Financial results for the first nine months of 2013

Directors’ report
The Board of Directors of Agthia Group PJSC (the “Company”) is pleased to present the Company’s financial results for the nine months of 2013, ended September 30.

Performance for the first nine months has been encouraging with strong volume, sales and profit growth. As stated in the previous report, our focus during the rest of the year will be to continue to grow our core businesses; drive cost saving initiatives, consolidate and accelerate diversification initiatives in the UAE, consolidate Turkey & Egypt operations and export to the GCC markets.

Our priorities in growing core businesses will remain strongly focused on further expanding distribution and maintaining strong volume growth momentum generated by implementation of comprehensive sales & marketing plans.

Company’s balance sheet remains very healthy and all key financial indicators reflecting strong performance.

Summary
The Company recorded net sales for the first nine months of 2013 at AED 1.126 billion, an increase of 15 percent over last year while net profit at AED 120.8 million reflects a strong 31 percent growth, resulting from higher net sales and improved margins.

Third quarter sales increased 6 percent on the previous year to AED 361.3 million. The Company made a net profit of AED 33.8 million, a drop of 8 percent year-on-year, largely because of a one-off gain the previous year attributed to income from commodity derivatives and flour milling outsourcing in Q3 due to fumigation of factory and capacity upgrade. Excluding the impact of one off items, the profit grew 23%.

During the third quarter, the company made further progress on its strategy of product diversification; signed distribution agreement for the Monster brand of beverages, and
launched Alpin natural spring bottled water from Turkey in selective UAE outlets. Meanwhile, expansion projects remain on track, with production of frozen baked products and operation of a new high-speed water bottling line due to commence in the second quarter of 2014 and flour capacity expansion to be completed by first quarter of 2014.

**Business developments**

The Company continues to make good progress on its strategy of broadening and diversifying its product offering, driving growth of its core categories, while proactively addressing underperforming businesses.

In Agri business division, new self-raising flour product was launched during the third quarter and Chakki Atta (whole wheat flour) was launched in October this year. The flour milling capacity upgrade is progressing well, with extra capacity to be operational in first quarter 2014.

In Consumer business division, Yoplait dairy products continue to gain market share, with sales more than doubling in the first nine months of 2013 from a year earlier. The company intends to continue investing in the brand and to further expand distribution.

During the third quarter of 2013, the company signed an agreement for the exclusive rights to distribute the Monster Energy brand range of drinks in the UAE. The launch of Monster products is planned for second quarter of 2014. Meanwhile, expansion projects remain on track, with production of frozen baked products due to begin in the second quarter of 2014. The Company is also addressing capacity constraints at Al Ain Water, with the operation of a new high-speed water bottling line scheduled to commence production in the second quarter of 2014.

Capri Sun sales remained flat versus last year, firstly due to rapid growth of short shelf life juices within the single serve juice drink category, and secondly a change in the school regulation requiring higher juice content. A strategy is being developed in conjunction with Capri Sun Germany to address the situation and accelerate the consumer off take.

Alpin natural spring bottled water from Turkey was launched in selective outlets in the UAE during the third quarter and exports to other GCC countries will begin during Q1, 2014. Five
and ten liter bottling line for distribution in Turkey will be commissioned during the fourth quarter of 2013. Plans are in place for a quick turnaround of the Turkey business by accelerating volume growth (domestic & export), capitalizing pricing opportunities and through cost reduction initiatives.

As reported earlier, the restructuring actions for Egypt operation designed to improve organizational efficiency and performance are bearing results, with first nine months performance yielding significant improvement on a year earlier.

In late September, the Company announced that its Chief Executive Officer Ilias Assimakopoulos will be stepping down at the end of 2013. The departure of Mr Assimakopoulos, who was appointed as the company’s first CEO in July 2006, reflects his wish both to pursue new opportunities in the future and to be closer to his family. He will join as member of the Agthia Board in 2014. The Company will announce his replacement in due course.

Financial highlights

Net profit and sales
Agthia Group recorded a net profit for the first nine months of 2013 of AED 120.8 million, an increase of 31 percent on the corresponding period of 2012, due to higher net sales and improved margins. Net sales for the first nine months reached AED 1.126 billion, an increase of 15 percent on a year earlier.

Third quarter net sales increased 6 percent on the previous year to AED 361.3 million. The Company made a net profit of AED 33.8 million, a drop of 8 percent year-on-year, largely because of a one-off gain in the previous year attributed to income from commodity derivatives and flour milling outsourcing in Q3 due to fumigation of factory and capacity upgrade. Excluding the impact of one off items, the profit grew by 23%.

- Agri business division
For the first nine months of 2013, the Agri business division recorded net sales of AED 718 million, up 13 percent on the same period of the previous year. Net profit was AED 130.7 million, an increase of 31 percent from a year earlier resulting from higher volume and improved margin. The gross profit margin improvement was the result of competitive sourcing of grains, ongoing cost savings initiatives, in house production of previously outsourced feed volume and high flour prices in the Northern Emirates.

- Consumer business division

For the nine months of 2013, the Consumer business division recorded net sales of AED 407.5 million, an increase of 18 percent on the same period the previous year. The water & beverages segment achieved net sales of AED 335 million, up 13%, while the food segment recorded net sales of AED 72 million, an increase of 50%.

Net profit for the first nine months in the division was AED 36.3 million, a rise of 36 percent from a year earlier. The water & beverages segment’s net profit grew by 13%, driven by higher sales and improved efficiency. Meanwhile, the food segment recorded a net loss AED 17 million, mainly attributable to the newly launched fresh dairy product and Egypt operation, compared to a loss of AED 21 million in the same period of 2012.

SG&A expenses

SG&A expenses for the first nine months of 2013 increased by 13 percent from a year earlier to AED 183.7 million. The increase is attributable to higher 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 16.3 percent compared to 16.5 percent a year earlier.

Cash flow

Cash generated from operating activities at AED 199.7 million reflects significant improvement over last year due to higher profit and improved working capital performance. Cash used by investing activities of AED 96.6 million mainly includes investments in distribution center, frozen baked plant and capacity expansion for flour and animal feed.
Cash and cash equivalents as at September 30, 2013 amounted to AED 604.4 million compared with fiscal 2012 of AED 505.2 million.

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 745 million represents goodwill and cash and bank balances as the Company's fund management is centralized at corporate level.

**Capital commitments and Contingencies**
Capital commitment of AED 155.4 million mainly relates to high speed water bottling line, frozen baked project, distribution center, flour capacity expansion and other capital items.

Bank Guarantees and letter of credits of AED 41.1 million have primarily been issued in favor of the Company's vendors for the supply of materials and spare parts.

**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 certain geographies, we remain optimistic and expect another successful growth year.

On behalf of the Board

HE Rashed Mubarak Al Hajeri
Chairman
October 28, 2013