

## **SUEZ CEMENT GROUP (SCGC)**

### **BOARD OF DIRECTORS' REPORT**

### **ON THE BUSINESS RESULTS AS AT**

**31<sup>st</sup> December 2015**

The Board of Directors is pleased to present to the Board Members the annual report for financial period ended 31 Dec. 2015.

On behalf of the Board of Directors, the Chairman is proud to present to the shareholders the Board of Directors' report on the Company's achievements and success for the financial for the period ended 31 Dec. 2015.

#### **Basic Data:**

- Suez Cement Company established as a joint stock company, governed by the investment law no.43 for year 1974 and its executive rules. The company's authorized capital amounted to MEGP 3,600 while the paid up and issued capital amounted to EGP 909,282,535 fully paid, The company producing all kinds cement and any other products related to cement industry as well as any other building material and construction supplies.
- Listing has been made on the commercial register under no.181134 – Cairo – dated 6/3/1977.
- Share par value EGP 5 which has been listed on the Egyptian Stock Exchange dated 8/2/1995.

#### **Investor Relations:**

- Investor Relations officer: Mr. Mohamed Ibrahim Mohamed Ibrahim – Finance Manager.

#### **External Auditors:**

- Allied for Accounting & Auditing (E &Y) – Mr. Nabil A. Istanbuli (RAA.5947 – EFSAR.71) and Mr. Emad H. Ragheb (RAA.3678 – EFSAR.42). Appointed on 31<sup>st</sup> March, 2015.

### About Company's Shareholding structure:

- 5% or more shareholders as at 31-12-2015.

Name	No. of Shares	%
MENAF SAS	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%

### Last formation of the Board of Directors:

Name	Position	Representing	status
Omar A. Mohanna	Chairman	Ciments Francais	Non - Executive
Augustino Nuzzolo	Board Member	Ciments Francais	Non - Executive
Bruno Carre	Managing Director	CIMENTS DU MAROC CIMAR	Executive
Mohamed Chaibi	Board Member	CIMENTS DU MAROC CIMAR	Non - Executive
Andrea Dentone	Board Member	TERCIM S A S	Non - Executive
Giovanni Ferrario	Board Member	MENAF SAS	Non - Executive
Ali Ihsan Kucukoglu	Board Member	MENAF SAS	Executive
Raed I. Al Mudaiheem	Board Member	Elmohedeb Alliance.	Non - Executive
Mohamed I. Khan	Board Member	Abd Elmenam Rashed Abd Elrahman	Non - Executive
Alaa Mohamed Ahmed	Board Member	Public Sector	Non - Executive
Abdel Hakim Kassem	Board Member	Public Sector	Non - Executive
Dina Khayyat	Board Member	Independent	Non - Executive
Mounir Soliman	Board Member	Independent	Non - Executive

### **Board of Directors Meetings:**

- (5) BOD Meetings were held during the year 2015.

### **Last Formation of the Audit Committee:**

Name	Position	Representing
Omar A. Mohanna	Chairman - President	Suez Cement Co.
Dina Khayyat	Board Member - Member	Independent
Mounir Soliman	Board Member - Member	Independent

### **Audit committee tasks:**

- 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.

### **Audit committee meetings:**

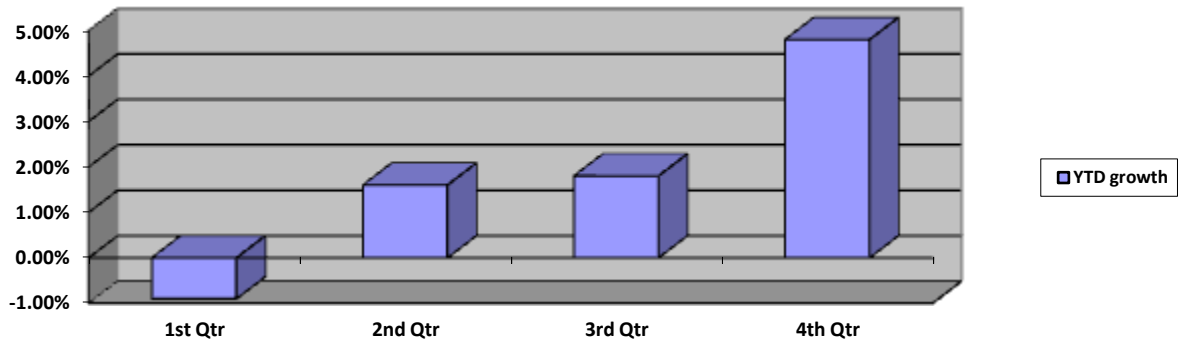
- (3) Audit committee meetings were held during 2015, all reports of the committee had been submitted to the BOD with no substantial observations.

**MARKET ENVIRONMENT AND COMPANY'S  
ACTIVITIES AND PERFORMANCE IN 2015**

**1- Cement market environment**

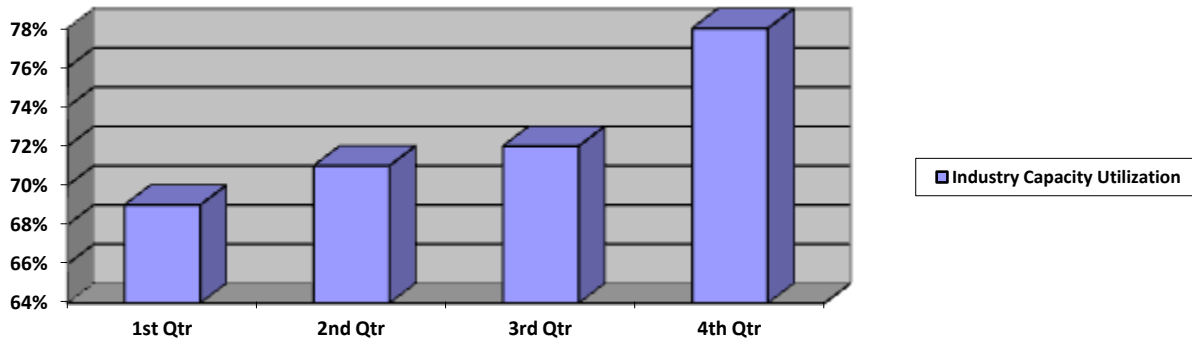
2015 has been an eventful year for Egypt with the highly successful Sharm el Sheikh international conference which gathered in March prominent leaders from the world and the opening of the Suez Canal enlargement in August. Both events contributed to positively change Egypt perception throughout the world and create a positive momentum which has been reflected in an estimated 4.0% GDP growth in the first semester of 2015.

In spite of this sensible GDP growth, Egypt domestic cement consumption remained relatively slow until the fourth quarter which allowed the full year to end with a 4.8% growth over 2014, at 53.8 million tons.



The implementation of infrastructure projects such as roads and bridges, Suez Canal, Ismailya city works or housing developments in Upper Egypt (e.g. Toshka) contributed to this development, while the self construction segment remained negatively impacted by increased administrative controls and economic difficulties.

On the production side, 2015 contrasted sharply with 2014 which was plagued with energy shortage and caused the energy intensive industry in general, and the cement industry in particular to lose production (-9.7%) and imports to compensate for the shortfall. The strong measures taken by Egyptian Government allowed for an improved availability of gas and heavy fuel oil, together with the conversion of some cement plants to coal enabled production to increase a strong 22.4%, to an estimated 73% capacity utilization, which even reached 78% in the last quarter.



The combined effect of a limited growth in market demand and strong increase in production volumes, compounded with some imports inflow in the first half of the year (est. 2.2 million tons) and the sharp decrease of exports (est. -0.5 million tons) resulted in an oversupply of cement in the domestic market which caused cement prices to erode sharply through the first nine months (-22%).

This steep price decline came together with continued pressure for increased costs in energy (fuel and power +20%), personnel and services driven by domestic inflation. These factors impacted the industry overall, with the exception of the cement plants which converted their fuel mix to coal, thus generating lower energy costs.

## 2- Group activities and performance

### Cement & Clinker Sales For the year 2015:

(Thousand Tons)

Description	Domestic cement sales		Export cement sales		Total	
	2015	2014	2015	2014	2015	2014
Suez Cement Company	3,763	3,404	25	-	3,788	3,404
Tourah cement Company	1,489	1,620	-	-	1,489	1,620
Helwan cement company ( grey )	2,799	2,902	52	190	2,851	3,092
<b>Total Grey</b>	<b>8,051</b>	<b>7,926</b>	<b>77</b>	<b>190</b>	<b>8,128</b>	<b>8,116</b>
Helwan cement company( white)	117	112	62	149	179	261

### Cement &Clinker Production For the year 2015:

Egypt produced 54.15 million tons of grey cement during the period ended Dec 2015, comparing with 52.08 million ton in YTD Dec 2014. The following comparative table

shows the level of cement production of the Suez Cement group companies for the period ended 31 Dec 2015.

(Thousand Tons)

Description	Cement		Clinker	
	2015	2014	2015	2014
Suez Cement Company	<b>3,772</b>	3,467	<b>3,345</b>	2,318
Tourah cement Company	<b>1,484</b>	1,624	<b>1,063</b>	973
Helwan cement company( grey )	<b>2,828</b>	3,102	<b>2,568</b>	2,707
<b>Total Grey</b>	<b>8,084</b>	8,193	<b>6,976</b>	5,998
Helwan cement company( white )	<b>178</b>	260	<b>207</b>	263

The consolidated net profit dropped from 500 MEGP in 2014 to a loss of 60 MEGP in 2015 mainly due to:

- The negative effects of the steep price erosion caused by the oversupply in the cement market reflected differently among our cement companies.
  - Suez Cement having already completed the coal conversion process at its Kattameya and Suez plants, was able to offset partially the negative effects of this price erosion on its results, coupled with further operational efficiencies.
  - On the other hand Helwan and Tourah had a very difficult year suffering from the negative effects of using higher fuel costs (Gas and Mazot) compared to coal which dramatically affected their results even though both companies achieved reasonable operational efficiencies.

- Tourah faced two major challenges:
  - a tense labor situation which resulted in a 40 days strike causing steep losses in production and sales and severely impacting 2015 financial results
  - Limitations on quarry operations resulting into limestone quality variations and quantity shortages which have been limiting cement production to a single kiln, causing additional losses in production.
- In the mean time Tourah has received the environmental permit to use coal and RDF which will require an investment of MEGP 350. In order to reinstate the company profitability, the effective launch of this investment plan will depend upon the successful resolution of the current challenges, while Helwan is in process of obtaining the environmental permit for using coal which will require an investment of around MEGP 280.
- A major law suit has been filed against Helwan cement company by the Globe Corporation, a company based in California in the USA claiming past due payments of about US \$ 17 million, plus interest as per the alleged contract since the year 2002. The court has not yet examined the case on the merits and the proceeding remains suspended while awaiting the Court of Cassation's decision on the preliminary matter of jurisdiction.
- The group booked one off provision of 60 million EGP to reflect the actual practice of granting employees upon their retirement, a seniority based end of service allowance, as per Egyptian and International Accounting Standards.
- Despite cash generated from the operations, the consolidated net financial position dropped by MEGP 750 from MEGP 1413 to MEGP 662 mainly as a result of dividends paid, working capital requirements and capital expenditures (MEGP 333).

**STATEMENT OF FINANCIAL POSITION  
IN 31 /12/2015  
AND BUSINESS RESULTS FOR THE YEAR 2015**

**1- Financial Ratios:**

*(amounts in million EGP)*

<b><u>A- Income Statement</u></b>	<b>2015</b>	<b>2014</b>	<b>Variation</b>	<b>Variation %</b>
Sales	5,642	6,152	(510)	-8%
Gross profit	423	1,086	(663)	-61%
% Gross Profit \ Sales	7%	18%	-10%	-58%
Net (Losses) / profit before tax	(80)	804	(884)	-110%
Net (Losses) / profit after tax	(60)	500	(560)	-112%
<b><u>B- Balance sheet</u></b>				
Long term assets	7,108	7,238	(130)	-2%
Current assets	2,915	3,488	(573)	-16%
Current liabilities	2,296	2,402	(107)	-4%
Working capital	619	1,086	(467)	-43%
Equity	7,222	7,861	(640)	-8%
Long term liabilities	506	462	43	9%
<b><u>C- Equity Statement</u></b>				
Issued and paid up capital	909	909	0	0%
Reserves	2,670	2,668	2	0%
Cumulative foreign currencies translation differences	41	30	12	40%
Non-controlling interest	641	676	(35)	-5%
Net (Losses) / profit for the year	(60)	500	(560)	-112%
Retained earnings	<u>3,020</u>	<u>3,079</u>	<u>(59)</u>	<u>-2%</u>
Net Retained earnings	2,960	3,578	(619)	-17%



## 2- Reserves

- The total reserves as of 31 December 2015 amounted to LE 2670,18 million, distributed as follows:  
(Million LE)

454, 60	Legal reserves
2199, 80	Special reserves
14, 46	Capital reserves
1, 32	Reserve of unrealized gains on available-for-sale investments

## 3- Provisions

Total provisions amounted to 751.1 LE million in 31 Dec 2015 as follows:

	<u>MEGP</u>
Tax disputes	269.1
Site restauration	46.3
Legal disputes	32.4
Training fund	87.3
Gas claims for Tourah Plant	51.0
Other Claims	<u>1.4</u>
Subtotal	<u>487.5</u>
Plus: provisions deducted directly from the related assets	
<i>Inventories provision</i>	168.6
<i>Doubtful debts</i>	<u>95.0</u>
Subtotal	<u>263.6</u>
Total Provisions	751.1
	=====

Omar A. Mohanna

Chairman