Q2 2019 Earnings Release
01 September 2019

Suez Cement Announces Consolidated Results for Q2 2019

Persistent gap between supply and demand in the wider industry continues to exert pressure on top line; net profit down on the back of intensified competition.

Q2 2019 At a Glance

- **EGP 1.5 bn** Revenue ▼18% y-o-y
- **EGP (37) mn** Gross Profit -2% margin
- **EGP (4.0) mn** EBITDA[1] 0.3% margin
- **EGP (515) mn** Net Profit -33% margin
- **1.55 MT** Volume Sold ▼6.5% y-o-y
- **13.8% YTD** Market Share ▲0.2 ppts

(08 August 2019 – Cairo) The Suez Cement Group of Companies ("Suez Cement" or the "Group", SUCE on the Egyptian Exchange), Egypt's leading producer of cement, announces its results for the second quarter ended 30 June 2019, reporting revenues of EGP 1,514.3 million, down 17.6% year-on-year on the back of a sustained market downturn. Losses sustained on the gross profitability level trickled down to a negative bottom-line of EGP 514.9 million in Q2 2019 compared to a positive net profit of EGP 121.2 million in 2Q 2018 due to provisions of EGP 325 million related to Tourah's restructuring. On a year-to-date basis, revenues fell 15.9% year-on-year to EGP 3.3 billion while net profit recorded narrower losses of EGP 301.8 million in H1 2019 due to a positive net profit recorded in Q1 2019.

Summary Income Statement (EGP mn)	1H19	1H18	% Change	2Q19	2Q18	% Change
Revenue	3,334.0	3,964.4	*-15.9%*	1,514.3	1,837.5	*-17.6%*
Gross profit	**(63.6)**	**495.7**	**-**	**(37.3)**	**252.5**	**-**
GP%	*-1.9%*	*12.5%*		*-2.5%*	*13.7%*	
EBITDA[1]	**32.9**	**493.0**	*-91.6%*	**(4.0)**	**226.2**	*-102%*
EBITDA margin	*1.0%*	*12.4%*	-	*-0.3%*	*12.3%*	-
Net profit	**(301.8)**	**238.3**	**-**	**(514.9)**	**121.2**	**-**
Net profit margin	*-9.1%*	*6.0%*		*-34.0%*	*6.6%*	

"Weakening demand and oversupply have been putting increased pressure on market price as a result of intensifying competition among other factors. In parallel, Macroeconomic reform measures applied over the last 3 years, particularly the Egyptian Pound float in 2016 and the continued elimination of energy subsidies, have put pressure on margins throughout our energy-intensive industry. Given Suez Cement's position as a legacy producer and largest private-sector player, these developments have resulted in significant cost increases for the Group.

Jose Maria Magrina
Group CEO

[1] *Adjusted for depreciation and other non-operating expenses, including one-off provisions*

Income Statement Highlights

- **Revenues** came in at EGP 1,514.3 million for Q2 2019, declining 17.6% year-on-year from the EGP 1,837.5 million recorded one year previously. The Group's falling top line was a consequence of adverse market conditions, a combination of depressed demand and sustained oversupply, eventually leading to lower market prices.
- The Group recorded a **gross loss** of EGP 37.3 million in Q2 2019, compared to a positive gross profit of EGP 252.5 million booked for Q2 2018. This decrease was driven by Suez Cement's declining top line on the back of a c.10% drop in average prices coupled with significantly rising input costs as a result of significant reform measures over the last few years, namely the free float of the EGP and elimination of energy subsidies.
- **General and administrative** expense for the quarter recorded EGP 107.7 million, down by 1.6% year-on-year from the EGP 109.5 million outlay of one year previously.
- Suez Cement booked a negative **EBITDA** of EGP 4.0 million in Q2 2019, compared to a positive EBITDA of EGP 226.2 million recorded in Q2 2018. EBITDA appreciated from the gross profit level primarily due to an EGP 112 million adjustment for depreciation during the period.
- **Net profit** stood at negative EGP 514.9 million in Q2 2019 compared to a positive net profit of EGP 121.2 million in Q2 2018. The fall is net profit follows a 16 percentage-point fall in the gross profit margin during the period on the back of drop in average prices, rising input costs in addition to a one-time restructuring provision cost for Tourah booked in Q2 2019.

Summary Balance Sheet (EGP mn)	2Q19	4Q18	% Change
Total Assets	**8,683.5**	**9,205.7**	***-5.67%***
Current Assets	3,789.1	3,701.8	*2.36%*
Assets Held for Sale	29.1	414.2	*-92.97%*
Noncurrent Assets	4,865.2	5,089.7	*-4.41%*
Total Liabilities	**5,108.2**	**5,176.5**	***-1.32%***
Current Liabilities	4,600.0	4,677.6	*-1.66%*
Liabilities Associated with Assets Held for Sale	-	62.8	-
Noncurrent Liabilities	508.2	436.1	*16.53%*
Total Shareholders' Equity	**3,575.3**	**4,029.3**	***-11.27%***
Net Fixed Assets	**3,249.4**	**3,395.7**	***-4.31%***
Net Debt	**499.5**	**(277.3)**	**-**

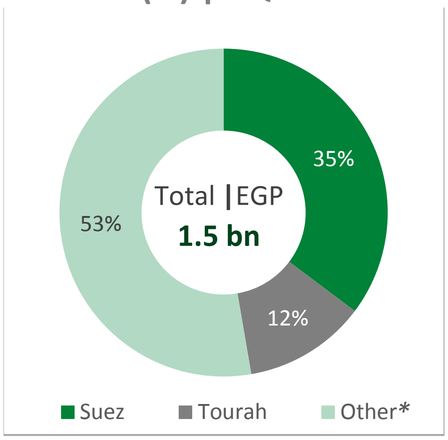
Balance Sheet Highlights

- **CAPEX** outlays year-to-date came to EGP 48.6 million, down slightly from EGP 51.4 million invested during the first half of 2018. The bulk of the Group's CAPEX outlay for the period went primarily to maintenance costs.
- **Net debt** stood at EGP 499.5 million as at June 30, 2019 compared to a net cash positive balance of EGP 277.3 as of 31 December 2018.

Operational Highlights

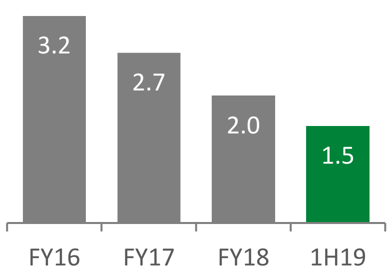
- As at Q2 2019, the Group enjoyed a **market share** of 13.8%, up slightly from 13.6% in Q2 2018, maintaining its position as an industry leader in Egypt's grey cement market.
- Q2 2019 saw consolidated **volumes sold** reach 1.55 million tons of cement and clinker, representing a decrease of 4.7% year-on-year from 1.63 million tons in Q2 2018.
- **Employee headcount** stood at 1,518 in Q2 2019, down by 24% from year end 2018 and by 53% since year-end 2016 on the back of significant cost-cutting measures.

Revenue Contribution (%) | 2Q19



** Includes Helwan Cement Company & Ready-mix subsidiaries and others*

Employee Headcount
In thousands



CEO's Note

As we settle into 2019, the Group is taking all measures to ensure that our business model remains as resilient as possible against persistent industry headwinds. Cement demand in Egypt was down 6.4% year-on-year in H1 2019, with orders contracting steadily since the devaluation of the Egyptian pound in late 2016. The contraction in industry demand has continued into the first half of 2019 and has seen the Group's revenues decline by 15.9% year-on-year to EGP 3.3 billion in H1 2019. Despite this, we maintained our position as market leader, with a 13.8% market share year-to-date.

In parallel to weakening demand, the market faces significant problems of oversupply result in intensifying competition, putting increased pressure on market prices. Moreover, new entrants and expansions bring in a combined added capacity of 20 million tons per annum, or c.38%[2] of total cement demand in 2018.

Meanwhile, margin volatility continues to plague the Egyptian cement industry, with market conditions severely depressing profitability for ourselves and our peers. Macroeconomic reform measures taken over the last 3 years, particularly the Egyptian Pound float in 2016 and the continued elimination of energy subsidies, have put further pressure on margins throughout our energy-intensive industry. Given Suez Cement's position as a legacy producer and largest private-sector player, these developments have resulted in significant cost increases for the Group. As a result, we recorded a gross loss of EGP 37.3 million during the quarter, down from a gross profit of EGP 252.5 million one year previously.

Despite our strategic position, cement exports are typically associated with very high transportation costs. Moreover, Our export markets have also been experiencing production surpluses, with input costs already much lower than ours. These two factors have resulted in significantly lower market prices for cement abroad, which Egyptian exporters are unable to meet given our higher input costs. Until, we can find a local solution to our production surplus, we do not expect the situation to improve in the long-term.

In light of this, we have decided to look inward at our current production and other costs and have implemented a series of far-reaching efficiency drives to ensure the Group's resilience and success moving forward. We are intensifying a comprehensive cost reduction campaign that has seen us significantly alter our production mix over recent quarters. Furthermore, in a first for Egypt's cement industry, our Kattameya plant has used alternative fuel at its main burner, and we are aiming for alternative fuel to constitute 30% of our overall fuel mix in the years ahead.

Difficult decisions have been taken with an eye to safeguarding the sustainability of operations and Suez Cement's ability to create shareholder value over the long run. Progress continues to be made in reducing the Group's overheads: since 2016, employee headcount has fallen from 3.2k to 1.5k. Meanwhile, Group has reached the decision to cease operations at Tourah's plant and are currently exploring the

[2] Based on 2018 total production of 53.1 million tons as per CI Capital's quarterly cement update, published 25 February 2019

sale of its significant land bank, as well as the old nonoperational lines and the scrap.

As long as market oversupply persists and authorities refrain from intervening to address the problem of oversupply, conditions are expected to remain negative for the foreseeable future. The industry will remain limited in its ability to pass on rising costs given the current supply picture. With this in mind, Suez Cement has taken and will continue to take all steps necessary to create a leaner organization that is ready to efficiently exploit the upswing when it arrives.

Jose Maria Magrina
Group CEO

About Suez Cement

The Suez Cement Group of Companies ("Suez Cement" or the Group, SUCE on the Egyptian Exchange), is Egypt's leading producer of cement. Since 1977, Suez Cement has manufactured and distributed the highest quality cement, aggregates and ready-mix concrete, and its products have been used to build some of Egypt's most recognizable landmarks. With a web of subsidiaries spanning Suez, Kattameya, Tourah and Helwan, Suez Cement's industrial network affords it a degree of national exposure unmatched by competitors for its comprehensiveness and longevity. The Group's 1,500 professionals pursue continuous innovation, providing customers at home and abroad with a suite of services that differentiates the Group's offering. Suez Cement is majority owned by the Heidelberg Cement Group, making it part of a family of organizations that represents one of the world's largest building materials companies.

Share Information

SUCE on the Egyptian Exchange
Listed: 8 August 1983
Shares Outstanding: 181,856,507

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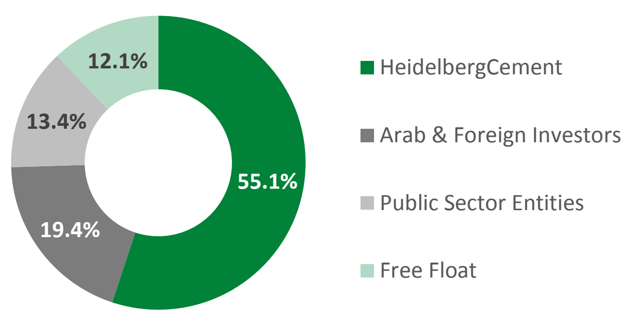
Shareholder Structure
(as at 30 June 2019)



Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as “according to estimates”, “anticipates”, “assumes”, “believes”, “could”, “estimates”, “expects”, “intends”, “is of the opinion”, “may”, “plans”, “potential”, “predicts”, “projects”, “should”, “to the knowledge of”, “will”, “would” or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding our business and management, our future growth or profitability and general economic and regulatory conditions and other matters affecting us.

Forward-looking statements reflect our management’s (“Management”) current views of future events, are based on Management’s assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause our actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include fluctuations in prices, costs, ability to retain the services of certain key employees, ability to compete successfully, changes in political, social, legal or economic conditions in Egypt, worldwide economic trends, the impact of war and terrorist activity, inflation, interest rate and exchange rate fluctuations and Management’s ability to timely and accurately identify future risks to our business and manage the risks mentioned above.