

Directors' Report

Dear Shareholders,

I am pleased to report that Agthia has made a strong start to the year with a promising quarter of growth. Thanks to the efforts of all of our employees, we successfully met our ambitious targets for this initial period, and achieved record volumes for our core categories – bottled water, flour and animal feed.

Higher sales and improved margins, along with controlled overheads growth, drove Agthia's net profit to AED 59.2 million, an increase of 22 percent from the first quarter last year. Net sales, at AED 434.9 million, represented an 11 percent increase year-on-year, which further reinforces the confidence that our customers and consumers have in our products. The Company's balance sheet remains healthy, with a positive operating cash flow stream to support our future expansion plans.

How Our Businesses Performed

Agri Business

Agri Business saw net sales for the first quarter of 2015 increase 6 percent to AED 276 million. Net profit rose 12 percent higher than a year earlier to AED 65.9 million, primarily driven by Agrivita, our animal feed business, and an overall increase in distribution.

We maintained our strong market share in feed and flour categories and grew our customer base in both. Agrivita added new municipality outlets, , in-line with our accelerated development plan for the feed business. Grand Mills, our flour business, saw solid growth

following the expansion into retail and the Northern Emirates. Chakki Atta achieved record sales this quarter and expanded distribution across retail outlets in the UAE, while our Arabic Flour also saw a positive performance in the Northern Emirates.

Production capacity for poultry feed will be finalised in May 2015 and will increase our current capacity by 13 percent. We are also embarking on improving our retail flour packaging by installing a new packaging line, which is expected to commence production next year.

Consumer Business

Our Consumer Business recorded net sales of AED 158.9 million, a solid growth of 22 percent from the first quarter of 2014. Profit jumped 32 percent to AED 10 million, due to growth across all categories.

Water & Beverages: This segment achieved net sales of AED 134.5 million, 25 percent higher than last year. The installation of our Al Ain high-speed bottling line, which expanded capacity by 60 percent to allow deeper distribution and consumer recovery, combined with increased margins resulting from lower PET usage and cost and production efficiency, helped drive profits in the division. While profit in our UAE businesses increased by a very healthy 27 percent, net income for the segment overall grew 16 percent resulting from Turkish lira devaluation.

We are pleased that Al Ain Water has taken the lead in terms of volume market share in the UAE for the first time. We saw very strong demand for the 200ml bottle and will be increasing its production capacity in May. The brand is being supported by a robust “Balanced Water” campaign. To meet current and expected demand, we are adding a second high speed bottling line, which will be ready by mid-2016 and increase our existing capacity by about 40 percent, and expanding our distribution centres in Abu Dhabi and Dubai. During the quarter we re-

launched our improved Al Ain flavoured water, with healthier sweetener, and added two new flavours – lemon and mint, and orange – to our existing range.

Alpin natural spring water continues to gain distribution and consumer offtake in Turkey, driving net sales up 15 percent. We have transferred one bottling line from the UAE to Turkey to meet the growing local demand, and a production capacity increase is on track for completion in Q2, 2015. Alpin has been launched into all key modern trade channels in the UAE with its full portfolio.

We saw continued recovery of volumes and positive momentum for Capri Sun in the first quarter of the year. This was supported by consumer promotions and the re-launch of the Multivitamin flavour with an improved formula, and of Freezies, which are expected to further contemporize the portfolio. Relevant consumer promotions will continue to be introduced to drive consumer offtake.

Food: Our food segment achieved net sales of AED 24.4 million during the quarter, a growth of 8 percent from Q1 2014. The loss for the period, slightly lower than last year, was mainly attributed to Dairy and Frozen Baked greenfield projects

Following the actions initiated, our dairy business gross margin has improved significantly to 24 percent from 3 percent last year. We aim to continue improving the profitability of this business by reducing costs, and adjusting product and distribution strategy. Towards the end of March, we launched our premium “Yoplait DELIGHT”, an indulgent dessert offered in three unique flavours - Caramel Cream, Coconut Biscuit and Lemon Cheesecake.

During the quarter we also launched new packaging for our frozen vegetable range.

For our Frozen Baked category, nearly 50 SKUs have been prepared and customer acquisition is in progress. At the start of the year we signed an agreement with Monty's Bakehouse UK to manufacture their products for global airlines, which is on track for launch in Q3.

Our Egyptian business is continuously improving, with net sales growing 16 percent in Q1 2015. The tomato paste line became fully operational following its transfer from UAE, we are securing new customers for tomato paste and hot chilli, and we remain optimistic in delivering positive business results for 2015. We are also exploring a number of potential opportunities to expand our operations and market presence there.

SG&A expenses

Total SG&A expenses grew 11 percent year on year to AED 79.2 million. The increase is mainly attributable to higher distribution costs, investment in brand and marketing activities, new business costs, employee-related costs and other inflationary increases. SG&A expenses, as a percentage of sales, were at 18.2 percent, slightly better than last year.

Cash flow

Agthia generated cash from operating activities of AED 99 million during the quarter. Cash, cash equivalents and Fixed Deposit as at 31 March 2015 amounted to AED 521 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 626.2 million primarily represents goodwill and cash and bank balances, as the Company's fund management is centralised at corporate level.

Capital commitments and Contingencies

Capital commitments of AED 83.9 million mainly relates to our warehouse expansion, Turkey capacity expansion and other capital items.

Bank Guarantees and letter of credits of AED 66.7 million have primarily been issued in favour of the Governmental Authorities and the Company's vendors for the supply of materials and spare parts.

Future Outlook

Agthia continues to progress with its strategy of driving profitable growth across all core categories, improving profitability, diversifying and launching new products, expanding distribution reach, strengthening brand support and at the same time addressing underperforming businesses.

Our production capacity expansions of the 200 ml Al Ain water, Alpin, and animal feed, are on track for commissioning in the second quarter. After a long wait, we have finally secured price increases for Al Ain water, Capri Sun, frozen vegetables and tomato paste, which are being implemented in a phased and tactful manner.

Our business and financial fundamentals are strong and we have a solid balance sheet to support our expansion plans.

I am positive 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 Q1 2015 Consolidated Financial Statements.



H.E. Eng. Dhafer Ayed Al Ahabbi
Chairman
April 26, 2015