



**OrientalWeavers**



# **ORIENTAL WEAVERS** **GLOBAL MARKET LEADER**

ANNUAL REPORT 2011





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# ORIENTAL WEAVERS AT A GLANCE

14%

2011 increase in  
export sales

14%

2011 increase in total  
sales value Y-o-Y

13%

2011 increase in  
local sales (Egypt)

17,000

employees

8

factories

113 million

square meter annual  
production capacity  
across all lines

Operating on

6

continents

Sales in

+150

countries

5

brands

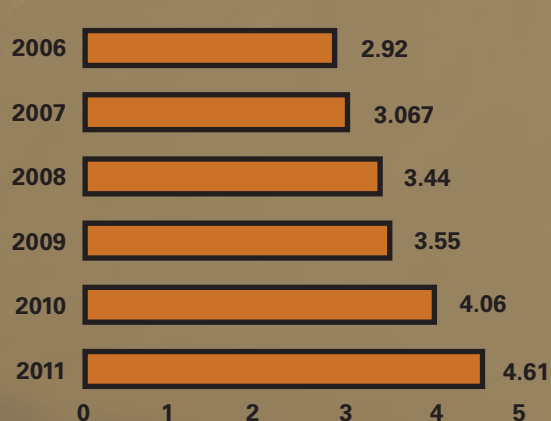
7

subsidiary  
companies

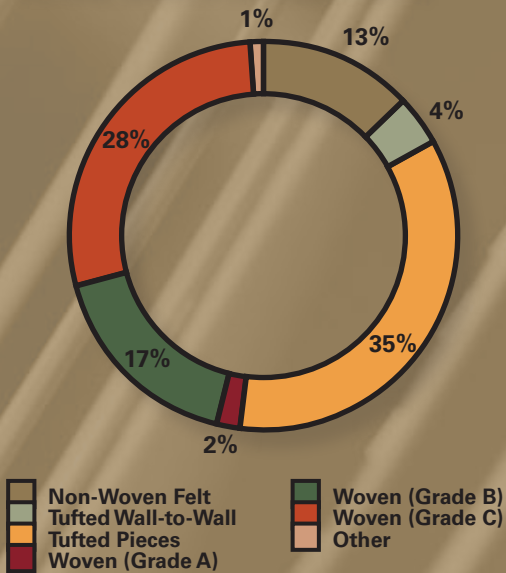
## CAPACITY PROGRESSION (MILLION M<sup>2</sup>)



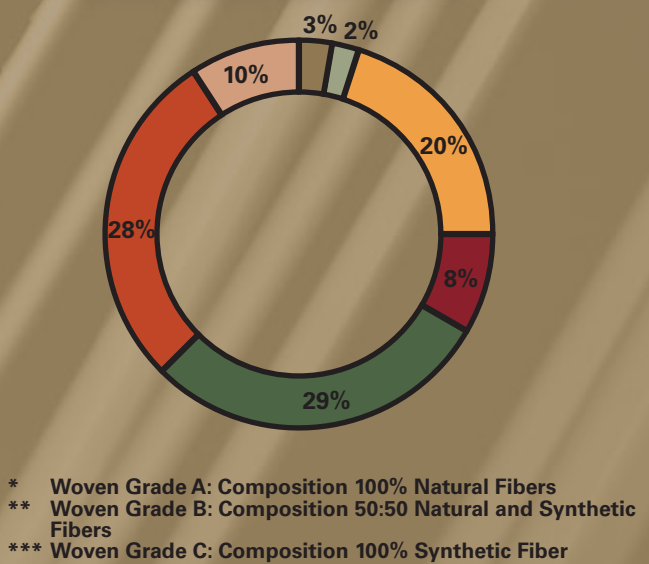
## REVENUE PROGRESSION (BILLION EGP)



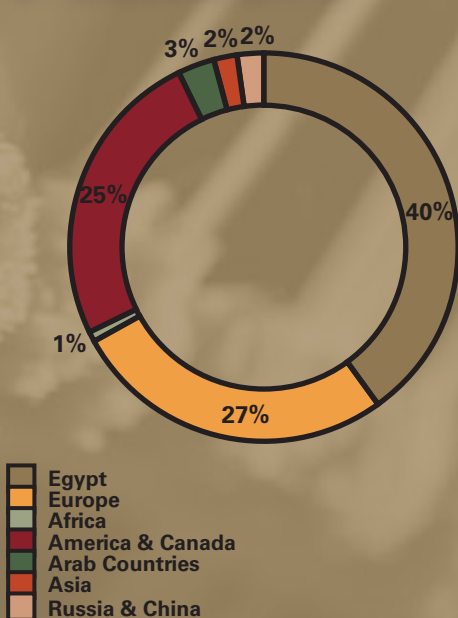
**TOTAL SALES (VOLUME — M²) %**



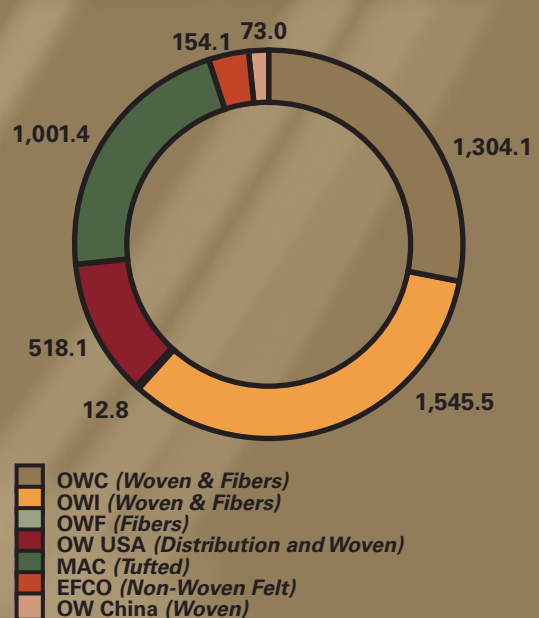
**TOTAL SALES (VALUE - EGP) %**



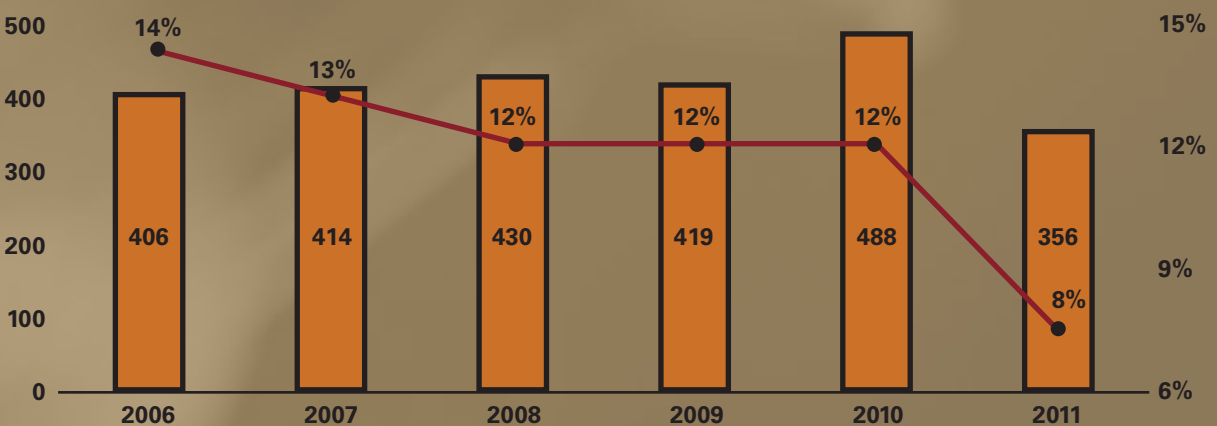
**CONTRIBUTION TO TOTAL SALES BY REGION IN 2011 (%)**



**CONTRIBUTION TO TOTAL SALES BY SUBSIDIARY IN 2011 (MILLION EGP)**



**GROSS PROFITS (MILLION EGP) AND GROSS PROFIT MARGIN (%)**





# CHAIRMAN'S NOTE

## DEAR SHAREHOLDERS,

Sweeping political change in our home market of Egypt and significant global economic challenges kept us on our toes every moment of every day in 2011 — and we stand today stronger for it. Despite fierce competition and a series of what we hope will prove once-in-a-lifetime events in Egypt and around the world, the Oriental Weavers Group grew sales 14% year-on-year in 2011 to EGP 4,609 million, and we are on track to match or improve on this performance in 2012.



**Mohamed Farid Khamis**  
Chairman and Founder

Despite the various upheavals of 2011 and their aftershocks this year, we continue to distinguish ourselves from our competitors: growing sales across the board, increasing our manufacturing capacity, deepening our vertical integration, and expanding our client base through new business lines.

Far from losing ground to the competition, Oriental Weavers outperformed: At the Domotex Fair in Hannover (the key global fair for our industry) in early 2012, we reported our best performance in our participation history in terms of both sales values and volumes. Traditionally, our performance at the Domotex Fair has provided a benchmark for our export performance through the remainder of the year, and to-date, I can say that it has proved to be the case again this year.

We also won two top awards at the Atlanta International Area Rug Market, a top global industry gathering. The Sphinx Division's Revival 550H rug won first place in the category for Power Loomed, and Momeni, another large US-based importer won for its Vintage Collection, which is designed and manufactured by OW USA, in its price category. These awards are a testament to the success of our dedicated efforts to innovate and stay ahead of the curve.

We have always invested heavily in product development and innovation, believing firmly — and rightly, as our consistent performance shows — that innovation is imperative to maintaining and expanding worldwide market leadership. We devote five to seven percent of our production capacity to samples. We hold exclusive rights to 4 million points-per-square-meter technology. We hold a basket of US-based patents that cover an array of raw material development procedures and technologies.

We do not rest on our laurels. Our global designers are constantly developing new product lines to meet the changing tastes and trends of a fast-changing global marketplace. We are 100% led and driven by that marketplace. Our focus remains on our agility and flexibility: We can maneuver fast and with shorter lead times than our competition, drawing strength from a flexibility and design capacity that is supported by our ability to seamlessly increase or decrease production as the market demands.

Vertical integration is another strength, and one that we grew this past year. Our raw materials are for the most part produced in-house, and today the technology used by EPP, our main supplier of polypropylene which began production in 2011, has helped increase our yarn production by 6%, reflecting positively on our cost base.

We soft-launched a new yarn production facility in 2011, King Tut, and production at the facility began this year. King Tut produces nylon, which is

the primary raw material used in the printed and tufted carpets produced by MAC. Since the launch of this factory, we no longer need to import yarn. In fact, instead of importing yarns, we produce 100 tons of yarn per day and have begun to export yarn to the United States from this facility.

Also in 2011, we increased Woven capacity at OW China by 25%, as a buffer against the potential of additional manufacturing slowdowns in the Egyptian market. At the same time, Woven capacity in Egypt increased by close to 10%.

Total sales in the Egyptian market in FY 2011 stood at EGP 1,846 million, a 13% increase over 2010. This increase is particularly key, as domestic sales account for a significant percentage of our total revenues. Total exports were EGP 2,763 million, a 14% increase over FY 2010.

Our products, especially our woven products, are particularly well-received in the Americas. In 2011, our single largest market was the United States, and figures from the Canadian government show that 33% of Canadian rug imports now come from Oriental Weavers, giving us the lion's share of that key market.

Sales of Woven products once again accounted for the lion's share of total Group sales revenues, at 65%. In the full year, sales of Woven products were up 11% at EGP 3,019 million. Notably, we increased our sales of Woven carpets by 10% in the first six months of 2012.

Tufted products sales rose to 9% of Group sales on a full year basis, although volumes were down by 4%, as better distribution channels and product allocations allowed improved pricing power.

Sales of Fibers and Handmade Goods have continued to post steady growth, reaching EGP 435 million, a 50% increase over sales volumes in 2010.

Our aggressive expansion drive, which coincided with rising costs of goods sold and market uncertainty, meant that sales growth did not translate into gross profits growth. Gross profits were down 27% from 2010 levels at EGP 356 million, as COGS rose 19% to EGP 4,253 million, compared with EGP 3,572 million for 2010.

Beginning in H2 2011, the Group began to see benefits from the devaluation of the Egyptian pound versus the US dollar, and we anticipate that any further devaluation of the Egyptian pound, alongside a stable polymers cost-base, should have a positive impact on our competitive edge as a net exporter.


A 21% year-on-year increase in polymer-based raw materials prices in FY 2011 was another drag on margins. Going forward, however, Management believes that the improvement of margins seen in late 2011 will continue, and will likely have recovered fully by the end of 2012, driven by stronger global demand and a favorable product mix.

EBITDA was EGP 448 million, down 23% from 2010, with margins at 10% versus 14% for FY 2010. At EGP 605 million, adjusted EBITDA for FY 2011 was down 12% from FY 2010, with margins at 13% versus 17%, respectively. Net profit after minority interest saw a 29% decrease from FY 2010 to EGP 243 million.

During the period ahead, which we expect to carry unique challenges in a fluid regional and global environment, we will maintain our focus on growing market share while positioning the group to expand aggressively when opportunities present themselves.

In fact, solidifying this positioning, we have purchased land in an industrial zone in Turkey, Wal-Mart (one of our largest 'big-box' clients) has recently purchased a chain of shops in South Africa, some of our competitors in the United States are now our customers, buying directly from us to keep their own costs low. At the same time, we see signs of recovery in Libya, and the Egyptian market is doing well given challenging circumstances as we head into the Ramadan high-season.

In short, the coming months will keep us on our toes, but we are up to the challenge.



We have always invested heavily in product development and innovation, believing firmly — and rightly, as our consistent performance shows — that innovation is imperative to maintaining and expanding worldwide market leadership.



# ABOUT US

Oriental Weavers Group is a multinational floor coverings and related raw materials producer based in Cairo's Tenth of Ramadan City, with additional production facilities in China and the United States.



The Oriental Weavers Group is the world's largest and fastest growing rugs and mats producer — in 2011, a year that presented a series of significant challenges in both the international and domestic markets, the company increased sales across the board by approximately 14% over the previous year.

Through its majority-owned subsidiary Misr American Carpets (MAC), Oriental Weavers dominates the world jet printed and custom made rugs and mats segment, claiming 35% of global market share.

Oriental Weavers exports more than 60% of its production to nearly 150 countries on six continents through a distribution network that includes offices in the United Kingdom, Egypt, the United Arab Emirates and the United States.

The company continues to invest in expanding its capacity and ability to service the growing global rugs and carpet market, and in recent years Oriental Weavers has diversified beyond its core leadership in machine-woven, tufted and needle-punched rugs, mats and carpets. This diversification has seen the Group introduce high margin business lines such as Gobelin tapestries, upholstery and floor coverings, and Axminster carpets targeting the hospitality and luxury residential and commercial markets.

This diversified product mix has not only expanded the Group's interests in growing textile sectors, but has also lessened its exposure to petroleum related market risks. In recent years, Oriental Weavers' operations have also grown to include the highest quality handmade rugs, made in partnership with craftsmen in China and India, markets long renowned for expertise in hand-woven rugs.

In addition to these final products, Oriental Weavers' vertically integrated operating structure includes production throughout the rugs, mats and carpets value chain. Oriental Weavers subsidiaries extract, spin and dye the fibers and yarns that are primary components of the carpets that the Group distributes across the global market.

In 2011, Oriental Weavers launched the trial phase of a new yarn production facility (King Tut) with an annual capacity of 100 tons daily with actual production commencing in 2012. The new factory produces nylon, which is the primary raw material used by MAC printed and tufted carpets. With excess capacity, Oriental Weavers is not only self-reliant on yarn, but it is also able to export yarn to the US.

The Oriental Weavers business model relies on a business-to-business approach, which allows a high degree of flexibility. In 2010 the company







initiated an outsourcing/“commission weaving” model with select developed market clients that allows the company to capitalize on its capacity to produce quickly and efficiently at lower costs. By outsourcing production, particularly on lower-end models, competitors have found that they can complete orders and deliver to stores faster and at a lower cost than manufacturing in-house. The outsourcing model has grown dramatically throughout 2011 and the first quarter of 2012. In the US, Oriental Weavers now supplies leading competitors including three major American carpet manufacturers who are shaping up to become long-term clients. Management expects this business to continue marked growth, possibly selling in the range of 5-6 million square meters and is currently in talks with other clients to expand the line of business.

Oriental Weavers exports more than 60% of its production to nearly 150 countries on six continents.

# OUR STRATEGY



We focus on innovation in technology and design, global sourcing, production and marketing

## TECHNOLOGICAL INNOVATION

Oriental Weavers believes that innovation is imperative to maintaining and expanding worldwide market leadership. After all, only 8% of Group costs are labor-based. Oriental Weavers was the first rug manufacturer to devise an eight color loom — at a time when the industry standard was five colors — and was subsequently the first to manufacture with 10, 14, 36, 55 and 92 colors.

In 2002, Oriental Weavers introduced the world's first 2 million points-per-square-meter rug, considered an industry breakthrough at the time. The Group continues to be a pioneer and today has exclusive rights to 4 million points-per-square-meter technology. The Group's portfolio of USA-based patents covers an array of raw material development procedures and technologies — most recently Oriental Weavers gained patent protection for a 100% acrylic rug with the look and feel of silk.

## DESIGN FOR GLOBAL CULTURES

Oriental Weavers consistently develops new product lines at all price points to serve the particular tastes of a diverse global market. The Group boasts the largest product mix of any producer in the world, yet still retains the ability to quickly respond to changing consumer preferences.

With 33 full-time designers living in Egypt, the UK, China and the US, Oriental Weavers produces, on average, a unique, new product every two weeks — although the Group has the capacity to bring a product to market in just seven days if necessary.

The Group's Marketing, Sales and Design teams travel the world, touring each of our markets to experience the lifestyle, visit local shops and take note of popular design concepts. Oriental Weavers has also targeted critical niche segments by building partnerships with leading lifestyle and media companies, such as the Walt Disney Company.

## GLOBAL RAW MATERIALS SOURCING

Raw fibers and other inputs — including wool, jute, cotton and nylon — are sourced globally and manufactured into intermediate products within Oriental Weavers' vertically integrated holding structure.

The lion's share of Oriental Weavers' non-dyed nylon fiber inputs, comes from France and Italy, the world's leading producers of high-end nylon.



Oriental Weavers then processes and dyes nylon into carpet fibers at its Egyptian and international production centers.

In 2008, Oriental Weavers launched the first phase of its EGP 1.3 billion (USD 237 million) industrial complex by establishing a new fiber plant with an annual capacity of 40,000 tons. Operational since June 2011, the first phase allows Oriental Weavers to produce internally 100% of its polypropylene and nylon fiber needs.

Long-term relationships with producers and traders in Australia, New Zealand, Mongolia and Libya provide Oriental Weavers with quality and pricing balance for 6,000 tons of raw wool each year. With a range of suppliers and price points, Oriental Weavers wool sourcing supports the company's production across the full price and quality spectrum.

Oriental Weavers also sources the extra-long staple raw Egyptian cotton popular with luxury and up-market brands worldwide, at favorable terms from local producers.

Jute — the world's second most used natural fiber — is a key element of rug and carpet backing. Oriental Weavers imports 22,000 tons of jute annually directly from producers in Bangladesh, India and Pakistan. The Group's long-standing relationships with local traders and producers allows Oriental Weavers to secure steady access to the key fiber even as global demand for this eco-friendly material continues to rise.

## MULTINATIONAL MANUFACTURING

Vertical integration and control over the entire manufacturing process also increases production flexibility and supports the Group's ability to respond rapidly to fluctuations in demand, changes in consumer preferences and even crises in the global and local markets. The importance of Oriental Weavers' manufacturing flexibility was at no point more vital than in early 2011, during the 18 days of popular uprisings in Egypt that ultimately led to the departure of then-president Hosni Mubarak.

Responding quickly to events on the ground, Management shut down Egyptian production for 10 days and shifted Egypt's order backlog to OW China and OW US factories, and accordingly never saw a single delay in deliveries. In the process, the Group simultaneously increased production capacity in China by 25% while successfully defending its market share and client base against some opportunistic competitors who sought to take advantage of the Egyptian crisis. Although the sales cycle did experience a slight delay, the pace recovered rapidly once operations resumed in February — by the beginning of May 2011, total sales on the year had already surpassed May 2010 figures. By year-end, overall sales had risen 14%, with a strong showing from the local market — 13% year-on-year growth, despite ongoing political uncertainty.

In March 2011, Group management also took the strategic decision to raise salaries significantly across its Egyptian factory workforce, demonstrating foresight following national political unrest by heading off any potential for workforce friction.

As a result of such prudent leadership, Oriental Weavers has not lost a day of production in Egypt since the initial week-and-a-half hiatus.

Meanwhile, the Group continues to press ahead with an EGP 1.3 billion (USD 237 million) integrated industrial complex that will increase capacity by 60%. The first phase of this project launched in June 2011, with total



investments of EGP 400 million and an increase in annual fiber production capacity of 40,000 tons. The second and third phases are projected to launch in 2012 and 2014, respectively.

## **LOGISTICS ADVANTAGES**

Oriental Weavers' base in Cairo constitutes a durable competitive advantage as Egypt enjoys a unique geostrategic location overlooking the Red and Mediterranean Seas while benefitting from convenient central time differences and trade agreements.

The Suez Canal, which serves approximately 10% of international trade flows and is free for Egyptian companies to use, is a particular advantage, as Egypt is home to approximately 20 general and specialized ports on the Mediterranean and Red Seas. The significant flow of international trade through the Suez Canal and other Egyptian ports encourages transshipment — shipment of goods or containers to an intermediate destination — and fosters a robust logistics services industry. The result is low-cost shipping and international expertise.

Egypt's national development strategy has looked to extend these natural advantages. The country joined the WTO (World Trade Organization) in 1999, signed the EU-Egypt Association Agreement, joined the Greater Arab Free Trade Agreement (GAFTA), introduced the Arab Mediterranean Free Trade Agreement (Agadir) and is part of the Common Market for East and Southern Africa (COMESA). The country has also partnered with a host of nations on bilateral trade agreements, including a free trade agreement with Turkey as well as an arrangement with the US that exempts rugs and carpets that meet certain requirements from customs duties.

## **COMPETITIVE COST PRODUCTION**

Uncompromising vertical integration — which reaches increasingly to even such basic raw materials as gas supply — is a pillar of Oriental Weavers' global competitiveness. This commitment to internalized production means secure supply chains and more lenient financing terms that allow Oriental Weavers to extend Egypt's low-cost environment across the supply chain.

Enacting company strategy in 2011, Oriental Weavers launched a new yarn production factory in Egypt, with production beginning gradually in October 2011 and full operations coming online in 2012. The King Tut factory in 10th of Ramadan City, which now produces 100 tons of nylon yarn per day, directly supplies this raw material to OW subsidiary Misr American Carpets (MAC), exporting any surplus production to the US.





With 33 full-time designers living in Egypt, the UK, China and the US, Oriental Weavers produces, on average, a unique, new product every two weeks.



# OPERATIONAL HIGHLIGHTS



Woven capacity  
increased in Egypt by  
8-10%

## EGYPTIAN MARKET FOCUS

Despite Oriental Weavers' dominance as a global exporter, local sales still represent an important market segment that accounts for approximately 40% of total sales volume.

The Egyptian market has proven to be exceptionally resilient given the unprecedented political turmoil and economic constraints that Egypt has witnessed over the past 18 months. Oriental Weavers managed to quickly recover from a 10-day shut-down for security purposes in the early days of the revolution and had surpassed 2010 sales figures by May 2011.

Oriental Weavers managed to maintain prices across most products sold on the local market throughout the year as the local consumer climate was ill-positioned to absorb rising prices. Overall sales in Egypt increased in 2011 and the first six months of 2012.

In the first quarter of 2011 as Egypt was reeling from the toppling of the old regime, sales rose 3% above the year prior reaching nearly EGP 480 million, a remarkable achievement given the significant political turmoil that led to the closure of factories and retail outlets which widely disrupted the broader economy.

Sales volumes continued to rise as the year progressed with the company witnessing double digit growth year-on-year in the second quarter on the back of a large consumer base that is fundamentally resilient even under the most turbulent conditions. Third quarter sales, which represented 43% of total sales in the period, were up 19% Q-o-Q and 6% Y-o-Y to EGP 508 million. Total fourth quarter sales rose 11% Q-o-Q and 25% Y-o-Y to EGP 565 million closing the year with a 13% increase in sales over 2010.

The strong recovery underscores the Group's solid reputation in the Egyptian market, and the strong endemic demand for rugs and carpets in the local culture that persists despite the construction slowdown.

Local purchasing trends witnessed a slight change in 2011. The bulk of local sales — nearly 50% — have traditionally been of entry-level rugs, but recently consumers have begun investing in mid-range and high-range items with hand-carved rugs becoming more popular. Entry-level sales have likewise decreased to 30% of the total local sales volume.

Even with a newly-elected president Egypt still faces considerable obstacles before we can safely say that the country is on a clear path towards democracy. That said, it is management's view that increasing democracy in Egypt will lead to enhanced long-term stability in a nation whose macroeconomic drivers — for the consumer goods sector, at least — remain intact. As multiple analysts have noted, Egypt's population of c.90 million is on track to grow at 2% per annum through 2016, with 48% of the population being

between the ages of 15 and 45 years. In Oriental Weavers' case, demand for household goods is largely driven by the rising number of households on the back of 650,000 marriages per year.

## EXPORT GROWTH

In 2011, total export sales accounted for almost 60% of total sales value. Total exports stood at EGP 2,763 million, a 14% increase over FY 2010. Sales to Europe showed the highest growth, at 20% in 2011, bringing total sales to this region to EGP 1,249 million, or 45% of all export sales.

While the United States remains Oriental Weavers' single largest export market, Canada has emerged as the Group's fastest growing market over the last few years. In 2011, 33% of Canada's rug imports came from Oriental Weavers, according to figures provided by the Canadian government.

In the United States, OW USA continues to expand distribution operations to meet growing demand. In the last couple of years, this growth has been fueled in particular by interest on the part of US rug manufacturers in outsourcing aspects of their production to Oriental Weavers. This trend began in 2010, when a major US rug manufacturer approached Oriental Weavers to discuss outsourcing its lower-range rugs and mats to Oriental Weavers factories. The competitor's management had come to the realization that they could no longer compete with Oriental Weavers in these product categories; outsourcing would be much more cost-effective. As of mid-2012, Oriental Weavers supplies three major US manufacturers and expects revenues from this and similar outsourcing activity to increase substantially in coming years.

Africa has also emerged as a promising market for export growth. In 2011, Group exports to the region increased 14% to EGP 50.4 million, up from EGP 44.1 million in 2010. As of mid-2012, Libyan demand for floor coverings is making a dynamic recovery as stability returns to the country. Oriental Weavers is diligently securing market share in the Libyan economy, which analysts are predicting to be one of Africa's strongest growth markets in the coming decade. In South Africa, Walmart, one of Oriental Weavers major "big-box" clients, recently acquired Mass Mart and is in the process of rebranding the chain. Oriental Weavers began supplying these South African chains in 2011.

In Asia, Oriental Weavers is also rapidly expanding production capacity to serve growing demand. In 2011, the Group invested significantly to increase OW China's production capacity by 25%. In 2011, the value of Oriental Weavers' exports to Russia and China rose 9%. The company's exports to the rest of Asia grew 14.5%. From 2006 to 2011, Oriental Weavers' exports to Russia and China grew 240%. Regional demand for floor coverings is expected to continue growing steadily in the coming five to ten years, in step with the purchasing powers of the region's burgeoning middle classes.

Group export sales to Arab markets continued to lag at year-end 2011, contracting slightly from EGP 134.7 million in 2010 to EGP 129.2 million, a 4.2% drop explained by weak housing markets and depressed consumer spending levels. However, Arab markets delivered a stunning turnaround by the end of the first quarter this year, with year-on-year sales growth of 142.0% from EGP 35.3 million in Q1 2011 to EGP 85.4 million in Q1 2012.

## HANNOVER DOMOTEX TRADE FAIR: 2011 & 2012

Both the 2011 and 2012 editions of the Domotex trade fairs in Hannover, Germany were great successes for the company. Domotex Hannover is the



EGP 1.8 billion total sales in Egypt in 2011, a total increase of 13% year-on-year



## AWARDS

At the “America’s Magnificent Carpet Awards” in Atlanta, Georgia in early January 2012, Oriental Weavers brought home two top industry awards.

The Sphinx Division’s Revival 550H rug line took home the award for the Power Loomed (USD 100.01–USD 200) category, and Momeni, another large US-based importer, won for its Vintage Collection, which is designed and manufactured by OW USA, in its price category.

A panel of judges comprised of leading industry experts called the Revival a “unique collection which offers easy care and affordability in one of today’s hottest trends — the fashionable over-dyed replicated look.”

The Revival collection captures the essence of traditional wear-and-tear handmade Persian rugs, allowing consumers to cost-effectively add a unique cultural touch to their homes.

The awards were part of the “America’s Magnificent Carpet Awards” at the Atlanta Market, which annually honor excellence and creative achievements in the area rug category.

floor coverings industry’s most important annual trade fair, attended by top global industry players on both the buy- and sell-side. The company typically books c.30% of its woven-segment export sales at the event, which takes place each year in mid-January.

In 2011, Oriental Weavers’ sales performance matched the previous year’s strong showing. Sales representatives secured an 8-12 week backlog of orders, establishing a solid base for growth in both the company’s primary and emerging export markets throughout the rest of the year.

Topping its 2011 performance, Oriental Weavers posted its best-ever performance at the Domotex Hannover fair in January 2012, both in terms of sales and sold-out square meters. The company’s record sales this year affirmed its position as the leader of the global floor coverings industry and set the stage for 7% year-on-year export sales growth at the end of the first quarter 2012. Overall, the company recorded 6.22% sales growth in US dollar terms (13.8% in Egyptian pound terms) and a 14.3% rise in volumes at the four-day event. Oriental Weavers’ performance at DOMOTEX reflects the company’s strategy of maintaining market share in developed markets — particularly the United States, Western Europe and Japan — while simultaneously penetrating developing economies in Asia, Africa and Latin America, where sales rose 41% overall at the 2012 Fair compared with the 2011 edition. Sales results for the 2012 Hannover fair suggest that while European markets are slowing in the face of an economic contraction, US sales are proving more resilient than in 2010–11 and emerging markets will deliver substantial growth this year.

Excluding licensed and custom-made products, Oriental Weavers presented 72 collections at the 2012 Domotex Fair, its largest-ever collection targeting the full price-point spectrum.

## OW HOSPITALITY EXPANSION

OW Hospitality, the London-based hospitality carpeting arm of Oriental Weavers Group — which manufactures broadloom carpets for luxury hotels worldwide — has experienced strong growth in 2011 and is now the preferred supplier for Four Seasons and several other major players in the hospitality sector. The division produces high-quality woven Axminster carpets using a blend of wool and nylon for optimum performance, luxury and comfort.

To utilize global assets and take advantage of the organization’s international corporate structure and management team, Oriental Weavers has fully integrated the hospitality operation under the same management structure currently in place for all other flooring related businesses within the group. After the restructuring, OW Hospitality launched a USD 30 million global expansion drive to capture new market share in the hospitality sector as it aims to double its production capacity within the next three years. Production figures for Axminster (broadloom) carpets have already gone up, rising 30–40% during the past year alone.

The company aims to manufacture Axminster carpets on three continents by 2015 as it adds three new high-speed looms to its Cairo manufacturing facility, three high-speed Axminster machines to the Tianjin, China, plant, and two looms at another as-yet unspecified location.



Democracy in Egypt will lead to enhanced long-term stability in a nation whose macroeconomic drivers — for the consumer goods sector, at least — remain intact.



# THE ORIENTAL WEAVERS GROUP

## ORIENTAL WEAVERS CARPET COMPANY

**30 million m<sup>2</sup>**

2011 Production Capacity

**EGP 1.3 bn**

2011 Sales Value

**7%**

2010-2011 Sales Growth

**28%**

Contribution to Group Sales

## ORIENTAL WEAVERS INTERNATIONAL

**27 million m<sup>2</sup>**

2011 Production Capacity

**EGP 1.55 billion**

2011 Sales Value

**22%**

2010-2011 Sales Growth

**34%**

Contribution to Total Group Sales

## ORIENTAL WEAVERS USA

**EGP 518 million**

distribution arm 2011 Sales Value

**18%**

2010-2011 Sales Growth

**11%**

Contribution to Total Group Sales

## ORIENTAL WEAVERS CARPET COMPANY

Oriental Weavers Carpet Company was founded in 1980 by industrialist and entrepreneur Mohammed Farid Khamis and today is the holding company for a fully vertically integrated producer of rugs, mats and carpets. As a manufacturer, Oriental Weavers produces three grades (A, B and C) of machine woven carpets and rugs for the Egyptian market, with annual capacity for the group presently reaching 113 million m<sup>2</sup>. Oriental Weavers has been traded on the Egyptian Exchange since 1997 and today its shares represent the consolidated earnings of the company's holding companies.

## ORIENTAL WEAVERS INTERNATIONAL

Oriental Weavers International (OWI) was established in 1999 as an export-oriented free trade zone company in 10th of Ramadan City. The company's vertically integrated facilities encompass the scope of extrusion of synthetic fibers, dyeing and spinning wool as well as the weaving and finishing of products. The majority of the Group's diversified products related to home textiles are produced within this facility (carpets, rugs, Axminster, Gobelin, gun-tuft and fibers).

The total annual capacity of the plant reached 27 million m<sup>2</sup> in 2011 and targets mainly export markets. OWI increased its total sales by 22% to over EGP 1.5 billion, two-thirds of which constituted exports to OWI's main export markets including North America, Europe, and the Middle East, while the company also delivers to more than 60 countries worldwide. Specifically, OWI fully owns OW China with an eye on developing its market share in the emerging Asian market.

## ORIENTAL WEAVERS USA

Oriental Weavers USA manufactures in the company's plant in Dalton, Georgia, and also markets and distributes products it imports from the company's Egyptian plants. Oriental Weavers USA sells to mass merchants and big-box retailers such as Home Depot, Lowes, Bed Bath & Beyond, Nebraska Furniture Mart, among others, as well as to independent retailers, furniture retailers, catalogues and department stores such as Macy's and JCPenny. In recent years the company has been awarded America's Most Magnificent Rug award through its high-end brand, Sphinx.





### ORIENTAL WEAVERS (TIANJIN) COMPANY LTD. (ORIENTAL WEAVERS CHINA)

Oriental Weavers China was established in 2006 in anticipation of China's growing importance in the global economic scene. OW China occupies 170,000 m<sup>2</sup> in the Tianjin industrial zone, 80 km south of Beijing. The producer is a vertically integrated facility with fiber extrusion capacities as well as rug and carpet manufacturing facilities. As domestic demand continues to drive the growth of China's economy, Oriental Weavers intends to capitalize on the rise of the country's large middle class by leveraging relationships with global retail customers such as IKEA and Wal-Mart, which have seen notable growth in China in recent years. Following the events in Egypt in early 2011, group management quickly responded by ramping up production at OW China's facilities, growing total annual capacity to 4 million m<sup>2</sup>. Sales on the year remained solid at EGP 73 million, up slightly from EGP 71 million in 2010. In 2012 and beyond, company management will continue to implement its market-driven expansion strategy, including sizeable investment outlays to accommodate future production growth, including additional looms to accommodate further increases in demand. OW China's production is intended to supply both the local Chinese market as well as neighboring export markets.

### MAC CARPETS

MAC Carpets is Oriental Weavers' foothold in the wall-to-wall tufted carpeting segment, a key division that further diversifies the Group's product mix beyond the rugs and mats categories. MAC operates out of four sites in Egypt including three production plants and an electricity facility, all in 10th of Ramadan City. Since its establishment in 1980, MAC's output has risen sharply to more than 45 million m<sup>2</sup> of carpeting worth over EGP 1 billion in 2011, up from a capacity of 18 million m<sup>2</sup> in 2002. Today MAC represents roughly 22% of total group sales. A leading Egyptian exporter, MAC's products are delivered to more than 107 countries, supplying some of the world's largest retailers such as Wal-Mart and IKEA. The company reportedly supplied around 35% of the world's jet-printed mats and rugs in 2011. In addition to wall-to-wall carpeting, MAC's diversified product offerings include, door and kitchen rugs, rubber backed bathroom mats, multilevel textured mats for outdoor applications, car mats, children's rugs and mats, scatter rugs and club rugs. MAC also manufactures three-dimensional advertising floor panels, runners and artificial turf for indoor and outdoor applications.

### EGYPTIAN FIBERS COMPANY

Egyptian Fibers Company (EFCO) is the Group's polypropylene business and engages in the manufacture of polypropylene fibers and polyester threads. It also manufactures and exports different types of non-woven plastic rugs and carpets and other related polypropylene and plastic products. EFCO has a 69% interest in Modern EFCO Fibers Company, which produces polypropylene, polyester and silk products, as well as non-woven carpets.

#### ORIENTAL WEAVERS (TIANJIN)

**6.2%**

2009-2010 Sales Growth

**4 million m<sup>2</sup>**

2011 Production Capacity

**2%**

2010-2011 Sales Growth

**2%**

Contribution to Total Group Sales

#### MAC CARPETS

**45 million m<sup>2</sup>**

2011 Production Capacity

**EGP 1 billion**

2011 Sales Value

**9%**

2010-2011 Sales Growth

**22%**

Contribution to Total Group Sales

#### EGYPTIAN FIBERS COMPANY

**15 million m<sup>2</sup>**

2011 Production Capacity

**EGP 154 million**

2011 Sales Value

**10%**

2010-2011 Sales Growth

**3%**

Contribution to Total Group Sales



# OUR BRANDS

Oriental Weavers features five distinct brands that are marketed through three independent divisions, each with a unique mandate.



Our brands cater to a wide spectrum of customers ranging from big box retailers to five star hotels.



## OW HOSPITALITY

OW Hospitality, a division of Oriental Weavers catering to the hospitality and entertainment industry, produces woven Axminster carpets: durable, flexible and high quality products. Using 80% wool and 20% nylon, Axminster carpets offer an optimum blend for performance, luxury and comfort. Due to the unique characteristics of the wool, it can also be dyed to very light or vibrant shades, ensuring that it can be woven into both classic and contemporary designs. OW Hospitality benefits from a close relationship with its machine manufacturers, allowing the company to produce unique products such as the 19 mm pile height rugs popular with the royal families of Jordan, Saudi Arabia and the UAE.

At the end of 2011, Oriental Weavers had completed a restructuring process to fully integrate OW Hospitality under the same management structure as all other flooring-related businesses within the group. Early in Q2 2011, OW Hospitality announced the launch of a USD 30 million global expansion drive to capture new market share in the hospitality sector as it aims to double its production capacity within the next three years. Production figures for Axminster (broadloom) carpets have already gone up 30-40% during the past year. The company aims to manufacture Axminster carpets on three continents by 2015 as it adds three new high-speed looms to its Cairo manufacturing facility, three high-speed Axminster machines to the Tianjin, China, plant, and two looms in the US manufacturing facility to better serve that marketplace.

Among the company's numerous clients in the hospitality sector are Hyatt, Kempinski, Sheraton, InterContinental and the MGM Group. In 2011, OW Hospitality became the preferred supplier for both Four Seasons and Hilton European Division. The division produces high-quality woven Axminster carpets using a blend of wool and nylon for optimum performance, luxury and comfort and has established markets in the US and Europe, with offices in London, Dubai, Dalton, Atlanta, New York and Las Vegas. While the casino industry has traditionally generated significant demand for luxury carpeting, the fastest growing markets for Cambridge are now Asia and Africa, where the company has worked with high profile clients such as the King of Swaziland, the Rotana Hotel in Khartoum, the Ritz Carlton in Madagascar as well as the Sofitel in Morocco.

## LA BOUTIQUE

La Boutique is a newly established division of Oriental Weavers catering to higher-end and top-niche markets. It is developed around the simple concept of customer involvement and allows customers to commission custom rugs and carpets by matching a swatch of fabric or sketch, which are then transformed into an exquisite rug or carpet.





### **OW LIFE STYLE**

OW Life Style is the Group's line of contemporary rugs that includes a large variety of shag carpeting in various textures, styles and colors. Designed around today's life style, the company offers only the finest materials combined with the highest production standards. The OW Life Style name has come to be synonymous with quality and value, bringing a unique and truly distinguishable touch to any decor. Like La Boutique and OW Classics, Life Style provides a brand outlet for Oriental Weavers to market products with specific themes, in this case the ultra modern and abstract. The company sells its increasingly popular products locally through its own retail outlets and also exports to countries around the globe.

In 2011, 33% of Canada's rug imports came from Oriental Weavers, according to figures provided by the Canadian governments

# CORPORATE SOCIAL RESPONSIBILITY

## OUR ENVIRONMENT AND OUR PEOPLE

### MAC

MAC is fully committed to serving its employees, and providing social and community services through programs including housing schemes, sponsorship of annual pilgrimage trips, and comprehensive medical coverage for employees and their families. MAC supports the community through several development projects and social welfare events. We have supported the construction of schools in rural Egypt, sponsored several public hospitals and clinics, and built orphanages for underprivileged children. In 2008, MAC extended its donations to “The National Institute of Zakaa” among other institutions such as the Telawet El Quran Association.

### OWC

Oriental Weavers’ commitment to corporate social responsibility and includes its involvement in associations such as: Dar El Orman-Orphans’ Day “Youm el Yateem,” the Breast Cancer Foundation, Care Foundation, Helwa Ya Balady Association and SIFE. OWC also interacts with a number of faculties to support students, including Applied Arts and the Faculty of Commerce at universities in Cairo, Helwan, Assiut and Damietta governorates. The company also provides free carpets for needy people, newly wed couples and some religious institutions.

Oriental Weavers firmly believes that a successful business must respect the environment and communities in which it operates. To ensure that everyone from executive management to the sales floor are operating from the same play book, management has set and maintained the highest standards of ethics and sustainable operations. The Board of Directors annually reviews and, if necessary, updates the company’s codes of conduct and business ethics. The company regularly communicates to all Oriental Weavers employees values and codes of conduct and sees that they adhere to it.

### HUMAN RIGHTS

Oriental Weavers’ position as a lowest-cost producer does not preclude responsible employment practices. Accordingly, Oriental Weavers adheres to the International Declaration of Human Rights and maintains a set of transparent human resources policies and procedures for management and labor as well as our suppliers and service providers.

Absolutely no form of forced or compulsory labour exists at Oriental Weavers.

Oriental Weavers only employs adults over 18 years of age, and the Group makes it adamantly clear to all suppliers and affiliates that we will not conduct any business with entities that do not follow the same labor standards. We are vigilant in our efforts to ensure that no child labor is used directly or indirectly in any component of any Oriental Weavers product.

As part of these efforts, Oriental Weavers has established a committee that is responsible for enforcing this policy for overseas suppliers of our hand-made products. Members of this committee randomly check supplier locations to ensure that no child labour is being used in their production processes; in the event of irregularities, contracts are terminated on the spot.

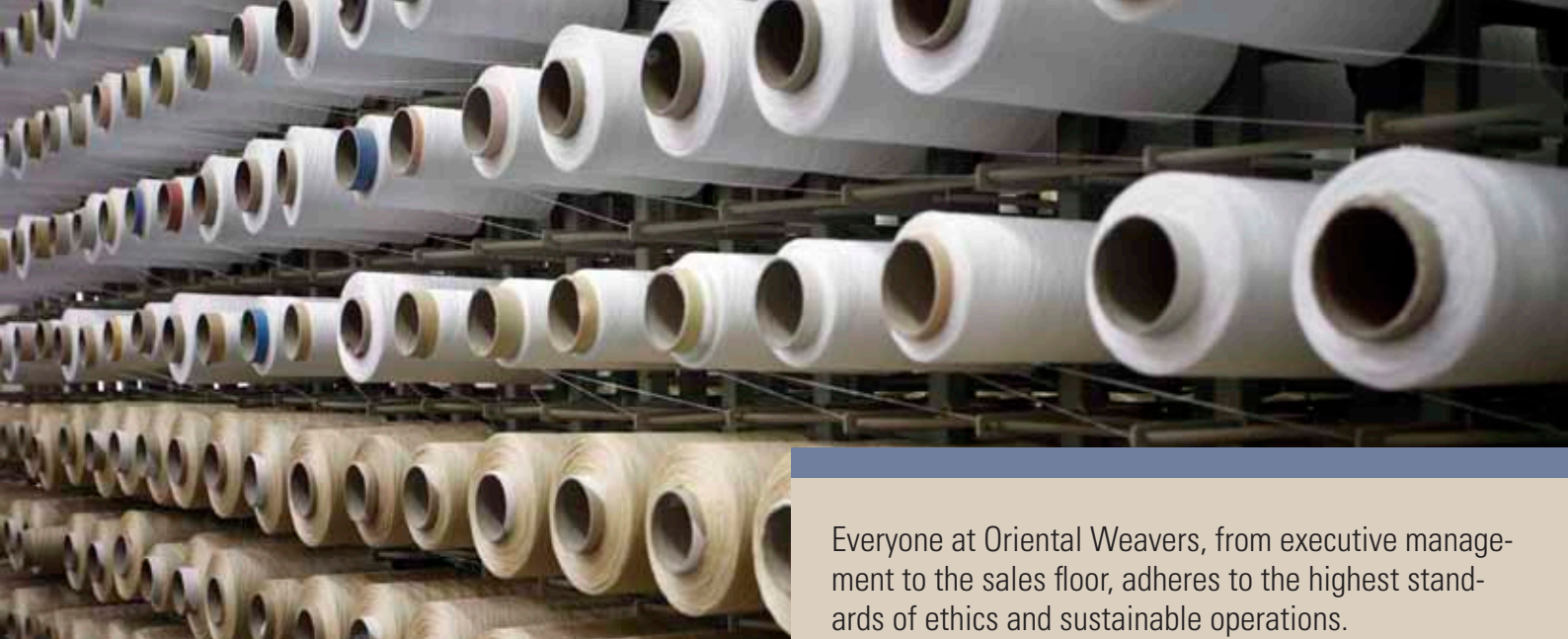
### LABOR PRACTICES

In every country in which we operate, Oriental Weavers adheres to industry best practices, and our wages, benefits, labour policies, and management procedures comply with or exceed domestic requirements.

Since inception, we have made it a policy that senior management interacts with all employees and that committees are formed with representatives from all departments. One of these committees is comprised of both management and Union Representatives, and another is responsible for salary reviews and bonuses. These committees ensure that no opportunity is missed for grievances to be aired and corrective action can be swiftly taken where need be.

In Egypt, we provide a number of additional benefits to our workforce including subsidized housing and free medical care for employees and their families at a hospital established by the Chairman in 10th of Ramadan City. The company has also established an annual raffle, open to all employees, the winners of which are sent on the Hajj, the holy Muslim Pilgrimage.





Everyone at Oriental Weavers, from executive management to the sales floor, adheres to the highest standards of ethics and sustainable operations.

## ENVIRONMENT

Oriental Weavers abides by a corporate environmental policy that commits the company to the consistent improvement of our production processes to minimize the adverse impact of emissions to the environment. Consistent with this internal policy, Oriental Weavers maintains ISO 9001 (Quality Management System) and ISO 14001 (Environmental Management System) certifications.

In addition to these international standards, the company complies with a host of client specifications relating to the procurement and use of raw materials in the production process. For example, European companies such as Ikea and Marks & Spencer require Oriental Weavers to comply with EU environmental and occupational health and safety standards while American companies such as Home Depot require compliance with USEPA standards. Each of our major clients audits Oriental Weavers for compliance with their respective standards on an annual basis. We in turn extend these compliance standards to our own domestic and international suppliers of raw materials.

Oriental Weavers makes a conscientious effort, through monitoring and investing in equipment upgrades, to optimize resource input and minimize waste from production processes. For example, our natural wool and spinning and dyeing plant utilizes radio frequency dyeing technology that eliminates the need for steam boilers and eliminates noise and vibration in the drying process. Process waste latex is collected and recycled back into the production process. Carpet pile brushing and trimming waste is captured via vacuum units, bagged and sold to independent contractors for the manufacture of automobile mats.

Oriental Weavers is committed to continuously initiating various procedures to recycle waste materials and to always research and develop new ideas in the field of environmental protection under the ISO-14001.

We will endeavour to further decrease our emissions and continue to contribute to the protection of the environment.

## Spotlight on: SIFE

The SIFE Foundation is an international non-profit organization that brings together a diverse network of university students, academic professionals and industry leaders around the shared mission of creating a better, more sustainable world through the positive power of business. By contributing their talents to projects that improve the lives of people worldwide, SIFE participants are demonstrating that individuals with a knowledge and passion for business can be a powerful force for change.

A total of 36 universities from across Egypt participate in SIFE, competing for a National Championship for creating a project that applies the business concepts they've learned at university to create community outreach development projects that improve the quality of life for underprivileged Egyptians.

Once a year, the National Champion SIFE teams from around world meet at the SIFE World Cup where they present the results of their community outreach projects to a prestigious group of international business leaders. Oriental Weavers is proud to be a sponsor for this worthy cause.

# BOARD OF DIRECTORS

**Mr. Mohamed Farid Fouad Khamis**  
Chairman and Founder

**Mr. Salah Abdel Aziz Abdel Motalab**  
Chief Executive Officer

**Mr. Mahmoud Fawzy Fouad Khamis**  
Non-Executive Board Member

**Mrs. Yasmine Mohamed Farid Khamis**  
Executive Board Member; Vice President of  
Sales and Marketing

**Mrs. Farida Mohamed Farid Khamis**  
Executive Board Member; Vice President of  
Corporate Finance

**Mr. Mohamed Mahmoud Fawzy Khamis**  
Executive Board Member; Vice President of  
Local Sales

**Mr. Amr Mahmoud Fawzy Khamis**  
Executive Board Member; Vice President of  
Manufacturing and Operations

**Mr. Mahmoud Amin Saad**  
Executive Board Member;  
Director of International Operations

**Mr. Mohamed Katary Abd Allah**  
Executive Board Member; Director of  
Financial Affairs

**Mr. Mahmoud Rada Abdel Baki**  
Executive Board Member;  
Director of Planning

**Mr. Kamal Ali Mahmoud Al Raei**  
Non-Executive Board Member; Managing  
Director of Oriental Weavers Fibers

**Mr. Abdel Hamid Fayad**  
Executive Board Member; Financial  
Controller for Oriental Weavers Carpet  
Company

**Misr Insurance Company**  
Non-Executive Board Member

**Misr Reinsurance Company**  
Non-Executive Board Members

**Mr. Mohamed Mohamed Ali Amer**  
Non-Executive Board Member

**Mr. Mohamed Mohamed Farid Khamis**  
Non-Executive Board Member





From its integrated production facilities to its international marketing and distribution arms, Oriental Weavers has become a lowest-cost producer with unrivalled brand equity.









# **Consolidated Financial Statements**

**For the financial year ended December 31, 2011**

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