



**Lecico**

ANNUAL REPORT 2012

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

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# Lecico

Sales

**+32%**

Gross Profit

**+38%**

EBIT

**+151%**

EPS

**0.79LE**

## 2012 HIGHLIGHTS

- Sales reached record level of LE 1,278.8 million with strong growth in Egypt and Libya.
- Exports to Europe up 2%; with weakness in core markets offset by new customers and markets.
- Net profit of LE 62.8 million (4.9% margin) shows strong recovery from loss in 2011.

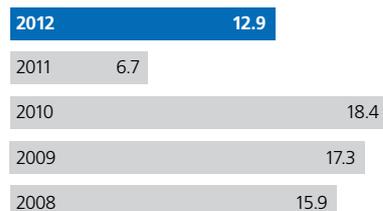
# At a glance

A leading producer of sanitary ware and tiles for Europe and the Middle East.



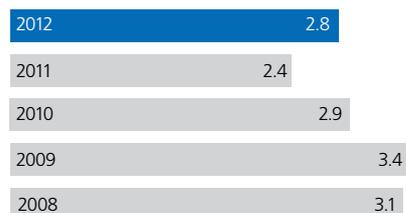
## EBIT MARGIN

%



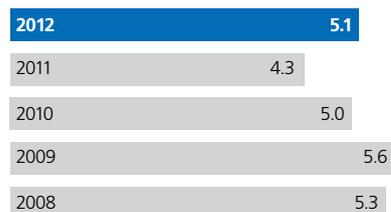
## SANITARY WARE EXPORT VOLUME

million pieces



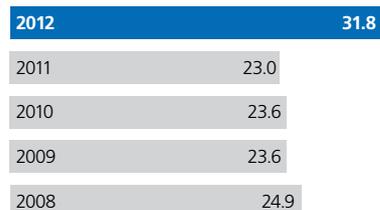
## SANITARY WARE SALES VOLUME

million pieces



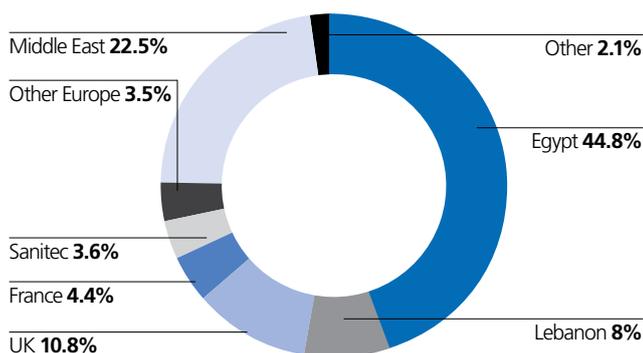
## TILE SALES VOLUME

million sqm



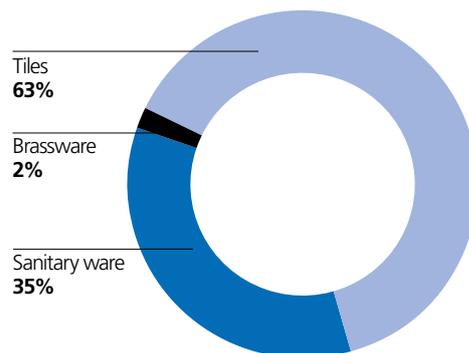
## BUSINESS SPLIT

SALES FROM SANITARY WARE AND TILES



## GROSS PROFIT FROM

SANITARY WARE AND TILES



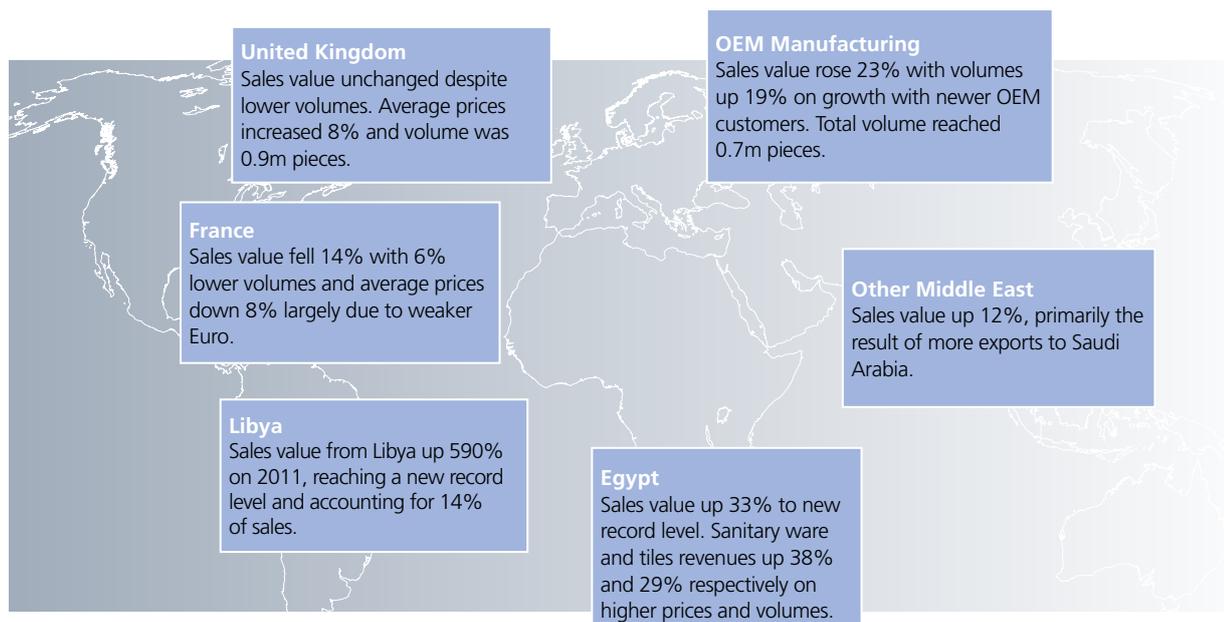
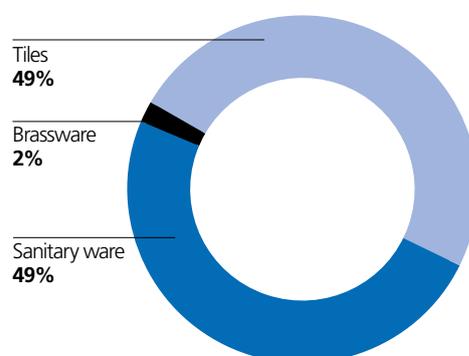
## FIVE YEAR SUMMARY

LE millions	2008	2009	2010	2011	2012	CAGR
Net Sales	1,080.7	1,055.2	1,019.2	970.7	<b>1,278.8</b>	4%
Gross Profit	379.5	383.1	367.3	257.5	<b>356.2</b>	(2%)
EBIT	172.0	182.6	188.0	65.5	<b>164.7</b>	(1%)
Net Profit	108.8	110.2	94.8	(20.6)	<b>62.8</b>	(13%)
Reported EPS	2.8	2.8	1.6	-0.3	<b>0.8</b>	(27%)
Adjusted EPS*	1.4	1.4	1.2	-0.3	<b>0.8</b>	(13%)
Cash & Equivalents	196.0	99.6	112.4	177.7	<b>212.7</b>	2%
Total Assets	1,657.5	1,571.6	1,812.0	1,926.8	<b>2,030.5</b>	5%
Total Debt	597.7	444.8	625.4	861.4	<b>845.6</b>	9%
Net Debt	401.7	345.2	513.1	683.7	<b>632.9</b>	12%
Total Liabilities	929.7	739.5	938.0	1,139.4	<b>1,169.6</b>	6%
Minority Interest	9.4	3.6	2.9	1.4	<b>1.5</b>	(36%)
Shareholders' Equity	718.4	828.5	871.1	786.0	<b>859.3</b>	5%

\* EPS Adjusted to include treasury shares and historic EPS adjusted retroactively to reflect various bonus issues.

## SALES FROM

SANITARY WARE AND TILES



# Chairman's statement

2012 was a year of record revenue, with sales growth driving a recovery in margins and profitability from a difficult 2011.

## **STRONG TILE SEGMENT WILL BE EXPANDED IN 2013**

Our expanded tile business has been the principal growth driver for the year with the full utilization of the new plant inaugurated in late 2011 improving sales volume, value and margins in 2012. We were also able to sell off all the stock we had built up rolling out the plant this year without fully meeting our existing customers demand.

Tile gross profits also reached a record level and accounted for 63% of the company's gross profits for the year. Given this strong outlook for our tiles business, we announced in October plans to build and launch another tile line by May 2013.

Our sanitary ware businesses' strong revenue growth came from record sales in Egypt and Libya but weaker margins meant a lower than 2011 contribution from this business if we exclude the provisions taken last year.

## **RECOVERY SHOULD CONTINUE IN 2013**

All in all, we are hopeful of further progress in the coming year. We expect to see continued growth in sales in both Europe and the Middle East.

The weakening of the Egyptian pound will make our export business more competitive and the roll out of the second phase of our tile plant (expected to start production in May 2013) will increase our total tile capacity by just over 20% and will add around LE 118 million in revenue per annum when operating at full capacity.

## **REGIONAL RISKS ARE A CONCERN**

We must, however, be cautious about our forecasts and expectations. Our recovery in 2012 and growth plans for 2013 are dependent on domestic and regional growth. The Middle East is undergoing profound changes and while in Egypt and Libya those changes have been quite peaceful and balanced, uncertainty remains in both markets.

In Egypt, the general political and economic situation remains fraught with uncertainties. There seems to be a very strong momentum towards adopting economic measures (energy, subsidies and taxes), which are quite austere at a time when growth is already slow; if this is not accompanied by government spending this will inevitably lead to a dangerous situation.

The Libyan market also faces several political milestones in the coming year which have a risk of leading to political disruption and impacting the market in that country.

While the regional situation makes the future uncertain, we remain cautiously optimistic about our sales outlook for 2013. In this context we will do all we can to maximize sales and continue to focus internally on controlling manufacturing costs through improved efficiency. We have made progress on both scores in 2012, and we are cautiously optimistic our markets will continue to support Lecico and allow us our business to recover and progress further in the years ahead.



**Gilbert Gargour**  
Chairman and CEO

# Managing Director's statement



In 2012, we reached our highest ever sales numbers as a company but the returns on those sales remain significantly below the levels seen before the Egyptian revolution.

## RECORD REVENUE GROWTH DRIVES RECOVERY

Our results for the quarter and the year show a strong improvement from a very weak comparable period last year. In 2012 we reached our highest ever sales numbers as a company with record sales volumes in tiles and a strong year-on-year recovery in sanitary ware.

Gross and operating profits grew strongly year-on-year — even if we strip out the sizeable provisions taken in 2011 — as a result of improving tile margins and our success in leveraging higher sales to reduce the proportional weight of our distribution and administration expenses.

We were also able to leverage our working capital with this growth, reducing inventory and receivable days significantly from year-end 2011 levels. We were then able to use the cash generated to reduce our gross and net debt year-on-year.

As a result of these efforts we were able to deliver a very significant improvement in the bottom line — 131% improvement over 2011 results before provisions.

## MARGINS STILL BELOW PRE-REVOLUTIONARY LEVELS

In spite of these improvements, our operating profits are around 7% below the average achieved in 2007-2010 as a result of a gross profit margin around 8 percentage points below average margins pre-revolution.

Thanks to efforts to control costs and realize economies of scale we have been able to reduce proportional sales and administration expenses to new lows, but despite this our EBIT margin is still around 4 percentage points below the average margin achieved pre-revolution.

Our net profit level and margin remain significantly below the levels achieved in past years due to higher debt and financial expenses.

## FOCUS ON EFFICIENCY AND SIZE TO IMPROVE MARGINS

While margins are below historic averages, they are improved on the previous year. Our objective in the coming years is to continue this year-on-year improvement by delivering revenue growth with minimal capital expenditure.

The weakness of the Egyptian pound should help us deliver better returns on our export business and increase our competitiveness and flexibility. This should continue to drive more demand for our products allowing us to shift our sales mix towards well-priced pieces that improve the efficiency of production.

Internally, I expect continued positive results from our tile expansions and our programs to improve efficiency in sanitary ware, both of which should drive up efficiency through improving economies of scale.

We can expect to continue facing relatively high inflationary pressure with further increases in energy prices and labor rates for Lecico as a company, whilst general inflation will drive up the costs of all inputs and services the Company uses.

Hopefully our efforts will offset expected inflation and allow us to continue delivering revenue growth whilst growing operating margins and leveraging assets to reduce debt to and deliver more of the growth achieved to our bottom line in the coming years.

I am optimistic that we will continue delivering improvements over the year ahead, assuming no dramatic shift in the risks in our operating environment.



**Taher Gargour**  
Managing Director

# Sanitary ware

Sanitary ware sales recovered strongly from a weak 2011 due to the recovery of the Libyan market and record sales volumes in the Egyptian market. Revenue was up 17% at LE 626.5 million (2011: LE 537.0 million).

Domestic and regional sales were supported by the additional tile capacity added in 2011 as the two segments sell together in these markets. Sales in Europe showed marginal growth as new OEM business and growth in the Company's newer export markets offset continued sales decline in Lecico's core export markets was offset by.

Even though Lecico benefitted from economies of scale on higher volumes and continued efficiency gains, margins fell due to continued high inflation including higher energy and labour costs. Comparisons to 2011 are overstated by the LE 22.0 million in provisions taken at the end of 2011 against slow moving and stagnant stocks. Excluding these provisions, sanitary ware gross profits are down year-on-year in spite of the strong growth in sales.

Sanitary ware sales accounted for 49.0% of the Company's consolidated sales in 2012 (2011: 55.3%).

## GROWTH FROM EGYPT AND RECOVERY IN EXPORTS TO LIBYA

Sanitary ware sales volumes were up 21% year-on-year in 2012 at 5.15 million pieces compared to 4.26 million pieces in 2011. The 881,000 pieces increase in

sales came primarily from stronger sales in Egypt and the recovery of the Libyan market.

Sales in Egypt increased 30% or 489,000 pieces to reach a record 2.1 million pieces. Sales in Egypt were supported by additional tile capacity from the new plant established in 3Q 2011 as the two products are sold together in the market. While management believes the Company has gained market share throughout the year, the management also believe this increase reflects a strong growth in overall demand in the market.

Sales in Libya increased by 320,000 pieces to reach record sales of 393,731 pieces. In 2011 the Libyan revolution effectively stopped the Company's trading in that market, so comparing year-on-year growth is not very meaningful. However, when compared to 2010 — previously the best sales year in Libya — 2012 sales volumes have increased by 33%. These record sales can be attributed to the expansion of our network of distributors in 2011 and the availability of additional tile capacity for Libya from the new plant.

## OTHER EXPORTS FLAT DESPITE WEAKNESS IN EUROPE

Excluding Libya, other exports showed only marginal growth of 3% or 79,000 pieces with shrinking in our core European markets offset by growth in OEM sales and other markets.

Exports to the Middle East outside of Libya added around 55,000 pieces primarily from Saudi Arabia and Morocco. In Lecico's smaller and newer European markets like Eastern Europe and Scandinavia sales grew around 30,000 pieces.

The largest growth in exports outside of Libya however, came from Lecico's OEM business which grew 19% or 108,000 pieces to reach 676,000 pieces (24% of exports). This is primarily as a result of the exponential growth of business with new OEM customers added in 2011.

## MARGINS HIT BY COST OF INFLATION IN SPITE OF IMPROVED EFFICIENCY

Average sanitary ware prices were down 3% year-on-year to LE 121.8 per piece. This was in part due to a weaker Euro (average 6.6% weaker year-on-year against the Egyptian Pound) which reduced the value of exports to Europe. The drop in average price also reflects the shift in sales mix towards lower priced Egyptian and Middle Eastern products.

Excluding the LE 22.0 million in provisions taken in 4Q 2011 for our comparison, sanitary ware gross profits fell 11% to LE 124.7 million. Gross margins for the segment were down 6.2 percentage points at 19.9% as a result of cost inflation and despite higher efficiency and economies of scale gains from increased production. The cost increase is primarily due to higher labor costs and energy costs for the year. The government raised average energy prices by over 20% from the first of January 2012 and the Company enacted a significant salary increase in July.

As reported and including the provision in 2011 results, gross profits would show a year-on-year growth of 5% from LE 118.5 million in 2011 and gross margins for the segment would be 2.2 percentage points lower than the 22.1% reported in 2011.



## SANITARY WARE PRICES LE/pc



## SANITARY WARE GROSS PROFIT

LE million

Year	Gross Profit (LE million)
2012	124.6
2011	118.5
2010	175.0
2009	192.0
2008	221.5

## SANITARY WARE GROSS MARGIN

%

Year	Gross Margin (%)
2012	19.9
2011	22.1
2010	30.6
2009	30.9
2008	34.0

## SANITARY WARE REVENUES

LE million

Year	Revenues (LE million)
2012	626.5
2011	537.0
2010	571.4
2009	621.5
2008	651.0

## SANITARY WARE CAPACITY AND SALES BY VOLUME

000s pieces	2008	2009	2010	2011	2012	CAGR
Sanitary ware capacity	6,750	6,750	6,750	6,750	<b>6,750</b>	0.0%
Sanitary ware sales volume	5,304	5,577	4,967	4,264	<b>5,145</b>	(0.8%)
Capacity utilization (%)	79%	83%	74%	63%	<b>76%</b>	
Egypt sales volume	2,063	2,034	1,866	1,636	<b>2,125</b>	0.7%
Lebanon sales volume	177	179	202	200	<b>194</b>	2.2%
Export sales volume	3,063	3,364	2,899	2,428	<b>2,826</b>	(2.0%)
Exports as a % of total sales (%)	57.8%	60.3%	58.4%	56.9%	<b>54.9%</b>	

## SANITARY WARE EXPORTS BY VOLUME

000s pieces	2008	2009	2010	2011	2012	CAGR
UK	1,051.6	1,355.4	1,135.6	1,032.8	<b>942.3</b>	(2.7%)
Sanitec	638.6	623.2	550.4	419.0	<b>415.1</b>	(10.2%)
France	556.2	531.7	344.5	212.0	<b>206.4</b>	(22.0%)
Ireland	61.6	30.7	22.6	23.3	<b>17.0</b>	(27.5%)
Other Europe	142.9	172.9	163.3	249.6	<b>368.1</b>	26.7%
Middle East	455.8	504.8	535.3	351.9	<b>726.4</b>	12.4%
Other	156.7	144.8	147.1	138.9	<b>150.8</b>	(1.0%)
Total exports	3,063.4	3,363.5	2,898.8	2,427.5	<b>2,826.1</b>	(2.0%)

# +21%

Sales volumes up 21% due to strong growth in Egypt and Libya

# +106%

Growth in exports to the Middle East as Libya recovers

# +15%

Growth in Europe exports excluding UK and France

# Tiles

Tiles are sold as a complementary product to sanitary ware in the Middle East. Both products are sold through the same channels with most distributors making more money on tiles. Accordingly, Lecico bundles tiles with sanitary ware in fixed proportions and uses tile demand to pull sanitary ware sales. The increased regional sales of tiles was an important factor in driving strong sanitary ware growth in 2012.

## TILE GROSS MARGIN

%

2012	35.8
2011	31.7
2010	42.8
2009	44.1
2008	36.8

## TILE GROSS PROFIT

LE million

2012	226.1
2011	133.6
2010	190.4
2009	191.1
2008	158.0

## TILE REVENUES

LE million

2012	631.8
2011	421.8
2010	444.9
2009	433.7
2008	429.6

# +38%

Sales volume up due to new plant launched in 3Q 2011

# +142%

Growth in sales in tile exports as Libya recovers

# +8%

Increase in average price due to higher exports and price increases

The tiles segment had a record performance in 2012 with the segment returning to full capacity utilization, this included the capacity added in 3Q 2011 and additionally selling all the stock built up around the launch of that capacity the previous year.

The Company recorded record sales volumes in Egypt and the additional tile capacity allowed Lecico to expand its exports in the region as well. The recovery of Libya also saw record sales to that market. Exports increased from 16.5% of sales in 2011 to 28.9% of sales in 2012 adding significant dollar inflows to the Company's operations and resulting in a higher average price for the segment.

Tile sales accounted for 49.7% of the Company's sales in 2012 (2011: 43.4%).

### RECORD TILE SALES IN EGYPT AND LIBYA

In a segment that traditionally runs at full capacity utilization, the inauguration of the Company's new tile plant in July 2011 allowed Lecico to benefit from the full annual utilization of that additional capacity. Furthermore, the Company was able to sell the approximately 1.5 million square meters in stock built up as the new plant was rolled out in late 2011.

Tile sales volumes were up 38% year-on-year in 2012 at 31.7 million square meters compared to 23.0 million square meters in 2011. This revenue was a new record for this segment in the Group driven by record sales volumes in both Egypt and Libya. Sales volumes in Egypt increased 21% to reach 20.9 million square meters (2011: 17.3 million square meters). Demand for Lecico's products in the market was higher than the volumes sold with capacity limited and allocations being balanced between export and local demand. While the Company believes it has gained market share over the year, it believes this also reflects a strong growth in overall demand in the market.

Export sales volumes increased 142% to reach 9.2 million square meters (2011: 3.8 million square meters). Virtually all available additional capacity for export was allocated to Libya, which accounted for 5.3 million square meters of sales (2011: 0.8 million square meters). In 2012, demand for Lecico's products in Libya and other regional market was higher than the volumes sold due to capacity limitations.

### PRICE-LED MARGIN GROWTH DRIVES RECORD TILE PROFIT

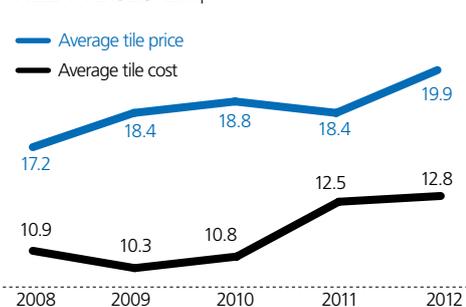
Average price rose 8% year-on-year to reach LE 19.9 per square meter, reflecting an increased proportion of higher-priced export sales and price increases in both the local and export markets over the course of the year.

As a result of record sales volumes and higher average prices, tile revenue increased 50% to reach a record LE 631.8 million.

Average cost per square meter rose 2% to LE 12.8 as economies of scale on the new plant offset much of the inflationary impact seen as a result of higher labor and energy prices.

Gross profits rose 69% year-on-year to reach a record of LE 226.1 million and the segment's gross margin rose 4.1 percentage points to reach 35.8%.

### TILE PRICES LE/sqm



### TILE CAPACITY AND SALES BY VOLUME

000s sqm	2008	2009	2010	2011	2012	CAGR
Tile capacity	22,500	22,500	22,500	24,750	<b>31,000</b>	8.3%
Tile sales volume	24,946	23,631	23,632	22,971	<b>31,746</b>	6.2%
Capacity utilization (%)	111%	105%	105%	93%	<b>102%</b>	
Egypt sales volume	17,713	15,817	16,102	17,340	<b>20,933</b>	4.3%
Lebanon sales volume	1,958	2,071	2,336	1,837	<b>1,627</b>	(4.5%)
Export sales volume	5,276	5,743	5,195	3,794	<b>9,186</b>	14.9%
Exports as a % of total sales (%)	21.1%	24.3%	22.0%	16.5%	<b>28.9%</b>	

# Brassware

In August 2010, Lecico began commercial operations of its new brassware product segment under the brand name Sarrdesign.

## BRASSWARE GROSS PROFIT

LE million



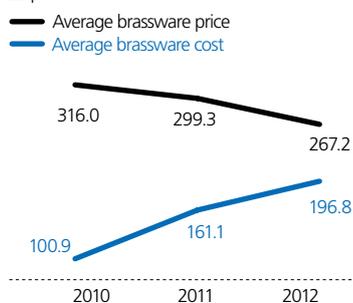
## BRASSWARE REVENUES

LE million



## BRASSWARE PRICES

LE/pc



# 18%

18% of sales come from economy range launched in July 2011

# 72%

Revenue growth to LE 20.5 million in second full year of operation

# 93%

Sales volume grow to 77k pieces in second full year of operations

## STRONG GROWTH IN SECOND YEAR OF OPERATIONS

2012 was the second full year of operations for Lecico's new brassware plant and product segment. Lecico is still very much in the roll out stage for this product; still building its market footprint in Egypt under its luxury "Sarrdesign" brand and its "Lecico" branded economy range.

In August 2010, Lecico began commercial operations of its new brassware product segment. Lecico regards Brassware products as a natural complement to its existing business, since these products are sold through the same distribution channels as sanitary ware and tiles.

Lecico launched its brassware under the brand name Sarrdesign as a JV partnership with Engineer Raouf Shaarawi, the former Chairman and Managing Director of Jacob Delafon in Egypt. Engineer Shaarawi brings over 25 years of experience in the taps business as the local partner of Jacob Delafon – overseeing the manufacturing of brassware for supply to Europe and building the market footprint for the brand in Egypt. Sarrdesign brassware is a 70/30 partnership between Lecico and the Sharaawi family under the company name "Burg Armaturen Fabrik – Sarrdesign S.A.E".

The brassware investment was LE 16.5 million for a plant with a production capacity of up to 300,000 units per annum located on land leased from Lecico.

The current factory is estimated to have the potential to generate incremental annual revenues of more than LE 50 million at full capacity over a normal mix of products. However, the Company sees a much larger potential market depending on the success of this venture. Lecico estimates the brassware market in Egypt at over 4.0 million units and sees a potential for brassware exports from Egypt.

## SARRDESIGN BRASSWARE AVAILABLE IN 101 SHOWROOMS BY END 2012

At the end of 2011, Sarrdesign was sold through 12 distributors having high end showrooms in greater Cairo, Alexandria and the Delta region as well as furnished displays in 77 outlets.

Over 2012, Sarrdesign expanded its footprint adding 2 distributors and furnishing a further 24 showrooms across the country.

Sarrdesign's point of sale presence, tradeshow participation and marketing profile is being coordinated with Lecico's luxury sanitary ware brand Sarreguamines, to present a complete high-end solution concept.

In 2012, Sarrdesign added new engineers to its project sales team to closely follow on-going projects and develop opportunities through consultants and prescribers. The Company had its first major successes in project sales, delivering its product range to residential community projects including Madinaty, El-Rehab and Makady Bay, a large touristic development on the Red Sea.

Also Sarrdesign launched a new website in 2012, to offer a technical and complete products service to retail and trade clients.

## BRASSWARE CONTRIBUTES 1.6% TO REVENUES IN 2011

In 2012 – its second full year of operations – Lecico's brassware segment saw sales volume increase 93% to reach 73,529 pieces (2011: 39,839 pieces). The average price decreased 11% to LE 267.2 per piece (2011: LE 299.3 per piece) reflecting a changing sales mix.

Accordingly, brassware revenue grew 72% to LE 20.5 million (2011: LE 11.9 million) and accounted for 1.6% of Lecico's revenue for the year.

Average cost of production was up 22% at LE 196.8 per piece (2011: LE 161.1 per piece) as a result of cost inflation and a changing mix of purchased parts.

As a result of lower pricing, gross profit for the year fell 2% to LE 5.4 million (2011: LE 5.5 million) and gross margin fell 19.8 percentage points to reach 26.4% (2011: 46.2%).

## BRASSWARE SEGMENTAL ANALYSIS

	2012	FY 2011	% 11/12
<b>Brassware volumes (pcs)</b>			
Egypt (pcs)	73,529	39,471	186%
Lebanon (pcs)	0	0	0%
Export (pcs)	3,249	368	883%
<b>Total brassware volumes (pcs)</b>	<b>76,778</b>	<b>39,839</b>	<b>193%</b>
Exports/total sales volume	4.2%	0.9%	3.3%
<b>Brassware revenue (LE m)</b>			
Average selling price (LE/pc)	267.2	299.3	89%
Average cost per piece (LE/pc)	196.8	161.1	122%
Brassware cost of sales	(15.1)	(6.4)	235%
Brassware ware gross profit	5.4	5.5	98%
Brassware gross profit margin (%)	26.4%	46.2%	(19.8%)

# Corporate social responsibility

The Board takes regular account of the significance of social, environmental and ethical matters. The measures covered in this report are monitored and reviewed with the aim of continually improving performance.

## TRAINING AND DEVELOPMENT

574 members of staff from all areas of the Group have attended internal development courses in 2012 and 56 members of staff have received external training. Language training remains a key focus, as well as courses in IT, Finance, Marketing and Management and Safety and Environmental Compliance to the international ISO 18001 and ISO 14001 standards.

## EMPLOYEE COMMUNICATIONS

Lecico recognizes that comprehensive, two-way communication is essential to the retention of skilled employees. A number 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.

The key initiatives of the Worker's Follow-Up Committee included improving the personal support for any employee in hospital; enhancing work conditions ensuring the existence of a healthy and encouraging working environment, increasing the benefit paid for marriages or deaths in the families of its employees.

## EMPLOYMENT POLICY

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

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

The Company operates a number of employee pension schemes across its business including a retirement fund and has recently offered a tailored partial contribution private health insurance plan to its administrative staff. Lecico contributed over LE 2.7 million in pension contributions, accident and medical insurance support for its staff in 2012.



**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.**

## HOLIDAYS AND PILGRIMAGES

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

In 2012, these programmes included a total of over 2,680 subsidized holiday days enjoyed by staff and a total expense in holiday and pilgrimage support of over LE 64,000.

## COMMUNITY

Lecico believes it has a responsibility to contribute to the community through donations of goods, funds and time to charitable organizations as well as investing in the neighborhoods around its factories.

The total value of the Company's donations during 2012 was LE 2,503,279 (2011: LE 420,903) with the majority of this being donations of goods. It is the Company's policy not to make political donations and no political donations were made in the year 2012.

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

## ENVIRONMENT AND HEALTH & SAFETY

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

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

All Lecico's factories in Egypt are certified for ISO 9001 (quality management systems), ISO 14001 (environmental) and ISO 18001 (Health and Safety). ISO 14001 is an internationally accepted certification for effective Environmental Management System (EMS). The standard is designed to address the delicate balance between maintaining profitability

and reducing environmental impact. ISO 18001 is the internationally recognized certification for occupational health and safety management systems. It was developed by a selection of trade bodies, international standards and certification bodies to be compatible with ISO 9001 and ISO 14001, and help any company meet their health and safety obligations in an efficient manner.

In 2012, 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)

## ENVIRONMENTAL POLICY

All Lecico companies seek to:

---

Minimize the use of all materials, supplies and energy – and wherever possible use renewable or recyclable materials.

---

Minimize 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.

---

## 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.

---

## PROFIT AND LOSS STATEMENT HIGHLIGHTS

(LE m)	FY		% 12/11	FY			2008-12 CAGR%
	2012	2011		2010	2009	2008	
Sanitary ware	626.5	537.0	117%	571.4	621.5	651.0	(1%)
Tiles	631.8	421.8	150%	444.9	433.7	429.6	10%
Brassware	20.5	11.9		2.9			
<b>Net sales</b>	<b>1,278.8</b>	<b>970.7</b>	<b>132%</b>	<b>1,019.2</b>	<b>1,055.2</b>	<b>1080.7</b>	<b>4%</b>
Sanitary ware/net sales	49.0%	55.3%	(6.3%)	56.1%	58.9%	60.2%	
Cost of sales	(922.7)	(713.2)	129%	(651.9)	(672.1)	(701.1)	7%
Cost of sales/net sales	(72.1%)	(73.5%)	1.3%	(64.0%)	(63.7%)	(64.9%)	
<b>Gross profit</b>	<b>356.2</b>	<b>257.5</b>	<b>138%</b>	<b>367.3</b>	<b>383.1</b>	<b>379.5</b>	<b>(2%)</b>
Gross profit margin	27.9%	26.5%	1.3%	36.0%	36.3%	35.1%	
Distribution and admin (D&A)	(162.2)	(156.5)	104%	(171.4)	(186.0)	(195.9)	(5%)
D&A/net sales	(12.7%)	(16.1%)	3.4%	(16.8%)	(17.6%)	(18.1%)	
Net other operating income	(29.3)	(35.6)	82%	(7.9)	(14.5)	(11.6)	26%
Net other Operating income/net sales	(2.3%)	(3.7%)	1.4%	(0.8%)	(1.4%)	(1.1%)	
<b>EBIT</b>	<b>164.7</b>	<b>65.5</b>	<b>251%</b>	<b>188.0</b>	<b>182.6</b>	<b>172.0</b>	<b>(1%)</b>
EBIT margin (%)	12.9%	6.7%	6.1%	18.4%	17.3%	15.9%	
<b>Net profit</b>	<b>62.8</b>	<b>(20.6)</b>	<b>-305%</b>	<b>94.8</b>	<b>110.2</b>	<b>108.8</b>	<b>(13%)</b>
Net profit margin	4.9%	-	-	9.3%	10.4%	10.1%	

# Financial

## FY 2012: TILE EXPANSION AND REGIONAL GROWTH DRIVE RECORD RECOVERY

2012 was a year of sales-led recovery with strong demand in Egypt and the recovery of the Libyan market driving record revenues in both markets and for the Company as a whole.

The new Borg El Arab tile factory — inaugurated in the second half of 2011 — was a key driver for this regional growth in both sanitary ware and tiles; as Lecico bundles tiles with sanitary ware in fixed proportions and uses tile demand to pull sanitary ware sales.

Lecico's main European export markets were significantly weaker in 2012 as a result of economic sluggishness across the continent and continued uncertainty over the future of the Euro. However, sales volumes to Europe grew marginally due to Lecico's success in developing new customers and markets.

Year-on-year production costs increased in both segments with efficiency gains and economies of scale partially offsetting an energy price increase of over 20%, labor rate increases and high-single digit general inflation in Egypt.

Record revenues allowed the Company to leverage overheads reducing proportional distribution and administration expenses to record lows and driving a recovery in profitability year-on-year.

### OPERATIONAL REVIEW

Revenue was up 32% year-on-year to reach a record level of LE 1,278.8 million. The increase in both is a direct result of the additional tile capacity added in 2011 and significant increase in sales in Egypt and Libya. Tile sales rose 50% to account for 49.4% of sales compared to 43.4% of sales of 2011.

Gross profit rose 38% to reach LE 356.1 million, with the margin up 1.4 percentage points year-on-year at 27.8%. The growth in margins came from improving profitability in the tiles segment which more than offset falling sanitary ware margins.

However, 2011 gross profits were reduced by an LE 22.5 million provision on inventories; excluding these provisions from the comparison, gross profits were up 27% year-on-year but the gross margin declined 1 percentage point.

In absolute terms, distribution and administration (D&A) expenses increased by 4% to LE 162.2 million, proportional D&A expenses fell 3.4 percentage points to a record low of 12.7% of net sales compared to 16.1% in 2011.

Net other operating expense was LE 29.3 million compared to a LE 35.6 million in the same period last year.

EBIT rose 151% year-on-year to reach LE 164.7 million for 2012, with the EBIT margin up 6.2 percentage points at 12.9%. However, these numbers are distorted by LE 47.4 million in total provisions taken in 2011. Excluding these provisions from the comparison, EBIT was up 46% year-on-year and the margin improved by 1.3 percentage points.

Net financing expenses rose 14% year-on-year during 2012 to reach LE 82.2 million. Lecico's tax charges for 2012 were LE 8.6 million versus LE 6.7 million last year.

Net profit reached LE 62.8 million with a 4.9% margin compared with a loss last year after the LE 47.4 million in provisions taken. Excluding these provisions from the comparison, net profit was up 131% and the margin improved by 2.1 percentage points.

### SANITARY WARE

Sanitary ware sales volume increased by 21% or 881,000 pieces to 5.1 million pieces as a direct result of the increased sales in Egypt (489,000 pieces) and Libya (320,000 pieces).

Sanitary ware exports increased 16% or 398,000 pieces to 2.8 million pieces reflecting very strong growth in the Middle East — led by the recovery of the Libyan market — and marginally higher sales to Europe as new markets and OEM customers offset shrinking sales in the UK and France.

Average sanitary ware prices fell 3% year-on-year to LE 121.8 per piece due to a weaker Euro and the increase in the proportion of lower-priced Egyptian and Middle Eastern sales.

Revenues were up 17% year-on-year at LE 626.5 million. Exports represented 54.9% of volumes compared to 56.9% in the same period of 2011.

Average cost fell 1% year-on-year at LE 97.5 per piece in comparison to 2011 averages inflated by provisions taken in the fourth quarter of that year.

Sanitary ware gross profit margins decreased by 2.2 percentage points year-on-year to reach 19.9% and gross profits increased by 5% to LE 124.7 million. However, these are comparisons with the results after the provisions taken in the fourth quarter of 2011, if we exclude those provisions from the comparison, sanitary ware gross profits and margins would both be lower year-on-year.

### TILES

Tile sales volumes rose 38% or 8.8 million square meters to reach 31.7 million square meters in 2012 as a result of strong demand in Egypt and Libya allowing the Company to fully utilize production from the new plant and sell off the stock of tiles built up as the plant was rolled out in the second half of 2011.

Tile exports rose 142% or 5.4 million square meters to reach 9.2 million square meters as Libya recovered and capacity allowed the Company to book record sales in that market.

Average net prices were up 8% year-on-year to reach LE 19.9 per square meter reflecting the increased proportion of tile exports and stronger pricing in Egypt. Tiles revenues rose 50% year-on-year to LE 631.8 million in 2012.

Average cost per square meter increased 2% to reach LE 12.8 per square meter. Tile gross profit margins for 2012 rose 4.1 percentage points to 35.8% and gross profits were up 69% year-on-year at LE 226.1 million.

# Financial

## BRASSWARE

Sales volume for 2012 rose 93% to 76,778 pieces and net average prices fell 11% to LE 267.2 per piece.

Revenue for the year rose 72% to reach LE 20.5 million.

Average cost per piece rose 22% to reach LE 196.8 per piece.

The gross margin fell 19.8 basis points to 26.4% and gross profit fell 2% to LE 5.4 million.

Revenue and margin for the period do not necessarily reflect normative run rates for this segment given the small volume of operation since startup.

## FINANCIAL POSITION

The value of Lecico's assets increased 5% at the end of December 31, 2012 to reach LE 2,030.5 million. Total liabilities were up 3% at LE 1,169.9 million. Net debt to equity improved 15% to reach 0.74x compared to 0.87 times at end of 2011 and net debt was reduced 7% to LE 632.9 million compared to LE 683.7 million at the end of 2011.

## RECENT DEVELOPMENTS AND OUTLOOK

2012 was reasonably stable politically across Lecico's regional markets with resulting positive year-on-year top line growth. Overall demand for Lecico products has been very strong in Egypt and Libya and across the Middle East, while new markets and customers in Europe have helped to stabilize sales there. All indications are that this strong demand will continue in 2013. However, ongoing political events in Egypt and the region and the continued economic uncertainty and weakness across Europe remain a risk to the Company's activities.

Lecico hopes to see a significant growth to tile capacities and revenues in 2013 with a new tile line in its Borg El-Arab plant expected to be fully operational in the second half of the year. The new line will increase capacity by 6.4 million square meters per annum which should generate around LE 118 million in revenues when fully sold. As the Company is currently seeing demand for its tiles in excess of capacity, management is cautiously optimistic about the speed of the roll out of sales for this new line.

On the cost side, the Company is confident that it can realize significant economies of scale in all segments in this benign demand scenario and is confident that the efficiency of its sanitary ware unit will continue to improve over 2013, as the large numbers of new products launched in 2011 are normalized in production.

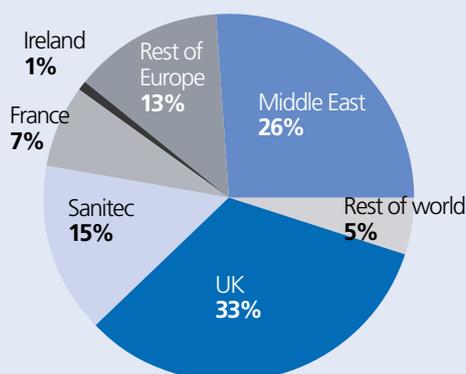
However, these improvements in production will be partially offset by cost inflation pressures. In 2012, the government raised energy prices in January by over 20% and Lecico enacted a significant salary increase in July. Looking forward to 2013, the Company expects to see continued inflation on inputs and services in the year ahead; with the possibility of another increase in energy prices, higher financing costs and higher tax rates as the government in Egypt continues to try to manage a slowing economy while improving and expanding social welfare programs. On an aggregate level, the Company has been able to offset these cost increases in 2012 through improved economies of scale and hopes to continue into 2013.

Despite the political and economic challenges faced by most of Lecico's markets in 2012, the Company has seen a good improvement in demand and profitability compared to 2011. The business expects to continue to grow revenues and margins year-on-year in 2013 despite continued inflationary pressure but the rate of improvement will likely be slower than in 2012.

However, this positive outlook for Lecico's performance in the months ahead is not without risk as political and economic uncertainty looks likely to remain a feature of most of the company's markets in 2013.

## SANITARY WARE EXPORTS BY DESTINATION

(000 pcs)	2012	% of total	2011	% of total	% 12/11
UK	942.3	33%	1,032.8	43%	91%
Sanitec	415.1	15%	419.0	17%	99%
France	206.4	7%	212.0	9%	97%
Ireland	17.0	1%	23.3	1%	73%
Rest of Europe	368.1	13%	249.6	10%	147%
Middle East	726.4	26%	351.9	14%	206%
Rest of world	150.8	5%	138.9	6%	109%
<b>Total exports</b>	<b>2,826.1</b>	<b>100%</b>	<b>2,427.5</b>	<b>100%</b>	<b>116%</b>



## SANITARY WARE SEGMENTAL ANALYSIS

(LE m)	FY		% 12/11	FY			2008-12 CAGR%
	2012	2011		2010	2009	2008	
Sanitary ware volumes (000 pcs)							
Egypt	2,125	1,636	130%	1,866	2,034	2,063	1%
Lebanon	194	200	97%	202	179	177	2%
Export	2,826	2,428	116%	2,899	3,364	3,063	(2%)
<b>Total sanitary ware volumes</b>	<b>5,145</b>	<b>4,264</b>	<b>121%</b>	<b>4,967</b>	<b>5,577</b>	<b>5,304</b>	<b>(1%)</b>
Exports/total sales volume (%)	54.9%	56.9%	(2.0%)	58.4%	60.3%	57.8%	
Sanitary ware revenue							
<b>Sanitary ware revenue</b>	<b>626.5</b>	<b>537.0</b>	<b>117%</b>	<b>571.4</b>	<b>621.5</b>	<b>651.0</b>	<b>(1%)</b>
Average selling price (LE/pc)	122	126	97%	115	111	123	(0%)
Average cost per piece (LE/pc)	98	98	99%	80	77	81	5%
Sanitary ware cost of sales	(501.8)	(418.5)	120%	(396.4)	(429.5)	(429.5)	4%
<b>Sanitary ware gross profit</b>	<b>124.6</b>	<b>118.5</b>	<b>105%</b>	<b>175.0</b>	<b>192.0</b>	<b>221.5</b>	<b>(13%)</b>
Sanitary ware gross profit margin (%)	19.9%	22.1%	(2.2%)	30.6%	30.9%	34.0%	

## TILE SEGMENTAL ANALYSIS

(LE m)	FY		% 12/11	FY			2008-12 CAGR%
	2012	2011		2010	2009	2008	
Tile volumes (000 sqm)							
Egypt	20,933	17,340	121%	16,102	15,817	17,713	4%
Lebanon	1,627	1,837	89%	2,336	2,071	1,958	(5%)
Export	9,186	3,794	242%	5,195	5,743	5,276	15%
<b>Total tile volumes</b>	<b>31,746</b>	<b>22,971</b>	<b>138%</b>	<b>23,632</b>	<b>23,631</b>	<b>24,946</b>	<b>6%</b>
Exports/total sales volume (%)	28.9%	16.5%	12.4%	22.0%	24.3%	21.1%	
Tile revenue							
<b>Tile revenue</b>	<b>631.8</b>	<b>421.8</b>	<b>150%</b>	<b>444.9</b>	<b>433.7</b>	<b>429.6</b>	<b>10%</b>
Average selling price (LE/sqm)	19.9	18.4	108%	18.8	18.4	17.2	4%
Average cost per piece (LE/sqm)	12.8	12.5	102%	10.8	10.3	10.9	4%
Tile cost of sales	(405.7)	(288.2)	141%	(254.5)	(242.6)	(271.6)	11%
<b>Tile gross profit</b>	<b>226.1</b>	<b>133.6</b>	<b>169%</b>	<b>190.4</b>	<b>191.1</b>	<b>158.0</b>	<b>9%</b>
Tile gross profit margin (%)	35.8%	31.7%	4.1%	42.8%	44.1%	36.8%	





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Name	Age	Representing	Appointed to the Board
Mr. Gilbert Gargour	70	Intage / Management	1981
Mr. Alain Gargour	60	Intage	1997
Mr. Toufick Gargour	71	Intage	1974
Mr. Taher Gargour	43	Management	2008
Mr. Georges Ghorayeb	62	Management	2003
Mr. Pertti Lehti	54	Management	2002
Mr. Ellie Baroudi	67	Independent	2003
Eng. Aref Hakki	78	Independent	1998
Dr. Hani Sarie-Eldin	47	Independent	2010
Dr. Rainer Simon	62	Independent	2011
Mr. Mohamed Younes	74	Independent	2004

# Board of Directors

## 1. Mr. Gilbert Gargour Chairman and CEO

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

## 2. Mr. Alain Gargour \* Non-executive Director

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

## 3. Mr. Toufick Gargour Non-executive Director

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

## 4. Mr. Taher Gargour Managing Director

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

## 5. Mr. Georges Ghorayeb Executive Director

He has been a Director since 2003. A Lebanese citizen, he joined Lecico Lebanon in 1970 and has served as Group Technical Director since 1993 and Managing Director of Lecico Lebanon since 1997.

## 6. Mr. Pertti Lehti Executive Director

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

## 7. Mr. Elie Baroudi \* Non-executive Director

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

## 8. Eng. Aref Hakki \* Non-executive Director

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

## 9. Dr. Hani Sarie-Eldin \* Non-executive Director

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

## 10. Dr. Rainer Simon Non-executive Director

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

## 11. Mr. Mohamed Younes \* Non-executive Director

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

\* Member of Lecico Egypt Audit Committee



A photograph of a modern bathroom. The wall is covered in large, light blue tiles. A white toilet is positioned against the wall. To the right of the toilet, there is a wall-mounted toilet paper holder with a roll of white paper. Above the toilet, there are two small, white, rectangular shelves. The left shelf contains a black object, and the right shelf contains a few bottles. The floor is made of large, light blue tiles. A dark, textured rug is visible in the bottom right corner.

# Financials

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

We have audited the accompanying consolidated financial statements of Lecico Egypt (S.A.E.) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated income statement, the consolidated statement of changes in shareholder's equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as at December 31, 2012 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion:

- We draw attention to note no. (14) 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.
- We draw attention to note no. (32) to the consolidated financial statements. On December 6, 2012, several resolutions of laws on amending certain provisions of the Egyptian Tax Laws has been issued and has been published in the Official Gazette on that date that would affect the Egyptian companies. Later statements have been issued by certain officials in respect of freezing the enforcement of such resolutions. Due to the lack of emphatic information to the group management on the enforcement date of such resolutions or the date of cancellation, the management group hereby did not affect the taxes pools, the related assets and liabilities, the consolidated results of operations during the year and the consolidated net profit. These amounts and results may differ when reliable information become available on the enforcement of such resolutions and the effective date therefore.



**KPMG Hazem Hassan**

**Hatem Montaser**

**CPA no. 13309**

**Capital Market Register No. 225**

Alexandria on March 6<sup>th</sup>, 2013

# Consolidated income statement

For the Year Ended December 31, 2012

	Note no.	31/12/2012 LE	31/12/2011 LE
Net Sales		1,278,822,048	970,738,433
Cost of Sales		(922,654,771)	(713,153,093)
<b>Gross Profit</b>		<b>356,167,277</b>	257,585,340
Other Income	(23)	6,288,666	2,498,624
Distribution Expenses		(57,317,118)	(60,113,318)
Administrative Expenses		(104,876,257)	(96,404,817)
Other Expenses	(24)	(35,608,570)	(38,053,284)
<b>Result from Operating Activities</b>		<b>164,653,998</b>	65,512,545
Investment Income		3,260,684	2,567,835
Finance Income	(25)	13,469,372	6,664,337
Financing Expenses	(26)	(95,677,769)	(78,465,550)
		85,706,285	(3,720,833)
Employees' Participation in Profit		(15,299,965)	(12,112,979)
<b>Profit / (Loss) Before Tax</b>		<b>70,406,320</b>	(15,833,812)
Current Income Tax Expense		(9,110,238)	(5,782,073)
Deferred Income Tax		545,991	(906,645)
<b>Profit / (Loss) For The Year</b>		<b>61,842,073</b>	(22,522,530)
<b>Attributable to:</b>			
Equity Holders of the Parent		62,806,604	(20,582,800)
Non-Controlling Interest		(964,531)	(1,939,730)
<b>Profit / (Loss) For The Year</b>		<b>61,842,073</b>	(22,522,530)
<b>Earnings / (Loss) Per Share (LE/Share)</b>	(27)	<b>0.79</b>	(0.26)

Notes (1) to (36) are an integral part of these consolidated financial statements.

# Consolidated balance sheet

For the Year Ended December 31, 2012

	Note no.	31/12/2012 LE	31/12/2011 LE
<b>Assets</b>			
Property, Plant and Equipment	(4)	732,162,639	709,220,971
Projects in Progress	(5)	41,737,803	87,240,039
Intangible Assets	(6)	24,301,197	24,012,032
Other Investments	(7)	4,847,462	4,609,264
Long-Term Notes Receivable	(8)	25,786,687	17,481,000
Long-Term Pre-Paid Rent		1,101,333	1,356,131
<b>Total Non-Current Assets</b>		<b>829,937,121</b>	843,919,437
Inventory	(9)	576,110,639	524,631,912
Trade and Other Receivables	(10)	411,743,798	380,626,423
Trading Investments	(11)	56,938,800	71,342,059
Cash and Cash Equivalents	(12)	155,754,929	106,335,853
<b>Total Current Assets</b>		<b>1,200,548,166</b>	1,082,936,247
<b>Total Assets</b>		<b>2,030,485,287</b>	1,926,855,684
<b>Equity</b>			
Share Capital	(14)	400,000,000	400,000,000
Reserves	(15)	321,168,632	302,882,746
Retained Earnings	(16)	75,333,185	103,722,738
Profit / (Loss) for the Year		62,806,604	(20,582,800)
<b>Total Equity Attributable to Equity Holders of the Company</b>		<b>859,308,421</b>	786,022,684
Non-Controlling Interest		1,535,996	1,441,205
<b>Total Equity</b>		<b>860,844,417</b>	787,463,889
<b>Liabilities</b>			
Long-Term Loans and Borrowings	(17)	64,705,883	88,235,296
Other Long-Term Liabilities	(18)	1,704,791	33,528,938
Deferred Income Tax	(19)	20,312,877	20,585,935
Provisions	(20)	12,818,175	12,219,996
<b>Total Non-Current Liabilities</b>		<b>99,541,726</b>	154,570,165
Bank Overdrafts		755,409,794	741,275,290
Loans and Borrowings	(21)	25,494,812	31,875,504
Trade and Other Payables	(22)	237,383,650	170,453,198
Provisions	(20)	51,810,888	41,217,638
<b>Total Current Liabilities</b>		<b>1,070,099,144</b>	984,821,630
<b>Total Liabilities</b>		<b>1,169,640,870</b>	1,139,391,795
<b>Total Equity and Liabilities</b>		<b>2,030,485,287</b>	1,926,855,684

Notes (1) to (36) are an integral part of these consolidated financial statements.

Auditor's report attached.

March 6, 2013.

Financial Manager  
**Mohamed Hassan**

Managing Director  
**Taher Gargour**

# Consolidated cash flow statement

For the Year Ended December 31, 2012

	Note no.	31/12/2012 LE	31/12/2011 LE
<b>Cash Flow from Operating Activities</b>			
Net Profit / (Loss) for the Year		<b>62,806,604</b>	(20,582,800)
<b>Adjustments Provided to Reconcile Net Profit To Net Cash Provided by Operating Activities</b>			
Fixed Assets Depreciation and Translation Differences	(4)	<b>88,903,410</b>	89,023,594
Intangible Assets Amortization and Translation Differences	(6)	<b>(278,948)</b>	1,009,906
Employees Participation in Net Profit		<b>15,299,965</b>	12,112,979
Long-Term Prepaid Rent Expense		<b>254,797</b>	348,777
Capital Gain		<b>(534,356)</b>	(128,859)
Provided Provisions, Inventory Impairment and Translation Differences		<b>26,405,914</b>	38,343,526
Income Tax Expense		<b>9,110,238</b>	5,782,073
Deferred Income Tax		<b>(545,991)</b>	906,645
Reversal of Expired Provision		<b>(4,011,277)</b>	-
Discounting of Long-Term Notes Receivables		<b>3,252,313</b>	-
Decrease in Minority Interest		<b>94,791</b>	(1,452,841)
Change in Translation Reserve		<b>10,757,678</b>	(6,016,356)
		<b>211,515,138</b>	119,346,644
<b>Changes in Working Capital</b>			
Increase in Inventory		<b>(50,027,317)</b>	(57,022,705)
Increase in Receivables		<b>(32,753,990)</b>	(19,155,282)
Increase / (Decrease) in Payables		<b>65,311,485</b>	(6,345,061)
Payments for Other Long-Term Liabilities		<b>(31,824,151)</b>	(28,899,697)
Paid Income Tax		<b>(10,184,414)</b>	(28,256,949)
Utilized Provisions		<b>(11,023,620)</b>	(8,998,613)
Proceeds From Current Investments		<b>14,403,259</b>	2,134,839
<b>Net Cash Provided by (Used in) Operating Activities</b>		<b>155,416,390</b>	(27,196,824)
<b>Cash Flow from Investing Activities</b>			
Payments for Property, Plant & Equipment Additions & Projects in Progress		<b>(66,939,686)</b>	(72,661,618)
Payments for Intangible Assets		<b>(10,219)</b>	(1,942,500)
Payment for Other Current Investments		<b>(238,198)</b>	(163,761)
Proceeds from Sales of Property, Plant & Equipment		<b>1,131,203</b>	543,331
Change in Long-Term Notes Receivable		<b>(11,558,000)</b>	5,312,000
<b>Net cash (used in) Investing Activities</b>		<b>(77,614,900)</b>	(68,912,548)
<b>Cash Flow from Financing Activities</b>			
(Payment for) Proceeds From Long-Term Loans and its Current Portion		<b>(29,910,100)</b>	51,788,877
Payments for Employees' Share in Net Profit		<b>(12,606,818)</b>	(12,037,618)
Dividends Paid		-	(60,375,941)
<b>Net cash (used in) Financing Activities</b>		<b>(42,516,918)</b>	(20,624,682)
Net Change in Cash and Cash Equivalents During the Year		<b>35,284,572</b>	(116,734,054)
Cash and Cash Equivalents at Beginning of the Year	(13)	<b>(634,939,437)</b>	(518,205,383)
<b>Cash and Cash Equivalents at the End of the Year</b>	(13)	<b>(599,654,865)</b>	(634,939,437)

Notes (1) to (36) are an integral part of these consolidated financial statements.

# Consolidated statement of changes in shareholders' equity

For the Year Ended December 31, 2012

	Issued & Paid up Capital LE	Reserves LE
<b>Balance at December 31, 2010</b>	300,000,000	294,289,792
Transfer to Retained Earnings	-	-
Transfer to Legal Reserve	-	5,700,592
Issued & Paid up Capital Increase	100,000,000	-
Dividends Declared	-	-
Adjustments	-	-
Translation Adjustment of Foreign Subsidiaries	-	2,892,362
Loss for the Year	-	-
<b>Balance at December 31, 2011</b>	400,000,000	302,882,746
Transfer to Retained Earnings	-	-
Transfer to Legal Reserve	-	1,092,961
Adjustments	-	-
Translation Adjustment of Foreign Subsidiaries	-	17,192,925
Profit for the Year	-	-
<b>Balance at December 31, 2012</b>	400,000,000	321,168,632

Notes (1) to (36) are an integral part of these consolidated financial statements.

Retained Earnings LE	Profit for the year LE	Equity of the Parent Company's Shareholders LE	Non-controlling Interest LE	Total Equity LE
181,994,514	94,820,645	871,104,951	2,894,046	<b>873,998,997</b>
94,820,645	(94,820,645)	-	-	-
(5,700,592)	-	-	-	-
(100,000,000)	-	-	-	-
(60,000,000)	-	(60,000,000)	-	(60,000,000)
(7,391,829)	-	(7,391,829)	(213,572)	(7,605,401)
-	-	2,892,362	700,461	3,592,823
-	(20,582,800)	(20,582,800)	(1,939,730)	(22,522,530)
103,722,738	(20,582,800)	786,022,684	1,441,205	<b>787,463,889</b>
(20,582,800)	20,582,800	-	-	-
(1,092,961)	-	-	-	-
(6,713,792)	-	(6,713,792)	147,179	(6,566,613)
-	-	17,192,925	912,143	18,105,068
-	62,806,604	62,806,604	(964,531)	61,842,073
75,333,185	62,806,604	859,308,421	1,535,996	<b>860,844,417</b>

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 1. Reporting Entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Parent Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

### 1.1 Lecico Egypt (the Parent)

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

### 1.2 Subsidiaries

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

	Country of Incorporation	Ownership Interest 31/12/2012 %	Ownership Interest 31/12/2011 %
Lecico for Ceramics Industries (S.A.E.)	Egypt	99.99	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	99.41	99.41
Lecico for Financial Investments (S.A.E.)	Egypt	99.33	99.33
Lecico (UK) Ltd.	United Kingdom	100.00	100.00
Lecico for Investments Company Ltd.	United Kingdom	100.00	100.00
The Lebanese Ceramics Industries (S.A.L.)	Lebanon	94.77	94.77
International Ceramics (S.A.E.)	Egypt	99.97	99.97
Lecico for Trading and Distribution of Ceramics (S.A.E.)	Egypt	70.00	70.00
European Ceramics (S.A.E.)	Egypt	99.97	99.97
Lecico Plus for Trading (S.A.E.)	Egypt	99.85	99.85
Burg Armaturen Fabrik - Sarrdesign (S.A.E.)	Egypt	69.85	69.85

## 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).

### 2.2 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.

### 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.

## 2.4 Use of Estimates and Judgments

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

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

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

- Note 3-3 – valuation of financial instruments
- Note 3-5 – lease classification
- Note 3-7 – measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets
- Notes 3-11 – provisions and contingencies
- Note 3-15 – measurement of defined benefit obligations

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to years presented in these consolidated financial statements and have been applied consistently by group entities.

### 3.1 Basis of Consolidation

#### Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Transactions Eliminated on Consolidation

Intergroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidation financial statements.

Unrealized gains arising from transactions with subsidiaries are eliminated to the extent of the group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Minority interests in the subsidiaries are separately presented on the consolidated balance sheet, and the minority's share in the subsidiaries' net profit for the year is separately presented before determining the consolidated net profit in the consolidated income statement.

### 3.2 Foreign Currency

#### 3.2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into reporting currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into reporting currency at foreign exchange rates ruling at the dates the fair value was determined.

#### 3.2.2 Financial Statements of Foreign Operations

The assets and liabilities of foreign operations including goodwill and fair value adjustments arising on consolidation are translated to Egyptian Pounds at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated into Egyptian Pound at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized in reserves in equity.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 3.3 Financial Instruments

### (i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3-14.

### Held-to-Maturity Investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

### Available-for-Sale Financial Assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

### Financial Assets at Fair Value Through Profit or Loss

An instrument is classified at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

### Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

### (ii) Share Capital

#### Ordinary Shares

Ordinary shares are classified as equity.

#### Repurchase of Share Capital (Treasury Shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

### 3.4 Property, Plant and Equipment

#### (i) Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, except for the land owned by the Parent Company, which was revalued in 1997, and the revaluation surplus, which is not available for distribution or transfer to capital, is included in the reserve account in equity.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets is recognized in profit or loss as incurred.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### (ii) Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Asset	Estimated useful life in years
Buildings	20-40
Leasehold Improvements	3
Machines and Equipment	3-16.67
Motor Vehicles	3-10
Tools	5
Furniture, Office Equipment and Computers	4-12.5

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The land and buildings of the Lebanese Ceramic Industries Co. (S.A.L.) were revalued in the consolidated balance sheet although this revaluation was not recorded in the subsidiary's books pending the finalization of certain registration legal formalities.

### 3.5 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 utilized portion of the obligation after deducting the principal's portion of the paid installments. The interest expense portion is recognized in the income statement.

#### 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.

### 3.6 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.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 3.7 Intangible Assets

### 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.

### Intangible Assets

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

## 3.8 Investments

### Investments in Debt and Equity Securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the income statement where the group has the positive intent and ability to hold an investment to maturity, and then they are stated at amortized cost less impairment losses.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the consolidated income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognized / derecognized by the Group on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognized / derecognized on the day they are transferred to / by the Group.

### Treasury Bonds of the Egyptian Government Held for Trading

Are recorded at its acquisition cost and classified as current assets and any resultant gains or loss are recognized in the consolidated income statement.

## 3.9 Inventories

Inventories are valued at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. Cost includes expenditure incurred in acquiring the inventories and bringing it to its existing location and condition.

The Cost of issued inventories is based on the moving average method. In the case of finished products and work in progress, cost includes an appropriate share of overheads based on the normal operating capacity.

## 3.10 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.

## 3.11 Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risk specific to the liability.

### 3.11.1 End of Services Indemnity

- a - The Parent Company makes provision for end of service benefits due to expatriate employees.
- b - A provision is held in one of the subsidiaries (The Lebanese Ceramic Industries Co. S.A.L.) for the difference between total indemnity due to employees, from the date of joining to the financial statements date, on the basis of the last salary paid, and the total funds available with the National Social Security Fund in Lebanon (NSSF) for the same year.

### 3.11.2 Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

### 3.12 Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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 realized.

### 3.13 Revenue Recognition

#### **Goods Sold and Services Rendered**

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Interest revenue is recognized as it accrues on a timely basis.

### 3.14 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 capitalized. This accounting treatment is applied consistently to all borrowing costs and all qualified fixed assets.

### 3.15 Employees Benefits

#### 3.15.1 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, ½ to 1% of the annual net profit is recognized in the current year but pending the approval by the General Assembly Meeting along with annual dividends.

#### 3.15.2

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

### 3.16 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.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 3.17 Consolidated Cash Flow Statement

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

## 3.18 Impairment of Assets

### Impairment

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use then the recoverable amount is estimated at each balance sheet date. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

### Calculation of Recoverable Amount

The recoverable amount of the group's investments in held-to-maturity securities and receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

## 4. Property, Plant and Equipment

	Land LE	Buildings LE	Leasehold Improvements LE	Machinery & Equipment LE	Motor Vehicles LE	Tools LE	Furniture, Office Equip. & Computers LE	Total LE
<b>Cost</b>								
At 01/01/2012	165,890,362	288,321,373	1,935,231	774,746,033	51,936,007	61,903,947	26,239,868	<b>1,370,972,821</b>
Translation Differences	664,261	959,859	29,278	4,785,715	720,659	-	109,650	<b>7,269,422</b>
Year Additions	-	34,205,705	710,575	62,792,479	3,673,431	9,432,399	1,627,333	<b>112,441,922</b>
Year Disposals	-	-	-	(6,577,693)	(1,104,964)	-	-	<b>(7,682,657)</b>
At 31/12/2012	166,554,623	323,486,937	2,675,084	835,746,534	55,225,133	71,336,346	27,976,851	<b>1,483,001,508</b>
<b>Accumulated Depreciation</b>								
At 01/01/2012	-	87,631,603	1,641,250	477,287,466	39,009,401	36,523,452	19,658,678	<b>661,751,850</b>
Translation Differences	-	569,862	14,291	4,069,782	532,151	-	108,211	<b>5,294,297</b>
Year Depreciation	-	13,352,173	229,450	60,746,899	4,743,123	9,671,214	2,135,673	<b>90,878,532</b>
Disposals acc. Depreciation	-	-	-	(6,168,740)	(917,070)	-	-	<b>(7,085,810)</b>
At 31/12/2012	-	101,553,638	1,884,991	535,935,407	43,367,605	46,194,666	21,902,562	<b>750,838,869</b>
<b>Net Book Value at 31/12/2012</b>	166,554,623	221,933,299	790,093	299,811,127	11,857,528	25,141,680	6,074,289	<b>732,162,639</b>
<b>Net Book Value at 31/12/2011</b>	165,890,362	200,689,770	293,981	297,458,567	12,926,606	25,380,495	6,581,190	<b>709,220,971</b>

The Land and Buildings include properties at a cost of LE 18.6 million and LE 6.5 million respectively which were purchased by the Parent Company with an unregistered deed.

The Lebanese Ceramic Industries Company S.A.L. (a subsidiary) granted a first ranking mortgage on plots 732 and 25 in Kfarshima in Lebanon against credit facilities.

## 5. Projects In Progress

	31/12/2012 LE	31/12/2011 LE
Machinery Under Installation	<b>36,333,612</b>	77,227,099
Buildings Under Construction	<b>1,737,723</b>	4,927,421
Advance Payment	<b>2,075,015</b>	4,946,351
L/C for Purchase of Fixed Assets	<b>1,591,453</b>	139,168
	<b>41,737,803</b>	87,240,039

## 6. Intangible Assets

	Goodwill LE	Trademarks LE	Development & Other Costs LE	Other Intangibles LE	Total LE
<b>Cost</b>					
Balance at 01/01/2012	19,733,644	2,544,317	4,567,321	753,752	<b>27,599,034</b>
Translation Differences	454,362	186,247	446,967	40,000	<b>1,127,576</b>
Year Additions	-	10,219	-	-	<b>10,219</b>
<b>Balance at 31/12/2012</b>	20,188,006	2,740,783	5,014,288	793,752	<b>28,736,829</b>
<b>Amortization &amp; Impairment Losses</b>					
Balance at 01/01/2012	-	382,867	3,204,135	-	<b>3,587,002</b>
Translation Differences	-	20,973	333,771	-	<b>354,744</b>
Year Amortization	-	62,877	431,009	-	<b>493,886</b>
<b>Balance at 31/12/2012</b>	-	466,717	3,968,915	-	<b>4,435,632</b>
<b>Carrying Amount at 31/12/2012</b>	20,188,006	2,274,066	1,045,373	793,752	<b>24,301,197</b>
<b>Carrying Amount at 31/12/2011</b>	19,733,644	2,161,450	1,363,186	753,752	<b>24,012,032</b>

## 7. Other Investments

	Ownership %	31/12/2012 LE	31/12/2011 LE
Murex Industries and Trading (S.A.L.)	40 %	<b>4,726,451</b>	4,488,268
El-Khaleeg for Trading and Investment	99.9 %	<b>99,900</b>	99,900
Other Investments		<b>21,111</b>	21,096
		<b>4,847,462</b>	4,609,264

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 8. Long-Term Notes Receivables

	31/12/2012 LE	31/12/2011 LE
Face value of Long Term Notes Receivables	<b>32,739,000</b>	21,181,000
Discounting Notes Receivables to its Present Value*	<b>(6,952,313)</b>	(3,700,000)
Present Value of Long-Term Notes Receivables	<b>25,786,687</b>	17,481,000

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

## 9. Inventory

	31/12/2012 LE	31/12/2011 LE
Raw Materials, Consumables and Spare Parts	<b>169,468,104</b>	148,361,737
Work in Process	<b>383,137,539</b>	38,972,295
Finished Products	<b>40,685,088</b>	356,976,589
	<b>593,290,731</b>	544,310,621
<b>Less:</b>		
Impairment of Inventory	<b>(25,573,504)</b>	(27,024,915)
	<b>567,717,227</b>	517,285,706
Letters of Credit for Purchasing Goods	<b>8,393,412</b>	7,346,206
	<b>576,110,639</b>	524,631,912

## 10. Trade and Other Receivables

	Note no.	31/12/2012 LE	31/12/2011 LE
Trade Receivables		<b>215,497,136</b>	192,532,030
Notes Receivable		<b>116,757,168</b>	141,439,950
Sundry Debtors		<b>32,337,854</b>	24,658,041
Suppliers – Debit Balances		<b>2,491,096</b>	680,338
Due from Related Parties	(28)	<b>70,438,131</b>	50,810,850
Tax Administration – Other Taxes		<b>20,845</b>	76,530
Tax Administration – Tax Withheld		<b>413,683</b>	405,986
Tax Administration – Advance Payment		<b>389,790</b>	1,775,269
Tax Administration – Sales Tax		<b>2,064,043</b>	4,274,811
Other Debit Balances		<b>26,436,789</b>	16,585,714
Social Security		<b>103,418</b>	1,499,502
Other Prepaid Expenses		<b>10,317,960</b>	9,265,162
Accrued Revenues		<b>420,378</b>	930,119
		<b>477,688,291</b>	444,934,302
<b>Less:</b>			
Impairment of Receivables		<b>(65,944,493)</b>	(64,307,879)
		<b>411,743,798</b>	380,626,423

### Transactions with Key Management

The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances) and LE 47,748 (credit balances) as at December 31, 2012. These balances are included in sundry debtors and creditors in receivables and 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, 2012 charged to the other operating expenses in the consolidated income statement amounted to 4,250,291 (December 31, 2011: LE 3,036,927).

## 11. Trading Investments

	31/12/2012 LE	31/12/2011 LE
Treasury Bonds (Held for Trading)	5,000,000	23,888,000
Callable Money Market Securities	51,938,800	47,454,059
	<b>56,938,800</b>	71,342,059

## 12. Cash & Cash Equivalents

	31/12/2012 LE	31/12/2011 LE
Banks – Time Deposit	38,360,287	9,064,910
Banks – Current Accounts	113,265,000	93,215,117
Cash on Hand	4,129,642	4,055,826
	<b>155,754,929</b>	106,335,853

## 13. Cash & Cash Equivalents for the Purpose of Preparing Cash Flow Statement

	31/12/2012 LE	31/12/2011 LE
Banks – Time Deposits	38,360,287	9,064,910
Banks – Current Accounts	113,265,000	93,215,117
Cash on Hand	4,129,642	4,055,826
	<b>155,754,929</b>	106,335,853
<b>Less:</b>		
Bank Overdrafts	<b>(755,409,794)</b>	(741,275,290)
	<b>(599,654,865)</b>	(634,939,437)

### 13.1 Bank Overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts is LE 931.4 million, and the unutilized amount is LE 337.8 million.

## 14. Share Capital

### 14.1 Authorized Capital

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

### 14.2 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.

Part of the shares is in the form of Global Depository Receipts (GDRs) listed on the London Stock Exchange and is held by the Bank of New York as a Depository Bank.

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. All rights relating to shares temporarily held by the Parent Company (treasury shares) if any are suspended until those shares are reissued.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 15. Reserves

	Legal Reserve LE	* Other Reserves LE	Special Reserve Premium LE	** Land Revaluation Surplus LE	Translation Reserve LE	Total LE
<b>Balance at December 31, 2010</b>	28,591,818	15,571,032	181,164,374	52,765,085	16,197,483	<b>294,289,792</b>
Transferred to Legal Reserve	5,700,592	-	-	-	-	<b>5,700,592</b>
Translation Adjustment for Foreign Subsidiaries	-	-	-	-	2,892,362	<b>2,892,362</b>
<b>Balance at December 31, 2011</b>	34,292,410	15,571,032	181,164,374	52,765,085	19,089,845	<b>302,882,746</b>
Transferred to Legal Reserve	1,092,961,	-	-	-	-	<b>1,092,961</b>
Translation Adjustment for Foreign Subsidiaries	-	-	-	-	17,192,925	<b>17,192,925</b>
<b>Balance at December 31, 2012</b>	35,385,371	15,571,032	181,164,374	52,765,085	36,282,770	<b>321,168,632</b>

\* 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.

## 16. Retained Earnings

At December 31, 2012 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.

## 17. Loans and Borrowings

	31/12/2012 LE	31/12/2011 LE
<b>17.1 International Finance Corporation (IFC)</b> The last installment out of the foreign currency loan granted from "IFC" to the Parent Company equivalent to USD 812,500, was repaid through the Year.	-	4,899,375
<b>17.2 Commercial International Bank (CIB)</b> The last installment out of the foreign currency loan granted to the Parent Company from CIB equivalent to USD 270,834, was repaid through the Year.	-	1,633,129
<b>17.3 Commercial International Bank (CIB)</b> The last installment out of the loan granted to the Parent Company from CIB amounting to USD 600,000, was repaid through the Year.	-	3,618,000
<b>17.4 Commercial International Bank (CIB)</b> The last installment out of the loan granted to the Parent Company from CIB amounting to USD 288,892, was repaid through the Year.	-	1,742,021
<b>17.5 Audi Bank</b> The utilized amount out of the loan granted to the Parent Company from Audi Bank, amounting LE 100 million to be repaid over 17 quarterly installments; the first installment will be due at 10 August 2012 and the last installment will be due at 10 May 2016 with a variable interest rate. The loan purpose is restructuring of the Parent Company financial position. This loan is guaranteed by a subsidiary company, Lecico for Ceramic Industries.	<b>88,235,295</b>	100,000,000
	<b>88,235,295</b>	111,892,525
<b>Less:</b> Installments due within one year which are classified as current liabilities (note 21).	<b>(23,529,412)</b>	(23,657,229)
	<b>64,705,883</b>	88,235,296

The group had drawn down all availability under these loans arrangements with banks.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 18. Other Long-Term Liabilities

	31/12/2012 LE	31/12/2011 LE
<b>18.1</b>		
Lease Obligation to Finance Certain Assets of Lecico (UK) Ltd. and its Subsidiaries.	<b>2,274,661</b>	2,892,493
<b>Less</b>		
Installments Due Within One Year, Which are Classified as Current Liabilities (Note 21).	<b>(1,259,359)</b>	(1,288,627)
	<b>1,015,302</b>	1,603,866
<b>18.2</b>		
Sales Tax Department (deferred sales tax related to imported machinery)	<b>874,118</b>	1,768,070
Notes payable – long term	<b>521,412</b>	739,556
	<b>1,395,530</b>	2,507,626
<b>Less</b>		
Installments Due Within One Year Which are Classified as Current Liabilities (Note 21).	<b>(706,041)</b>	(899,648)
	<b>689,489</b>	1,607,978
<b>18.3</b>		
Creditors related to acquiring treasury shares *	-	30,317,094
<b>Total Other Long-Term Liabilities</b>	<b>1,704,791</b>	33,528,938

## 19. Deferred Income Tax Assets and Liabilities

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

	Assets 31/12/2012 LE	Liabilities 31/12/2012 LE	Assets 31/12/2011 LE	Liabilities 31/12/2011 LE
Accumulated Losses Carried Forward	<b>(224,977)</b>	-	-	-
Property, Plant and Equipment	-	<b>24,104,718</b>	-	23,800,761
Inventory	<b>(3,566,864)</b>	-	(3,214,826)	-
<b>Total Deferred Income Tax (assets)/liabilities</b>	<b>(3,791,841)</b>	<b>24,104,718</b>	(3,214,826)	23,800,761
<b>Net Deferred Income Tax Liabilities</b>	-	<b>20,312,877</b>	-	20,585,935

## 20. Provisions

	Balance as at 1/1/2012 LE	Translation Differences LE	Utilised Provisions LE	Provided Provisions LE	Reversed Provisions LE	Balance as at 31/12/2012 LE
<b>Provision Disclosed in the Non Current Liabilities</b>						
End of Service Indemnity Provision	9,962,800	377,495	(350,385)	1,360,537	-	<b>11,350,447</b>
Claims Provision	2,257,196	78,833	(868,301)	-	-	<b>1,467,728</b>
	12,219,996	456,328	(1,218,686)	1,360,537	-	<b>12,818,175</b>
<b>Provision Disclosed in the Current Liabilities</b>						
Potential Losses and Claims Provision	41,217,638	-	(9,804,934)	22,398,184	(2,000,000)	<b>51,810,888</b>
	41,217,638	-	(9,804,934)	22,398,184	(2,000,000)	<b>51,810,888</b>
<b>Total</b>	53,437,634	456,328	(11,023,620)	23,758,721	(2,000,000)	<b>64,629,063</b>

## 21. Loans and Borrowings

	Note no.	31/12/2012 LE	31/12/2011 LE
Current Portion of Long-Term Loans	(17)	23,529,412	23,657,229
Current Portion of Other Long-Term Liabilities	(18)	1,965,400	2,188,275
Short Term Loan		-	6,030,000
		<b>25,494,812</b>	<b>31,875,504</b>

## 22. Trade and Other Payables

	Note no.	31/12/2012 LE	31/12/2011 LE
Trade Payable		72,144,737	63,076,074
Notes Payable		59,221,194	23,402,341
Due to Related Parties	(28)	854,274	1,431,445
Social Insurance Authority and Tax Authority		5,828,186	5,423,785
Income Tax Payable		3,617,141	4,691,317
Accrued Expenses		45,266,950	28,162,849
Deposits due to Others		22,701	61,801
Sundry Creditors		24,239,223	21,864,347
Current Account for Sales Tax Department		3,894,674	2,696,992
Dividends Payable		389,929	389,929
Creditors for Purchasing Fixed Assets		1,955,322	1,996,142
Profit Sharing Provision for Employees of Certain Group Companies		19,949,319	17,256,176
		<b>237,383,650</b>	<b>170,453,198</b>

## 23. Other Income

	31/12/2012 LE	31/12/2011 LE
Capital Gain – Net	534,356	128,859
Scrap Sales	1,972,737	2,168,899
Other Revenues	1,781,573	200,866
Reversal of Expired Provision	2,000,000	-
	<b>6,288,666</b>	<b>2,498,624</b>

## 24. Other Expenses

	31/12/2012 LE	31/12/2011 LE
Provided for Potential Losses and Claims Provision	22,398,184	30,733,786
End of Service Indemnity Provision	1,360,538	236,298
Impairment of Trade Receivables	5,618	82,175
Amortization of Intangible Assets	477,705	1,248,864
Miscellaneous expenses *	7,116,234	2,715,234
Board of Directors Remuneration	4,250,291	3,036,927
	<b>35,608,570</b>	<b>38,053,284</b>

\* due to decrease in demand and for inventory management purpose through 2011 and 2012; Lecico Lebanon (a subsidiary) temporarily ceased its production line of tiles for the period from June 1<sup>st</sup>, 2011 till 31 October 2012 (6 months in 2011 and 10 months in 2012) however, the subsidiary continued to incur fixed and unavoidable overhead costs in that period.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 25. Finance Income

	31/12/2012 LE	31/12/2011 LE
Interest Revenues	3,133,445	5,267,469
Foreign Exchange Difference	8,875,167	-
Changes in Fair Value of Investments Held for Trading	1,460,760	1,396,868
	<b>13,469,372</b>	6,664,337

## 26. Finance Expenses

	31/12/2012 LE	31/12/2011 LE
Interest Expenses	95,677,769	72,271,644
Foreign Exchange Differences	-	6,193,906
	<b>95,677,769</b>	78,465,550

## 27. Earnings Per Share

The earnings per share For the year ended December 31, 2012 is computed as follows:

	31/12/2012 LE	31/12/2011 LE
Net Profit / (Loss) for the Year (in LE)	62,806,604	(20,582,800)
Number of Outstanding Shares	80,000,000	80,000,000
<b>Earnings/ (Loss) per Share ( LE/Share)</b>	<b>0.79</b>	(0.26)

## 28. Related Parties

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

	Nature of Transaction	Transaction Amount LE	31/12/2012 LE	31/12/2011 LE
<b>Due from Related Parties</b>				
Murex Industries and Trading (S.A.L)	Sales	98,432,059	<b>26,549,463</b>	23,197,024
	Notes Receivable	-	<b>2,314,222</b>	883,116
			<b>28,863,685</b>	24,080,140
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current	-	<b>7,258</b>	6,892
Lecico Saudi Arabia (Branch)	Sales	43,713,558	<b>41,267,088</b>	26,430,772
El-khaleeg for Trading and Investment	Current	-	<b>300,100</b>	292,777
Donald Scott	Current	-	-	269
<b>Total Debit Balances</b>			<b>70,438,131</b>	50,810,850
<b>Due to Related Parties</b>				
Murex Industries and Trading (S.A.L)	Purchase	3,722,114	<b>341,868</b>	90,436
LIFCO	Rent	120,677	<b>221,144</b>	-
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current	-	<b>95,235</b>	270,000
Ets. T. Gargour	Current	-	-	105,592
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	20,438,269	<b>195,668</b>	965,417
Donald Scott	Current	-	<b>359</b>	-
<b>Total Credit Balances</b>			<b>854,274</b>	<b>1,431,445</b>

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 29. Information about Business Segments

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

	31/12/2012	31/12/2011
<b>Sanitary Ware Segment</b>		
<b>Sales Volumes (in 000 pcs)</b>		
Egypt	2,124.9	1,635.9
Lebanon	193.6	200.4
Export	2,826.1	2,427.5
<b>Total Sales Volume (in 000 pcs)</b>	<b>5,144.6</b>	<b>4,263.8</b>
<b>Sales Revenues (LE million)</b>		
Average Selling Price (LE/pc)	121.8	126.0
<b>Total Cost of Sales (LE million)</b>	<b>501.9</b>	<b>418.5</b>
<b>Gross Profit (LE million)</b>	<b>124.6</b>	<b>118.5</b>
<b>Tile Segment</b>		
<b>Sales Volumes (in 000 m<sup>2</sup>)</b>		
Egypt	20,933.2	17,339.7
Lebanon	1,627.1	1,836.8
Export	9,185.7	3,794.1
<b>Total Sales Volume (000 m<sup>2</sup>)</b>	<b>31,746.0</b>	<b>22,970.6</b>
<b>Sales Revenues (LE million)</b>		
Average Selling Price (LE/m <sup>2</sup> )	19.9	18.4
<b>Total Cost of Sales (LE million)</b>	<b>405.7</b>	<b>288.2</b>
<b>Gross Profit (LE million)</b>	<b>226.1</b>	<b>133.6</b>
<b>Brassware Segment</b>		
<b>Sales volume (in pcs)</b>		
Egypt	73,529	39,471
Export	3,249	368
<b>Total Sales Volume (in pcs)</b>	<b>76,778</b>	<b>39,839.0</b>
<b>Sales Revenues (LE million)</b>		
Average Selling Price (LE/pc)	267.2	299.3
<b>Total Cost of Sales (LE million)</b>	<b>15.1</b>	<b>6.4</b>
<b>Gross Profit (LE million)</b>	<b>5.4</b>	<b>5.5</b>

## 30. Personnel Cost

The Personnel costs incurred during the year ended December 31, 2012 amounted to LE 229.9 million (December 31, 2011: LE 206.1 million).

## 31. Contingent Liabilities

### 31.1 Letters of Guarantee

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

Currency	31/12/2012	31/12/2011
LE	<b>12,287,273</b>	14,867,768

### 31.2 Letters of Credit

Currency	31/12/2012	31/12/2011
LE	<b>12,177,120</b>	7,993,267

### 31.3

The Parent Company guaranteed one of its overseas subsidiaries in the loan granted to this subsidiary by one of the French Banks (Banque Audi France). The referred to loan is capped at an amount of Euro 2 million (equivalent to LE 16.7 million). There was no outstanding balance under this loan at the consolidated financial statement date.

## 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 3.4 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

## 33. Capital Commitment

The capital commitment as at December 31, 2012 amounting to LE 13.5 million related to the purchase of fixed assets of the group (December 31, 2011: LE 7.2 million).

## 34. Financial Instruments

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

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

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

## 35. Financial Instruments Risk Management

### 35.1 Interest Risk

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

### 35.2 Credit Risk

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

### 35.3 Foreign Currency Exchange Rates Fluctuations Risk

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

# Notes to the consolidated financial statements

For the Year Ended December 31, 2012

## 36. Tax Position

### A Corporate Tax

#### From inception till 2003

Tax dispute was finalized and all tax obligations were paid.

#### Year 2004/2007

The Parent Company's records were examined and the Company was informed of the tax department claims till 2006 and the Company has objected within the legal period.

#### Years 2008/2011

The Parent Company's records were not examined.

### B Salaries Tax

#### Years till 2008

The Parent Company has obtained a final settlement and paid all the tax obligations for these years.

#### Years 2009/2011

The Parent Company's records were not examined yet.

### C Stamp Duty

#### From inception till 2004

Tax dispute was finalized and all tax obligations were paid.

#### From 2005 till 30/6/2006

The tax examination occurred, and the Parent Company was informed of tax claims and has objected during the legal period. The dispute was transferred to the internal committee of the tax department.

#### From 1/7/2006 till Now

Not examined yet.

### D Sales Tax

#### Till 2010

The tax examination occurred and paid all the tax obligations.

#### 2011

The Parent Company's records were not examined yet.

On December 6, 2012, several resolutions of laws on amending certain provisions of the Tax Laws has been issued and has been published in the Official Gazette on the that date, provided that such resolutions shall come into force from the date following the date of publication. And such amendments are:

- Amending the provisions of the Income tax Law No. 91 of 2005.
- Amending the provisions of the General Sales tax Law No. 11 of 1991.
- Amending the provisions of the Real Estate tax Law No.196 of 2008.
- Amending the provisions of the Stamp Duty Law No. 111 of 1980.

Later statements have been issued by certain officials in respect of freezing the enforcement of such resolutions, therefore the group management did not affect the consolidated financial statements with these amendments. When reliable information become available on the enforcement of such resolutions and the effective date therefore, these amendments might affect the taxes pools, the related assets and liabilities, the results of operations during the year and the net consolidated profit.

## In-depth profit and loss summary

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Sanitary Ware Segment</b>											
Sales Volume (000s of pieces)	3,380	3,977	4,265	3,861	4,633	5,619	5,304	5,577	4,967	4,264	<b>5,145</b>
Exports as a Percentage of Total	42.3%	49.8%	56.0%	58.7%	62.2%	57.8%	57.8%	60.3%	58.4%	56.9%	<b>54.9%</b>
Average Price (LE/piece)	73.6	92.7	110.0	100.7	95.8	118.9	122.7	111.4	115.0	125.9	<b>121.8</b>
Sanitary Ware Revenue	248.89	368.74	468.95	388.96	443.90	667.95	651.02	621.50	571.38	537.03	<b>626.47</b>
Sanitary Ware Gross Profit	109.98	167.86	234.38	164.28	160.98	243.78	221.48	191.97	174.98	118.53	<b>124.64</b>
Sanitary Ware Gross Margin (%)	44.2%	45.5%	50.0%	42.2%	36.3%	36.5%	34.0%	30.9%	30.6%	22.1%	<b>19.9%</b>
<b>Tile Segment</b>											
Sales Volume (000s of sqm)	10,840	14,592	15,334	17,698	18,442	21,461	24,946	23,631	23,633	22,971	<b>31,746</b>
Exports as a Percentage of Total	5.4%	6.9%	10.3%	17.8%	22.0%	24.2%	21.1%	24.3%	22.0%	16.5%	<b>28.9%</b>
Average Price (LE/sqm)	12.3	13.1	14.9	14.9	14.9	15.0	17.2	18.4	18.8	18.4	<b>19.9</b>
Tile Revenue	133.11	190.56	227.85	263.42	275.60	321.53	429.63	433.70	444.90	421.80	<b>631.83</b>
Tile Gross Profit	39.36	54.25	65.74	78.09	91.31	102.57	158.04	191.10	190.40	133.60	<b>226.12</b>
Tile Gross Margin (%)	29.6%	28.5%	28.9%	29.6%	33.1%	31.9%	36.8%	44.1%	42.8%	31.7%	<b>35.8%</b>
<b>Consolidated Profit and Loss</b>											
Net Sales	382.00	559.30	696.80	652.38	719.50	989.48	1,080.65	1,055.20	1,019.18	970.65	<b>1,278.82</b>
Sanitary Ware (% of Net Sales)	65.2%	65.9%	67.3%	59.6%	61.7%	67.5%	60.2%	58.9%	56.1%	55.3%	<b>49.0%</b>
Gross Profit	149.34	222.11	300.12	242.37	252.29	346.35	379.52	383.10	367.30	257.50	<b>356.17</b>
Gross Margin (%)	39.1%	39.7%	43.1%	37.2%	35.1%	35.0%	35.1%	36.3%	36.0%	26.5%	<b>27.9%</b>
Sanitary Ware (% of Gross Profit)	73.6%	75.6%	78.1%	67.8%	63.8%	70.4%	58.4%	50.1%	47.6%	46.0%	<b>35.0%</b>
Distribution and Administrative Expense	65.11	103.13	113.80	106.81	122.86	180.25	195.93	186.00	171.40	156.50	<b>162.19</b>
D&A Expense/Sales (%)	17.0%	18.4%	16.3%	16.4%	17.1%	18.2%	18.1%	17.6%	16.8%	16.1%	<b>12.7%</b>
EBIT	72.10	107.59	187.63	139.62	118.14	156.92	171.99	182.60	188.00	65.50	<b>164.65</b>
EBIT Margin (%)	18.9%	19.2%	26.9%	21.4%	16.4%	15.9%	15.9%	17.3%	18.4%	6.7%	<b>12.9%</b>
Net Financing Expense	27.19	31.57	35.19	16.52	27.90	39.47	39.08	41.64	53.10	69.20	<b>69.20</b>
EBIT/Net Financing Expense (x)	2.7	3.4	5.3	8.5	4.2	4.0	4.4	4.4	3.5	0.9	<b>2.4</b>
Net Profit	44.15	83.97	136.13	88.84	79.23	106.98	108.85	110.18	94.80	-20.60	<b>62.81</b>
Net Margin (%)	11.6%	15.0%	19.5%	13.6%	11.0%	10.8%	10.1%	10.4%	9.3%	-2.1%	<b>4.9%</b>
Reported EPS (LE/Share)	48.74	99.96	7.92	4.44	3.96	5.54	2.81	2.75	1.58	-0.26	<b>0.79</b>
Adjusted EPS* (LE/Share)	0.55	1.05	1.70	1.11	0.99	1.34	1.36	1.38	1.19	-0.26	<b>0.79</b>

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

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