



## EZZ STEEL REPORTS CONSOLIDATED H1 2019 RESULTS

**Cairo, 10 October 2019** – Ezz Steel (EGX: ESRS; London Stock Exchange: AEZD), the largest independent producer of steel in the MENA region and market leader in Egypt, today announced its consolidated results for the period ending 30 June 2019. The audited results have been prepared in accordance with Egyptian Accounting Standards.

### Key highlights

*EGPMn*

|   | <u>H1 2018</u> | <u>H1 2019</u> | <u>YoY % (+/-)</u> |
|---|----------------|----------------|--------------------|
| □ <b>Net sales</b>                                  | 25,493         | 25,901         | +2%                |
| □ <b>Gross profit</b>                               | 3,485          | 810            | (77%)              |
| □ <b>EBITDA*</b>                                    | 3,495          | 660            | (81%)              |
| □ <b>Net profit after tax and minority interest</b> | (389)          | (2,099)        |                    |
| □ <b>Earnings per share**</b>                       | (0.72)         | (3.86)         |                    |
| □ <b>Net debt to equity</b>                         | 2.53           | 7.90           |                    |

\*EBITDA = sales – cost of goods sold – selling & marketing expense – G&A expense + depreciation and amortisation

\*\*EPS = Net profit after tax & Minority Interest / No. of shares at the end of the period

## Comment

Commenting on the results, Mr Paul Chekaiban, Chairman and Managing Director of Ezz Steel, said:

Ezz Steel's financial performance in the second quarter of 2019 followed a similar trend to that of the first quarter of the year. This led to a negative consolidated bottom line in the first half of 2019.

While again showing the operational efficiency of our plants along with the steel sector globally, we continued to suffer from the falling price of steel products and the rising costs of iron ore pellets. This pressure was increased by the exceptionally high costs of funding and energy in Egypt.

Looking forward, we expect a gradual relief from the adverse circumstances affecting our company, allowing us to fully benefit from the continued improvement of our operational performance.

### For further information:

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### About Ezz Steel

Ezz Steel (formerly: Al Ezz Steel Rebars) is the largest independent steel producer in the Middle East and North Africa, and the Egyptian market leader, with a total actual capacity of 7 million tonnes of finished steel per annum.

In 2018, the Company produced 3.5 million tonnes of long products (typically used in construction) and 1.4 million tonnes of flat products (typically used in consumer / industrial goods). Ezz Steel deploys the latest in modern steel-making technology and is committed to further increasing vertical integration across its plants, boosting operational flexibility.

## Operational Review

All of the below financial breakdowns are based on Ezz Steel's consolidated financials, which include the financial performance of ESR/ERM, EZDK and EFS.

### Sales & Production

Consolidated net sales for H1 2019 were EGP 25.9 billion, representing an increase of 2 per cent year on year. This increase was driven by an 8 per cent increase in long sales which was partly offset by a 16 per cent decrease in flat sales. The decline in flat sales was particularly evident in the domestic markets. Prices declined across both long and flat steel, as well as in Egypt and the international market, during the first half of 2019. However, in general, the decline slowed in the second quarter.

| <b>Sales after elimination</b> |                |               |              |                     |
|--------------------------------|----------------|---------------|--------------|---------------------|
| <i>EGPMn</i>                   | <b>ESR/ERM</b> | <b>EZDK</b>   | <b>EFS</b>   | <b>Consolidated</b> |
| Long                           | 4,218          | 10,288        | 5,511        | <b>20,017</b>       |
| Flat                           | -              | 5,063         | 517          | <b>5,580</b>        |
| Others                         | -              | 260           | 44           | <b>304</b>          |
| <b>Total</b>                   | <b>4,218</b>   | <b>15,611</b> | <b>6,072</b> | <b>25,901</b>       |

Long steel products accounted for EGP 20.0 billion, or 77 per cent of sales in H1 2019, while flat steel products represented 22 per cent of sales at EGP 5.6 billion. Long product exports accounted for 7 per cent of total long sales. Flat product exports accounted for 50 per cent of total flat sales.

| <b>Sales Value</b> |                 |                 |               |                 |
|--------------------|-----------------|-----------------|---------------|-----------------|
| <i>EGPMn</i>       | <b>Domestic</b> | <b>per cent</b> | <b>Export</b> | <b>per cent</b> |
| Long               | 18,624          | 93%             | 1,394         | 7%              |
| Flat               | 2,784           | 50%             | 2,795         | 50%             |

Long sales volumes were 1.98 million tonnes during H1 2019, 14 per cent higher than the 1.73 million tonnes sold during the same period last year. Consolidated flat sales volumes declined by 9 per cent to 550 thousand tonnes in H1 2019.

The group's consolidated sales volumes totalled 2.5 million tonnes in H1 2019, an increase of 8 per cent from the 2.3 million tonnes in H1 2018.

The contributions of ESR/ERM, EZDK and EFS to the consolidated net sales for the period ending 30 June 2018 were 17 per cent, 60 per cent, and 23 per cent respectively.

Long steel production volumes totalled 1.9 million tonnes during H1 2019, up 10 per cent compared to H1 2018. Flat steel production volumes decreased by 7 per cent to 609 thousand tonnes for the period, compared to 652 thousand tonnes in the previous year.

### Cost of Goods Sold

Consolidated Cost of Goods Sold for H1 2019 represented 97 per cent of sales, leading to a decrease in gross profit margin from 14 per cent in H1 2018 to 3 per cent in H1 2019 due to high iron ore prices compared to product prices, as well as the continuing high price of natural gas in Egypt. However, when comparing the first and second quarter 2019, gross profit margins improved from 2% in Q1 2019 to 4% in Q2 2019.

Following on from Q1 2019, Cost of Goods Sold rates continued to fall in the second quarter except for ESR/ERM which improved slightly by 4 percentage points in Q2 2019. For H1 2019, ESR/ERM reported a COGS/Sales ratio of 97% for H1 2019, compared to 92% in H1 2018. In the Q2 2019, this figure improved to 95%. At EZDK the COGS/Sales ratio stood at 94%, representing a decrease of 10 percentage points compared to H1 2018. EFS's Cost of Goods Sold represented 110 per cent of sales, compared with 108 per cent in the same period last year.

| <i>EGPMn</i>      | Standalone figures |            |             | Consolidated |
|-------------------|--------------------|------------|-------------|--------------|
|                   | ESR/ERM            | EZDK       | EFS         | Ezz Steel    |
| Sales             | 7,415              | 18,688     | 6,077       | 25,901       |
| COGS              | 7,195              | 17,562     | 6,687       | 25,091       |
| <b>COGS/Sales</b> | <b>97%</b>         | <b>94%</b> | <b>110%</b> | <b>97%</b>   |

### Gross profit

Gross profit of EGP 810 million was recorded for H1 2019, a decrease of 77 per cent from the EGP 3.48 billion recorded in H1 2018.

## **EBITDA**

EBITDA for H1 2019 amounted to EGP 659 million, representing a decrease of 81 per cent from EGP 3.5 billion in H1 2018.

## **Tax**

During H1 2019, Ezz Steel had deferred taxes in the amount of EGP 85 million and income tax of EGP 23.6 million.

## **Net result after tax and minority interests**

Net result after tax and minority interests recorded a loss of EGP 2.1 billion for H1 2019, compared to a loss of EGP 390 million during the same period in 2018.

## **Liquidity and capital resources**

At the end of the period, Ezz Steel had cash on hand of EGP 2.1 billion and net debt of EGP 25.8 billion. The company has a gearing of Net Debt / Equity of 7.90 times.

## **Outlook**

Looking forward, we expect a gradual relief of the adverse circumstances affecting our company, allowing us to fully benefit from the continued improvement of our operational performance.

## Divisional Overview

The below figures represent sales before eliminations.

| <b>EZDK<br/>Sales (EGP):</b>    | <b>H1 2018</b> | <b>H1 2019</b> |        |
|---------------------------------|----------------|----------------|--------|
| Value:                          | 19,912         | 18,688         | Mn     |
| Volume:                         |                |                |        |
| Long:                           | 1,283,092      | 1,290,145      | Tonnes |
| Flat:                           | 533,760        | 549,825        | Tonnes |
| Exports as % of Sales:          |                |                |        |
| Long:                           | 10             | 11             |        |
| Flat:                           | 45             | 51             |        |
| EBITDA:                         | 3,029          | 978            | Mn     |
| <b>Production:</b>              |                |                |        |
| Long Products:                  | 983,789        | 978,726        | Tonnes |
| Flat Products:                  | 554,349        | 574,815        | Tonnes |
| Billets:                        | 1,018,784      | 1,066,656      | Tonnes |
| <b>ESR/ERM<br/>Sales (EGP):</b> |                |                |        |
| Value:                          | 7,093          | 7,415          | Mn     |
| Volume:                         | 424,514        | 412,017        | Tonnes |
| Exports as % of Sales:          |                |                |        |
| EBITDA:                         | 486            | 65             | Mn     |
| <b>Production:</b>              |                |                |        |
| Long Products:                  | 422,087        | 367,515        | Tonnes |
| Billets:                        | 299,587        | 339,101        | Tonnes |
| DRI                             | 465,727        | 709,635        | Tonnes |
| <b>EFS<br/>Sales (EGP):</b>     |                |                |        |
| Value:                          | 4,191          | 6,077          | Mn     |
| Volume:                         |                |                |        |
| Long:                           | 305,999        | 554,019        | Tonnes |
| Flat:                           | 68,823         | 52,161         | Tonnes |
| Exports as % of Sales:          |                |                |        |
| Long:                           | -              | -              |        |
| Flat:                           | 52             | 0              |        |
| EBITDA:                         | (95)           | (404)          | Mn     |
| <b>Production:</b>              |                |                |        |
| Long Products:                  | 298,329        | 523,797        | Tonnes |
| Flat Products:                  | 97,678         | 34,281         | Tonnes |
| Billets:                        | 323,215        | 570,129        | Tonnes |

- Ends -

**Disclaimer:**

This press release is issued by Ezz Steel (formerly: Al Ezz Steel Rebars S.A.E.) the “Company”, in connection with the disclosure of the Company’s financial results for the 6-month period ending 30 June 2019. This press release includes forward-looking statements. These forward-looking statements include all matters that are not historical facts. In particular, the statements regarding the Company’s strategy, the expected strength of demand for long and flat products in Egypt and in regional and international markets, and other future events or prospects are forward looking statements. Recipients of this document should not place undue reliance on forward looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the control of the Company. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Company’s actual results of operations, financial condition and liquidity, and the development of the industry in which the Company operates may differ materially from those expressed in or implied by the forward-looking statements contained in this document. The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Company, or persons acting on its behalf, may issue. Various factors could cause actual results to differ materially from those expressed or implied by the forward-looking statements in this document including worldwide economic trends, global and regional trends in the steel industry, the economic and political climate of Egypt and the Middle East, changes in the business strategy of the Company, and various other factors. These forward-looking statements reflect the Company’s judgment at the date of this document and are not intended to give any assurances as to future results. The Company undertakes no obligation to update these forward-looking statements, and it will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. None of Ezz Steel, any of its directors, officers or employees or any other person can give any assurance regarding the future accuracy of the information set forth herein or as to the actual occurrence of any predicted developments. Furthermore, no such parties shall assume, and each of them expressly disclaims, any obligation (except as required by law or the rules of the ESE, the LSE or the FCA) to update any forward-looking statements or to conform these forward-looking statements to Ezz Steel’s actual results.