

Directors' Report

Dear Shareholders

We are pleased to report another year of growth for Agthia. The Board joins me in commending our employees for their efforts in helping our Company to achieve new levels of revenue and profitability performance.

I believe these results reflect the confidence our shareholders have in us. Higher sales and strong margin improvements propelled Agthia's profit to AED 193.3 million, an increase of 22 percent from the same period last year. Revenue, at AED 1.66 billion, represented a 9 percent increase year-on-year, which proves that our customers and consumers endorse the choice and quality of our products. The year's 40 percent rise in share price, and 170-basis-point increase in return on net capital employed, is evidence that the Company is going from strength to strength. 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 surpassed one billion dirhams in revenue for the first time, to end the year 8 percent higher than 2013, at 1.04 billion dirhams. Our push for new distributors and expansion of our network of municipality outlets successfully supported this overall growth.

Net profit rose to AED 201 million, 17 percent higher than a year earlier. A combination of falling commodity prices, our ability to source grains effectively, on-going cost saving initiatives

such as extraction rate improvements, in-house production of previously outsourced animal feed, and stable flour prices in Northern Emirates underpinned this growth.

Our Agri Business has reaffirmed itself as the UAE's leader in both flour and animal feed. The animal feed business launched its new brand identity under the name Agrivita, which has been very well received by the market. Agrivita successfully introduced new types of poultry feed during the year, as well as a new premium camel racer variety under the name Al Nawamis.

We also began expansion of our Grand Mills flour for distribution in the northern emirates retail space. The newly launched Chakki Atta and self-raising varieties were promoted throughout the year, and were complemented by Arabic bread flour in the later part of 2014, in line with our strategy to address all major types of bakery applications with suitable flour offerings.

Consumer Business

Our Consumer Business continued to reach more people in 2014. We recorded net sales of AED 616.6 million, an increase of 12 percent from the previous year. Profit was driven in particular by our water segment and gained 10 percent to AED 57.3 million.

Water & Beverages: Our success in overcoming the capacity constraints we experienced in 2013 in our bottled water production, as well as capitalising on cost saving opportunities, drove the growth in this core part of the business. The commissioning of a new high-speed bottling line in June, which has expanded our production capacity by around 60 percent, resulted in the accelerated recovery of volumes in the second half of the year that allowed us to become the leading water brand in the UAE by the end of 2014. This segment achieved net sales of AED 506.2 million, 11 percent higher than last year, with net profit increasing 15 percent to AED 84.9 million.

We are pleased that our Alpin natural spring water, launched last year, continues to gain distribution and consumer offtake in its domestic market of Turkey, with sales more than doubling from last year. To meet this increasing domestic demand, we delayed the brand's full introduction into the UAE and the wider GCC. A production capacity increase is on track for completion in Q2, 2015, which will drive volume further both in domestic and export markets.

We are also reformulating our flavoured water to enhance its nutrition properties for consumers, with a targeted launch in April 2015.

The introduction in Q4 2014 of two new variants of Capri Sun - pineapple and mixed berry - combined with the implementation of a new promotional campaign, indicate a reversal of declining sales. We expect this positive volume trend to continue in 2015.

Food: Our food segment achieved net sales of AED 110.3 million during the year, a growth of 16 percent from 2013. However, the segment made a loss of AED 27.6 million, largely due to input cost pressure and returns, marketing investments to support the dairy category, and the pre-operating cost of frozen baked category.

We have implemented initiatives designed to improve the profitability of our dairy business by reducing costs, adjusting product and distribution strategy, and rationalizing the plain yogurt portfolio. New cherry and pineapple flavours were launched, and other high margin product launches are planned for 2015. We believe these initiatives overall will result in improved performance of this category.

We continue to develop and commission an expanded portfolio of our new frozen baked products for full-scale commercial production to begin in 2015, with the aim of penetrating the

UAE food service segment while also securing export sales opportunities. In early 2015 we signed an agreement with Monty's Bakehouse to manufacture their products for global airlines.

Our Egyptian operation's sales grew 15 percent from the previous year, delivered breakeven for the first time. To further support this positive trend, in December we transferred and installed tomato paste filling line in Egypt from the UAE, to increase operational efficiency through closer proximity to the source of the raw materials. We are also assessing opportunities in the country to expand into new categories.

SG&A expenses

Total SG&A expenses grew 11 percent year on year to AED 286 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, remained almost flat compared with last year at 17 percent.

Cash flow

Agthia generated cash from operating activities of AED 276 million during the year, 46 percent higher than last year. Net cash utilised for investing activities of AED 170 million mainly refers to investments in a distribution centre, the frozen baked products plant, upgrading a flourmill, and the new water bottling line. Cash and cash equivalents as at 31 December, 2014 amounted to AED 39 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 645 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 47 million mainly relates to the new water bottling line, the frozen baked products project, the distribution centre, and other capital items.

Bank Guarantees and letter of credits of AED 63 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

We continue advancing on our strategy of driving profitable growth across our core businesses, improving profitability, diversifying and launching new products, expanding distribution reach, strengthening brand support and at the same time addressing underperforming businesses. We also continue to enhance our manufacturing capabilities and remain focused on attaining efficiencies by driving down costs and increasing productivity. Furthermore, the Company's business and financial fundamentals are strong, with a solid balance sheet to support our expansion plans.

We have built a solid platform to accelerate the development of our business and remain optimistic on the Company's prospects for future revenue and profit growth.

New Leadership

The Board strongly endorsed the appointment of Iqbal Hamzah as the Company's new Chief Executive Officer on 29th September, following the departure of Ilias Assimakopoulos.

Hamzah, who joined Agthia as Group Chief Financial Officer in 2006, is a perfect choice to take the Company forward. As a member of the senior leadership team for more than eight years, he has an unparalleled knowledge of the business and a deep understanding of the company, its people, operations, and challenges. He is the ideal person to lead the team through the next stage of our expansion programme.

Directors

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

We would like to express our appreciation to the outgoing board members and thank each one of them for their contribution. We wish them success in their future endeavours.

Directors' fees of AED 1.35 million relating to 2013 were paid in 2014 to Board members. Director's fees for 2014 totalled AED 1.37 million.

Dividend

The Board of Directors is pleased to recommend 10% percent cash dividend for the year 2014.



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.

Incentivisation / remuneration

The Board of Directors recognises the importance of aligning the management interest with those of the Company's shareholders. To support this strategy, Agthia's stock incentivisation 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 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 development goals are set each year.

Financial Reporting Framework

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



- a. The consolidated financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operation, cash flows, and change in equity.
- b. The Company has maintained proper books of accounts.
- c. Appropriate accounting policies have been consistently applied in preparation of consolidated financial statements, and accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting Standards (IFRS), as applicable, have been followed in the preparation of these consolidated financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. 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 2014 Consolidated Financial Statements.



H.E. Eng. Dhafer Ayed Al Ahabbi

Chairman

March 29, 2015