AGTHIA GROUP PJSC DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our quarterly report and consolidated financial statements of Agthia Group PJSC ("the Company) and its subsidiaries ("the Group") for the period ended 30 June 2017.

The economic and geopolitical canvas that prevailed so far in 2017 has brought additional and stronger challenges to navigate around across our operational hinterland. In the UAE, persistently soft consumer markets, in which the players are going to great lengths in order to sustain their competitiveness, required us to exercise formidable effort to continue to grow our businesses. On the other hand, higher operating costs on account of rationalized government subsidies and additional fiscal measures to counter the impact of low oil prices made it a very arduous task to protect our profits. In wider GCC, recent geopolitical developments have stalled our efforts to generate new revenue streams for our businesses.

It is in this environment that the Group has recorded AED 1.07 billion net revenues and AED 118 million net profit in the first six months of the year. While revenues grew by 2.2 percent versus last year, driven by Water, net profit declined by 18.7 percent, mostly as a direct consequence of subsidy rationalization acting upon our Flour and Animal Feed businesses since the second half of last year. Notwithstanding, it is imperative to put this decline in proper perspective; AED 27 million fall in profit is significantly less than the negative impact of subsidy policy changes of last year owing to strong profit growth in our consumer categories as well as remarkable turnarounds in Turkey and Egypt units. Considering the incremental burden of utility cost increases that came into effect as of the beginning of this year in Abu Dhabi, it renders a great deal of determination by our management and employees to offset these adverse drivers on profit, and is an indisputable testament to our commitment to deliver the best value to our shareholders no matter what the circumstances are.

CATEGORY PERFORMANCES

Our **Consumer** categories continued to drive the growth, reaching AED 557 million revenues, an increase of 22.5 percent versus last year. Being subject to substantial subsidy rationalization since middle of last year, our **Agri** businesses recorded AED 510 million revenues and posted 13.5 percent decline versus year ago.

Water and Beverages, consisting of bottled and 5-gallon water, and juice drinks and fresh juices, recorded AED 465 million and AED 90 million net revenues and net profit, respectively. Further reinforced by our recent water acquisition in Saudi Arabia, revenues posted 28 percent growth while profits surged by 39 percent over the same period of last year. Stripped off Saudi contribution that was not in the base period, revenue still recorded a healthy 6 percent increase versus last year in a bottled water market growing only at 4-5 percent and juices market declining in the vicinities of ten percent in the UAE. Al Ain ZERO, our breakthrough "no-sodium" product that was introduced back in August 2016, passed 4 percent market share, and overall Al Ain water market share reached 27 percent, increasing its gap versus nearest competitor to over 900 basis points. Following the changes we implemented in our business model and subsequent organizational streamlining, our Turkey Alpin natural spring water unit is barely short of breakeven profit in the first six months of the year, which is an excellent achievement when compared against historical losses. Our 5-gallon HOD (Home and Office Distribution) business contributed strongly into overall category growth, further elevated by a very successful launch of Al Ain ZERO 5-gallon water in the UAE in the second quarter. Although Capri Sun fruit juices was negatively affected by Ramadan and school holiday season especially in the month of June, overall beverages still managed to post single-digit revenue growth on account of fast-growing Al Ain fresh juices with their new labels and line extensions.

Flour and Animal Feed recorded AED 510 million net revenues and lagged behind last year by 13.5 percent. **Flour** contributed AED 219 million in revenues, staying short of last year by 5.5 percent. Since subsidy rationalization of last year, Flour has been subject to aggressively competitive market conditions including increased market activity of low-priced imported flour. Notwithstanding, thanks to various actions ranging from price increases to introducing low-cost value-range products, from loyalty programs to the launch of "bakery ingredients" products for bakeries, our teams have been remarkably successful in significantly containing our inevitable losses both in volume and profitability. After an initial sharp share loss in retail from around 31 percent to 25 percent by the end of last year, we managed to take 2 percentage points back since then. Defending our share certainly brought pressure on our profitability but Flour business still maintains healthy margins when compared to worldwide benchmark levels, providing us with ample room for further initiatives to counter the new wave of subsidy rationalization that comes into effect as of 1 July 2017. **Animal Feed** recorded net revenues of AED 293 million, or 18.7 percent behind last year. Net segment profit for the same period was AED 16 million. Again, putting things in perspective, AED 34 million fall in profit is significantly less than the negative impact of subsidy rationalization of last year, and is actually a very strong reflection of the success of our profit protection initiatives that we immediately deployed both internally and externally. It is one full year now that we are operating in a mostly unsubsidized market, and thanks to these initiatives we started to see signs of stabilization after the initial impact, especially noticeable in the second quarter of the year. We are optimistic about further stability in this category in the second half of the year on the back of our relentless efforts to be innovative in providing goods and services to the farms of our nation, and to a range of initiatives that are already in the pipeline for execution as soon as July-August.

Food category posted AED 92 million revenues, minimally ahead of last year. Much better news here is that the category losses have now reduced to a mere AED 1.8 million, down by 77.6 percent from last year. Dairy, with Yoplait, increased revenues by 2.2 percent in a market where underlying fruit and kids yogurt segments declined by as much as 10 percent, and has been the largest contributor in overall category profit turnaround. Our efforts to scale up our Bakery business, which is composed of ambient and frozen bakery, and Monty's Bakehouse franchise, started to bear fruit in especially frozen bakery. In addition to a recent agreement with Dunkin' Donuts to supply butter croissants both in the UAE and KSA, we landed a long-term agreement with one of the largest government schools' food suppliers to provide them with filled frozen croissants. Overall, Bakery segment grew by 21 percent versus year ago. Although Tomato Paste and Frozen Vegetable businesses are currently experiencing a tougher ride both in the UAE and Egypt with revenues declining by 16 percent. However, our Egypt unit has turned into positive net income from an equivalent amount of net losses in the same period last year as a consequence of successful cost optimization, marginally helped by currency devaluation.

You will find detailed financial results of the Group in the accompanying consolidated financial statements. However, I do not want to pass here without highlighting our Group gross profit margin, which, at 34.1 percent, is only 76 basis points lower than last year, considerably recuperating several hundred basis points back from the unfavorable impact of subsidy rationalization. We are all very proud of this as we demonstrated our adaptability to changing conditions in a determined and agile manner both in terms of generating additional revenue streams and reducing our costs through effective initiatives. As I mentioned above, this is an outcome of our commitment to deliver the best value to our shareholders under any circumstances, and I want to use the opportunity to extend my sincere thanks once again to our leadership and employees for making this true, and to our shareholders for their continued faith and trust in us.

Eng. Dhafer Ayed Al Ahbabi
Chairman
26 July 2017