Directors’ Report:

Dear Shareholders,

Our second quarter performance builds on the strong start we had in the first three months of 2015, delivering a promising first half of the year in line with our full-year outlook. These results underline our commitment and ability to deliver sustainable, profitable growth for our shareholders by becoming market leaders in our chosen categories and pursuing aggressive distribution and product portfolio expansion.

**H1 2015 Group Highlights**

- Sales grew to AED 911 million
- Profit rose to AED 125 million
- Robust double-digit growth in sales (11%) and net profit (20%)
- 350bps improvement in gross profit margin
- Balance sheet remains healthy, with cash and bank balances of AED 652 million

Our core businesses continue to grow year-on-year, with the water and beverages segment leading the way. Higher sales and improved margins propelled Company’s net profit to advance at almost double the pace of sales growth. This is a reflection of our strategy to improve gross margins, underpinning the trust that our customers and consumers have in our products and keeping us on track to achieve our ambitious targets.
Our Businesses’ Performance

Agri Business

Agri Business net sales reached AED 560 million for the first half of 2015, delivering a 5 percent growth compared to the same period last year. Net profit surged 12 percent from a year earlier to AED 127 million, as both our Grand Mills flour and Agrivita animal feed businesses delivered robust double-digit net profit growth. Our drive to increase overall distribution for flour is bearing fruit, as reflected in our first half performance.

Net sales of Grand Mills flour grew by 9 percent in the period (15 percent, including the trading of wheat). This was driven by securing new customers in the Northern Emirates, distribution gains in both modern retail and lower retail outlets, higher exports sales, and improving penetration of recently launched Arabic bread flour in the Northern Emirates, which together contributed to a 13 percent increase in net profit. Our new retail flour packaging line, which will enable greater visibility of our products, is in progress.

Agrivita Feed total net sales were almost flat versus last year, depressed by the impact of the three-month delay in the government tender for Concentrated Feed. Nevertheless, net profit increased by 11 percent, driven by a 2 percentage-point improvement in gross margins resulting from competitive grain sourcing and favorable volume mix. The outlook for the second half is positive, with Concentrated Feed sales gradually starting from July onwards, in addition to our efforts to increase the number of Municipality outlets and the introduction, in selected outlets, of a second shift sales operation in response to customer demand.

Production capacity upgrades for our poultry and large animal feed lines have been completed. In line with the growth of the business, we are working to expand grain silo storage capacity by an additional 50,000 metric tons.
Consumer Business

Our Consumer Business continued its robust upward momentum as it recorded net sales for the period of AED 351 million, a solid 21 percent increase from the same period last year. Profit jumped 60 percent to AED 35 million, propelled by our water and beverages business.

**Water & Beverages:** Net sales for the period reached AED 297 million, 25 percent higher year-on-year. Strong performance was driven by distribution recovery and gains, particularly in the traditional trade channel and in the Northern Emirates as relief from capacity constraints in the previous year was secured via the installation of the high-speed bottling line. A Ministry-approved price increase was implemented in April in the retail trade, and a proportion of the price gain was invested to drive incremental in-store visibility and above the line media support.

UAE Water & Beverage profitability grew 61 percent versus last year to AED 45 million, due to higher volumes sold and lower PET cost and usage. On a consolidated basis, profit growth reached 35 percent, as performance was negatively impacted by a 14 percent devaluation of the Turkish lira.

Al Ain Water has maintained its leadership position during the period with volume share at 25 percent according to AC Nielsen data at the end of May. Our new “Balanced Water” campaign, combined with Al Ain Water 25th Anniversary and Ramadan promotions strongly reinforced the brand. Our new 200 ml water bottle format has shown strong customer and consumer acceptance. In anticipation of expected further demand, the high-speed line has been retrofitted to now also produce a 200 ml format. Furthermore, in order to meet current and future demand across our key PET bottled water ranges, we will be installing a second high-speed bottling line in the UAE. This will increase our capacity a further 40 percent once production commences in Q2 2016. Meanwhile, our warehouse expansion project in Al Ain is on-track to be completed in Q3 this year, while new warehouse expansions in Abu Dhabi and Dubai is in progress as we endeavor to increase forward coverage of stock, thereby improving our service level.

Sales of Al Ain 5 gallon bulk water rose 30 percent versus the previous year driven by distribution growth in the Municipality channel and further penetration into Dubai and Northern Emirates. A new online ordering and delivery monitoring system – *Irtawi* – was successfully introduced in Al Ain and Abu Dhabi. Following a positive consumer response the new system will be rolled out to all our Al Ain 5 gallon customers through the balance of the year.
Penetration of Alpin natural spring water, our Turkish brand, in the UAE is progressing well. Sales in the UAE more than tripled during the period, with distribution continuing to expand across all retail channels. The focus through the balance of the year will be to close all listing opportunities which remain in key outlets; actively drive brand visibility and equity via promotions and in-store communication; and fully launch into our GCC markets once capacity and infrastructure expansions are complete in our Turkish manufacturing site in Q3 2015.

During the period, we re-launched our improved Al Ain Flavored Water, replacing aspartame with healthier, more natural, sucralose-based sweetener, and adding two new flavors – lemon and mint, and orange – to our existing range.

In Turkey, we continue to gain distribution with a key focus on the core Ankara market, with sales in local currency growing by 17 percent year-on-year (although performance was negatively impacted due to ongoing Turkish lira devaluation). Capacity expansion is on track for completion in quarter three, while construction of a new warehouse facility has commenced.

Capri Sun business performance continues to show good recovery with sales of AED 37 million, up 10 percent versus last year. The turnaround has been achieved via introduction of new flavors, continued brand marketing support through consumer promotions, and active digital and social media (Fun Inc.). Consumer promotions will continue to be introduced, including the biggest ever promotion that starts in July in conjunction with the new Minions film, coinciding with the back-to-school season. Price increase was successfully implemented in the retail trade in April.

**Food:** Our food segment achieved net sales of AED 54 million during the first half of the year, a modest growth of 2 percent from the same period last year. The loss for the period was mainly attributed to the green-field Frozen Baked category and our dairy business.

The dairy performance is improving following a change in strategy. Gross margins significantly improved to 25 percent from 4 percent in the same period a year earlier, while losses have been reduced by 40 percent versus last year. During the period, we have rationalized plain yoghurt SKUs and its distribution and launched premium, margin-enhancing “Yoplait DELIGHT”, an indulgent dessert offered in three unique flavors - Caramel Cream, Coconut Biscuit and Lemon Cheesecake – for which market traction has so far been encouraging.
Tomato Paste sales for the period were AED 30.7 million, down 5 percent versus last year, due to a strategic decision to actively discontinue loss-making SKUs in the export markets.

We launched new packaging for our frozen vegetable range, which has seen sales rise 9 percent from the same period a year earlier. Price increases have been implemented on both our regular retail and private label frozen vegetable portfolios.

Our Frozen Baked business remains a challenge as we continue the process of customer acquisition. A strategic decision has been made to take over the direct distribution of our Frozen Baked portfolio to increase and expedite distribution capabilities. The focus is now on first securing a viable business base in our key UAE market, and our Food Service sales team is actively working to leverage our existing strong business relationships with our key customers, export opportunities to GCC are also being explored.

Third-party Frozen Baked business development continues as an essential complement to our Grand Mills Bakeries portfolio. Monty’s Bakehouse product development and line commissioning is on track with full product trials and launch commencing in Q3 2015. In the meantime, the first Monty’s Bakehouse contract was secured with a leading airline. We are also looking to extend our portfolio into retail with ambient products.

Our Egyptian business grew by 2 percent for the period with political issues particularly in Libya causing the cancellation of orders to that market in the first half of the year. We expect to re-engage with our distributor(s) and recoup these lost orders by year-end. B2C sales in Egypt will recommence in Q3 2015 following the appointment of a network of sub-distributors in Cairo and the Delta Region.

SG&A expenses

Total SG&A expenses grew 17 percent year-on-year to AED 167 million. The increase is mainly attributable to higher distribution costs (volume related), investment in brand and marketing activities, new business costs, employee-related costs and other inflationary increases.
Cash flow

The Company generated cash from operating activities of AED 63 million during the period. Cash as at June 30, 2015 amounted to AED 652 million.

To ensure availability of funds, the Company maintains sufficient bank credit lines at very competitive pricing to cover any short-term working capital requirements.

Unallocated Corporate Items

Under segment reporting, an unallocated assets amount of AED 759 million primarily represents goodwill and cash and bank balances, as the Company’s fund management is centralized at corporate level.

Capital commitments and Contingencies

Capital commitments of AED 59.0 million mainly relate to our warehouse expansion, Turkey capacity expansion and other capital items.

Bank guarantees and letters of credit of AED 76.4 million have primarily been issued in favor of governmental authorities and the Company’s vendors for the supply of materials and spare parts.

CSR

In June, we signed an exclusive three-year commitment to develop workforce readiness skills for Emirati youth. The initiative, known as "Zaheb", or “Ready” in local dialect, consists of a number of training activities and international business programs organized by INJAZ UAE, a member of Junior Achievement Worldwide - the largest experiential business education provider in the world. The partnership will offer four cutting-edge work readiness programs benefiting 2000 Emirati youth in the Abu Dhabi emirate in its first year.
Future Outlook

Despite a changing economic environment – given the backdrop of regional instability, low oil prices, and most recently the decision to deregulate fuel prices in the UAE (the impact of which will be evaluated once new prices have been set) – we continue to progress on our strategy of driving profitable growth across our core categories, expanding product portfolio and distribution reach, strengthening brand support, and at the same time addressing underperforming businesses.

Our business and financial fundamentals are strong and we have a solid balance sheet to support our expansion plans. We are positive, and expecting another year of superior business performance.

I am confident that we have the right strategy and platforms for our respective businesses in place to further accelerate our growth and returns to our shareholders.

Subsequent Events

As of the date of this report, no major event has occurred which may have significant impact on the H1 2015 Consolidated Financial Statements.

H.E. Rashed Hamad Rashed Al Dhaheri
Vice Chairman
July 29, 2015