

AGTHIA GROUP PJSC DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report and consolidated financial statements of Agthia Group PJSC ("Company") and its subsidiaries ("Group") for the period ended 31st December 2019.

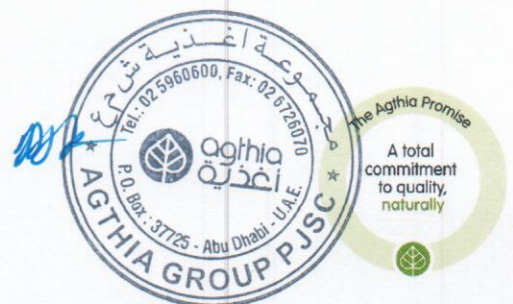
Throughout the fiscal year of 2019, the Company thrived to preserve its market-leading position across its core categories, demonstrating endurance to an intensive competitive landscape. In the Water segment, we actively defended our number one rank in the UAE against an overall market earmarked by aggressive promotions and de-growth in the category's volume and value. Similarly, in the Agri-business, retail flour managed to conquer number one market position despite a rationalized subsidy environment. Alongside our market outreach achievements, we continued focusing on enhancing efficiency via restructuring the organization into a pure category management model for improved services, implementing SAP for enriched data gathering and optimizing costs without jeopardizing quality. Furthermore, we successfully launched various original products, embarking on our innovative spirit to provide our consumers with a diverse nutritious and exciting products. Likewise, we inaugurated a new packaging technology center aiming to develop more sustainable packaging to make a positive impact on the food & beverage industry.

In 2019, **Group revenues** stood at AED 2.04 billion, representing 2 percent y-o-y growth. Net revenue contribution by the consumer-business – Water & Beverage and Food – rose to 56 percent whereas the agri-business – Flour and Animal Feed – generated the remaining 44 percent of the Group's top-line.

Agri-business revenues stood at AED 892 million. *Flour* segment outperformed in 2019 despite pulled out subsidy environment, recording 12 percent y-o-y top-line growth on robust escalation in each of export sales, retail penetration specifically in the Northern region to become B2C market leader by volume in UAE, and wheat trading. On the other hand, *Animal Feed* sales of AED 477 million, fell short this year on lower grain sales and lessened demand from small-sized farms. Alternatively, we managed to counter higher global commodity costs and improve profitability of the agri-business (excluding the 50 percent withdrawn subsidy from the Bakery channel) on a favorable channel mix and cost savings.

Water & Beverage revenues reached AED 0.9 billion as the international markets along with the 5-gallon Home & Office Delivery (HOD) business in the UAE largely offset the slip in the bottled water category in home market. Our 5-gallon business in the UAE increased their revenues by 5.4 percent on higher shipped volumes. Additionally, our international markets (KSA, Kuwait and Turkey) revenues recorded 43.2 percent growth as we successfully expanded our market share in both- the Kingdom and Kuwait. Digging deeper in the UAE, changing consumer habits came in favor of the recorded growth in shipped volumes of 5-gallons yet added pressure on bottled water category which in turn witnessed a decline in both volume and value. In fact, the overall market size of bottled water in the UAE declined in 2019 by 7.6 percent versus last year¹. Nevertheless, Agthia's water portfolio – Al Ain Water, Al Bayan and Alpin, continues to preserve market leadership at respective 29 and 27 percent volume and value shares.

¹ AC Nielsen retail audit December 2019 submission



Food segment – Tomato Paste & Frozen Vegetables, Dairy, Bakery and Trading items – registered AED 248 million in revenues, equivalent to 23 percent y-o-y growth. Positive growth trajectory was mainly driven by trading items and Egypt. Under our *Community Support Division (CSD)*, trading items recorded 61 percent y-o-y growth in its top-line on account of new SKUs and now constitute more than 52 percent of the Food revenues. In *Egypt*, revenues were up 4 percent in AED terms despite 7 percent revaluation of EGP against AED. Meanwhile, progress in both our *Dairy* and *Bakery* businesses remained behind last year in line with lower overall sales environment.

Group net profit² for the year came in at AED 137 million. Commitment to cost optimization across the entire organization, better agri-business profitability and one-time Turkey tax credit have been critical in reducing the combined impact of the withdrawal of the remaining bakery channel subsidy, de-growth in bottled water category in UAE and bad debt provisioning against longer collection days in international markets.

Earnings per share (EPS) equates to AED 0.228 for each of the 600 million shares outstanding.

Total group assets reached AED 3.1 billion, increasing marginally over last year on higher cash balance & IFRS 16 implementation. Cash accumulated from operating activities of AED 284 million almost doubled versus last year on favorable working capital movements. Cash and bank balances amounted to AED 637 million. **Group shareholders' equity** came in at AED 1.96 billion for the period.

Dividend: The Board of Directors is pleased to recommend 15 percent cash dividend for the year 2019.

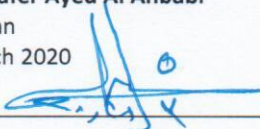
Code of Corporate Governance: The Board of Directors and management of the Company are committed to the principles of good governance. A full report of the Company's Corporate Governance activities, endorsed by the Board, has been provided in the Corporate Governance section of the annual report.

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,
- 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 2019 Consolidated Financial Statements.

Eng. Dhafer Ayed Al Ahabbi
Chairman
05 March 2020



² Attributable to shareholders

