

Consolidated Financial Statements for the full year ending 31<sup>st</sup> of December, 2013

## SODIC's Normalised Net Profit: EGP 229 Million

Cairo, Egypt

April 22<sup>nd</sup>, 2014: SODIC ("Sixth of October Development & Investment Company") has released its consolidated financial results for the full year ending 31<sup>st</sup> of December 2013.

Consolidated Income Statement Figures for the period ending 31-Dec-2013:

- **Revenues:** EGP 1,324 million
- **Gross Profit:** EGP 355 million
- **Net Loss:** EGP 447 million

Consolidated Balance Sheet Figures as at 31-Dec-2013:

- **Accounts Receivable:** EGP 3,603 million
- **Work in Process:** EGP 2,965 million
- **Cash Balance:** EGP 453 million

**Normalised** Consolidated Income Statement Figures for the period ending 31-Dec-2013:

- **Revenues:** EGP 1,566 million
- **Gross Profit:** EGP 535 million
- **Net Income:** EGP 229 million

While SODIC reported a significant accounting loss for the year, SODIC's consolidated normalized (pre-reversals and impairment) gross profit for the period ending 31<sup>st</sup> of December, 2013 came in at EGP 535 million (8% increase yoy) on consolidated revenues of EGP 1,566 million (10% increase yoy), reflecting a gross profit margin of 34% and a normalized net income of EGP 229 million. The Company's reported revenues, gross profit and net income were impacted with two extraordinary, one-off cancellations and a 100% impairment of its investment in Syria.

Operationally, 2013 was an extremely positive year for SODIC with record-breaking results in terms of sales, collections, deliveries, and new project launches, as demonstrated by the following KPI's:

- *EGP 2.7 billion in gross new sales across more than 1,400 units*
- *Highest number of deliveries, with 680 units delivered showing a 55% growth yoy*
- *EGP 1.2 billion of cash collected during 2013 presenting some 70% increase yoy*
- *Revenues were to reach its highest level (EGP 1,566 million) pre-extra-ordinary cancellations*

The momentum continued into 2014 with strong Q1 net contracted sales and the resolution of all legal disputes.

Given the impact of the resolution of the legal dispute with Solidere and in line with its annual review of accounting policies, management decided to review its position on all material financial risks and to adopt a more cautious approach to substantially reduce the possibility of any negative surprises in the future.

As a result, the following treatments have taken place:

- *Revenue reversals of previously booked transactions amounting to EGP 242 million. The reversals are related to two large sale transactions. (Detailed below)*
- *A one-off, non-cash, impairment charge on SODIC's Syrian investment has taken place with an amount of EGP 478 million.*

### Market Data

#### Index Inclusion:

EGX 30  
EGX 100  
MSCI IMI

#### Symbol:

EGX: OCDICA  
Reuters: OCIDI CA  
Bloomberg: OCIDI EY

Share Price at 17<sup>th</sup> Apr.2014 (EGP): 27.1

52 Weeks High/Low (EGP): 30.0/13.8

Current Shares Outstanding (mln): 90.68

Market Cap (EGP mln): 2,455

Market Cap (USD mln): 350

\*Market Cap figures as at 17Apr. 2014

\*FX Rate: 1.00 USD = 7.00 EGP

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The above treatments resulted in a consolidated net loss of EGP 447 million for the period ending 31<sup>st</sup> of December 2013. (Please check details of the revenue reversals and Syria impairment below)

It is necessary to note the impairment related to Syria is a pure accounting treatment and has no impact on the cash flows of SODIC. In fact, SODIC's Syrian investment had already been significantly impaired at the equity level. It is also worth noting that most analysts attributed no value to SODIC's Syrian investment. Whilst management has decided to take a more conservative approach for the short term, this does not in any way affect its legal position at the subsidiary level, nor the fact that it believes the land has considerable value and the subsidiary continues to have legal title. Management has, however, taken the view it will not realistically be possible to realize that value in the short term.

### Details of the two revenue reversals:

- 1- The first reversal follows the amicable settlement with Solidere International and Solidere Egypt (SI/SE), concerning their sub-development rights relating to the previously exercised option rights agreement in 2009. The settlement entails the cancellation of SI/SE's sub-development right and hence the reversal of its revenue previously booked by SODIC in 2009. As a result, an amount of EGP 111 million is deducted from SODIC's gross profit. **From SODIC's perspective, the settlement returns 250,000 sqm of land within Westown, which is expected to yield some EGP 1.3 billion of new contracted sales.**
- 2- The second reversal relates to a transaction that took place in July 2010 for a land plot (land area of 16,860 sqm) on a sub-development basis for EGP 91 Million. The buyer paid SODIC a down payment upon contract signature and has since failed to meet his contractual obligations over an extended period of time. SODIC's management has decided to cancel the contract and retrieve the land. Consequently, SODIC's gross profit is reduced by EGP 69 million.

As a result of the revenue reversed and its associated costs, SODIC's gross profit came in at EGP 355 million - implying a gross profit margin of 27%. However, excluding the aforementioned reversals, the normalised gross profit is EGP 535 million - implying a gross profit margin of 34%.

The table below shows the normalised gross profit and the effect of both cancellations:

Account	2013 Normalized P&L	Solidere (SI/SE) Cancellation Only	Sub-development Land Sale Cancellation Only	Effect of Both Cancellations
Operational Revenue	1,566	1,566	1,566	1,566
Revenue Cancellation	-	(171)	(71)	(242)
<b>Net Revenue</b>	<b>1,566</b>	<b>1,395</b>	<b>1,495</b>	<b>1,324</b>
Operational COGS	(1,031)	(1,031)	(1,031)	(1,031)
COGS Cancellation	-	60	2	62
<b>Net COGS</b>	<b>(1,031)</b>	<b>(971)</b>	<b>(1,029)</b>	<b>(969)</b>
<b>Gross Profit</b>	<b>535</b>	<b>424</b>	<b>466</b>	<b>355</b>
<b>GPM</b>	<b>34%</b>	<b>30%</b>	<b>31%</b>	<b>27%</b>

### Impairment of Syria Investment:

In 2010, SODIC embarked on an investment in Syria, in partnership with MAS Economic Group, to acquire 50% of Palmyra Real Estate Development. Following SODIC's acquisition, the company became known as *Palmyra SODIC Real Estate Development*. Palmyra SODIC has a land bank of 3.2 million sqm spread across Damascus, Aleppo & Lattakia.

Since 2011, the political turmoil in Syria has hampered SODIC's ability to monetize Palmyra SODIC's land bank. SODIC's management witnessed increasing difficulty in managing the Syrian joint venture as the political events in Syria unfolded. Over the last few months the political landscape has shifted significantly in favour of the ruling regime causing management to review and revise the accounting treatment of its investment in Syria with a decision to impair all of SODIC Group's financial exposure to the Syrian investment. This financial exposure is divided into direct equity investments, shareholder loans and management fees. The total financial exposure amounts to EGP 478 million broken down as follows:

- Shareholder loans, unpaid interest, and unpaid management fees of EGP 289 million
- Charges related to SODIC's direct equity investment of EGP 189 million. This charge is a pure accounting reclassification entry from the Cumulative Translation Adjustment (CTA) recognized in Equity to SODIC's Income Statement. This treatment is in accordance with the Egyptian Accounting Standards number 13.

SODIC's consolidated income statement was therefore charged with a one-off non cash impairment of EGP 478 million related to SODIC's group financial exposure in Syria as at 31/12/2013.

### **Exceptional sales performance in 2013:**

Despite a turbulent 2013 marred by socio-political unrest, SODIC was able to navigate through the rough periods and launch the first 4 phases in Eastown Residences, SODIC's flagship project in East Cairo. In addition, SODIC was able to launch 3 new phases in its first post-revolution designed project, Westown Residences.

2013 proved to be another record breaking year for SODIC. Achieving EGP 2.5 billion of net contracted sales surpassing all estimates (55% growth yoy). This figure outstrips sales value achieved in 2010 of EGP 1.8 billion our previous best year. 2013's new sales are well diversified across SODIC's full range of projects with all targets met or bettered.

Moreover, the Company's average unit price in pre-revolution years was around EGP 3.5 million. During 2012 and 2013 the Company managed to bring down the average to EGP 1.9 million per unit. The new products with lower price bracket captured a wider segment of clients, increasing net unit sales from 558 units in 2010 to 850 units and 1,321 units in 2012 and 2013 respectively. The 46% drop in average unit price has been achieved as a result of developing units with higher efficiencies and smaller BUAs, without compromising functionality and desirability.

### **Higher than projected deliveries:**

SODIC has been able to revitalize its delivery process after the interruption experienced in the third quarter. The Company delivered 336 units worth EGP 847 million in 4Q2013 (15% increase qoq), aided by 5 new projects coming on stream. This brings the total number of deliveries in 2013 to 680 units (worth EGP 1,566 million) across 7 different projects, beating full year's estimate by 13%.

In Allegria - SODIC's flagship project - accumulated deliveries exceeded 1,000 units (worth some EGP 2.9 billion) of which 258 units were delivered over the course of 2013. The Company will still deliver on high value Allegria units over the course of 2014 and 2015 with an amount in excess of EGP 1 billion. It is worth mentioning that Allegria is almost completely developed with approximately 100 living homes and another 250 owners in their home-finishing process. The Strip continued deliveries with 8 units handed-in to clients during 2013 and 11 units in Forty West. A number of projects commenced delivery in 2013, namely:

- Kattameya Plaza: 284 units
- Polygon: 61 units
- Westown Residences: 34 units (one year ahead of schedule)
- CASA: 24 units

### **Well managed collections and financing:**

SODIC's tightly managed cash collection process led to the collection of more than 90% of 2013 project accounts receivable, taking total project cash collections to be in excess of EGP 1.2 billion for the year, some 70% growth yoy.

SODIC has signed a syndicated medium term loan facility worth EGP 900 million with four major Egyptian banks - led by Arab African International Bank (AAIB) as the Senior Mandated Lead Arranger and Facility Agent. The facility will finance SODIC West Project including the following developments: Allegria, Forty West, The Polygon, Westown Retail Hub, and Westown Residences. The facility is divided into two tranches:

- Tranche A: Re-finance the Company's outstanding indebtedness on SODIC West (closed on the 31<sup>st</sup> of March, 2014)
- Tranche B: Finance the remaining project cost in SODIC West

The syndication is proof of SODIC's credibility as a developer as well as its strong financial position and the lenders' confidence in SODIC's ability to deliver on its commitments. SODIC is now well geared to close out the remaining phases of Westown and is in advanced negotiations on securing facilities in Eastown.

Moreover, SODIC has signed a mandate with two joint lead arrangers to securitise outstanding project receivables for delivered and ready for delivery units in Kattameya Plaza project.

### **Continued timely execution:**

Despite the political and economic upheaval during the year including the disruptive curfew over the summer months, SODIC suffered minimal impact, remobilising the sites immediately after the curfew was lifted. The Company ended the year with spending over EGP 800 million on projects across West and East Cairo, slightly below its target, but with no delays on any contracted delivery dates.

SODIC remains focused first and foremost on continuing execution on all its sold projects. Delivering the projects on time and on quality will ensure the timely collection of the sizeable EGP 3.6 billion receivables (to be collected over the coming 5 to 6 years) and preserves SODIC's reputation as a reliable delivery oriented developer. In addition, SODIC will continue to operate efficiently to build and deliver all of the launched projects to its clients as per the committed delivery dates.

### **Achieved resolutions on the Legal front:**

- 1) On the 14<sup>th</sup> of this month, SODIC and NUCA have reached a final settlement on Eastown dispute. SODIC accepted NUCA's request for an additional land payment of EGP 900 million to be paid over 7 years in return for dropping all outstanding legal disputes on SOREAL (a 100% SODIC owned company) and agreeing on a new clear development time frame of 5 years starting from the date of the agreement.
- 2) Arbitration case with Solidere is concluded: SODIC announced in February it has reached an amicable settlement with Solidere International and Solidere Egypt (SI/SE) on all disputes concerning the sub-development agreement. The settlement entails the cancellation of SI/SE's sub-development right in Westown for an amount payable to SI/SE. Furthermore, all proceedings shall be terminated accordingly and all future obligations related to the agreement are cancelled.

By SODIC concluding both its legal issues during the first half of 2014, the Company's land bank is free of challenge and the Company is perfectly poised for growth with its current platform.

SODIC has a number of launches lined up in the coming period, across Westown Residences and Eastown Residences. The upcoming phases are a continuation of the successful launches of Eastown Residences & Westown Residences over the past 2 years, which generated EGP 1.2 billion & EGP 1.5 billion of contracted sales respectively as at the end of 2013, nearly selling out all phases launched. First quarter of 2014 witnessed the launch of phase X of Westown Residences (total inventory of some EGP 530 million), with sales to date of some EGP 400 million. Finally, 2014 looks like another record breaking year for SODIC with total net sales to date across all launched projects of some EGP 794 million.

**Consolidated Financial Statements for the year ending 31<sup>st</sup> of December, 2013:**

**I. Consolidated Income Statement** *(EGP Million, unless otherwise stated):*

	<b>FY 2013</b>	<b>FY 2012</b>
<b>Total Revenues</b>	<b>1324</b>	<b>1426</b>
Cost of Goods Sold	-969	-909
<b>Gross Profit</b>	<b>355</b>	<b>517</b>
<b>GP Margin</b>	<b>27%</b>	<b>36%</b>
Selling & Marketing Expenses	-101	-91
General & Administrative Expenses	-150	-141
Other Operating Revenues	85	59
Other Operating Expenses	-331	-52
<b>Operating Profit</b>	<b>-142</b>	<b>292</b>
Finance Income	35	40
Finance Expense	-235	-56
Solidere Finance Cost	-75	-
Non controlling interest share in profits (losses) of subsidiaries	-5	-8
<b>NPBT</b>	<b>-422</b>	<b>268</b>
Taxes	-25	-11
<b>Net Profit</b>	<b>-447</b>	<b>257</b>
<b>NP Margin</b>	<b>-</b>	<b>18%</b>

## II. Consolidated Balance Sheet (EGP Million):

	31-Dec-13	31-Dec-12		31-Dec-13	31-Dec-12
<b>Long Term Assets</b>			<b>Long Term Liabilities</b>		
Net Fixes Assets	125	198	Long Term Loans	88	256
Net Investment Properties	17	10	Notes Payable & DTL	52	76
Net Trade & Notes receivable	2,487	1,549	<b>Total Long Term Liabilities</b>	<b>140</b>	<b>332</b>
Other Long Term Assets	18	118			
<b>Total Long Term Assets</b>	<b>2,647</b>	<b>1,875</b>	<b>Current Liabilities</b>		
<b>Current Assets</b>			Provisions for Completion & Other Provisions	97	154
Completed Units Ready for Sale	32	47	Bank Credit Facilities	107	36
Works in Progress	2,965	2,983	Short Term Loans	223	107
Net Trade and Notes Receivable	1,116	1,012	Advances from Customers	4,294	3,504
Net Debtors & Debit Balances	343	425	Contractors, Suppliers and Notes Payable	145	142
Loans to JVs	0	170	Creditors and Other Credit Balances	730	411
Other Current Assets	6	8	<b>Total Current Liabilities</b>	<b>5,596</b>	<b>4,354</b>
Investments in T-bills	24	12	<b>Total Liabilities</b>	<b>5,736</b>	<b>4,686</b>
Cash at Banks and on Hand	453	320			
<b>Total Current Assets</b>	<b>4,939</b>	<b>4,976</b>	<b>Equity</b>		
<b>Total Assets</b>	<b>7,586</b>	<b>6,851</b>	Issued and Paid in capital	363	363
			Legal Reserve	181	181
			Special Reserve	1,317	1,317
			Retained Earnings	408	159
			Treasury Shares/Profit from Sale of Treasury Shares	4	4
			Shares for Incentive and Bonus Plan	-80	-80
			Amount Set Aside from Incentive & Bonus Plan	25	25
			Net Profit for the Year	-447	250
			Cumulative translation adj. of foreign operations	0	-106
			Minority Interest	80	52
			<b>Total Equity</b>	<b>1,851</b>	<b>2,165</b>
			<b>Total Liabilities &amp; Shareholders Equity</b>	<b>7,586</b>	<b>6,851</b>

## Operational Performance Highlights:

### I. Contracted Sales Analysis:

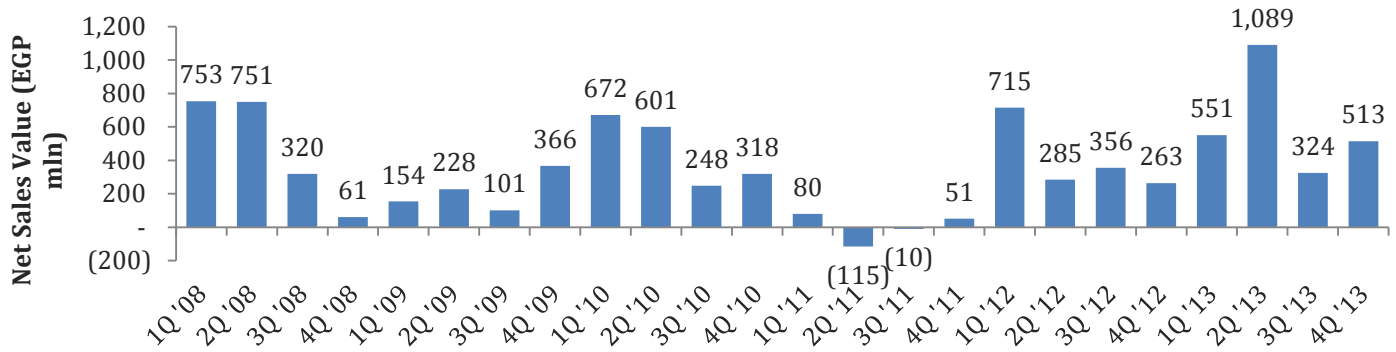
#### a. Contracted Sales Breakdown:

Westown Residences phase X sold for some EGP 322 million during Q1 2014, representing 46% of the quarter's sales. (Phase X was launched on the 1<sup>st</sup> of March 2014)

Contracted Sales Breakdown	Q4 2013	Q3 2013	FY 2013	FY 2012	Q1 2014
<b>Gross Contracted Sales</b>	<b>570.8</b>	<b>345.8</b>	<b>2,730.3</b>	<b>1,818.8</b>	<b>746.0</b>
<i>EGP mln</i>					
Allegria	122.3	16.6	339.3	568.8	141.0
Kattameya Plaza	0.055	2.3	138.3	152.6	6.5
Forty West	38.0	5.5	71.5	22.9	32.7
The Polygon	34.1	8.7	155.9	58.5	98.5
Westown Residences	194.2	83.9	583.1	920.8	423.2
Eastown Residences	136.8	213.4	1,224.9	0.0	11.1
The Strip	45.4	15.4	114.9	70.4	32.0
Casa	0.0	0.0	20.9	24.7	1.1
Other	0.0	0.0	81.5	0.0	0.0
<b>Cancellations and Modifications</b>	<b>(57.4)</b>	<b>(21.5)</b>	<b>(252.3)</b>	<b>(199.6)</b>	<b>(47.7)</b>
<i>EGP mln</i>					
Allegria	(22.7)	(6.3)	(79.8)	(114.1)	(21.3)
Kattameya Plaza	(2.9)	(2.7)	(11.9)	(22.3)	(2.6)
Forty West	0.0	0.0	(11.1)	(17.7)	0.0
The Polygon	(12.4)	0.0	(12.4)	(2.2)	0.0
Westown Residences	(6.3)	(4.4)	(42.2)	(39.2)	(5.2)
Eastown Residences	(10.8)	(3.5)	(19.4)	0.0	(2.7)
The Strip	(2.2)	(4.7)	(72.3)	(2.8)	(15.9)
Casa	0.0	0.0	(3.2)	(1.3)	0.0
Other	0.0	0.0	0.0	0.0	0.0
<b>Net Sales</b>	<b>513.4</b>	<b>324.6</b>	<b>2,478.0</b>	<b>1,619.1</b>	<b>698.4</b>
<i>EGP mln</i>					
Allegria	99.6	10.3	259.5	454.7	119.7
Kattameya Plaza	(2.9)	(0.3)	126.4	130.4	4.0
Forty West	38.0	5.5	60.4	5.2	32.7
The Polygon	21.7	8.7	143.5	56.3	98.5
Westown Residences	187.9	79.5	540.9	881.6	418.0
Eastown Residences	126.0	209.9	1,205.5	0.0	8.4
The Strip	43.2	10.8	42.6	67.6	16.1
Casa	0.0	0.0	17.7	23.4	1.1
Other	0.0	0.3	81.5	0.0	0.0

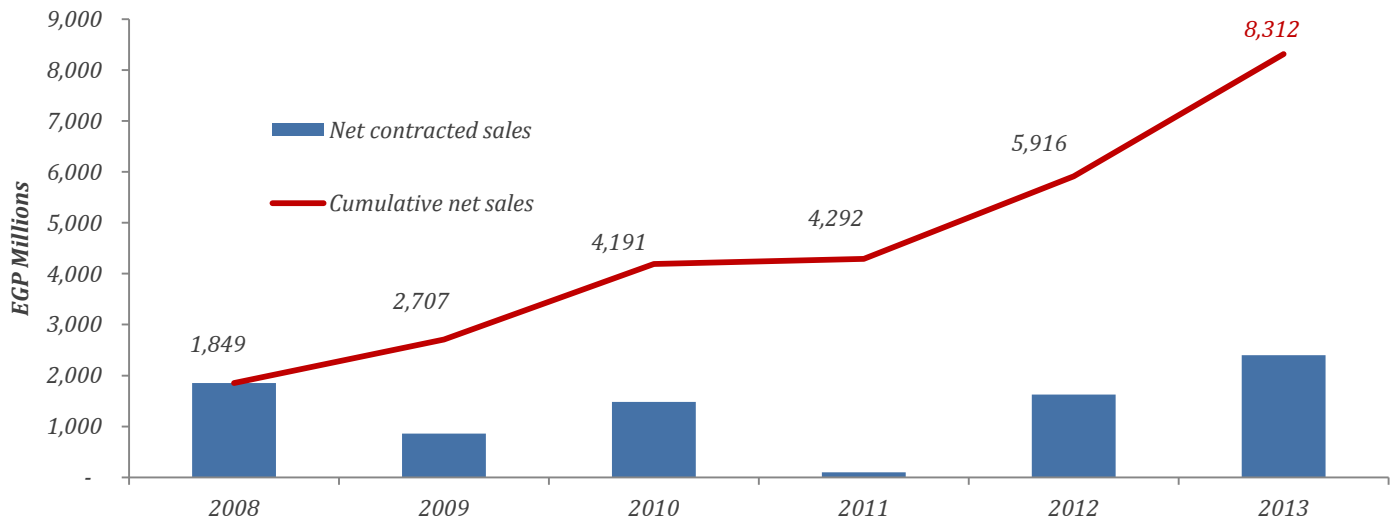
**b. Quarterly Net Sales:**

The chart below shows sales seasonality by quarter Q1 '08 – Q4 '13.



**c. Annual Net Unit Sales:**

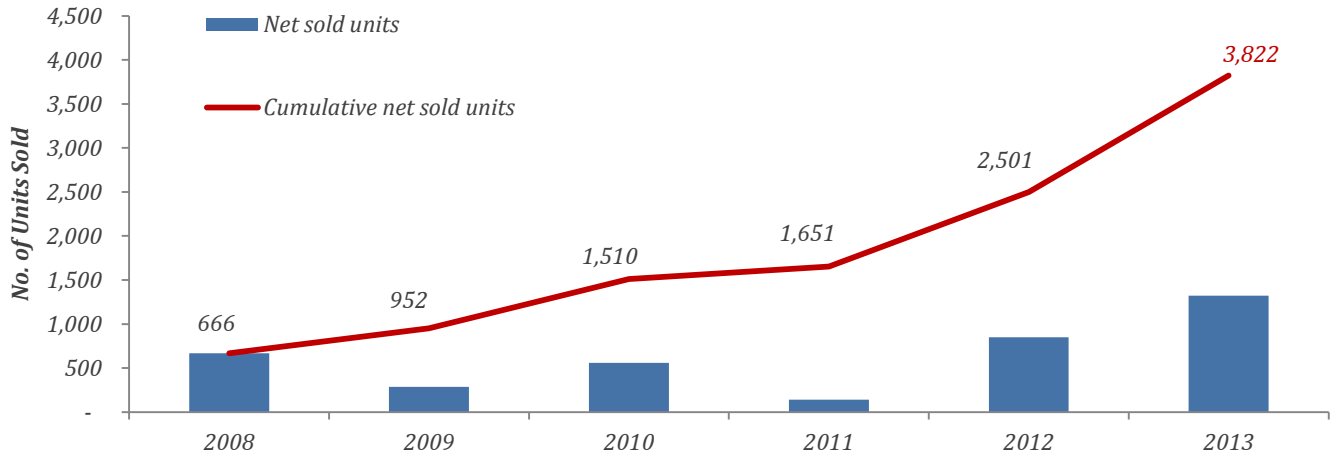
Net contracted sales in 2013 stood at EGP 2.5 billion, the highest level ever, with a growth of 55% over 2012.





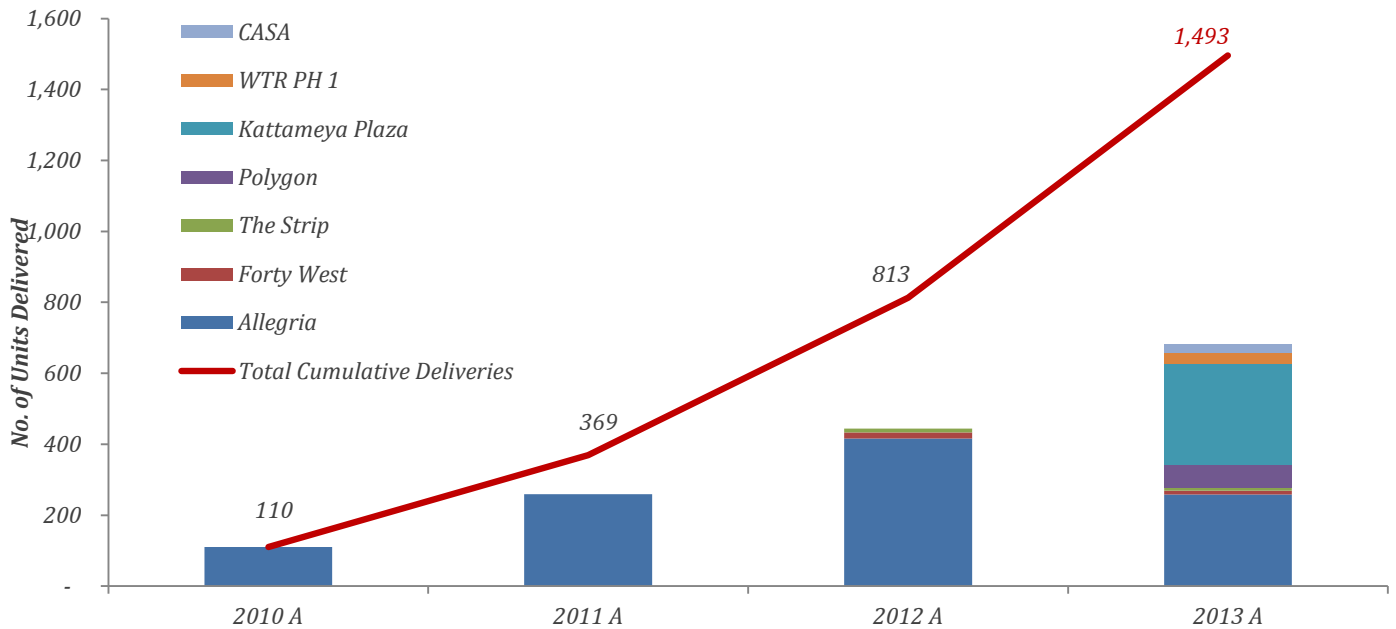
**d. Number of Net Units Sold (per annum):**

SODIC sold 1,321 units in 2013, representing a growth of 55% versus 2012, taking our cumulative contracted units to 3,822 (excluding Beverly Hills project).



**II. Delivery Analysis:**

Cumulative units delivered since 2008 stand at 1,496 units, with 2013 representing the highest year at 683 units (excluding Beverly Hills project).



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