



النساجون الشرقيون  
Oriental Weavers

# Earnings Release

## 2Q 2018

### Solid Growth in Local Sales - Margins Pressured on Inflated Costs

**C**AIRO, August 15, 2018 — Oriental Weavers Carpet Company [ORWE EY; ORWE.CA], one of the world's largest machine-made rug and carpet manufacturers, reported today its financial results for 1H 2018, ending June 30.

A message from our founder, Mr Mohamed Farid Khamis, to shareholders:

“As the second quarter of 2018 draws to a close, I would like to reiterate that Oriental Weavers’ well-diversified operational base and strong position in the domestic and global markets continue to support our ongoing mission. We recorded a 13% y-o-y growth in local revenues in 2Q 2018 on reviving demand in Egypt. Also, woven exports (80% of export revenues) continued its strong performance, recording an 8% y-o-y growth in 2Q 2018, on creating new, and expanding current, footholds in available markets, besides recovering revenue performance of our US subsidiary. This helped offset the lower export performance of our other business segments. Yet, earnings during the quarter were negatively impacted by inflated raw material costs, and the impact of currency devaluation currently settling. To meet international demand, and to expand our product range, OW received seven state-of-the-art looms with an additional three looms to be added in the second half of 2018. We also added five new yarn machines to relieve the bottlenecks in yarn manufacturing. We keep a close eye on the macro-economic climate changes in the region, and backed by our strong fundamentals and adaptive nature of our strategy, we are capable of sustaining our global market position. Our focus remains firmly on operational efficiency, and innovative product offering. Our strong track record is not a product of effective strategy alone, but comes also from the hard work of our experienced staff and the continuous support of our partners. It is due to the confidence placed on us by our stakeholders that we continue to grow year after year, even during the most tiring of times.”

### 2Q 2018 vs 2Q 2017

<b>Sales</b> (EGP mn)	<b>EBITDA</b> (EGP mn)	<b>Net Income</b> (EGP mn)
2,526 ▲5%	270 ▼30%	115 ▼44%
<b>Export Contribution</b>	<b>EBITDA Margin</b>	<b>Backlog of Export Subsidies Ytd</b>
61%	10.7% ▼532 bps	EGP 414 million

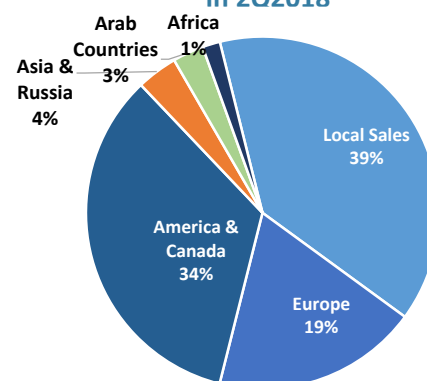


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## Revenue Performance Overview

The group recorded 5% growth in 2Q 2018 net sales reaching EGP 2,526 million vs EGP2,414 million in 2Q 2017. Export revenues (61% of total revenues) remained flat y-o-y during the quarter, while local sales grew 13% when compared to 2Q 2017.

## Revenue Contribution by Market in 2Q2018



	Value (EGP mn)		
	2Q 2018	2Q 2017	% Change
Woven- Egypt based	1,488	1,351	10%
OW USA	511	454	13%
OW China	30	51	-41%
Tufted	391	444	-12%
Non-woven Felt	71	89	-21%
Other	36	25	43%
<b>Total</b>	<b>2,526</b>	<b>2,414</b>	<b>5%</b>

	Volume (sqm)		
	2Q 2018	2Q 2017	% Change
Woven- Egypt based	13.9	12.7	10%
OW USA	2.7	2.2	22%
OW China	0.4	0.5	-26%
Tufted	7.1	7.6	-7%
Non-woven Felt	3.4	3.9	-13%
Other			
<b>Total</b>	<b>27.5</b>	<b>26.9</b>	<b>2%</b>

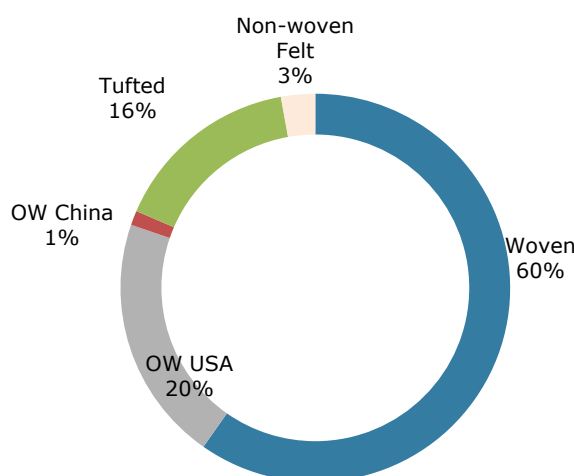
	Value (EGP mn)		
	1H 2018	1H 2017	% Change
Woven- Egypt based	2,952	2,758	7%
OW USA	1,032	1,016	2%
OW China	46	71	-36%
Tufted	818	885	-8%
Non-woven Felt	144	179	-20%
Other	41	28	48%
<b>Total</b>	<b>5,033</b>	<b>4,938</b>	<b>2%</b>

	Volume (sqm)		
	1H 2018	1H 2017	% Change
Woven- Egypt based	28	26	8%
OW USA	6	5	6%
OW China	1	1	-21%
Tufted	15	16	-11%
Non-woven Felt	7	8	-7%
Other	0	0	
<b>Total</b>	<b>56</b>	<b>56</b>	<b>0%</b>

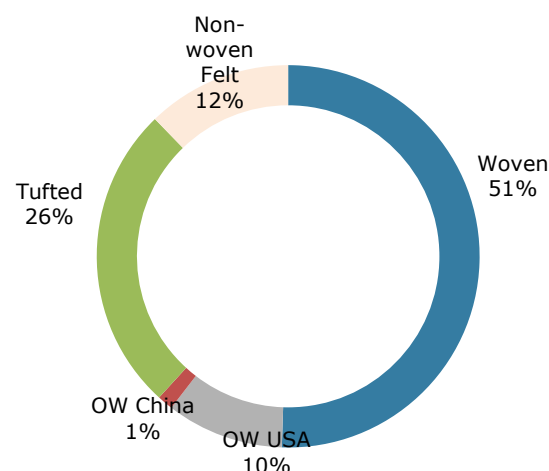


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Revenue Breakdown in 2Q 2018



Sales Volumes Breakdown (sqm) in 2Q 2018



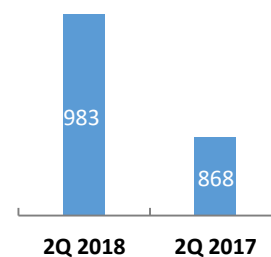
## Segment Reporting

### Local Sales

Our local net sales increased by 13% in 2Q 2018 to EGP 983 million, compared to EGP 868 million in the same quarter of 2017 driven mostly by an 8% y-o-y growth in volumes.

Strong growth exhibited in local revenues during the quarter reiterates our view that demand has revived gradually and consumers have accommodated for the price increase that was implemented in 2017. Showroom sales (50% of total local sales) grew by 13% y-o-y in 2Q 2018 besides 14% growth in wholesale revenues mostly on demand pick up during the months of April and May before Ramadan, on preparation for the wedding season during Lesser Bairam and Summer. These factors helped absorb the impact of the lower wholesale revenues in 1Q 2018. We are currently implementing a new sales strategy on the wholesale level of the woven segment whereby a differentiated product is offered for every trader which will ultimately give traders a better market position.

Local revenues  
(EGP million)





**Table 1: Percentage Change in Local Sales (Volume & Value)**

Percentage Δ	Volume	Value	Average Price	Contribution to Local Revenues	
				2Q 2018	2Q 2017
Woven	▲ 10%	▲ 12%	▲ 2%	82%	83%
Tufted	▲ 8%	▲ 12%	▲ 4%	11%	11%
Non-woven Felt	▲ 1%	▲ 11%	▲ 10%	4%	4%
Others (imported & yarn sales)		▲ 121%		3%	2%
<b>Total</b>	<b>▲ 8%</b>	<b>▲ 13%</b>	<b>▲ 4%</b>	<b>100%</b>	<b>100%</b>

Our showroom network continues to grow: in 2018, seven new showrooms were added in Luxor, Aswan, Delta, and Ismailia. This brings our total number of showrooms to 244 as of August 2018. We plan to open another five new showrooms before yearend in heavily populated areas in the Nile Delta governorates and Eastern Cairo.

Our hospitality segment continued its successful installations, recording a 6% y-o-y revenue growth; among the projects that were installed during the second quarter were Vida Al-Alamein Hotel at Marrasi North Coast, Sharm El Sheikh Conference Center, besides a number of hotels in Sahl Hashesh, Marsa Alam, and Giza. Currently, we are embarking on ventures in the new administrative capital, and we are working on major projects currently being established by the government. Of these projects being undertaken, perhaps the most exciting is OW's production of axminster carpets for the new capital's 10,000 sqm mosque, which is to be the largest mosque in Africa.

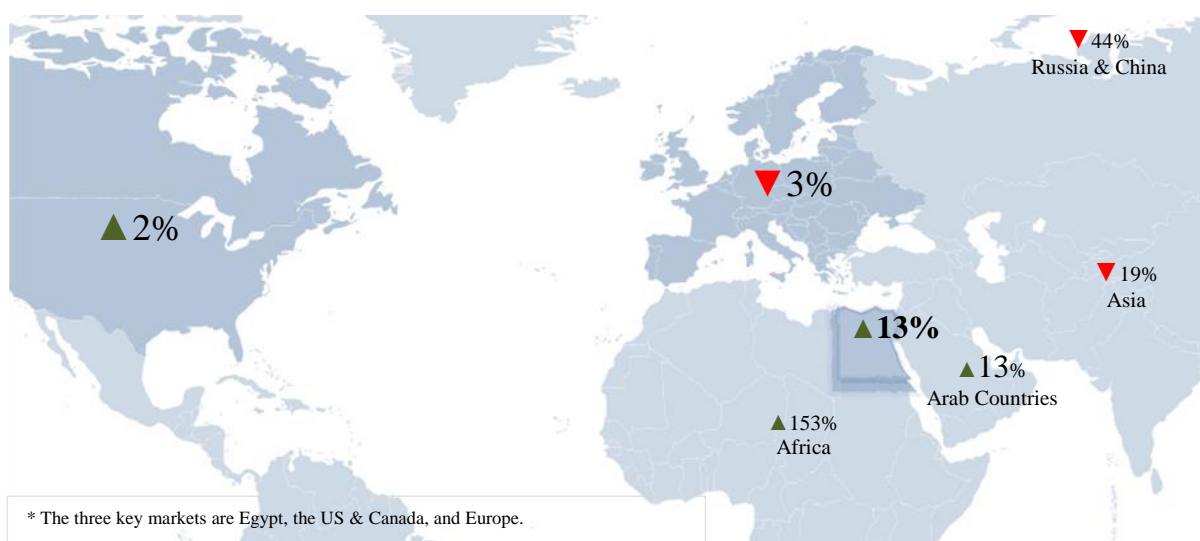
Egypt's economy is recovering, and management sees enormous growth potential in this dynamic market. An ample supply of housing expected to enter the market in the coming period from major real estate developers, affordable housing for mid and low income families, and our country's favorable demographic structure will all drive demand higher for our products going forward.



## Export & Overseas Operations

Export revenues remained almost flat at EGP 1,542 million in 2Q 2018 as compared to 2Q2017. Sales volumes declined by 2% y-o-y during the quarter. The woven segment showed strong performance, recording an 8% growth y-o-y. However, this growth was offset by a decline in export sales of our tufted and non-woven segments, as some promotions were delayed as well as due to the strengthening of global competition. Yet, with the current orders that MAC received during July and August, we believe the Company will partially compensate the decline in 3Q 2018. We continue to work on developing new products and introducing new qualities to the market in order to expand our global market position.

### 2Q 2018 Revenue Performance by Region



Percentage Δ	Volume	Value	Average Price	Contribution to Export Revenues	
				2Q 2018	2Q2017
Woven	▲11%	▲8%	▼3%	80%	74%
Tufted	▼12%	▼19%	▼8%	18%	22%
Non-woven Felt	▼37%	▼44%	▼10%	2%	4%
<b>Total</b>	<b>▼2%</b>	<b>▼0.2%</b>	<b>▲2%</b>	<b>100%</b>	<b>100%</b>

<b>USDEGP</b>		<b>17.88</b>	<b>▼1%</b>		
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In 2Q 2018, our Group exports to North and South America recovered by almost 2%. This came as a result of the strong growth achieved by our US subsidiary, OW USA, during the quarter on continuous growth in US online sales, novel product launches, and growing orders from existing customers. This helped offset the decline in our exports to Canada as a result of its recent free trade agreement with the EU, which allowed free access to Belgian products, while 10% duties tax was levied on Egyptian products.

We continue to see the US arm's growth potential, given our recent agreements with leading home-furnishing stores for indoor and outdoor rugs, online business growth, and continued product development. In addition, OW USA is also developing original products for several new programs targeting mass merchants, discount warehouse clubs, and home centers.

Our European exports saw a 3% decrease in 2Q 2018 in EGP terms. Exports to our top European customer, which represent 7% of total net sales, from our three main divisions (woven, tufted, and non-woven) witnessed a 6% y-o-y decline in Euro terms, owing to the discontinuation of some products. Our woven exports to the customer, on the other hand, grew by 15% y-o-y in 2Q 2018 in Euro terms (+23% in EGP terms). Management expects the pace of growth in woven exports to Europe in 2H 2018 should normalize on the high base effect as well as due to developing new products for the customer which should be reflected in our sales figure in the first half of the year 2019, while simultaneously discontinuing some products.

We continue to expand our expansion initiatives in Europe with France being our initial focus. In July, OW signed a new partnership agreement with French-based distributor, NK Sales, whereby the latter will be the exclusive distributor and contact point of sales for the entire Oriental Weavers portfolio in France. This will deepen Oriental Weavers' exposure in the European market in general and the French market in particular owing to NK Sales' wide exposure to the Scandinavian, Central & Southern European and African markets. We are promoting further exposure to the German market via online agents, which grew our woven sales by 37% y-o-y in USD terms in 1H 2018; and we are also aiming to increase our presence in the British online market.



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Furthermore, we anticipate strong growth potential in the African markets. Exports to this region grew by 96% y-o-y in 1H 2018, having expanded our reach with furniture stores in Ghana, Senegal, Cote d'ivoir and South Africa besides growing our reach in Algeria, Morocco, Kenya, and Tanzania.

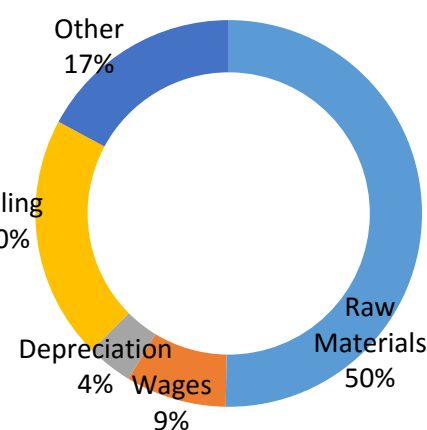
We would also like to shed light on the strong growth achieved this quarter in the hospitality segment export market, which grew by 39% y-o-y. We installed the carpets at a number of projects worldwide, including the Ritz Carlton-Charlotte, Hyatt Mission Bay, and Westin Houston Galleria in the US. Also, we finished the installations of a number of projects in Dubai including Paramount Towers A, B & D, the Address Montgomerie, Phase 2 of the Atlantis, and Novotel Hotel.

We remain committed to solidifying and expanding our existing client base through marketing campaigns, the development of new products, and our ongoing dedication to produce products of notable quality and value. Given our strong, reputable brand and diverse, high quality product range, we feel confident that we will further grow our turnover in the future.

### Earnings Decline On Inflated Costs

In 2Q 2018 there was a 31% y-o -y decline in gross profit (including depreciation expenses) to EGP222 million, with the gross margin declining by 446 bps y-o-y to 8.8%, versus 11.2% in 1Q 2018, and 13.3% in 2Q 2017. It is important to highlight, however, that the margins for 1H 2017 were exceptionally high, mainly due to the sale of low cost inventory at higher prices after the floatation of the Egyptian pound; their associated costs were based on pre-floatation prices. Raw material prices continued escalation in 2Q 2018 with 17% higher average polypropylene prices reaching USD 1,301/ton compared to USD 1,109/ton in 2Q 2017; and electricity tariffs were 48% higher as energy subsidies are gradually being phased out. This besides challenging markets added to the margin pressure.

2Q 2018 COGS Breakdown







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EBITDA for 2Q 2018 came in at EGP 270 million – a 30% decline compared to 387 million in 2Q 2017 – while the EBITDA margin declined by 532 bps to 10.7%. Selling, general, and administrative expenses as a percentage of sales increased by 50bps y-o-y to 3.6%, due to rising inflation and the group's donation to Egypt's Long Live Fund.

Our interest expense declined 26% y-o-y this quarter, having settled all our EGP debt in 2017. An 85% growth y-o-y has been seen in our interest and treasury income, as a result of the efficient utilization of our cash balance through investments in high yield treasury bills and interest-bearing current accounts. The company recorded an overall net interest income of EGP 3 million, compared to 2Q 2017's EGP 19 million net interest expense. On June 30, 2018, our debt breakdown was 77% USD, 22% Euro, and 1% EGP compared to 85% foreign currency debt, and 15% EGP debt in June 2017.

We recorded an export rebate collection of EGP 44 million in 2Q 2018 versus EGP 22 million in 2Q 2017. The remaining backlog is almost EGP 414 million, until August 13, 2018. The Company recorded a provision expense of EGP 20 million related to tax settlement and goodwill impairment.

The factors outlined above caused our pre-tax earnings to decline in 2Q 2018 by 42% to EGP 143 million. Our effective tax rates reached 14.5% up from 11.6% in 2Q 2017, due to increasing earnings contributions from taxable entities such as Oriental Weavers Carpets.

Consequently, Oriental Weavers has seen a 44% decline in its attributed earnings in 2Q 2018, reaching EGP 115 million vs. EGP 204 million in 2Q 2017.





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## Latest Corporate Developments

### **Oriental Weavers Inks a New Partnership With a Large Europe-Based Carpet Distributor**

Management believes that this partnership with NK Sales will deepen Oriental Weavers' exposure in the European market in general and the French market in particular besides reinforce NK Sales' continued commitment and expansion strategy in these markets. Accordingly, this will enable both companies to work together to provide the best service and support to meet the needs of the growing European market.

### **Expansions of the Group During the Year**

In the first six months of 2018, OW added six new looms, two yarn machines, packaging and cutting machinery to its Egypt-based facilities. Furthermore, on the OW USA level, the USD 6-million capital increase proceeds were mostly utilized with one loom added in addition to three yarn production machines, packaging machinery, other equipment and a general overhaul of looms. Also, in 1H 2018, we recorded EGP 147 million of additional assets following the March 28, 2018 AGM approval on related party transactions, whereby OW acquired the assets of Tenth of Ramadan Spinning & Weaving company (sister company) for a total value of EGP 69.3 million and Modern Carpet Company for a total value of EGP 78.2 million<sup>1</sup>. We expect to receive an additional three looms and three yarn machinery before yearend as well as start building a new 4550 sqm warehouse with a total estimated cost of EUR 5 million. This should bring our total capex during 2018 close to EGP 550 million. It is estimated that all the machinery will add almost 2% to the group's total production capacity in 2018.

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Please see our 4Q2017 earnings release for more details about the related party acquisitions:  
<mailto:http://s3.amazonaws.com/inktankir2/orwe/ORWE%204Q%202017%20Earnings%20release.pdf>



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## STOCK SYMBOL ORWE.CA

### CAPITAL

Issued and Paid-in Capital: 450mn EGP  
Number of Shares: 450 million shares  
Par Value: 1 EGP per share

### SHAREHOLDER STRUCTURE

**55.7%** Khamis Family  
**37.8%** Institutions  
**1.5%** Treasury shares  
**5%** Retail



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## Income Statement (EGP mn)

	Three months ended June 30			First Half ended June		
	2018	2017	Change	2018	2017	Change
<b>Net Sales</b>	2,526	2,414	4.6%	5,033	4,938	1.9%
<b>Less:</b>						
<b>COGS</b>	2,304	2,094	10%	4,530	4,222	7%
<b>Gross Profit</b>	222	320	-31%	503	716	-30%
<i>Gross Profit Margin*</i>	8.8%	13.3%	-446bps	10.0%	14.5%	-450bps
<b>Less:</b>						
Selling & Distribution Expenses	17	14	25%	37	29	25%
General & Administrative Expenses	74	61	23%	157	132	19%
<b>Sum</b>	91	74	23%	193	161	20%
<b>Net Income from Operation Activities</b>	131	246	-47%	310	555	-44%
<b>Operation Activities Margin</b>	5.2%	10.2%	-500bps	6.2%	11.2%	-508bps
<b>Add / Less:</b>						
Provisions & Impairment	-20	0	NA	-20	-29	-31%
Investment Income	0	0	-100%	0	0	-100%
Interest Income	26	4	571%	62	6	1009%
Treasury Income	3	12	-76%	5	44	-88%
Other Revenues	44	22	101%	70	61	14%
Capital Gain	-11	1	-2126%	-11	1	-1447%
Financing Expenses	-26	-35	-26%	-51	-72	-30%
Foreign Exchange Differences	-5	-3	56%	3	-2	-210%
<b>Sum</b>	12	0	3053%	58	8	621%
<b>Net Profit for the Period before Income Tax</b>	143	246	-42%	368	563	-35%
<b>EBT Margin</b>	6%	10%	-455bps	7%	11%	-409bps
<b>Add / Less:</b>						
Current Income Tax	-21	-30	-30%	-42	-89	-53%
Deferred Tax	0	1	-91%	1	2	-43%
<b>Income Tax for the Period</b>	(21)	(29)	-28%	-41	(88)	-53%
<b>Net Profit for the Period</b>	122	217	-44%	326	475	-31%
<b>Net Profit Margin</b>	5%	9%	-418bps	6%	10%	-314bps
<b>Attributable to:</b>						
Equity Holders of the Parent	115	204	-44%	304	439	-31%
Minority Interest	7	14	-50%	22	36	-38%
<b>Earnings Per Share (EPS)</b>	0.26	0.45	-44%	0.68	0.98	-31%

\* Reported figures include depreciation expenses

\*\* An amount of EGP 20.4 million was reclassified from the G&A in 1H2017 to COGS, related to free zone fees.

\*\*\* In June 30, 2018 commissions to agents have been classified as a component in the COGS, accordingly 1H 2017 comparable net sales and COGS figures were reclassified by an amount of EGP 26.6 million. This did not have any impact on the Gross profit.



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## Balance Sheet (EGP mn)

	1H 2018	FY 2017
<b><u>Long Term Assets</u></b>		
Fixed Assets (Net)	4 846	4 848
Projects in Progress	375	196
Investments - Available for Sale	129	128
Goodwill	246	246
<b>Total Long Term Assets</b>	<b>5,596</b>	<b>5,419</b>
<b><u>Current Assets</u></b>		
Inventory	3 607	3 456
Trades & Notes Receivable	1 976	1 965
Debtors & Other Debit Accounts	298	307
Treasury Bills	88	71
Cash on Hand & at Banks	871	1 110
<b>Total Current Assets</b>	<b>6,839</b>	<b>6,909</b>
<b><u>Current Liabilities</u></b>		
Provisions	67	77
Banks - Credit Accounts	2 072	1 872
Long Term Liabilities - Current Portion	92	79
Suppliers & Notes Payable	1 231	1 070
Dividends Payable	46	23
Creditors & Other Credit Accounts	501	354
Deferred Tax Liability	42	122
<b>Total Current Liabilities</b>	<b>4,051</b>	<b>3,596</b>
<b>Working Capital</b>	<b>2,788</b>	<b>3,313</b>
<b>Total Investment</b>	<b>8,385</b>	<b>8,732</b>
<b>Financed as Follows:</b>		
<b><u>Shareholder's Equity</u></b>		
Issued & Paid Capital	450	450
Reserves	1,664	1,625
Retained Earnings	514	674
Net Profit for the Period	304	683
Exchange Differences Arising on Translation of Foreign Currency	4,224	4,177
Treasury Stocks	-43	-43
<b>Total Equity Attributable to Equity Holders of the Parent</b>	<b>7,113</b>	<b>7,566</b>
<b>Non-controlling Interest</b>	<b>822</b>	<b>724</b>
<b>Total Equity</b>	<b>7,936</b>	<b>8,290</b>
<b><u>Long - Term Liabilities</u></b>		
Long Term Loans	325	317
Housing & Development Bank Loan	0	0
Deferred Taxes Liabilities	124	125
<b>Total Long Term Liabilities</b>	<b>449</b>	<b>442</b>
<b>Total Shareholder's Equity &amp; Long Term Liabilities</b>	<b>8385</b>	<b>8,732</b>



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## Statement of Cash Flows (EGP mn)

	Three Months Ended June 30	
	2018	2017
<b><u>Cash flows from Operating Activities:</u></b>		
Net Profit for the Period before Income Tax	368	563
<b><u>Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities</u></b>		
Fixed Assets Depreciation	275	286
Provisions other than Deprecations	20	29
Interest Income	(62)	(6)
Financing Expenses	51	72
Investment Income	-	(0)
Capital Gain	11	(1)
<b>Operating Profits before Changes in Working Capital</b>	663	943
<b><u>Change in Working Capital</u></b>		
(Increase) in Inventory	(131)	(269)
Decrease (Increase) in Trades & Notes Receivable and other Debit Accounts	19	11
Decrease (Increase) in Suppliers & Notes Payable and other Credit Accounts	257	170
<b>Cash Flows Provided by Operating Activities</b>	808	855
Interest Income	62	6
Paid Financing Expenses	(51)	(72)
Income Tax Expense	(113)	(137)
<b>Net Cash Flows Provided by Operating Activities</b>	706	652
<b><u>Cash Flows from Investing Activities</u></b>		
Payments for Purchase of Fixed Assets and Projects in Progress	(449)	(171)
Payment for Acquisition of Available for Sale Investment	-	-
Proceeds from Sale of Treasury Bills	-	99
Proceeds from Sale of Fixed Assets	18	3
<b>Net Cash Flows (used in) Investing Activities</b>	(431)	(68)
<b><u>Cash Flows from Financing Activities:</u></b>		
Proceeds (Payment) from Banks - Credit Accounts	190	(198)
Dividends Paid	(817)	(697)
FX Translation Differences	-	(21)
Increase in paid-in capital of subsidiary	107	-
(Payment) Proceeds in Long Term Liabilities	19	(58)
<b>Net Cash Flows (used in) Provided by Financing Activities</b>	(501)	(973)
<b>Net Change in Cash &amp; Cash Equivalents During the Period</b>	(225)	(390)
Cash & cash equivalents at beginning of the period	1,181	890
Translation Differences Related to Cash & Cash Equivalents	3	(2)
<b>Cash &amp; Cash Equivalents at End of the Period</b>	959	498



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## ABOUT ORIENTAL WEAVERS CARPET COMPANY

Oriental Weavers is a global player in machine-woven rugs and carpets; the company is renowned for superior product design and quality, as well as technological innovation. Today, the company is one of the largest producers of machine-made woven rugs in the world. It is management's vision to build a state-of-the-art, internationally competitive carpet and home textile company, characterized by a sharp focus on its customers and driven by marketing- and export-oriented strategies. ([www.orientalweavers.com](http://www.orientalweavers.com))

## FORWARD-LOOKING STATEMENTS

Certain information contained in this document consists of forward-looking statements reflecting the current view of the Company with respect to future events, and is therefore subject to certain risks, uncertainties, and assumptions. Many factors could cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including worldwide economic trends, the economic and political climate of Egypt and the Middle East, and changes in business strategy as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in such forward-looking statements. Recipients of this document are cautioned not to place any reliance on these forward-looking statements. The Company undertakes no obligation to republish revised forward-looking statements to reflect changed events or circumstances.

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