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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 September 2017, which are attached to this letter.

We left another challenging quarter behind us, completing nine months of fiscal year 2017. Group net revenues reached AED 1.57 billion, growing 2.9 percent versus the same period last year. Water & Beverages revenue increased to AED 0.7 billion, of which AED 0.1 billion was contributed by our Saudi subsidiary, recording 27 percent growth over last year. This is an outstanding performance in a business environment where opportunities for growth are not as abundant as in the past across the region. Combined revenues of Flour and Animal Feed businesses declined 12 percent by virtue of gradual withdrawal of subsidies since July of last year and the government's annual tender in Animal Feed that did not materialize so far this year.

The Group generated AED 165 million net profit for the period. Pure mathematics tells us this is AED 35 million less than last year. When we consider 112 million dirhams less subsidy receipt from the government compared to last year, it speaks a completely different story. It tells me that our management has taken the right decisions in a timely manner in order to contain the loss at only AED 35 million, recovering AED 77 million back by executing an effective and balanced mix of growth generation and cost cutting programs. This is not a small accomplishment, and it is an unmistakable testament to Agthia's commitment to shareholder value creation.

It is well in the public domain that our region is experiencing unprecedented times, bringing new challenges for our region together with unconventional measures to overcome them. Agthia has not stayed unscathed in the aftermath of these economic and geopolitical changes that have taken place so far, and we will not be immune to new ones when they arrive. We are, however, working harder than ever to continue to create value for you, other stakeholders, and our nation with our products, people, strong sense of corporate social responsibility, and last but not least, with our financial results.

With my kind and warm regards,

Eng. Dhafer Ayed Al Ahbabi
Chairman
25 October 2017

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A total commitment to quality, naturally

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Our **Consumer** segment **(Water & Beverages, Food)** now constitute 53 percent of Group net revenues.

Water and Beverages net revenues for the period reached AED 695 million, growing 27 percent versus last year. Both Bottled Water and 5-gallon segments brought in strong revenues in the UAE, increasing sales versus last year by 9 percent and 12 percent respectively. Bottled water category has been witnessing a prolonged weak single-digit growth cycle in the UAE, where aggressive tactical marketing campaigns are gaining ground in competition mix. It is in this environment that we continue to outgrow the market and hold on to our market leadership, thanks to our innovative research and development efforts for new products and marketing investment through sampling, promotional and branding campaigns. Al Ain ZERO, our breakthrough "no-sodium" product, continues its strong penetration into our nation's households; in addition to recently launching Al Ain ZERO in 5-gallon format in the UAE, we also started to export small format bottles to Oman, with plans to further expand into other markets soon.

Both Turkey domestic Water business (Alpin natural spring water) and our Beverages portfolio (Capri-Sun and Al Ain Fresh juices) recorded declining sales versus last year. Sales in Turkey fell 62 percent (AED 10 million), fully in line with our estimations, following the profit turnaround measures we implemented in our business model. As a result, our Turkey unit cut their losses entirely, and reached breakeven in the current nine months of the year. In Beverages, Capri-Sun was negatively affected by both a double-digit declining home market and lost export sales in the GCC as a result of the recent regional developments. On the other hand, Al Ain Fresh juices continue to grow, mainly lifted by the retail trade, where new SKU launches have shown positive momentum.

Food recorded AED 133 million net revenues in this period, growing marginally by 2 percent. Taking out Egypt's results, where currency devaluation negatively affected revenues, and where business is otherwise growing in local currency, other businesses in this category accumulated a growth rate of 8 percent. It is also worth mentioning that Egypt unit, after turning into positive net income in the first half of the year, continues to remain profitable. Yoplait, under Dairy segment, remained flat versus year ago in a declining market in the UAE. In Tomato Paste and Frozen Vegetables (TPFV), we have been facing heightened competition especially in the key accounts throughout the year, putting pressure on our volumes in favor of profit protection. Accordingly, we saw a 7 percent drop in combined TPFV revenues from a year ago. Bakery continues to post double-digit top line growth, increasing sales by 16 percent versus last year owing to new customer acquisitions both in frozen and ambient bakery. Lastly, our Other Trading Items segment is doing very well with 29 percent growth over last year, unmistakably driving the growth of our Food category.

One final word for Food category is on the profit turnaround that we have been so adamantly pursuing all through the year. Aggregate category loss reduced to a small AED 2 million from AED 11 million of last year, a reduction of 79 percent, contributed by all businesses from Yoplait to Bakery to Egypt, owing to our augmented focus on profitability through better revenue mix and lower costs.

AGRI BUSINESSES

Net revenues of Agri segment (**Flour, Animal Feed**) reached AED 739 million, lagging 12 percent behind last year.

Flour brought AED 299 million in net revenues and stayed short of last year by 8 percent. New wave of subsidy removals – half of the subsidy in the Bakery channel was taken out as of 1st of July this year – exerted the expected and planned-for pressure on our volume and profitability, as an additional and larger segment of the market is now open for free competition. We are ready for this phase, too, with our new initiatives to generate more revenue streams and reduce our operating costs to protect our volume and profitability, as we have been successfully doing so in the wake of the first phase of subsidy rationalization. On the other hand, an unexpected complication, which is slowly but rather persistently emerging not only for us but the UAE milling industry, is the cheap imported flour from different parts of the world where there is surplus capacity. Having one of the lowest market entry barriers in the world regarding this industry, UAE is being supplied by a crowd of foreign-branded flour at 15-20 percent lower than the market prices – in the case of Abu Dhabi even lower than subsidized prices. We are constantly monitoring and assessing the situation, and developing counter-action plans for necessary and timely deployment.

Animal Feed posted net revenues of AED 441 million, which is 15 percent behind last year. With about 70 percent of the business not-subsidized for more than a year now, we demonstrated our capability and capacity to weather even unprecedented changes in this business by incurring subsidy-induced volume losses less than we initially anticipated. As a matter of fact, our shipped volume in the first nine months of this year stayed flat versus year ago when Abu Dhabi government's annual 'Concentrated Pellet (CP)' tender volume is taken out of last year's numbers. Through this tender, which has not happened this year, the government used to procure CP from suppliers like us at market prices and subsequently provided it directly to the farmers. For us, it has never been an immaterial business either at the top or the bottom line, and so far we were able to partially make the lost volume up by higher commodity trading and our new Alfalfa forage business. Going forward, we see it highly unlikely that the tide will turn the other way around regarding this tender in the rest of the year or beyond; however, the silver lining in all of this is that volume of our more profitable sheep feed, and feed raw materials like barley, which are substitutes for CP, is gradually increasing.

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