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Operator: Please stand by. We are about to begin. Good day and welcome to the Oriental Weavers Fourth Quarter 2017 Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mohamad Ohas[?]. Please go ahead, sir.

Mohamad: Hi, ladies and gentlemen, thank you for joining us for the Oriental Weavers 4Q 2017 Results. We have with us a number of members from the Oriental Weavers management team including Farida Khamis, the VP of Corporate Finance; Jonathan Witt, Oriental Weavers USA Vice President; Madani Hozaien, the Group CFO; and Ingy El Diwany the IR Manager. I'll now turn to the Oriental Weavers management team for the call. Thank you.

Farida Khamis: Hello and thank you for your interest in Oriental Weavers. We also have with us Radwa Kamel, Head of Treasury for the Group, and Shehta Farouk, Financial Controller, and Amin Zohini[?], Export Director. Welcome to Oriental Weavers Quarterly Investors Conference Call. Today we'll update you on the results for full year 2017 and provide guidance for 2018.

In 2017, the EGP flotation besides our strong presence in the local and export market allowed OW to deliver record breaking results. For the first year, our revenues rose to an all time high of EGP 10.2 billion, a 50% increase year-on-year. We generated EBITDA of 1.5 billion pound up 36% compared to 2016, and 41% higher attributable earnings to EGP 684 million.

Over the past three years, our strategy of expanding our geographical reach besides introducing new products mix helped us capitalise on the EGP devaluation. Our 2017 results reflected the impact of these factors despite increases in cost of raw material. During the past year, we invested approximately EGP 500 million in establishing a new rug factory besides adding ten loom, three yarn machines and a digital printing machine. This aims to broaden our product offering and to further integrate our rug manufacturing. Our board of director proposed the GPS of EGP 1.4 implying a yield of 9% which is subject to the approval of the AGM on 28th March. We will call for an AGM upon approval of the financial regulator to approve an increase in authorised capital in order to allow us later to raise our issued capital towards distributing stock dividends upon board-of-director proposal.

As for the updates on the current status, we have seen a relative demand pickup in our showroom sales in Egypt compared to the fourth quarter of 2017, which almost offset the pressuredvolume from wholesalers. Preliminary local sales till end of February were down 3% year-on-year. Nowadays we have witnessed a reviving footfall at our hall[room at the Cairo International Fair, which started on 14th March and will last till 23rd March. This reflects the high local demand from the expected newly weds before and after the holy month of Ramadan. Our exports till end of February were 4% higher in USD terms. Current average polypropylene prices were 18% higher year-on-year along with other raw material costs. Thus, we expect the profitability margin in the first half of 2018 to be relatively under pressure compared to the strong margins exhibited in the first half of 2017.

As for our guidance for 2018, we expect to record a top line growth of 7%, EBITDA margin to be around 14% and earnings to range from EGP 730 to EGP 750 million in 2018 which is almost 7-10% growth. In 2018, we are planning to invest between €15 million to €20 million to adding eight to ten new loom, five yarn machinery to release the bottlenecks in yarn manufacturing; this is in addition to a cutting machine for the tufted segment in order to penetrate the growing carpet tile market locally and internationally.

I think we are done with the introduction. We can open the floor for questions.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. We'll go first to Jonathan Milan with Waha Capital.

Jonathan Milan: Hi, good afternoon, and thank you very much for taking the time for the call. I just have a couple of questions. If you think that costs are going up 18% but exports are going up 4%, can I ask please how much of a repricing are you doing in the export market? How much volume growth are you seeing in the local and export market and how do you get to a growing EBITDA and growing net income given that costs are seemingly growing faster than revenues? Thanks.

Farida Khamis: Yes, for the local volume, in the first two months of the year, volumes were down by around 8%. But we have seen a 6% higher average selling prices given the change in the mix towards Grade A and B. As for the export pricing, I will leave Jonathan and Amin to highlight on the pricing in the export market. Jonathan, would you like to elaborate on this?

Jonathan Witt: Sure. Speaking for OW USA, in the current environment it's very hard to pass on any type of price increase to retailers who are also as we all know facing some unique challenges right now. So, our approach as we forecasted the increase in raw materials has really been to aggressively develop some new qualities to fill voids in their assortment and then replace product that we had that currently we couldn't have gotten a price increase on. So, looking forward into Q2, Q3, we should start to see those placements shipping out to stores at higher margin than where we've been or where we will be in Q1 due to those cost increases.

But for us, that proactive stance of bringing new product that we have a little higher margin on in the stores is the approach because facing price increases would really result in lost volume and profit. Luckily for us, in January, we had the Atlanta rug market as well as the Last Vegas World Market which is more of a furniture show, had very positive response to the product mix. In fact, our Las Vegas show we had more appointments and more energy as well than we've seen in the market and in our showroom since probably 2008 or 2007.

So, feeling very good about that, I will let everyone know that the retailer sentiment in general is still very cautious. However, we feel with the response we had and the orders for placements for the balance of the year that we are definitely taking some market share away from our competitors in that environment. Amin?

Jonathan Milan: Is there volume growth in the US? What kind of volume growth are you seeing and how much of this improved sentiment in US do you think will translate into higher sales? Do you have a target for the US in terms of volumes?

Jonathan Witt: Yeah, for OW USA, we're targeting a 6-7% increase for 2018 in terms of revenue and, obviously, we're working through the final numbers with these cost increases to get there. But we do believe our bottom line margin will improve.

Jonathan Milan: Okay.

Hany Amin[?]: And for Oriental Weavers Egypt, in the beginning of the year we noted the price increases of polypropylene we added to our pricing for all our new development then the production introduced in January market in Germany which is like 40% of our collection. And for the new comers we offered them the added or the increased price after adding this raw material increase. So, -- and for the second quarter, we are expecting more sales on this new introduction which will allow us to validate these new prices which we offered in January.

But for the repeat orders, we are trying to maintain the same prices as Jonathan mentioned that we can't put a price increase in the middle of the programme or a project, but for all new orders we will apply this new pricing.

Jonathan Milan: May I ask how much of a price increase are you applying on these new orders and your new collection?

Hany Amin: In all the new introductions, we add like 5-7% from January for all the new development.

Jonathan Milan: And the target in terms of – so, this is for local or for exports excluding US?

Hany Amin: Export.

Jonathan Milan: Export. And much volume growth do you expect to gain to make in 2018 especially what with the IKEA contract and a couple of other contracts coming in and pushing in 2018 as well?

Farida Khamis: For the growth, as a whole we expect between 8-10% export growth in 2018.

Jonathan Milan: Revenue?

Farida Khamis: Volume.

Jonathan Milan: Volume. So, in terms of revenue, it could be low double digit?

Farida Khamis: assuming a stable exchange rate.

Jonathan Milan: Wouldn't it be lower 8-10% volume and with under 10[?] 5% to 7% increase in prices just for the new collection? But if the new collection let's say, I don't know, a third of sales, and correct me if I'm wrong, then you should get some low double digits revenue growth maybe in exports.

Farida Khamis: Okay.

Jonathan Milan: So, this new collection, how much of the new sales would it entail? So, how much time will it take to roll over and become part of regular sales and [inaudible] price increase will impact the financials?

Farida Khamis: Yeah, the new collection is for the woven segment. As a percentage of total sales level, it will be] something within the range of 20% on a total level.

Jonathan Milan: Okay. And just going back to Egypt. So, in Egypt, since there is a big increase in the price simply because of the difference in the mix, 6% increase in the price and in the first couple of months 8% drop in volumes --

Farida Khamis: For the time being, yes. Yeah, for the first two months, it's on average it's 6% higher for the first two months.

Jonathan Milan: And then you saw a pickup in volumes in March.

Farida Khamis: Yes, exactly.

Jonathan Milan: Okay. And again, so this is all the high single digit, low double digit revenue growth or whatnot, but here you stated I think a record 18% growth in cost between polypropylene and others. So, how would you maintain a increase in net profit?

Farida Khamis: Yeah, 18% higher is for March prices. Of polypropylene, current prices is now 1,370 compared to the prices at the beginning of the year of 1,250. But according to oil[?] estimates, the prices are going to slow in the second half of this year because availability of polypropylene has improved. So, we expect on average, prices to be within the range of 1,250 to 1,300. But given that we are adding new loom, which are more efficient then we expect to rationalise our expenditure somehow. In addition to settling all our debt, in Egyptian pound, so this will bring our finance costs 30% lower compared to last year.

Jonathan Milan: Okay. All right. Thank you.

Farida Khamis: Thank you.

Operator: As a reminder, that is star one for question. We'll go to our next question from [inaudible] with HSBC.

Speaker: Hi, good afternoon. Could you talk a little bit about the working capital cycle and do you expect any changes in 2018?

Farida Khamis: Yeah, for the working capital, the average receivable days on hand were around 60 days in 2015, and they went up to 70 days in 2017. We expect the same level of accounts receivable days on hand. The inventory days on hand was 189 days and we expect the same that trend to continue.

Speaker: And what about the payables?

Farida Khamis: The payables, they are around 47 days in 2017 and we expect also the same range less than 50 days.

Speaker: And could you explain the difference in the receivables days between the Egyptian operation and your foreign operation?

Farida Khamis: Sure. For the local sales –

Hany Amin: Actually, for local sales, we usually sell 50% of them through our stores, which is cash. And the other 50% is nearly cash. So, the local sale is nearly cash. Export is between 90 days to 100 days. IKEA is 30 days. So, the mix is 70 days average.

Speaker: So, the mix is increasing more toward international. Is it fair to say we should expect the receivable days to grow up?

Hany Amin: The 70 days comes from the experts and all of them are insured. 100%, our export sales are insured through insurers entity.

Speaker: Thank you.

Operator: Again, that is star one for any questions. We'll pause for just a moment. We have no further questions at this time. I do apologise. We have had a question in queue. We'll go next to Roy Mutooni with ABSA.

Roy Mutooni: Hello, good afternoon. I just wanted to clarify. I didn't quite hear what the guidance was. And then secondly, do you have an update on collection of the receivables from government – on the rebate, sorry, the export rebate proceeds?

Farida Khamis: Okay. As for the guidance, we expect 7% growth on top line level. So, revenues should be within the range of 10.7 billion pound to 10.9 billion pound. We expect EBITDA margin to be around 14% and earnings range from EGP 730 million to EGP 750 million in 2018. As for the export rebate collection, currently the backlog is around EGP 300 million. And what we collected so far in the first two months of this year is around EGP 10 million.

Roy Mutooni: Okay, thanks. Do you see a chance that it could accelerate that you'd be able to collect a whole lot more or is it similar to the old programme where you think these receivables will keep on accumulating?

Farida Khamis: It depends on the government's budget. Still we are checking the amount allocated for export incentive in 2018-2019 fiscal year budget. But it's still not announced so far.

Hany Amin: But it is not included in our reporting numbers. They are not registered unless collected.

Roy Mutooni: Okay, thanks.

Operator: We'll go next to [inaudible] with Terier[?] Investments.

Speaker: Hi. I'd like to ask you about this there is a carpet tiles project progress. Did you expect [inaudible] during 2018?

Hany Amin: Actually, we are in the process to order the machine, expected to be in place within six months' maximum. So, it will be mainly for next year's sale. Actually, this line is ordered mainly for the new -- the expected sale of the new capital where government has to move next year by mid of next year to the new capital together with all embassies or ministries or -- and the other facilities needed there.

Speaker: Thank you.

Operator: That is star one for questions. We'll go back to Jonathan Milan with Waha Capital.

Jonathan Milan: Hi, just a follow-up question on this new admin capital. So, do you think this will generate some additional revenue, significant revenue for Oriental Weavers? And given that the price increases will take effect on these[?] new products will have a bigger impact maybe in 2019, what's your medium-term outlook looking beyond 2018?

Hany Amin: Actually, for the segment of hospitality, we expect that it will make bigger impact in 2019 and 2020, but not in 2018.

Farida Khamis: We are targeting this year a 15% growth in the hospitality business through furnishing several new projects such for example the new Hilton Hotel in Cairo along with the new conference centre related to the army and several new projects in Galala[?] area. So, this should bring 15% higher to our hospitality business in the local market this year.

Jonathan Milan: Okay. Thank you very much.

Farida Khamis: Thank you.

Operator: We have a follow-up question from [inaudible] with HSBC.

Speaker: Could I just get your management's view of where they see the Egyptian pound going this year?

Farida Khamis: Could you repeat your question, please?

Speaker: Yeah. I just want to understand management's view of the Egyptian pound for 2018 relative to the US dollar?

Farida Khamis: Yeah, it's expected to remain as is within the range of 17.5-17.7. We do not expect major differences from the current spot level.

Speaker: And in the scenario of slight depreciation like 5-10% appreciation which is I think where a lot of analysts think that pound may end up this year. How does that impact your profitability?

Farida Khamis: So, for assuming 10-15% appreciation, at this point for the local market, we expect to adjust our selling prices in Egypt given that 60% or 65% of our raw material cost are dollar-based. And under the scenario of stable raw material costs similar to last year not with the current higher prices, so at this point we can adjust our selling prices lower in Egypt. Margins on the local sales are going to be higher compared to the current level. But, of course, for the export proceeds, they're going to be relatively lower. But overall, we expect margins to remain stable.

Speaker: Thank you.

Operator: We have no further questions. There's no further questions. I'd like to turn it back to our speakers for any additional or closing remarks.

Farida Khamis: Jonathan, would you like to elaborate about the US market generally this year? Hello. Jonathan, can you hear me?

Jonathan Witt: Yes, I can.

Farida Khamis: Yes. I was wondering if you could elaborate on the US market this year.

Jonathan Witt: As I mentioned earlier, there's still a attitude with retailers. The Q1 of 2017 was a record actually for OW USA. There was a lot of pent-up, I think, demand from the caution that took place during the election cycle last year with retailer so they were refilling shelves. When you look at the economic indicators that are out there for 2017 and what we're seeing in 2018, there should be a lot of disposable income in consumers' pockets and where they're going to spend that.

However, I think we all have seen that retail is still struggling. The online segment continues to grow. We were at 14% growth in Q4. Q4 2017 was our best performing in terms of growth year-over-year; so, a lot of positive things there. The positive reaction and placements and orders for Q2, Q3 are encouraging in terms of us taking market share. But in general, retail demand for area rugs, I think, will be 2-3% lower than where it's been maybe in the 4% range, and for the total area rug marketplace; so, it will continue for us to comp with those 6-7% year-over-year increases that rely on us taking market share through new product development and also great value cost comparison, which we have effectively done for January. We're actually at the New York home textile market this week. It's just starting this morning, so I can't provide any real feedback. But this is the trade show where we see all the largest retailers in the US.

So, it will be an interesting week and we'll have some good feedback on the next call as to where they are in their minds as well.

Farida Khamis: Amin, do you want to elaborate on export markets in general especially the Japanese market and all the markets that have seen a pickup this year and last year?

Hany Amin: Yes, we have a good 2017 on the Far East especially as you mentioned the Japanese market we have a big growth and we are extending this growth for this year by adding new customers in Japan and Far East region. Near this, we also during Domotex, we have a lot of new customers from Middle East and Mid-Europe and Africa. And it reflects on the Q1 of the increase of sales because we have the chance to get orders and shipped by the first quarter and it will be extended by the second quarter.

We are participating these days in Domotex China in Shanghai, which is more communicating to this region. So, we are expecting good feedback and adding new customer in this region through this market, plus the direct sales we do from Egypt to the US like online business customers which is increasing, comparing with last[?] year we're expecting like at least 10% to 15% increase with this online business.

Farida Khamis: Thank you, Amin. If there aren't any further questions, we'd like to thank you for participating in this call and for your interest in Oriental Weavers.

Operator: This will conclude today's call. Thank you for your participation. You may now disconnect.

Farida Khamis: Thank you.

Hany Amin: Thank you.