

Directors' Report

Dear Shareholders,

As anticipated, the second quarter continued the Group's positive growth momentum both in profit and revenues, propelling six-month net profit to AED 145 million, 16 percent higher than the same period a year ago. Net revenues for six months reached AED 1.04 billion, representing 15 percent growth over last year, driven mainly by Water and Feed despite persistent macro-economic and competitive challenges. Gross margin was 34.9 percent, up from 32.3 percent a year ago. The balance sheet remains strong and healthy, and the Company generated positive operating cash flow in the period.

We have shown strong progress in the execution of our new growth strategy in the second quarter. As part of our regional expansion plans, we entered into a joint venture with Kuwait's Al Wafir Marketing Services Company K.S.C.C. in May in order to establish a water bottling plant in Kuwait. The plant is expected to commence operations by the second half of 2017 and will produce Al Ain water. At the end of June we signed a 25 year lease agreement with Abu Dhabi Ports for an adjacent 85,700 square-meter plot of land in order to expand our Grand Mills Flour and Animal Feed facilities at Zayed Port.

Business Review

Flour

Our Flour business posted net revenues of AED 230 million, 3 percent growth (1 percent excluding trading) versus a year ago.

- Exports continued their strong growth momentum; with the addition of Saudi Arabia early this year, where initial consumer acceptance is encouraging, our business almost doubled in size versus a year ago. We are planning to enter Bahrain and Oman in the third quarter.
- Gross profit margin has improved mainly on account of lower commodity prices.
- We continued strengthening our presence in the B2C (retail) segment, reaching 33 percent in the April-May period from 24 percent at the beginning of the year, as a consequence of our relentless focus on distribution and visibility.
- Economic headwinds began to adversely affect our B2B segment although we managed to mitigate the impact by continuously attracting new customers. Nevertheless, competitive pricing in the market including cheaper imported products has negatively affected overall flour performance in domestic market resulting in 3 percent lower revenue in the first half of the year in comparison to the same period last year.



Animal Feed

The Animal Feed business posted net revenues of AED 360 million, growing 7 percent (5 percent excluding trading) versus a year ago.

- Pricing continued to be lower than last year as a result of soft commodity prices.
- We have enhanced our product performance through improved formulation which received positive response from customers.

Water & Beverages

The Water & Beverages business, consisting of bottled and 5-gallon water under the Al Ain Water, Alpin, Al Bayan and Ice Crystal brands, fruit juices under the Capri Sun brand, and fresh juice under the Al Ain brand, posted half-year net revenues of AED 362 million, growing by 26 percent over the same period last year.

- The Water segment continues to be the growth engine of the Group. At AED 321 million net revenue, the water business grew by 31 percent. Ongoing expansion in distribution supported by various consumer activities (that were additionally stimulated in Ramadan) have been major enablers to this outstanding performance.
- Al Ain bottled water maintained its market leadership both in terms of volume and value, increasing value share by 110 basis points (since the beginning of the year) to 20.6 percent in the April-May period.
- Organic growth (excluding Al Bayan) was 15 percent, well ahead of underlying category growth in the UAE. Meanwhile, the Al Bayan business has performed very well, and as we advance further in capturing planned synergies it will contribute more to our future growth.
- Shipments and revenue of Alpin, the natural mineral water produced in our own manufacturing facilities in Turkey and imported to the UAE, has more than doubled versus the same period last year. In the meantime, our domestic Alpin business in Turkey continues its accelerated volume and revenue growth trajectory registering 27 percent top line growth year-on-year.
- After consistently growing for more than a year, within a contracting category, owing to new variants and brand support activities, lower consumer offtake in June exacerbated by school holidays and the Ramadan season led Capri Sun fruit juice revenues to decline year-on-year. We expect to return to positive territory by as soon as the third quarter, following the recent launch of the Big Pouch for youngsters, the upcoming new product launch and the Ice Age promotion linked to the movie in addition to other planned back-to-school activities.
- Al Ain Fresh Juice in 330ML PET bottle was launched in July in five variants. Additional variants are planned to be introduced in quarter four.



Dairy (Yogurt)

The Dairy business, under the Yoplait brand mainly in the kids and fruit yogurt segments, posted AED 16 million net revenue in the first half, growing 37 percent year-on-year.

- Gross profit margin at 33 percent improved by more than 800 basis points over last year also as a result of lower milk powder prices.
- Net losses for the period decreased by 10 percent when compared to the same period last year. Together with growing scale and higher gross profit margin, we expect to continue reducing losses.

Emerging Businesses

Composed of Tomato Paste, Frozen Vegetables, Ambient and Frozen Bakery as well as trading businesses of the Monster energy drink, Date Crown dates and other convenience products, our emerging businesses recorded a half-year net revenue of AED 76 million.

- Our turnaround strategy for these businesses bore fruit, and in aggregate net revenue of this segment grew 48 percent year-on-year.
- Thanks to improving margins on a higher scale, aggregate losses fell 62 percent to AED 2.5 million in the first half of this year.
- In Egypt, despite the adverse effects of currency devaluation in addition to pricing pressures due to lower commodity prices, net revenue recorded 6 percent growth versus last year. This is mostly driven by exports, and by consistently enhancing B2C segment performance with focused distribution.

SG&A expenses

Group SG&A expenses, including Al Bayan that was not in the base, recorded AED 227 million in the half-year period, a 36 percent increase versus last year (excluding Al Bayan, 23 percent). The overall increase was mainly attributable to investment in marketing and brand building activities, higher distribution costs due to larger volumes shipped, consultancy expenses, employee-related costs including new hirings, and other inflationary increases. Consequently, SG&A expenses as a percentage of sales stood at 21.7 percent, 338 basis points higher than last year (excluding marketing expenses and Al Bayan, SG&A expense ratio to net sales stands at 16.7 percent, 112 basis points higher versus year ago).

Cash flow

The Company generated AED 134 million cash from operating activities in the first half of the year. Cash and cash equivalents and fixed deposits as of 30 June 2016 amounted to AED 559 million. Additionally, the Company maintains sufficient bank credit lines at very competitive pricing to ensure availability of funds in order to cover any short-term working capital requirements.

Unallocated Corporate Items

Under segment reporting, an unallocated assets amount of AED 789 million primarily represents goodwill, intangible assets and cash and bank balances, as the Company's fund management is centralised at corporate level.

Capital Commitments and Contingencies

Capital commitments of AED 70 million mainly relates to our second high-speed water bottling line, warehouse expansion, delivery trucks and other capital items. Bank guarantees and letters of credit of AED 76 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

Despite the market slow-down, we have achieved a very successful first half of 2016 as we embarked on the phased execution of our 2020 profitable growth strategy. In second half we have several activities and initiatives in Water, Juice and Bakery to maintain this growth momentum. However, we have been informed that the Government will implement some changes in the Flour and Animal Feed subsidy program. We are in discussion with the Government and will be in a position to share the details once finalized. While it is difficult to predict the impact of such a policy change at this stage, this will have impact on the performance of both flour and feed businesses.



H.E. Rashed Hamad Al Dhaheri
Vice Chairman
July 31th, 2016

