

BOARD OF DIRECTORS' REPORT ON THE BUSINESS RESULTS FOR THE YEAR 2017

On behalf of the Board of Directors, the Chairman presents to the shareholders the Board of Directors' report for the year 2017.

1. General information relating to the company

1.1 Legal form

A Joint Stock company incorporated under the provisions of the Investment Law No. 43 for year 1974 and its executive regulations.

1.2 Share capital

Authorized Capital: MEGP 3,600

Issued Capital: EGP 909,282,535 (fully paid)

Share par value: EGP 5

1.3 Principal activities

The company's core activity is to produce and sell various types of cement with different properties and other products related to the cement industry, in addition to building materials and construction supplies.

1.4 Registration and share listing

No. 181134 Cairo Commercial Registry on 6 March 19775.

The company was listed on the Egyptian Stock Exchange on 8 February 1995.

2. Investor Relations

Investor Relations Officer: Mr. Tarek Hassan Mohamed Kamel.

3. Statutory Auditors

Allied for Accounting & Auditing (E &Y): Mr. Ehab M. Azer (RAA 6537 – EFSAR.87) and Mr. Mohamed Abu Elkassim (RAA.17553 – EFSAR.359)

Date of appointment: 30 March, 2017.

4. Major Shareholders

Shareholders having a minimum of 5% of interest in the company capital as at 31 December 2017:

Name	No. of Shares	%
Menaf S A S	47,373,830	26.05 %
Ciments Francais	22,485,545	12.36 %
Ciments Du Maroc Cimar	21,210,577	11.66 %
Abd Elmenam Rashed Abd Elrahman	14,392,167	7.91 %
Gazelle	13,842,701	7.61 %
Tercim S A S	9,100,000	5.00 %

5. List of the Board of Directors

Name	Position	Representing	Status
Mr. Omar A. Mohanna	Chairman	Ciments Francais	Non - Executive
Mr. David Robert Paul Flory	Board Member	Ciments Francais	Non - Executive
Mr. Jose Maria Magrina	Managing Director	Ciments Du Maroc Cimar	Executive
Mr. Mohamed Chaibi	Board Member	Ciments Du Maroc Cimar	Non - Executive
Mr. Akilesh Gupta	Board Member	Tercim S A S	Non - Executive
Mr. Hayrullah Hakan Gurdal	Board Member	Menaf S A S	Non - Executive
Mr. Ali Ihsan Kucukoglu	Board Member	Menaf S A S	Executive
Mr. Raed I. Al Mudaiheem	Board Member	Elmohedeb Alliance.	Non - Executive
Mr. Veli Pekka Ettala	Board Member	Rashed Abd Elrahman Al Rashed & Sons	Non - Executive
Ms. Nahed Mahmoud Badri Hussien	Board Member	Public Sector	Non - Executive
Eng. Mahmoud Hamed M. ElLithy	Board Member	Public Sector	Non - Executive
Ms. Dina Andrea George Khayat	Board Member	Independent	Non - Executive
Dr. Mounir Soliman Neamattalah	Board Member	Independent	Non - Executive

The tenure of the current Board will expire in March 2020.

6. Board of Directors Meetings:

Seven Board Meetings held during 2017.

7. Corporate Governance

7.1 Audit Committee

In accordance with the Code of Corporate Governance an Audit Committee has been formed comprised of the following members:

Name	Position	Representing
Mr. Omar A. Mohanna	Chairman – President	Suez Cement Co.
Ms. Dina Andrea George Khayat	Board Member - Member	Independent
Dr. Mounir Soliman Neamattalah	Board Member - Member	Independent
Ms. Nahed Mahmoud Badri Hussien	Board Member - Member	Public Sector

7.2 Mandate and Function of the Audit committee

- Examine the company's financial statements in the light of the prevailing accounting standards, studying and discussing the auditor's report before submitting to the Board of Directors.
- Examine and review the periodic administrative reports submitted to the different administrative levels, how this reports are developed, and the times they are presented.
- Examine and review the internal audit existing mechanisms, and its instruments, procedures, plans and results.
- Examine and review the company's internal control procedures. Methods and rules of assets control and its compliance assurance. Examine and evaluate the administrative procedures in that regard.

7.3 Audit committee meetings

Three Audit committee meetings were held during 2017. The meeting reports of the committee were submitted to the BOD with no substantial observations.



8. Quality Policy and Products Range

- SCC produces different types of cement with many classes of strength, complying with both Egyptian and international standards.
- Company plants are ISO 9001-2000 quality management system certified, as well as ISO 14001-2004 certified, meeting environment management system qualifications. Previously, there was only one certificate per company, now each plant has its own certificate of qualifications. In addition, the plants are CE Mark certified for specifications.
- All company products have been granted the Egyptian Quality Mark (EQM), according to the Egyptian Quality Standards.

9. Human Resources

9.1 Training

The Company is committed to developing the skills of its employees. Employees are given regular job specific training courses. The Company continues to provide health care to all its employees, as well as their families. Furthermore, the Company sponsors sporting, social and entertainment activities.

9.2 Headcount

995 employees on 31 December 2017.

10. Health and Safety

We continue to maintain our position as a leading and safe cement producer and, in so doing, we concentrated our efforts on reducing workplace accidents . We achieved it in 2017. Compared to the previous year, lost time injury (LTI) for employees and subcontractors from 18 to 6 by 67% and (LTIFR) reduced from 1.25 to 0.5 by 60%. The number of safety trainees increased by 220% and training hours by 244%.

One fatality took place in Suez plant in September where one subcontractor died due to an accident in the workplace.

11. ISO Certification

In order for the Company to maintain its distinguished levels of performance after it was granted the Quality management system ISO 9001 in 2000 and environmental management systems ISO 14001 in 2004, the Company continues to effectively and efficiently conform to these systems.

12. Company's Activities and Performance (separate and consolidated)

Market Environment

Suffering from major macroeconomic imbalances over the last five years, the Egyptian government initiated an ambitious wide-scale economic reform program in FY2016/17. The program's broad objectives include the reduction of a highly unsustainable budget deficit, restoring sustainable financing of the balance of payments, retrieving the economy's competitiveness, reducing the inflation rate to a stable single digit level, and fueling more sustainable economic growth. To achieve these goals, the government is undertaking various fiscal measures that are meant to raise revenues and improve the efficiency of the current expenditure.

The improvement in Egypt's balance of payments led the nominal exchange rate to appreciate from an average of EGP18.2 per USD in March 2017 to EGP17.6 per USD in November 2017. On the fiscal side, the primary deficit went down from 3.5% of GDP in FY2015/16 to 1.8% of GDP in FY2016/17. Meanwhile, different price indicators suggested that the previous reform measures' inflationary shocks were over.

Hence, domestic political risks are expected to ease following the conclusion of the presidential elections in 2018. On the other hand, we believe that higher domestic gas production, higher than expected FDI inflows and faster fiscal consolidation represent the major upside risks to Egyptian economy.

13. Company separate activities and performance

13.1 Cement and Clinker Sales during 2017

(In 000's tons)

Description	2017	2016
Cement (Thousand Tons)	3,606	3,420
Clinker (Thousand Tons)	516	727

13.2 Cement and Clinker Production during 2017

(In 000's tons)

Description	2017	2016
Cement (Thousand Tons)	3,514	3,403
Clinker (Thousand Tons)	3,233	3,813

Egypt's domestic demand for grey cement decreased by 4.5% (YTD December 2017 vs PY).

Suez cement sold 4,122 kt of cement and clinker, which is at the same level vs. previous year.

Clinker production was lower by 15 % in 2017 vs. 2016, as a result of stopping Suez line 2 and Kattameya kilns to install filters.

The price increase didn't offset both the strong increase in energy costs, and the negative impact of maintenance expenses.

The company posted a gross operating loss of MEGP 1 in 2017 vs a gross operating profit of MEGP 386 in 2016.

In addition, the company has provisioned MEGP 66 for the voluntary retirement program.

TPCC book value in Suez books has been impaired by MEGP 302 in 2017.

As a result, the company posted a net loss of MEGP 442 in 2017 vs a net loss of MEGP 216 in 2016.

The proceeds from the sale of non-core assets reached MEGP 71.

The total Capex was MEGP 228 in 2017.

In the end of 2017, the net financial position was MEGP 233.

13.3 Separate financial Position and Business Results as at 31 December 2017

13.3.1 Financial ratios

	MEGP			
A - Income Statement	2017	2016	Variation	Variation %
Sales	2,409	2,117	292	14 %
Gross Losses / profit	(1)	386	(387)	(100%)
Gross profit margin	(0.04%)	18%	(18.04%)	(100%)
Net Losses before tax	(426)	(160)	(266)	166%
Net Losses after tax	(442)	(216)	(226)	105%
B- Balance sheet				
Long term assets	5,308	5,546	(238)	(4%)
Current assets	1,290	1,589	(299)	(19%)
Current liabilities	1,617	1,705	(88)	(5%)
Working capital	(327)	(116)	(211)	182%
Equity	4,906	5,364	(458)	(9%)
Long term liabilities	76	65	11	17%
C- Equity Statement				
Issued and paid up capital	909	909	-	-
Reserves	2,669	2,669	-	-
Comprehensive income	1	2	(1)	(50%)
Net (losses) for the year	(442)	(216)	(226)	105%
Retained earnings	1,769	1,999	(230)	(12%)

13.3.2 Reserves

Total reserves as of 31 December 2017 amounted to MEGP 2669, distributed as follows:

(Million Egyptian Pounds)

Legal reserve	454
Special reserve	2200
Capital reserve	15

13.3.3 Provisions

Total provisions reached MEGP 621 as at 31 December 2017

(Million Egyptian Pounds)

Tax disputes	182
Legal disputes	12
Restructuring – social cost	66

Subtotal 260

Plus: provisions deducted directly from the related assets

Inventory provision	58
Impairment of Investments	303

Subtotal 361

Total Provisions **621**

13.3.4 Proposed Profit Distribution for the Year 2017

(Egyptian Pounds)

Description	Amount
Net Losses for Year 201 ^Y	441,793,098
Retained earnings	1,768,900,360
Total	1,327,107,262
Proposed settlement for employee profit share paid in advance in the previous year	(25,658,256)
Proposed profit distribution	
Net	
Legal reserves	
Capital Reserves	
Dividends and Profit share*:	
Total dividend for shareholders	
Total profit share for employees	
BOD bonus	
BOD bonus independent	500,000
Total distributed profits.	
Capital Shares	181,856,507
Dividends per share	

*Subject to the approval of the General Assembly.

14. Company consolidated activities and performance

14.1 Consolidated Cement and Clinker Production

The following comparative table illustrates the level of cement and clinker production the plants' production facilities within the Suez Cement Group.

(Thousand Tons)

Description	Cement		Clinker	
	2016	2017	2016	2017
Suez Cement Company	3,403	3,514	3,813	3,233
Tourah cement Company	1,792	1,585	1,182	858
Helwan cement company (grey)	2,701	2,071	2,016	1,816
Total Grey	7,896	7,170	7,011	5,907
Helwan cement company (white)	182	204	129	140

14.2 Consolidated financial Position and Business Results as at 31 December 2017

Income Statement	2017	2016	Var	Var %
Sales	6,696	6,146	550	9%
Gross profit	41	662	(620)	(94%)
Gross Margin	1%	11%	(10%)	(94%)
Net (Losses) / profit before tax	(1,097)	(584)	(513)	88%
Net (Losses) / profit after tax	(1,139)	(629)	(509)	81%
Balance sheet				
Long term assets	7,034	7,488	(454)	(6%)
Current assets	3,046	3,760	(714)	(19%)
Current liabilities	3,939	3,623	316	9%
Working capital	(893)	137	(1,030)	(753%)
Equity	5,777	6,923	(1,145)	(17%)
Long term liabilities	363	702	(339)	(36%)
Equity Statement				
Issued and paid up capital	909	909	-	0%
Reserves	2,669	2,669	-	0%
Cumulative foreign currencies translation differences	260	312	(52)	(17%)
Non-controlling interest	514	801	(287)	(36%)
Net (Losses) / profit for the year	(1,139)	(629)	(509)	81%
Retained earnings	2,358	2,749	(391)	(14%)
Net Retained earnings	1,220	2,120	(900)	(42%)

14.3 Reserves

Total reserves as at 31st December 2016 amounted to 2,669 MEGP, distributed as follows:
(Million Egyptian Pounds)

Legal	454
Special	2,200
Capital	15

14.4 Provisions

Total provisions formed amounted to 1424.3 MEGP, distributed as follows:

(Million Egyptian Pounds)

Tax disputes	336.5	
Legal disputes	22.0	
Restructuring – social cost	565.2	
Gas claims for Tourah Plant	51.0	
Other Claims	10.1	
Subtotal		984.8
Plus: provisions deducted directly from the related assets		
Inventories provision	190.2	
Doubtful debts	249.3	
Subtotal		439.5
Total Provisions		1424.3

Finally, the Board of Directors would like to extend its thanks to all the staff for their efforts and shareholders for supporting the company.

Omar A. Mohanna

Chairman