



النساجون الشرقيون
Oriental Weavers

Earnings Release

3Q 2018

Solid US revenues - Higher Costs Weigh on Margins

CAIRO, November 1st, 2018 — Oriental Weavers Carpet Company [ORWE EY; ORWE.CA], one of the world's largest machine-made rug and carpet manufacturers, reported its financial results today, for 9M 2018, ending September 30th.

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

“At the end of this third quarter, 2018, our diversified export and local operations continue to perform according to Oriental Weavers’ sustainable growth model, and to our shareholders’ benefit. Though at a slower pace, local demand increased y-o-y during the quarter and absorbed recent prices increases. Although product development for our European customer faced setbacks, our U.S. subsidiary reported solid revenue growth that bolstered the group's overall export performance. The team’s expansion strategy of attracting new clients continued. Increasing raw material costs continue to place our EBITDA under pressure, but our expansion plans remain on schedule with nine state-of-the-art weaving looms installed, in addition to seven yarn machines. In response to the recent trade barriers the U.S. imposed on Chinese imports, Oriental Weavers forecasts growing export opportunities, and accompanying product innovations. As such, we will continue to invest in our business, supporting future growth and profitability while consistently improving cost efficiency. On behalf of the management team, I would like to express both my gratitude, and sincerest appreciation, to our outstanding Group members for their tireless dedication.”

3Q 2018 vs 3Q 2017

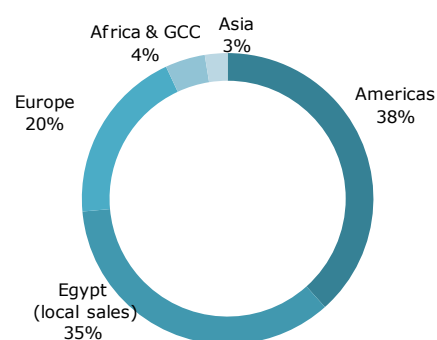
Sales (EGP million)	EBITDA (EGP million)	Net Income (EGP million)
2,567 ▼2%	272 ▼18%	96 ▼12%
Export Contribution	EBITDA Margin	Unrecognized Backlog of Export Rebates
65%	10.6% ▼210 bps	EGP 420 million

Revenue Performance Overview

The group reported a decrease of 2% in its 3Q 2018 revenues reaching EGP 2,567 million. Export revenues (65% of total revenues) declined by 5% y-o-y during the quarter, while local sales grew by 4% when compared to 3Q 2017.

In 9M 2018, top line reported a 1% growth y-o-y reaching EGP 7,600 million, compared to EGP 7,548 million in 9M 2017.

Revenue Contribution by Market in 3Q 2018



	Value (EGP million)		
	3Q 2018	3Q 2017	% Change
Woven- Egypt based	1,439	1,499	-4%
OW USA	535	438	22%
OW China	13	49	-72%
Tufted	472	511	-8%
Non-woven Felt	64	97	-35%
Other	44	16	179%
Total	2,567	2,610	-2%

	Volume (sqm)		
	3Q 2018	3Q 2017	% Change
Woven- Egypt based	13.5	14.0	-3%
OW USA	2.6	2.5	4%
OW China	0.2	0.3	-42%
Tufted	7.8	8.6	-10%
Non-woven Felt	2.9	3.7	-23%
Other			
Total	26.9	29.2	-8%

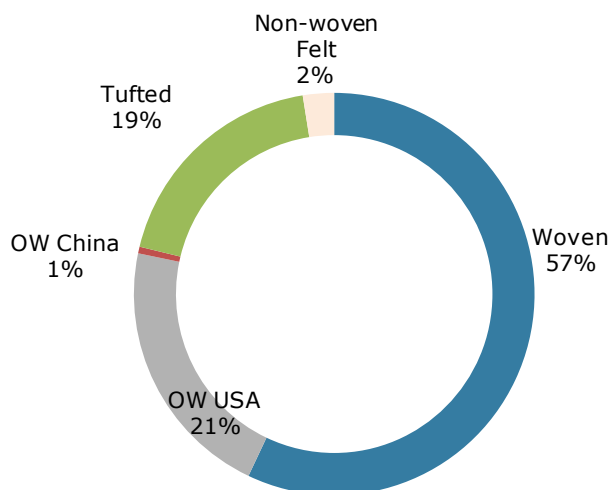
	Value (EGP million)		
	9M 2018	9M 2017	% Change
Woven- Egypt based	4,391	4,257	3%
OW USA	1,567	1,455	8%
OW China	59	120	-51%
Tufted	1,290	1,396	-8%
Non-woven Felt	207	276	-25%
Other	86	44	95%
Total	7,600	7,548	1%

	Volume (sqm)		
	9M 2018	9M 2017	% Change
Woven- Egypt based	41	40	4%
OW USA	8	8	5%
OW China	1	1	-28%
Tufted	22	25	-11%
Non-woven Felt	10	12	-12%
Other	0	0	
Total	83	85	-3%

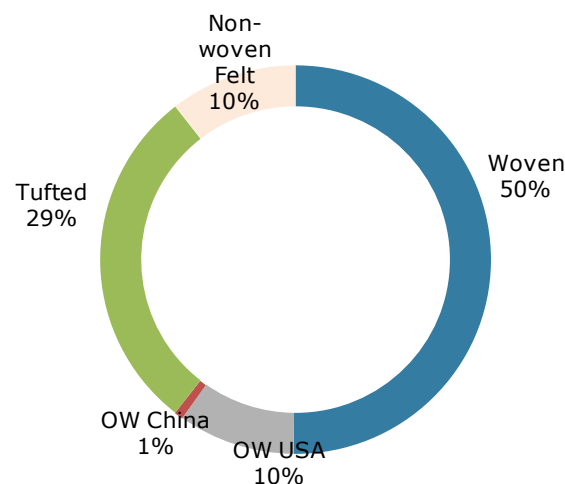


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Revenue Breakdown in 3Q 2018



Sales Volumes Breakdown (sqm) in 3Q 2018



Segment Reporting

Local Sales

Our local net sales increased by 4% in 3Q 2018 to EGP 903 million, compared to EGP 865 million in the same quarter of 2017. Volumes sold, however, decreased by 7% as OW focused on producing mid-to high-qualitys in MAC, the tufted division, with higher prices. This, together with the September 5% price increase implemented across OW's different segments, led to 8% higher than average selling prices.

Though overall local revenues grew 7% y-o-y in 9M 2018, demand during 3Q 2018 was, in large, negatively impacted by the gradual removal of energy subsidies, with 3Q 2018 revenues showing a milder growth of 4% y-o-y compared to a 13% growth exhibited in 2Q 2018. Showroom sales (50% of total local sales) grew by 22% y-o-y in 3Q 2018, while wholesale revenues remained under pressure on traders' stock availability, and low demand from low-income consumers.



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

Percentage Δ	Volume	Value	Average Price	Contribution to Local Revenues	
				3Q 2018	3Q 2017
Woven	▲2%	▲2%	0%	82%	84%
Tufted	▼24%	0%	▲31%	10%	10%
Non-woven Felt	▼17%	▼6%	▲13%	4%	4%
Others (yarn sales)		▲174%		4%	2%
Total	▼7%	▲4%		100%	100%

Our showroom network continues to grow in 2018 with eight new showrooms added in Giza, Luxor, Aswan, Delta, and Ismailia. This brings our total number of showrooms to 245 as of October 2018. We plan to open another four new showrooms before year-end in heavily populated areas in the Nile Delta governorates and eastern Cairo.

Our local hospitality segment continued its successful installations, recording a 17% y-o-y revenue growth. The third quarter projects included installations at the Marriott Cairo Hotel, The Four Seasons Nile Plaza, and the Intercontinental Citystars. Oriental Weavers is also facilitating installations in the New Capital's 10,000 sqm mosque, which will be the largest mosque in Africa.

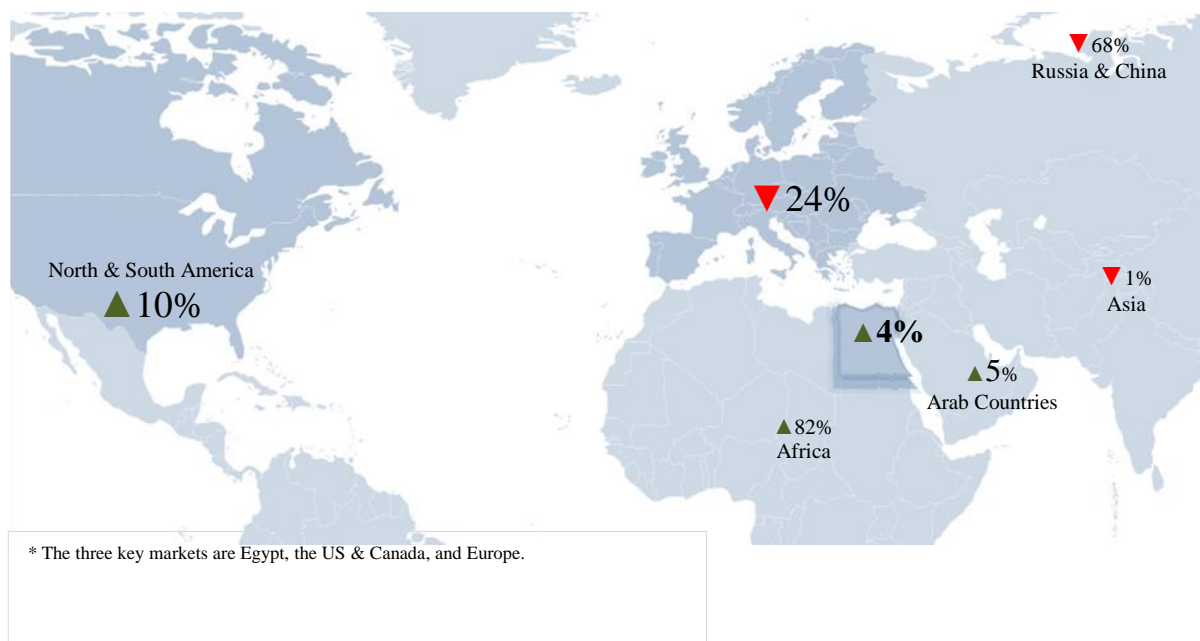
Egypt's economy is recovering, and management foresees enormous growth potential in this dynamic market. An ample supply of housing expected to enter the market in the coming period from major real estate developers, affordable housing for mid and low-income families, and our country's favorable demographic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



Export & Overseas Operations

Export revenues, at EGP 1,663 million, declined by 5% in 3Q 2018, on 8% y-o-y lower volumes. Exports from our Egypt-based woven subsidiaries recorded 9% y-o-y decline as a result of a two-month product development program for our top European customer, while simultaneously discontinuing other products. Meanwhile, we continue to expand our exposure with existing customers, approach new clients in existing markets, and penetrate new markets.

3Q 2018 Revenue Performance by Region



Percentage Δ	Volume	Value	Average Price	Contribution to Export Revenues	
				3Q 2018	3Q2017
Woven	▼6%	▼1	▲6%	75%	72%
Tufted	▼6%	▼9%	▼4%	23%	24%
Non-woven Felt	▼32%	▼51%	▼28%	2%	4%
Total	▼8%	▼5%	▲5%	100%	100%



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Looking at the U.S. market, our U.S.-based subsidiary, OW USA, recorded 22% y-o-y revenue growth in 3Q 2018 as a result of new placements awarded with nationwide home center chains, new relationships producing exclusive private brand collections for furniture manufacturers, and the continued double-digit growth in the e-commerce segment.

We received positive feedback from new and existing customers with regard to our new collections during the recent High Point Fair, which took place in October 2018. Also, as a result of the recent hike in U.S. tariffs on Chinese imports, we were recently approached by several U.S. customers, who were previously working with Chinese manufacturers, for further product developments.

In the U.S., we continue to see direct export growth from our Egypt-based woven factories to U.S. customers (not through OW USA) with a 21% increase in exports in 9M 2018, thanks to new online customers, novel product launches, and growing orders from existing customers.

Indeed, we continue to see growth potential in the U.S. 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.

As mentioned in our 2Q 2018 earnings release¹, our exports to Europe slowed in 3Q 2018 by 24% as a result of the double impact of the high base effect in addition to a setback in shipments to our top European customer. As we were developing new products to this customer during the quarter, some products were simultaneously discontinued based on the customer's shipment forecast. The top-European customer contributed 8% to total net sales in 9M 2018.

Our expansion initiatives in Europe remain intact. Various new products are currently developed under the new partnership agreement with French-based distributor, NK Sales. The latter will be the exclusive distributor and point of sales contact for the entire Oriental Weavers portfolio in France.

¹ <http://s3.amazonaws.com/inktankir2/orwe/ORWE%202Q%202018%20Earnings%20Release%20Final.pdf>

We are promoting further exposure into the German and Central Europe markets via online agents, which grew our woven sales by 59% y-o-y, in USD, in 9M 2018.

Regarding the African market, we see strong growth potential. Our exports to this region grew by 82% y-o-y in 3Q 2018, having expanded our activities to Morocco, Libya, Ghana, South Africa, Mauritius, in addition to raising our market share in Kenya and Tanzania.

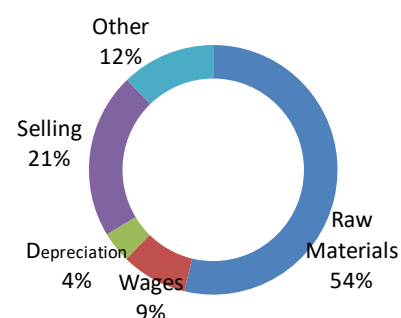
We would also like to highlight the growth achieved in the hospitality segment of the export market, which grew 27% y-o-y in 9M 2018. We installed carpets at a number of projects in the UAE including Fountain View Towers 1, 2, and 3, Phase 2 of the Atlantis Hotel, and the Novotel Hotel, in addition to installations in Shaza Hotel Al-Madinah, Mövenpick Anwar Al Madinah, KSA, and the Hilton Hotel in Muscat.

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 are confident that we will experience increased growth in the future.

Inflated Costs Weigh on Profitability Margins

In 3Q 2018 there was an 18% y-o-y decline in gross profit (including depreciation expenses) to EGP 228 million, with the gross margin declining by 182 bps y-o-y to 8.9%, versus 10.7% in 3Q 2017 and 8.8% in 2Q 2018. Raw material prices have continued to increase since the beginning of the year. Average polypropylene prices were 16% higher at USD 1,294/ton compared to USD 1,112/ton in 9M 2017; electricity tariffs were 43% higher as energy subsidies are gradually phased out.

3Q 2018 COGS Breakdown



EBITDA for 3Q 2018 came in at EGP 272 million – an 18% decline compared to EGP 331 million in 3Q 2017 – while the EBITDA margin declined by 210 bps to 10.6%. Selling, general, and administrative expenses, as a percentage of sales, increased by 52bps y-o-y to 3.7%, because of inflated costs and donations to the Egypt Long Live fund.

Our interest expense declined 12% y-o-y this quarter as OW settled all EGP debt in 2017. We recorded a two-fold increase in 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 1 million, compared to a net interest expense of EGP 21 million in 3Q 2017. On September 30, 2018, our debt breakdown was 73% USD, 26.5% Euro and 0.5% EGP, compared to 74.5% USD, 25% Euro, and 0.5% EGP on December 31, 2017.

We recorded an export rebate collection of EGP 19 million in 3Q 2018 versus EGP 17 million in 3Q 2017. The backlog is almost EGP 420 million, as of September 30, 2018, which is not recognized on our balance sheet. The company recorded a gain of EGP 7.5 million resulting from the partial liquidation of one of the investments.

The factors outlined above caused our pre-tax earnings to decline in 3Q 2018 by 14% to EGP 136 million. Our effective tax rates increased to 19% in 3Q 2018, compared to 14.5% in 2Q 2018, due to lower earnings contributions from non-taxable subsidiaries such as Oriental Weavers International, as well as the higher earnings contribution from our taxable subsidiaries such as MAC.

Consequently, Oriental Weavers has seen a 12% decline in its attributed earnings in 3Q 2018, reaching EGP 96 million. By comparison, the attributable earnings figure for 3Q 2017 was EGP 109 million.



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Latest Corporate Developments

Expansions

Management is optimistic about the company's future prospects. The increasing reliance on new, more advanced manufacturing technology is expected to help increase productivity, enhance quality, while reducing waste, together which will enhance our profitability and lead to margin improvement.

In the first nine months of 2018, OW added eight new looms and five yarn machines, along with 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 two yarn production machines, packaging machinery, other equipment and a general overhaul of looms. These expansions have added 3% to the group's total production capacity. 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 for a total value of EGP 69.3 million and Modern Carpet Company for a total value of EGP 78.2 million². Total capex spent in 9M 2018 reached EGP 642 million.

2. Please see our 4Q2017 earnings release for more details about the related party acquisitions:
<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: 450 million EGP

Number of Shares: 450 million shares

Par Value: 1 EGP per share

SHAREHOLDER STRUCTURE

55.7% Khamis Family

36.7% Institutions

1.5% Treasury shares

6.1% Retail



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Income Statement (EGP million)

	Three months ended September 30			9 Months ended September 30		
	2018	2017	Change	2018	2017	Change
Net Sales	2,567	2,610	-1.6%	7,600	7,548	0.7%
Less:						
COGS	2,338	2,330	0%	6,868	6,552	5%
Gross Profit	228	280	-18%	731	995	-27%
<i>Gross Profit Margin*</i>	8.9%	10.7%	-182bps	9.6%	13.2%	-356bps
Less:						
Selling & Distribution Expenses	19	19	-2%	55	48	15%
General & Administrative Expenses	77	65	19%	234	197	19%
Sum	95	84	14%	289	245	18%
Net Income from Operation Activities	133	196	-32%	443	751	-41%
Operation Activities Margin	5.2%	7.5%	-233bps	5.8%	9.9%	-412bps
Add / Less:						
Provisions & Impairment	-21	-42	-49%	-41	-71	-42%
Investment Income	7	0	-	7	0	-
Interest Income	28	59	-53%	90	64	39%
Treasury Income	4	-44	-110%	10	-	NA
Other Revenues	19	17	13%	89	78	14%
Capital Gain	1	1	-60%	-11	2	NA
Financing Expenses	-32	-36	-12%	-82	-108	-24%
Foreign Exchange Differences	-3	6	-159%	-1	3	NA
Sum	3	(39)	-107%	58	8	621%
Net Profit for the Period before Income Tax	136	157	-14%	503	720	-30%
EBT Margin	5%	6%	-73bps	7%	10%	-291bps
Add / Less:						
Current Income Tax	-26	-29	-13%	-68	-119	-43%
Deferred Tax	0	-4	-104%	1	-2	-164%
Income Tax for the Period	(26)	(33)	-23%	-67	(121)	-45%
Net Profit for the Period	110	124	-11%	436	599	-27%
Net Profit Margin	4%	5%	-45bps	6%	8%	-219bps
Attributable to:						
Equity Holders of the Parent	96	109	-12%	400	548	-27%
Minority Interest	14	14	-3%	36	51	-28%
Earnings Per Share (EPS)	0.22	0.25	-12%	0.90	1.24	-27%

* Reported figures include depreciation expenses

** In September 30, 2018 commissions to agents have been classified as a component in the COGS, accordingly 9M 2017 comparable net sales and COGS figures were reclassified by an amount of EGP 40.9 million. This did not have any impact on the Gross profit figure.



Balance Sheet (EGP million)

	9M 2018	FY 2017
<u>Long Term Assets</u>		
Fixed Assets (Net)	4 791	4 848
Projects in Progress	484	196
Investments - Available for Sale	130	128
Goodwill	246	246
Total Long-Term Assets	5,651	5,419
<u>Current Assets</u>		
Inventory	3 757	3 456
Trades & Notes Receivable	1 996	1 965
Debtors & Other Debit Accounts	312	307
Treasury Bills	146	71
Cash on Hand & at Banks	955	1 110
Total Current Assets	7,165	6,909
<u>Current Liabilities</u>		
Provisions	89	77
Banks - Credit Accounts	2 319	1 872
Long Term Liabilities - Current Portion	85	79
Suppliers & Notes Payable	1 216	1 070
Dividends Payable	22	23
Creditors & Other Credit Accounts	500	354
Deferred Tax Liability	68	122
Total Current Liabilities	4,300	3,596
Working Capital	2,866	3,313
Total Investment	8,517	8,732
Financed as Follows:		
<u>Shareholder's Equity</u>		
Issued & Paid Capital	450	450
Reserves	1,664	1,625
Retained Earnings	514	674
Net Profit for the Period	400	683
Exchange Differences Arising on Translation of Foreign Currency	4,224	4,177
Treasury Stocks	-43	-43
Total Equity Attributable to Equity Holders of the Parent	7,210	7,566
Non-controlling Interest	836	724
Total Equity	8,046	8,290
<u>Long - Term Liabilities</u>		
Long Term Loans	347	317
Housing & Development Bank Loan	0	0
Deferred Taxes Liabilities	124	125
Total Long-Term Liabilities	471	442
Total Shareholder's Equity & Long-Term Liabilities	8,517	8,732



Statement of Cash Flows (EGP million)

	Nine Months Ended September 30	
	2018	2017
Cash flows from Operating Activities:		
Net Profit for the Period before Income Tax	503	720
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities		
Fixed Assets Depreciation	414	418
Provisions other than Deprecations	41	71
Interest Income	(90)	(17)
Financing Expenses	82	108
Investment Income	(7)	-
Capital Gain	11	(2)
Operating Profits before Changes in Working Capital	955	1,297
Change in Working Capital		
(Increase) in Inventory	(283)	(425)
Decrease (Increase) in Trades & Notes Receivable and other Debit Accounts	(14)	(72)
Decrease (Increase) in Suppliers & Notes Payable and other Credit Accounts	250	289
Cash Flows Provided by Operating Activities	909	1,090
Interest Income	90	17
Paid Financing Expenses	(82)	(108)
Income Tax Expense	(113)	(138)
Cash Flows Provided by Operating Activities	803	862
Cash Flows from Investing Activities		
Payments for Purchase of Fixed Assets and Projects in Progress	(642)	(284)
Payment for Acquisition of Available for Sale Investment	0	
Proceeds from Sale of Treasury Bills	-	98
Proceeds from Sale of fixed assets	17	9
Net Cash Flows (used in) Investing Activities	(625)	(177)
Cash Flows from Financing Activities:		
Proceeds (Payment) from Banks - Credit Accounts	437	(14)
Dividends Paid	(841)	(710)
Translation Differences of Financial Statements	4	(35)
Increase in paid-in capital of subsidiary	107	-
(Payment) Proceeds in Long Term Liabilities	34	(74)
Net Cash Flows (used in) Provided by Financing Activities	(260)	(834)
Net Change in Cash & Cash Equivalents During the Period	(83)	(149)
Cash & cash equivalents at beginning of the period	1,181	890
Translation Differences Related to Cash & Cash Equivalents	2	(4)
Cash & Cash Equivalents at End of the Period	1,100	737



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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)

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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