities			
Long-term loans and borrowings	(24)	–	20,000,000
Deferred income tax	(26)	23,361,118	22,783,102
Provision	(27)	9,319,107	10,580,500
Total non-current liabilities		**32,680,225**	**53,363,602**
Current liabilities			
Banks overdrafts	(18)	1,332,049,775	1,390,477,701
Loans and borrowings	(28)	20,009,181	46,604,181
Trade and other payables	(29)	517,920,985	457,492,063
Provisions	(27)	780,000	7,452,794
Total current liabilities		**1,870,759,941**	**1,902,026,739**
Total liabilities		**1,903,440,166**	**1,955,390,341**
Total equity and liabilities		**2,806,547,935**	**2,960,120,853**

Notes (1) to (38) are an integral part of these consolidated financial statements.
Auditor's report attached.
February 27, 2019

Finance Director
Mohamed Hassan

Managing Director
Taher Gargour

Consolidated income statement

For the year ended December 31, 2018

	Note	31/12/2018 LE	31/12/2017 LE
Net sales		2,705,549,187	2,406,460,883
Cost of sales	(4)	(2,235,133,055)	(1,874,520,476)
Gross profit		**470,416,132**	**531,940,407**
Other income	(5)	71,675,334	24,607,332
Distribution expenses		(157,277,540)	(146,616,199)
Administrative expenses		(192,651,089)	(177,048,433)
Other expenses	(6)	(41,503,723)	(51,001,252)
Result from operating activities		**150,659,114**	**181,881,855**
Investment income		5,104,787	6,377,963
Finance income	(7)	5,495,761	24,331,817
Finance expenses	(8)	(233,631,825)	(160,531,090)
(Loss)/profit before tax		**(72,372,163)**	**52,060,545**
Current income tax expense	(9)	(38,749,031)	(17,448,689)
Deferred income tax		(535,295)	3,220,514
Net (loss)/profit for the year		**(111,656,489)**	**37,832,370**
Attributable to:			
Equity holders of the Company		(114,332,969)	37,220,802
Non-controlling interest		2,676,480	611,568
Net (loss)/profit for the year		**(111,656,489)**	**37,832,370**
(loss)/Earnings per share (LE/Share)	(10)	**(1.49)**	**0.49**

Notes (1) to (38) are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended December 31, 2018

	31/12/2018 LE	31/12/2017 LE
Other comprehensive income		
Net (loss)/profit for the year	(111,656,489)	37,832,370
Items that may be reclassified subsequently to income statement		
Foreign operations – foreign currency translation differences	21,664,841	(16,514,015)
Total (loss) other comprehensive income	**(89,991,648)**	**21,318,355**
Total comprehensive income attributable to:		
Equity holders of the Company	(99,448,778)	14,583,239
Non-controlling interests	9,457,130	6,735,116
Total (loss) other comprehensive income	**(89,991,648)**	**21,318,355**

Notes (1) to (38) are an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2018

	Note	Issued and paid up capital LE	Reserves LE	Retained earnings LE
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 shares	(23)	–	–	–
Adjustments		–	–	24,461,418
Translation adjustment of foreign subsidiaries		–	(22,637,565)	–
Net profit for the year		–	–	–
Balance at December 31, 2017		**400,000,000**	**558,501,332**	**38,524,669**
Transfer to retained earnings		–	–	37,220,802
Distributing treasury shares as stock dividends is the parent's shareholders		–	–	(48,182,065)
Adjustments		–	–	(6,260,527)
Translation adjustment of foreign subsidiaries		–	14,884,192	–
Net loss for the year		–	–	–
Balance at December 31, 2018		**400,000,000**	**573,385,524**	**21,302,879**

Notes (1) to (38) are an integral part of these consolidated financial statements.

Net (loss) for the year LE	Treasury shares LE	Equity of the Parent Company's shareholders LE	Non-controlling interest LE	**Total equity LE**
(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**
(37,220,802)	–	–	–	–
–	48,182,065	–	–	–
–	–	(6,260,527)	(5,370,568)	(11,631,095)
–	–	14,884,192	6,780,649	21,664,841
(114,332,969)	–	(114,332,969)	2,676,480	(111,656,489)
(114,332,969)	**–**	**880,355,434**	**22,752,335**	**903,107,769**

Consolidated statement of cash flow

For the year ended December 31, 2018

	Note	31/12/2018 LE	31/12/2017 LE
Cash flow from operating activities			
Net profit/(loss) for the year		(114,332,969)	37,220,802
Adjustments provided to reconcile net loss to net cash provided by operating activities			
Fixed assets depreciation and translation differences	(11)	108,983,650	101,127,595
Intangible assets amortisation and translation differences		(2,460,685)	(583,536)
Provided provisions and translation differences		33,154,594	31,868,288
Employees participation in net profit		50,434,178	35,921,547
Long-term prepaid rent expense		–	157,335
Capital gain		(51,152,151)	1,326,520
Income tax expense		38,749,031	17,448,689
Deferred income tax		578,015	(2,996,483)
Reversal of expired provision		–	(2,115,844)
Reversal of inventory impairment		(59,094)	(5,749,374)
Discounting of long-term notes receivables		(3,823,264)	2,281,951
Increase in non-controlling interests		4,086,561	13,423,321
Change in translation reserve		9,168,706	1,823,844
		73,326,572	**231,154,655**
Changes in working capital			
Change in inventory		46,541,692	(237,740,247)
Change in receivables		(6,108,068)	(21,858,078)
Change in payables		26,177,271	31,201,017
Paid income tax		(19,192,812)	(12,955,782)
Utilised provisions		(40,068,075)	(46,530,689)
Net cash from (used in) operating activities		**80,676,580**	**(56,729,124)**
Cash Flow from investing activities			
Payments for acquiring property, plant and equipment		(90,094,615)	(114,153,459)
Payments for intangible assets		(713,232)	–
Proceeds from other current investments		(130,882)	368,003
Proceeds from selling property, plant and equipment		61,796,510	2,034,894
Decrease in long-term notes receivable		14,800,000	(4,850,000)
Net cash used in investing activities		**(14,342,219)**	**(116,600,562)**
Cash Flow from financing activities			
Payments for long-term loans		(46,595,000)	(48,065,000)
Payments to acquire treasury shares		–	(48,182,065)
Payments for employees' share in net profit		(35,738,746)	(32,609,683)
Net cash used in financing activities		**(82,333,746)**	**(128,856,748)**
Net change in cash and cash equivalents during the year		**(15,999,385)**	**(302,186,434)**
Cash and cash equivalents at beginning of the year	(18)	**(1,129,181,359)**	**(826,994,925)**
Cash and cash equivalents at the end of the year	(18)	**(1,145,180,744)**	**(1,129,181,359)**

Notes (1) to (38) are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the Year Ended December 31, 2018

1. Reporting entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2018 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 the investment law no. 72 of 2017 that superseded law no. 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 31/12/2018 %**	Ownership Interest 31/12/2017 %
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
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

* This subsidiary was liquidated and its accounts was closed as at October 4, 2018 as per the liquidator report in Jersey.

Notes to the consolidated financial statements

For the year ended December 31, 2018

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 recognised in the year in which the estimate is revised and in any future periods affected.

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:

	31/12/2018	31/12/2017
First: Sanitary Ware segment		
Sales volumes (in 000 pcs)		
Egypt	1,728	1,825
Lebanon	106	146
Export	3,486	3,091
Total sales volume (in 000 pcs)	**5,320**	**5,062**
Sales revenues (LE million)	1,617.2	1,497.3
Average selling price (LE/pc)	303.9	295.8
Total cost of sales (LE million)	**1,236.86**	**1,025.66**
Gross profit (LE million)	**380.3**	**471.6**
Second: Tile segment		
Sales volumes (in 000 m^2)		
Egypt	20,666	18,994
Lebanon	478	558
Export	4,611	3,618
Total sales volume (000 m^2)	**25,755**	**23,170**
Sales revenues (LE million)	**1,002.4**	**830.7**
Average selling price (LE/m^2)	38.9	35.9
Total cost of sales (LE million)	**941.4**	**803.0**
Gross profit (LE million)	**61.0**	**27.7**
Third: Brassware segment		
Sales volume (in pcs)		
Egypt	106,371	108,471
Export	1,940	160
Total sales volume (pcs)	**108,311**	**108,631**
Sales revenues (LE million)	**86.0**	**78.5**
Average selling price (LE/pc)	793.6	722.5
Total cost of sales (LE million)	**56.9**	**45.9**
Gross profit (LE million)	**29.1**	**32.6**

4. Cost of sales

	31/12/2018	31/12/2017
Cost of sales	2,186,207,456	1,839,777,661
Add:		
Employees’ share in net profit	48,925,599	34,742,815
	2,235,133,055	**1,874,520,476**

Notes to the consolidated financial statements

For the year ended December 31, 2018

5. Other income

	31/12/2018 LE	31/12/2017 LE
Capital gains	51,152,151	342,229
Scrap sales	8,256,585	7,374,213
Other revenues	8,443,334	14,775,046
Reversal of expired provision	–	2,115,844
Discounting long receivables to its present value	3,823,264	–
	71,675,334	**24,607,332**

6. Other expenses

	31/12/2018 LE	31/12/2017 LE
Capital losses	–	1,668,749
Provided for potential losses and claims provision	32,055,738	30,717,995
Provided for end of service indemnity provision	–	2,450,000
Provided for impairment of clients	–	1,971,240
Amortisation of intangible assets	–	6,212
Miscellaneous expenses	1,712,792	1,929,717
Remuneration of the Parent Company's board of directors	7,735,193	9,975,388
Discounting long-term notes receivables to its present value	–	2,281,951
	41,503,723	**51,001,252**

7. Finance income

	31/12/2018 LE	31/12/2017 LE
Interest revenues	5,495,761	8,026,180
Foreign exchange difference	–	16,305,637
	5,495,761	**24,331,817**

8. Finance expenses

	31/12/2018 LE	31/12/2017 LE
Forging exchange differences	8,558,415	–
Interest expenses	225,073,410	160,531,090
	233,631,825	**160,531,090**

9. Current income tax

	31/12/2018 LE	31/12/2017 LE
Current income tax for the year	38,644,256	13,525,189
Tax imposed on dividends of the last years	104,775	3,923,500
	38,749,031	**17,448,689**

10. (Loss)/earnings per share

The (loss)/earning per share for the year ended December 31, 2018 was computed as follows:

	31/12/2018 LE	31/12/2017 LE
Net (loss)/profit for the year (in LE)	(114,332,969)	37,220,802
Weighted average of the number of outstanding shares	76,666,667	76,666,667
(Loss)/earnings per share (LE/share)	**(1.49)**	**0.49**

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 01/01/2018	**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**
Translation differences	(140,144)	(9,896,741)	(154,337)	1,200,260	(75,373)	–	63,837	**(9,002,498)**
Year additions	–	10,228,578	865,804	71,519,708	3,220,952	18,503,609	1,429,204	**105,767,855**
Year disposals	(10,093,140)	–	(4,500)	(28,978,015)	(1,462,023)	–	(16,269)	**(40,553,947)**
At 31/12/2018	**165,163,420**	**415,857,233**	**15,210,821**	**1,221,491,343**	**74,760,986**	**150,526,040**	**38,800,668**	**2,081,810,511**
Accumulated depreciation								
At 01/01/2018	**–**	**199,203,165**	**10,697,679**	**924,454,014**	**67,093,940**	**100,518,683**	**32,932,296**	**1,334,899,777**
Translation differences	–	(5,723,284)	(117,733)	1,157,918	1,806	–	58,030	**(4,623,263)**
Year depreciation	–	17,807,654	2,616,168	66,878,721	3,031,341	12,879,195	1,391,336	**104,604,415**
Disposals' accumulated depreciation	–	–	(1,800)	(28,440,005)	(1,462,023)	–	(5,760)	**(29,909,588)**
At 31/12/2018	**–**	**211,287,535**	**13,194,314**	**964,050,648**	**68,665,064**	**113,397,878**	**34,375,902**	**1,404,971,341**
Net book value at								
31/12/2018	**165,163,420**	**204,569,698**	**2,016,507**	**257,440,695**	**6,095,922**	**37,128,162**	**4,424,766**	**676,839,170**
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**

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, 2018

11. Property, plant and equipment continued

	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**

12. Projects in progress

	31/12/2018 LE	31/12/2017 LE
Machinery under installation	2,713,630	5,241,816
Buildings under construction	1,124,905	165,960
Advance payment for purchasing fixed assets	175,426	2,103,753
Letters of credit for purchase of fixed assets	2,179,137	14,354,809
	6,193,098	**21,866,338**

13. Intangible assets

	Goodwill LE	Trademarks LE	Development & other costs LE	Other intangibles LE	**Total LE**
Cost					
Balance at 01/01/2018	**26,477,797**	**63,823**	**13,114,069**	**2,216,918**	**41,872,607**
Translation differences	(505,141)	(1,039)	5,509,812	21,838	**5,025,470**
Year addition	–	–	713,232	–	**713,232**
Year disposals	–	(62,784)	(4,062,089)	–	**(4,124,873)**
Balance at 31/12/2018	**25,972,656**	**–**	**15,275,024**	**2,238,756**	**43,486,436**
Amortisation and impairment losses					
Balance at 01/01/2018	–	50,626	12,638,104	–	**12,688,730**
Translation differences	–	(55,529)	2,489,969	–	**2,434,440**
Year amortisation	–	4,903	125,426	–	**130,329**
Accumulated amortisation of disposals	–	–	(3,579,816)	–	**(3,579,816)**
Balance at 31/12/2018	**–**	**–**	**11,673,683**	**–**	**11,673,683**
Carrying amount at 31/12/2018	**25,972,656**	**–**	**3,601,341**	**2,238,756**	**31,812,753**
Carrying amount at 31/12/2017	**26,477,797**	**13,197**	**475,965**	**2,216,918**	**29,183,877**

14. Other Investments

	Ownership %	**31/12/2018 LE**	31/12/2017 LE
Murex Industries and Trading (S.A.L.)	40.00	13,330,826	13,200,788
El-Khaleeg for Trading and Investment	99.90	99,900	99,900
Other investments	–	21,656	20,812
		13,452,382	13,321,500
Less:			
Impairment of investment in El-Khaleeg for Trading and Investment		(99,900)	(99,900)
		13,352,482	**13,221,600**

15. Long-term notes receivables

	31/12/2018 LE	31/12/2017 LE
Fair value of long-term notes receivables	20,050,000	34,850,000
Discounting notes receivables to its present value*	(3,882,677)	(7,705,941)
Present value of long-term notes receivables	**16,167,323**	**27,144,059**

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

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For the year ended December 31, 2018

16. Inventory

	31/12/2018 LE	31/12/2017 LE
Raw materials, consumables and spare parts	341,429,846	329,685,286
Work in process	73,695,994	77,945,641
Finished products	685,706,334	730,862,343
	1,100,832,174	**1,138,493,270**
Less:		
Impairment of inventory	(33,593,351)	(33,516,574)
	1,067,238,823	1,104,976,696
Letters of credit for purchasing goods	19,921,867	28,802,463
	1,087,160,690	**1,133,779,159**

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

	Balance in 1/1/2018 LE	Translation differences LE	Impairment reversal LE	Balance in 31/1/2018 LE
Impairment of inventory	33,516,576	135,869	(59,094)	33,593,351
	33,516,576	**135,869**	**(59,094)**	**33,593,351**

17. Trade and other receivables

	Note no.	31/12/2018 LE	31/12/2017 LE
Trade receivables		551,465,310	600,165,542
Notes receivable		124,391,015	103,972,898
Sundry debtors		51,672,048	48,071,485
Suppliers – debit balances		4,204,592	497,552
Due from related parties – net	(30)	23,055,249	38,678,906
Tax administration – tax withheld		520,397	446,520
Tax administration – advance payment		3,305,130	6,117,065
Tax administration – sales tax		15,659,651	6,859,712
Other debit balances		127,509,721	90,264,321
Social security authority		–	1,825,026
Other prepaid expenses		9,703,541	8,337,058
Accrued revenues		224,540	367,040
		911,711,194	**905,603,125**
Less:			
Impairment of receivables		(123,557,806)	(122,672,971)
		788,153,388	**782,930,154**

17. Trade and other receivables continued

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

	Balance in 1/1/2018 LE	Translation differences LE	Impairment reversal LE	Balance in 31/1/2018 LE
Impairment of receivables	122,672,971	890,453	(5,618)	123,557,806
	122,672,971	**890,453**	**(5,618)**	**123,557,806**

Transactions with key management

- The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances), LE 12,531 (credit balances) as at December 31, 2018. 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, 2018 charged to the other operating expenses in the consolidated income statement amounted to LE 7,735,193 (December 31, 2017: LE 9,975,388).

18. Cash and cash equivalents

	31/12/2018 LE	31/12/2017 LE
Banks – time deposits	127,647,685	190,216,079
Banks – current accounts	53,601,164	63,366,395
Cash on hand	5,620,182	7,713,868
	186,869,031	**261,296,342**
Less:		
Bank overdrafts	(1,332,049,775)	(1,390,477,701)
Cash and cash equivalent for the purpose of cash flows statement	**(1,145,180,744)**	**(1,129,181,359)**

19. Bank overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorised facilities limit in respect of all overdrafts LE 2,049,439,000 and the unutilised amount is LE 1,124,278,497.

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.

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For the year ended December 31, 2018

21.3 Reserves

	Legal reserve LE	Other reserves* LE	Special reserve premium LE	Land revaluation surplus** LE	Translation reserve LE	**Total LE**
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**
Translation adjustment for foreign subsidiaries	–	–	–	–	14,884,192	14,884,192
Balance at December 31, 2018	**50,915,481**	**15,571,032**	**181,164,374**	**52,765,085**	**272,969,552**	**573,385,524**

* 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, 2018 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	**31/12/2018 LE**	31/12/2017 LE
Acquisition cost of the Parent Company's shares acquired on August 1st 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

	31/12/2018 LE	31/12/2017 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) had acknowledge to guarantee the Parent Company's jointly in the liability arisen from this loan.	20,000,000	40,000,000
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
	20,000,000	**66,595,000**
Less:		
Instalments due within one year which are classified as current liabilities (note 28).	(20,000,000)	(46,595,000)
	–	**20,000,000**

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

25. Other long-term liabilities

	31/12/2018 LE	31/12/2017 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 28)	(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 31/12/2018 LE	Liabilities 31/12/2018 LE	Assets 31/12/2017 LE	Liabilities 31/12/2017 LE
Accumulated losses carried forward	841,433	–	844,154	–
Property, plant and equipment	–	28,237,221	–	27,543,519
Inventory	4,034,670	–	3,876,263	–
Total deferred income tax (assets)/liabilities	**4,876,103**	**28,237,221**	**4,760,417**	**27,543,519**
Net deferred income tax liabilities	**–**	**23,361,118**	**–**	**22,783,102**

27. Provisions

	Balance as at 1/1/2018 LE	Translation Differences LE	Provided Provisions LE	Utilised Provisions LE	Balance as at 31/12/2018 LE
Provision disclosed in the non-current liabilities					
End of service indemnity provision	7,430,440	47,275	–	(377,001)	7,100,714
Claims provision	3,150,060	25,257	–	(956,924)	2,218,393
	10,580,500	**72,532**	**–**	**(1,333,925)**	**9,319,107**
Provision disclosed in the current liabilities					
Potential losses and claims provision	7,452,794	–	32,055,738	(38,728,532)	780,000
	7,452,794	**–**	**32,055,738**	**(38,728,532)**	**780,000**
Total	**18,033,294**	**72,532**	**32,055,738**	**40,062,457**	**10,099,107**

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28. Loans and borrowings

	31/12/2018 LE	31/12/2017 LE
Current portion of long-term loan	20,000,000	46,595,000
Current portion of other long-term liabilities	9,181	9,181
	20,009,181	**46,604,181**

29. Trade and other payables

	Note	31/12/2018 LE	31/12/2017 LE
Trade payable		149,739,119	149,022,800
Notes payable		41,618,116	36,752,214
Due to related parties	(30)	1,617,900	2,105,730
Social insurance authority and tax authority		10,327,013	12,831,360
Income tax payable		29,241,417	9,685,198
Accrued expenses		136,839,780	127,082,414
Deposits due to others		24,701	24,701
Sundry creditors		58,651,108	52,378,997
Sales tax administration – current account		21,044,176	17,104,696
Dividends payable		389,929	389,929
Creditors for purchasing fixed assets		1,666,130	1,789,030
Profit sharing provision for employees of certain group companies		59,381,611	44,686,177
Liabilities arisen from foreign currencies hedge contracts		7,379,985	3,638,817
		517,920,985	**457,492,063**

30. Related parties

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

	Nature of Transaction	Transaction Amount LE	31/12/2018 LE	31/12/2017 LE
Due from related parties				
Murex Industries and Trading (S.A.L.)	Sales	93,764,171	21,622,449	38,619,918
	Notes receivables	–	1,432,800	58,988
			23,055,249	**38,678,906**
El-khaleeg for Trading and Investment	Current	–	300,100	300,100
Total of debit balance			**23,355,349**	**38,979,006**
Less:				
Impairment for balance of 'El-khaleeg for Trading and Investment'			(300,100)	(300,100)
Net of debit balances			**23,055,249**	**38,678,906**
Due to related parties				
Murex Industries and Trading (S.A.L.)	Purchase	8,386,925	57,110	703,882
LIFCO	Rent	354,280	1,425,672	1,058,824
Ceramics Management Services Ltd. (CMS)	Technical assistance fees	2,193,231	135,118	343,024
Total credit balances			**1,617,900**	**2,105,730**

31. Contingent liabilities

31.1 Letters of guarantee

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

Currency	31/12/2018	31/12/20176
LE	19,533,312	17,846,547

31.2 Letters of credit

Currency	31/12/2018	31/12/2017
LE	10,258,525	26,958,003

32. Litigation

The Electricity Utility Organization 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

There were no the capital commitments' as at December 31, 2018 (December 31, 2017: EGP 1.1 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.

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Notes to the consolidated financial statements

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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. Subsequent events

During 2019, the Group's management decided to work on implementing an overall strategic restructuring plan for its subsidiary 'Lecico Lebanon' due to its negative results and cash flows over the past years. This restructuring plan covers financial and operational areas, making a significant shift in production, as well as carrying out a full review of the assets and their respective fair values. Currently, the ultimate outcome of this restructuring plan cannot be estimated, yet the Group's management expects a positive outlook following its implementation.

37. Significant accounting policies

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

37.1 Basis of consolidation

37.1.1 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.

37.1.2 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.

37.1.3 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.

37.1.4 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.

37.2 Foreign currency

37.2.1 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.

37.2.2 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.

37.3 Revenues

37.3.1 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.

37.4 Employee Benefits

37.4.1 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.

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

37.5 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.

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37.6 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.

37.6.1 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.

37.6.2 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.

37.7 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.

37.8 Property, plant and equipment

37.8.1 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.

37.8.2 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.

37.8.3 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.

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 whichever is less.
- Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

37.9 Projects in progress

This item represents the amounts spent for constructing or acquiring of 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.

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37.10 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.

37.10.2 Intangible assets

Intangible assets which include the Trademark of Lecico UK and development costs are valued at cost, and amortised 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.

37.10.3 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.

37.11 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.

37.11.1 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.

37.12 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.

37.12.1 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 expire.

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.

37.12.2 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.

37.12.3 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.

37.12.4 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.

37.12.5 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.

37.12.6 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.

37.13 Share capital

37.13.1 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 total equity.

37.14 Impairment

37.14.1 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.

Notes to the consolidated financial statements

For the year ended December 31, 2018

37.14.2 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.

37.14.3 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.

37.15 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.

37.15.1 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.

37.15.2

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

37.16 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.

37.17 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.

37.18 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.

37.19 Consolidated cash flows statement

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

38. 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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Sanitary Ware segment											
Sales volume (000s of pieces)	5,304	5,577	4,967	4,264	5,145	5,676	5,335	4,835	4,990	5,061	**5,321**
Exports as a percentage of total	57.8%	60.3%	58.4%	56.9%	54.9%	52.7%	58.4%	56.5%	53.2%	61.1%	**65.5%**
Average price (LE/piece)	122.7	111.4	115.0	125.9	121.8	129.8	140.0	148.5	167.1	295.8	**303.9**
Sanitary ware revenue	651.0	621.5	571.4	537.0	626.5	737.0	746.6	718.2	834.0	1497.3	**1617.2**
Sanitary ware gross profit	214.4	184.1	165.8	109.9	114.1	140.8	129.3	112.0	158.4	471.6	**380.3**
Sanitary ware gross margin (%)	32.9%	29.6%	29.0%	20.5%	18.2%	19.1%	17.3%	15.6%	19.0%	31.5%	**23.5%**
Tile segment											
Sales volume (000s of sqm)	24,946	23,631	23,633	22,971	31,746	33,492	33,045	25,787	25,237	23,171	**25,755**
Exports as a percentage of total	21.1%	24.3%	22.0%	16.5%	28.9%	22.9%	18.1%	16.0%	11.9%	15.6%	**17.9%**
Average price (LE/sqm)	17.2	18.4	18.8	18.4	19.9	21.6	23.6	23.5	23.8	35.9	**38.9**
Tile revenue	429.6	433.7	444.9	421.8	631.8	722.4	780.5	605.4	599.5	830.7	**1002.4**
Tile gross profit	156.3	189.0	187.3	131.0	222.4	256.8	242.6	89.1	(28.1)	27.7	**61.0**
Tile gross margin (%)	36.4%	43.6%	42.1%	31.1%	35.2%	35.5%	31.1%	14.7%	–	3.3%	**6.1%**
Consolidated profit and loss											
Net sales	1,080.7	1,055.2	1,019.2	970.7	1,278.8	1,501.0	1,573.2	1,370.5	1,496.4	2,406.5	**2,705.5**
Sanitary ware (% of net sales)	60.2%	58.9%	56.1%	55.3%	49.0%	49.1%	47.5%	52.4%	55.7%	62.2%	**59.8%**
Gross profit	370.7	373.1	355.0	246.3	341.9	408.7	388.8	216.2	153.3	531.9	**470.4**
Gross margin (%)	34.3%	35.4%	34.8%	25.4%	26.7%	27.2%	24.7%	15.8%	10.2%	22.1%	**17.4%**
Sanitary ware (% of gross profit)	57.8%	49.3%	46.7%	44.6%	33.4%	34.5%	33.3%	51.8%	103.3%	88.7%	**80.8%**
Distribution and administrative expense	196.7	186.8	172.3	157.4	163.3	205.4	194.6	199.9	204.4	323.7	**349.9**
D&A expense/sales (%)	18.2%	17.7%	16.9%	16.2%	12.8%	13.7%	12.4%	14.6%	13.7%	13.4%	**12.9%**
EBIT	162.4	171.8	174.8	53.4	149.4	197.9	194.8	(1.0)	(48.3)	181.9	**150.7**
EBIT margin (%)	15.0%	16.3%	17.2%	5.5%	11.7%	13.2%	12.4%	-0.1%	-3.2%	7.6%	**5.6%**
Net financing expense/ income	(33.4)	(44.5)	(55.1)	(71.8)	(82.2)	(90.8)	(82.1)	(67.7)	20.1	(136.2)	**(228.1)**
EBIT\Net financing expense/ Income	(4.9)	(3.9)	(3.2)	(0.7)	(1.8)	(2.2)	(2.4)	0.0	(2.4)	(1.3)	**(0.7)**
Net profit	108.8	110.2	94.8	(20.6)	62.8	(18.0)	91.6	(65.1)	(50.1)	37.2	**(114.3)**
Net margin (%)	10.1%	10.4%	9.3%	-2.1%	4.9%	-1.2%	5.8%	-4.8%	-3.3%	1.5%	**-4.2%**
Reported EPS (LE/share)	**2.81**	**2.75**	**1.58**	**(0.26)**	**0.79**	**(0.27)**	**1.14**	**(0.81)**	**(0.63)**	**0.47**	**(1.43)**
Adjusted EPS* (LE/share)	**1.36**	**1.38**	**1.19**	**(0.26)**	**0.79**	**(0.23)**	**1.14**	**(0.81)**	**(0.63)**	**0.49**	**(1.49)**

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

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LECICO EGYPT S.A.E., P.O. BOX 358, ALEXANDRIA, EGYPT T + 20 3 518 0011 F + 20 3 518 0029

WWW.LECICO.COM