Directors' Report

Dear Shareholders,

We are very pleased to report another year of success for Agthia, reflected in our year-on-year double-digit revenue and profit growth. Higher sales and lower commodity costs in addition to favorable product mix and production efficiencies propelled our profit to AED 231 million, a 20 percent increase compared with last year. Revenue, at AED 1.87 billion, grew by 13 percent, a manifestation of continued trust of our customers and consumers in our brands. Accordingly, we maintained our volume market leadership position in the UAE in PET Bottled Water, Flour and Feed, and significantly reinforced our presence in 5-gallon bulk water segment following acquisition of Al Bayan Water Company, a leading player in the 5-gallon bulk water segment in the UAE with presence also in Oman. The Company’s balance sheet remains healthy, with a positive operating cash flow to support our future expansion plans.

On behalf of The Board of Directors of Agthia Group PJSC, I commend our employees for their efforts in helping our Company achieve this new level of performance.

Performance of Our Businesses

Agri Business

Net sales for the year reached AED 1.1 billion, a 7 percent growth compared to 2014. Net profit rose by 13 percent to AED 226 million. A combination of higher sales, lower commodity prices, production efficiencies and favorable product mix all contributed to a 230 basis point gross profit margin improvement, which were the main drivers behind profit outgrowing sales.

Both Grand Mills Flour and Agrivita Animal Feed have maintained their leadership positions in their respective categories. Growing 15 percent over last year, Flour sales reached AED 427 million (8 percent growth excluding wheat trading). Distribution and customer base expansion in Abu Dhabi and the Northern Emirates, complemented by successful offtake of recently launched Arabic bread flour, in addition to growing export and wheat trading businesses supported this strong performance. Despite aggressive competition, Feed sales volume recorded a resilient 5 percent growth versus last year demonstrating the trust our customers have in our brand. Net sales grew by a moderate 2 percent as a result of increased trade spend
to defend market leadership and volume, reaching AED 679 million for the period under review. We continued to add new municipality outlets, and introduction of second shift in response to local shopping habits has been well received by our customers. We also completed production capacity upgrades in our poultry and large animal feed lines, increasing our installed capacity by 11 percent.

As part of its geographical expansion efforts into Saudi Arabia, the Company has been in talks with various renowned distributors for retail distribution of Grand Mills flour in the Saudi market, and expects to sign a distribution agreement in Q1 2016.

**Consumer Business**

Our Consumer Business had a very strong year with sales and profit registering double-digit growth versus last year. Net sales for the year reached AED 760 million, 23 percent ahead of 2014, and net profit increased to AED 86 million, a 50 percent leap over last year.

**Water & Beverages:** Al Ain, our flagship brand, maintained its volume leadership in the UAE PET bottled water market all through 2015. Our aggressive distribution drives across the UAE, supported by reinforced brand equity through effective consumer communication, resulted in a strong growth in consumer demand, which we were able to meet uninterruptedly thanks to full-year operation of our high-speed bottling line. Consequently, revenues amounted to AED 644 million, 27 percent ahead of last year, and profit surged by 30 percent to AED 110 million, propelled by higher sales, price increases in the retail trade, lower PET usage and prices, and manufacturing efficiencies. A second high-speed line will commence production in April 2016 to meet future demand.

2015 has been a difficult year in general for our Alpin natural spring water brand in Turkey as we encountered production-related setbacks at the beginning of the year in addition to significant 30% devaluation of the local currency, adversely affecting our financial performance. Nevertheless, increased and upgraded manufacturing and warehousing capabilities towards the end of the year helped regain business momentum, and our PET bottled water volume grew by a moderate 6 percent in comparison to last year, driving total revenues to grow 9 percent in local currency. On the other hand, sales of Alpin more than doubled in the UAE, and with the launch of “new look” bottle and branding, we aim Alpin to become a leading player in the Turkish Water segment in the UAE.
With Al Bayan’s acquisition in the fourth quarter, we not only became a meaningfully large player in the 5-Gallon bulk water market in the UAE, but also added in our portfolio an established value-accrative business with multiple operational synergy opportunities and a base in Oman for potential future expansion. Including the 4 months contribution of Al Bayan, net sales of our 5-Gallon business in the UAE and Oman amounted to AED 62 million, slightly more than doubling last year’s sales. Excluding Al Bayan, like-for-like 5-Gallon business growth was 17 percent. Integration of the two organizations is currently in progress and we are advancing well in identifying and capturing synergies ranging from production to distribution and logistics.

In Juice Drinks, Capri Sun revenues grew by 10 percent, reversing previous periods of decline, and posted a significant 61 percent profit surge versus last year. Launch of new variants, Berry, Pineapple, and Multivitamin, and the launch of Freezies, an ice lollies/popsicles product, in two natural flavors Orange and Red Fruits, were supported by a complete revamp of brand positioning, communication and marketing activities.

**Food:** Net sales for the year reached AED 117 million, 6 percent growth versus last year. Growth in Dairy (Yoplait) and Frozen Vegetables businesses by more than 20 percent was partially offset by a contracting Tomato Paste business in a deliberate attempt to discontinue our profit-dilutive SKUs in export markets. In the UAE, Tomato Paste maintained its leadership position. In Frozen Vegetables, we introduced new packaging and supplemented our portfolio with value-added French Fries and Whole Strawberry. In Dairy, shifting focus from plain yogurt to high value fruit and kids segment with launch of new flavors and variants and “Yoplait Delight”, an indulgent yogurt dessert offered in three unique flavors, combined with lower milk powder prices, has resulted in a gross margin turnaround from negative to double-digit figures, reducing overall category losses significantly.

Although it still remains to be a challenge, there is encouraging progress in our Frozen Baked business; regular shipments of Monty’s Bakehouse products to one of the leading international airlines started in November. We are progressing in securing new airline customers in order to strengthen our foothold in this channel. Also, our efforts to develop new products in the ambient croissant range is progressing well, with the launch planned in March 2016.

In Egypt, a strong 13 percent year-on-year volume growth has been overshadowed by currency devaluation and the lower market prices in addition to an influx of cheap Chinese products in both domestic and
international markets. Consequently, net sales remained slightly behind last year (in local currency 7 percent growth) with break-even profit for the year.

We are pleased to announce that following the appointment of exclusive distributor in the UAE, we have started distribution of Al Foah Dates range in the retail channels effective December 2015.

SG&A expenses

Total SG&A expenses rose 29 percent year-on-year to AED 369 million; excluding Al Bayan, the increase was 24 percent, which is mainly attributable to increased brand building investment and trade spend to reinforce our brands against aggressive competition, higher distribution costs from larger volumes shipped, consultancy and infrastructure strengthening costs to support growth.

Cash flow

Cash accumulated from operating activities totaled AED 335 million during the period. Cash and cash equivalents, and fixed deposits as at December 31st, 2015 amounted to AED 571 million.

To ensure uninterrupted 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 786 million primarily represents cash and bank balances and goodwill.

Capital commitments and Contingencies

Capital commitments of AED 81 million mainly relate to our second high speed water bottling line, warehouse expansion in the UAE, capacity expansion in Turkey and other capital items.

Bank guarantees and letters of credit of AED 64 million have primarily been issued in favor of governmental authorities and the Company’s vendors for the supply of materials and spare parts.
Key Investment Projects

2015 has been very busy in terms of capital expansion projects to support Company’s future growth projections. All major projects are well on track with their original timelines. Al Ain water 2nd high speed line, which will add 40% incremental capacity, is planned to commence production in April 2016. New grain storage silos for additional 50 thousand tons capacity will be in place by Q2 2017, and new Dubai Distribution Center that will also accommodate our new Dubai commercial offices is progressing as planned. Expansion of Flour & Feed, Al Wathba and Turkey warehouses are also continuing on track. On the other hand, PET production capacity increase in Turkey via transfer of one bottling line from UAE, capacity increase in our poultry and large animal feed lines, and expansion of our Al Ain warehouse have been completed in 2015.

Business Strategy

A thorough business review during the year has led into a new business strategy that will be executed over the next five years, with a goal of achieving group revenues of more than a billion dollar by 2020. Within this framework, we defined our core categories in which we want to play, established a seven-step plan, and began on-boarding key strategic positions as part of the organization change in parallel with the new strategy.

Corporate Social Responsibility

In 2015, we took our commitment to Corporate Social Responsibility to new levels in all four pillars of the program: Health and Wellness, Food Safety and Security, the Environment, and People and Emiratization. A new endeavor in this area was the launch of our pioneering Zaheb initiative, aiming at developing workforce readiness skills of Emirati youth in Abu Dhabi, in partnership with Injaz UAE, a member of Junior Achievement Worldwide – the largest experiential business education provider globally.

Emiratization is a priority in Agthia. Our Emirati employee headcount reached 167 at the end of 2015, 52 people more than year ago, which included appointment of COO in September 2015.
A full report of the Company's Corporate Social Responsibility activities is provided in the relevant section of the Annual Report.

Company Directors

The present Board of Directors was elected at the Annual General Meeting on April 28, 2014 for a term of three years.

During the year Ilias Assimakopoulos resigned from the Board, and HE Salem Sultan Obaid Aldhaheri was subsequently appointed as Board member. We would like to express our appreciation to Ilias for his contribution, and are wishing him success in his future endeavors.

Directors' fees, including those of committee roles, of AED 1.37 million relating to 2014 were paid in 2015 to Board members. Director's fees, including those of committee roles, for 2015 totaled AED 1.4 million.

Dividend

The Board of Directors is pleased to recommend 12.5 percent cash dividend for the year 2015.

Auditors

The present auditors, KPMG, retire, and being eligible, offer themselves for re-appointment at the Annual General Meeting.

Code of Corporate Governance

The Board of Directors and management of the Company are committed to the principles of good governance. A full report of the Company's Corporate Governance activities, endorsed by the Board, has been provided in the Corporate Governance section of the annual report.
Incentivization / Remuneration

The Board of Directors recognizes the importance of aligning the management interests with those of the Company's shareholders. To support this strategy, Agthia's stock incentivization scheme includes the senior executives and number of managers across the Group. The program complements the performance bonus incentives that reward individuals based on their ability to achieve annual financial and operational targets. The stock scheme rewards management with Agthia stock based on the overall performance of the Company, measured on the basis of a three-year compounded EPS growth target and the performance of the individual. Specific financial, operational, and individual development goals are set each year.

Financial Reporting Framework

The Directors of Agthia Group PJSC, to the best of their knowledge, believe that:

- The consolidated financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operations, cash flows, and change in equity,
- The Company has maintained proper books of accounts,
- Appropriate accounting policies have been consistently applied in preparation of consolidated financial statements, and accounting estimates are based on reasonable and prudent judgment,
- International Financial Reporting Standards (IFRS), as applicable, have been followed in the preparation of these consolidated financial statements,
- The system of internal control is sound in design and has been effectively implemented and monitored,
- There is no doubt about the Company's ability to continue as a going concern.

Subsequent Events

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

2016 will be the first year in our journey toward our aspiration of reaching more than $1 billion Revenues by 2020. New business strategies and supporting action plans have been developed and execution is in progress. Barring consequential impacts of potential future changes in the regional and global geo-political and economic situation and the fiscal policies of the Government, the outlook for 2016 is positive with yet another year of strong sales and profit growth.

Eng. Dhafer Ayed Al Ahbabi
Chairman
February 28, 2016