Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our first half report along with the consolidated financial statements of Agthia Group PJSC ("the Company) and its subsidiaries ("the Group") for the period ended 30th June 2018 ("the period").

It is a strong fact that wide ranging economic measures that have been taken in the past few years in response to relatively lower oil prices have created a "new normal" for our markets. As our consumers respond by spending less, shifting pack sizes, switching brands, or searching for promotions much more intensively than before, we as producers and marketers are adjusting ourselves to this new reality. Given the additional burden of subsidy withdrawal that we as Agthia had to weather in these past two years, I strongly believe that we have been successful in our endeavor; we became leaner, more productive and more innovative in order to drive value and stay competitive.

It is under this pressure that in the first half of this year Agthia endured, not only growing the feed, food and water businesses but also continuing with the remarkable profit turnaround of some our categories. Strong volume growth in Water in the UAE (Bottled Water: 5 percent versus 2.6 percent market growth; 5-Gallon: 11 percent) has helped mitigate the impact of soft consumer spending throughout the region. Our brands maintained their market positions, and Al Ain Water maintained its clear leadership in the water market in the UAE at 29 percent and 27 percent volume and value share, respectively.

Group net revenues for the period reached AED 1.01 billion. This represents 1 percent like-for-like growth when a number of non-repeating revenues booked in the corresponding period of last year were taken out, namely the additional months of consolidation pertaining to the acquisition of the Saudi water business, opportunistic bulk trading of grains, and exports to Qatar.

Group net profit for the period recorded AED 109 million. Like-for-like net profit registered 6 percent growth, when one-time extra-ordinary income on transfer of lease of the Ice Crystal factory, other operating income related to the wheat safety stocks and the profit impact of non-repeating revenue items mentioned above that were recorded in last year's financials are excluded. It is worth mentioning that this performance is achieved despite significantly reduced flour subsidy in the Bakery channel since the second half of last year.

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CONSUMER BUSINESSES

In aggregate, Consumer segment posted AED 543 million net revenues and AED 84 million net profit for the period, and contributed 54 percent of the Group revenues. Like-for-like revenues and profit recorded 1 percent and 6 percent growth, respectively.

Food (Tomato Paste and Frozen Vegetables, Trading Items, Dairy, Bakery) continues its remarkable business turnaround both in the UAE and Egypt. Overall net segment revenues totaled AED 105 million, an increase of AED 14 million or 15 percent when compared to last year. Net segment profit recorded AED 4.5 million, a complete turnaround from last year's AED 2.1 million net segment loss. Trading Items continued to drive the growth, and we are optimistic about additional growth opportunities as the agreement that was signed in the first quarter of this year with Abu Dhabi, Al Ain and Al Dhafra Region Municipalities over the management of retail outlets starts to kick in fully in the second half of the year. Tomato Paste and Frozen Vegetables posted strong revenue and profit growth too. Dairy remained short of last year both in revenue and profit in a declining market.

Water net revenues for the period reached AED 405 million and stayed flat versus year ago on a like-for-like basis. Both Bottled Water and 5-Gallon Water displayed strong volume growth in the UAE – 5 percent and 11 percent, respectively. In the case of 5-Gallon, strong volume was also reflected in equally solid 9 percent net revenue increase. In Bottled Water, aggressive price promotions in the UAE as a response to growing price consciousness of consumers have resulted in reduced net pricing, turning market value growth to negative territory despite positive volume growth. During the period, brand health was successfully maintained in the UAE, and Al Ain Bottled Water continued its volume and value share leadership at 29 and 27 percent, respectively. Including our other brands, Alpin and Al Bayan, Agthia's total volume share in the bottled water market reached 31 percent. Al Ain Zero maintained its position within top five bottled water brands in the UAE with over 4 percent volume share. In Saudi Arabia, both consumers and markets are correcting themselves in the aftermath of changes in their long-established economic and societal constants. Weak demand that we are currently experiencing in our Saudi business is one outcome of this transformation that we believe is temporary and will only result in more prosperity both for the country in general and for Agthia. In Kuwait, our joint venture bottled water factory is now fully functional and commercial operations started as of the second week of July. In Turkey, our subsidiary is now profitable after some years of net losses.

Beverages net revenues recorded AED 34 million and remained behind last year. Juice category in the UAE is still under pressure with both volume and value declining in high single-digits. We experience a great deal of switched buying patterns to multi serve packs, smaller pack sizes and to cheaper juice segments from more expensive pure and nectar segments as a result of increased price sensitivity by the consumers. On the other hand, we maintained our gross profit margin, and net profit has improved mainly on account of lower spending.

AGRI BUSINESSES

In aggregate, Agri segment posted AED 464 million net revenues and AED 66 million net profit for the period.

Animal Feed net revenues for the period reached AED 280 million. Excluding last year's revenues of Qatar exports and bulk grain trading that amounted to AED 26 million, this year's sales represent 5 percent like-for-like growth over last year. This solid growth in business performance is attributable to higher volume in municipality outlets and still-subsidized commercial farms in addition to price increases in the unsubsidized open market, following recent commodity cost price increases. Net segment profit at AED 32 million has doubled over last year's profit mainly by virtue of better mix in favor of subsidized items and strict cost optimization across all business functions.

Flour net revenues for the period reached AED 184 million. With a significantly smaller subsidized environment where soft consumer offtake and continued inflow of cheap imported flour are restricting profitable growth options, and our revenues and net segment profit are in decline versus year ago in accordance with our expectations.

All in all, I am proud to see that we are still maintaining our market leadership positions, and a solid financial stability, against all odds. Even in the face of these challenging market conditions across the region, I can assure you that we will continue to do our best by working even harder in order to keep our promise to continue to deliver sustainable profitable growth for the benefit of all of our stakeholders.

Rashed Hamad Al Dhaheri
Vice Chairman
5 August 2018

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AGTHIA GROUP PJSC

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