Directors' Report

The Board of Directors of Agthia Group PJSC (the "Company") is pleased to present the Company’s financial results for the first six months ended June 30, 2013.

Performance for the first six months has been very encouraging with strong volume, sales and profit growth. Our focus during the rest of the year will be to continue to grow our core businesses, consolidate and accelerate diversification initiatives as well as to pursue regional expansion and cost saving initiatives.

Our priorities in growing core businesses will remain strongly focused on further expanding distribution, maintaining strong volume growth momentum and driving geographical expansion.

Business developments

The Company re-launched the Yoplait portfolio with newly designed packaging, new low fat fruit yogurts, and new flavors. The off-take for the products has been encouraging, with Yoplait attaining a 5.7% market share by value as of the end of May 2013, versus 1.5% a year earlier, according to AC Nielsen.

Expansion of the poultry feed production line commenced in April 2013 while the project to introduce new flour milling capacity is progressing well, with extra capacity to be operational in Q1 2014.

The new high-speed water bottling line will be commissioned in Q2 2014 as planned.

Due to delays in regulatory approvals linked to power supply and outside of our control, the frozen baked product launch is now scheduled for Q2 2014, rather than Q4 2013 as initially planned.

The Egypt operations have been impacted by the domestic political environment and the regional unrest. As reported earlier, the restructuring actions designed to improve organizational effectiveness; efficiency and performance are bearing results, with first six months results being in line with targets.

In Turkey, the Company’s newly branded Alpin spring water was launched in February 2013 and distribution is steadily expanding in south west Turkey. Plans are on track for the commissioning of the new five and ten liter bottling lines in Q3 2013. The launch of Alpin natural spring water in the UAE is planned for September 2013 followed by launch in the wider GCC in the later part of the year.
Sales

Net sales for the Company for the first six months grew strongly by 19% year-on-year, reaching AED 764 million. On a divisional basis, the Consumer Business Division delivered a strong 25% growth in sales while the Agri Business Division reported a 16% sales growth.

Profit

The Company recorded a net profit of AED 87 million for the first six months of 2013, an increase of 56% on the corresponding period of the previous year. Net profit growth outpaced sales growth due to improved gross profit margin in both the Agri Business Division and the Consumer Business Division resulting from improved sales mix, competitive procurement, in house production of previously outsourced feed volume, cost saving initiatives and higher flour pricing in Northern Emirates.

Other Income

The Company reported other income of AED 7.7 million, which includes a fee of AED 4.5 million for managing wheat and animal feed strategic stocks for the Abu Dhabi Government.

Selling & General Administration Expenses (SG&A)

The Company recorded SG&A expenses of AED 122 million, an increase of 19% over the same period last year. The increase relates to distribution costs due to higher sales volumes, investment in marketing activities, new businesses, employee-related costs and other inflationary increases. SG&A expenses as percentage of sales stood at 15.9% in the first half of the year, similar to the same period last year.

Cash Flow

Cash generated from operating activities totaled AED 103 million, 9% lower than a year earlier due to the higher working capital.

Cash deployed in investing activities amounted to AED 40 million, mainly attributable to investments in the Mega Distribution Center and the Frozen Baked plant in Abu Dhabi.

Cash & cash equivalents as at June 30, 2013 amounted to AED 494 million, compared with AED 411 million a year earlier.

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

Under segment reporting, an unallocated assets amount of AED 619 million represents goodwill and cash & bank balances as the Company’s fund management is centralized at corporate level.

Capital Commitment and Contingencies

The capital commitment of AED 103 million during the first half of the year relates to frozen baked project, mega distribution center, flour mill capacity expansion, delivery trucks and other capital items.

Bank guarantees and letters of credit totaled AED 33 million. Performance-related bank guarantees have been issued in favor of customers for the supply of our products, and letters of credit have been primarily issued in favor of the Company’s vendors for the supply of materials and spare parts.

Agri Business Division (ABD)

The Agri Business Division recorded net sales of AED 493 million, an increase of 16% year-on-year, driven by 14% growth in sales volumes. The division reported a net profit of AED 94 million, up 36% due primarily to a 290 basis-point improvement in gross profit margin. The margin improvement was the result of a better sales mix, competitive sourcing of grains, ongoing cost savings initiatives, in house production of previously outsourced feed volume and higher flour prices in the Northern Emirates.

Consumer Business Division (CBD)

The Consumer Business Division achieved net sales of AED 271 million, an increase of 25% year-on-year. The water & beverage segment achieved net sales of AED 221 million, up 20%, while the food segment recorded net sales of AED 51 million, an increase of 57%.

The division’s net profit was AED 22 million, an increase of 54% year-on-year. The Water & Beverages segment’s net profit grew by 20%, driven by a 110 basis-point improvement in gross profit margin as a result of improved efficiency and lower Polyethylene terephthalate (PET) costs. Meanwhile, the Food segment recorded a net loss AED 12 million, mainly attributable to the fresh dairy product and Egypt operation, compared to a loss of AED 14 million in the first half of 2012.

Outlook
The company is progressing well with its strategy for sustainable growth, focusing on delivery of profitable core business performance, improving performance of our recently launched products and our Egyptian and Turkish operations. We continue to expand geographically, and to enhance the Company's manufacturing capabilities, while improving operating and cost efficiencies. Despite a challenging environment in some geographies, we remain optimistic and expect another successful growth year.

On behalf of the Board

HE Rashed Mubarak Al Hajeri
Chairman
July 29, 2013