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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 30th September 2018 ("the period").

Shipped volumes and generated revenues maintained their momentum, and profitability continued to improve. Group gross profit margin reached a record-high 34.7 percent, 120 basis points higher than last year, largely supported by greater weight of more profitable consumer businesses in our revenues (at 55 percent, consumer business contributes 100 basis points more than in the first half of this year). Higher volume, better product mix and lower costs across the Group have all contributed in this strong performance.

The Group generated AED 1.49 billion net revenues in the first 9 months, and on a like-for-like basis (L4L) when several non-repeating revenues are taken out, stayed level with past year's revenues. Our consumer business posted 1 percent L4L growth however this has fully been offset by lower sales in flour business in the agri business in a much fiercer competitive environment following the change in the subsidy program. Net profit for the period reached AED 159 million and registered a strong 9 percent L4L growth over last year because of higher gross profits (higher volume, better mix, greater productivity) and lower marketing and overhead expenses by 5 percent (cost optimization). The balance sheet remains healthy with total assets growing by 4 percent.

CONSUMER BUSINESS

Net revenues and profit in the period reached AED 815 million and AED 123 million, respectively.

Food (Tomato Paste and Frozen Vegetables, Trading Items, Dairy, Bakery) segment's strong growth momentum continued. Net revenues grew by 13 percent and reached AED 148 million. Both UAE and

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Egypt contributed in the growth by 10 and 25 percent, respectively. In the UAE, our trading items, a portfolio of products across food, beverage and non-food range mainly in Municipality outlets but also selectively available in modern retail trade, increased their sales by 40 percent over last year, and now represents almost half of Food segment revenues in the UAE.

Water and Beverages net revenues for the period reached AED 667 million. In the UAE, bottled water volume growth continued (6 percent year-on-year, and ahead of category growth) however net revenues were slightly behind last year (on a L4L basis) due to lower net prices against a backdrop of aggressive competitive promotional activity in the market. 5-Gallon Water displayed even stronger volume growth at 10 percent with revenues also growing by 8 percent versus last year. We had a strong third quarter both in Saudi Arabia and Turkey, where our bottled water shipped volumes increased by 12 and 22 percent respectively versus the same period of last year. Albeit still very small in the group numbers, Kuwait has also started very strongly, exceeding our own projections. Overall, Water contributed AED 617 million in revenues, and was only AED 3 million behind last year (L4L). In Beverages we posted AED 50 million net revenues in the first nine months of the year; although the latest quarter was slightly better than the previous one especially in volume shipped, we are still behind last year mainly because of a declining Juice category in the UAE both in volume and value as consumers tend to switch to multi serve packs and long shelf-life products.

AGRI BUSINESS

Net revenues and profit in the period reached AED 670 million and AED 95 million, respectively.

Animal Feed net revenues posted AED 407 million and grew by 2 percent L4L. Higher volume in municipality outlets and still-subsidized commercial farms in addition to price increases in the unsubsidized open market in parallel with commodity cost price increases have all contributed in this performance.

Net revenues in **Flour** reached AED 263 million. Sales in the retail trade continue to grow strongly (22 percent over last year); however, this segment is still very small in overall Flour business with less

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than 10 percent share in value. Sales in Bakery on the other hand continue to lag because of soft consumer offtake in addition to more competition following the removal of subsidy by half since July 2017. The remaining subsidy applicable on the Bakery channel which was to be removed as of July this year was extended by the government to stay in place until the end of 2018. The decision is welcome in a period of higher global wheat prices, and we expect resulting favorable (subsidy) income to largely offset this cost increase.

Eng. Dhafer Ayed Al Ahbabi
Chairman
25 October 2018

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