Directors' Report

Dear Shareholders,

On behalf of the Board, I am glad to report another quarter of top and bottom line growth, albeit slower than the previous two quarters against a backdrop of a persistent slowdown in the UAE consumer categories and subsidy program changes in flour and animal feed. The group's nine-month net profit reached AED 200 million, 12 percent higher than the same period a year ago. Net revenues grew 11 percent to AED 1.52 billion, driven by strong performance of the Water business, within which the Al Ain brand logged the highest-ever volume and value market share at 25.3 percent and 22.2 percent respectively. Gross profit margin reached 34.3 percent, 300 basis points more than last year. The balance sheet remains healthy, and the Company generated positive operating cash flow in the period.

Business Review

Water

The Water category, consisting of bottled and 5-gallon water under the Al Ain Water, Alpin Natural Spring Water, Al Bayan and Ice Crystal brands, posted net revenues of AED 488 million, growing 27 percent over the same period last year.

- Despite the market slowdown, our Water business continued its growth momentum as a result of our effective tactical activities and continuous investment behind brand building, new product launches, and distribution gains.
- Al Ain bottled water continued to gain market share both in volume and value. Reaching a record 25.3 percent volume share as per ACN in June-July, Al Ain water is 930 basis points ahead of the nearest competitor.
- Further strengthening our leading position in the market, we introduced **Al Ain ZERO** in September. This breakthrough sodium-free water reflects Agthia's commitment to be in constant touch with evolving consumer needs and remain ahead of the curve. As the only sodium-free water in the UAE, **Al Ain ZERO** is truly a one-of-a-kind product in the market. The absence of sodium in its composition is what sets it apart from anything that is currently available in the market today, and responds to very strong consumer consciousness in health and wellness in the UAE. Initial acceptance by customers and consumers has been very encouraging, providing an additional confidence boost for our planned new product introductions in this category.

- Organic growth (excluding Al Bayan) was 12 percent, more than double the growth of the water category in the UAE. Meanwhile, the Al Bayan business continues to outperform our internal projections even before the complete realization of synergies.
- Shipments and revenues of Alpin, the natural mineral water produced in our own manufacturing facilities in Turkey and distributed in the UAE, have more than doubled versus the same period last year. In the meantime, our domestic Alpin business in Turkey continues its accelerated volume and revenue growth, registering 25 percent top line growth year-on-year with losses reduced by 62 percent.

Beverages

The Beverages category, consisting of Capri Sun fruit juices and Al Ain Fresh fresh juices, posted net revenues of AED 59 million.

- Capri Sun is experiencing a challenging year, with a declining juice market and new school regulations pressuring an otherwise rising performance over past years. Despite several brand revamping initiatives through above and below the line activities, net revenues dropped 2 percent compared with the previous year. Capri Sun Fruit Crush, a high-juice content with 100% juice, was launched in schools in Dubai, Sharjah and the Northern Emirates in September, and the planned launch in the retail trade in the fourth quarter is expected to provide additional momentum to the performance of this business.
- Al Ain freshly squeezed juices were launched in the retail channel. Using cold pasteurization technology, which preserves taste and nutritional values intact, we launched five flavours in B2C channels – Orange, Mint Lemonade, Carrot, Mango and Grapefruit.

Dairy (Yogurt)

The Dairy business, under the Yoplait brand mainly in the kids and fruit yogurt segments, posted AED 24 million net revenue, growing 34 percent year-on-year.

- The Yogurt market in the UAE continues to contract. The latest readings indicate a 4 percent year-on-year decline in the value-added yogurts segment, where our Yoplait fruit and Petit Filous kid's yogurts compete.
- The introduction of new flavors and products, activation of digital marketing campaigns in addition to strong traditional marketing support, and revamped distribution of plain yogurt in food service outlets with a new 10kg product have all contributed to Yoplait's growth to date in a de-growing category.

Gross profit margin at 31 percent improved by more than 750 basis points from the same period last year, also as a result of lower milk powder prices. Net losses decreased by more than 20 percent.

Flour

The total Flour business including wheat trading posted net revenues of AED 324 million during the nine-month period, an increase of 2 percent versus a year ago.

- The subsidy was removed in full in selected sales channels (Retail, Trading, and Catering) from September 1 2016. In Bakeries, our largest customer group, the subsidy remains in place until August 31 2017; it will then reduce by 50 percent until August 31 2018, after which it will be fully withdrawn. The subsidy will continue in government channels (Municipality, SKF).
- Our response has varied across channels. In Trading and Catering, our plans included the launch of low cost, low price value range products with the objective of defending our volumes, partially impacting our profitability but providing us with strong leverage to defend our market share. In the Retail (B2C) channel, still a smaller part of our Flour business, we increased our prices to reflect market prices, where we expect to lose volume. To address this, we launched a price fighter brand in addition to increasing our focus on distribution expansion in the Northern Emirates and export markets. In Bakeries, we continued to introduce specialty products, like Tanoor, bread, and all-baking flour, and stepped up our programs for new customer acquisitions especially in the Northern Emirates.
- Exports continued their strong growth momentum, owing to further expansion in GCC countries with the B2C and B2B range in addition to increased business in East Africa.
- Marketing support continued in full force across the UAE with the aim of driving B2B customer loyalty and building up brand and product awareness in B2C customers.
- Gross profit margin, at 46.9 percent, has improved by 628 basis points over last year, mainly due to lower commodity prices.

Animal Feed

The total Animal Feed business including commodity trading posted net revenues of AED 520 million, growing 1 percent versus a year ago.

- Animal Feed, already facing and responding to aggressive competitive pressures in the UAE in defense of its market leadership this year, has been additionally affected by the subsidy change.
- Whereas the subsidy remained in place for Commercial Farms, it has been withdrawn from the Municipality and Distributor channels in full effective July 1 2016.
- We increased our prices in the affected channels in line with market prices. A delay in new orders from customers, who anticipated a potential reversal of the subsidy removal, and high levels of subsidized in-market stocks, resulted in volume losses especially in July and August.

- A plethora of new product launches in record time as part of our defense strategy, including a value range in both small and large animal segments, and strong marketing support communicating Agrivita's benefits, has partially limited the unfavorable effects of this change in the business environment.
- We opened our first "Agthia" store in Al Wathba, enabling direct Agrivita sales to consumers (farmers). Initial results are very encouraging, and we are planning to open such stores in other locations.

Emerging Businesses

Composed of Tomato Paste, Frozen Vegetables, Ambient and Frozen Bakery, Dates and other convenience products, our Emerging Businesses posted net revenues of AED 108 million, a 31 percent increase versus the same period last year.

- The emerging categories are growing by 66 percent in the UAE including the contribution from Dates, which is not in the base. Our business in Egypt is however suffering from the adverse effects of currency devaluation, in addition to a bad crop season.
- Our efforts to establish a solid base in both Ambient and Frozen Bakery are continuing. In Frozen Bakery, we took our first step into the Bakery channel with the introduction of a range of frozen croissants. We are in the process of developing new variants for our croissant range which we plan to introduce by the end of this year.

On account of improving margins and growing scale, aggregate losses fell by 52 percent compared to last year.

SG&A expenses

The Group's SG&A expenses of AED 332 million represents an increase of 33 percent over the same period last year. Without Al Bayan, which is not in the base, growth is 19 percent. The increase relates to our investment in marketing and brand building activities, new businesses, higher distribution costs due to increases in sales volumes, employee related costs including new hiring, and other inflationary increases. SG&A as a percentage to sales at 21.8 percent increased by 3.6 percentage points compared with last year (excluding Al Bayan and marketing expenses, SG&A ratio to net sales is at 17.1 percent, 150 basis points higher than the same period a year ago).

Cash flow

The Company continued to generate positive cash from operating activities, which stood at AED 137 million as of September 30, 2016. Cash and cash equivalents amounted to AED 504 million. To ensure availability of funds, the Company maintains sufficient bank credit lines to cover short-term working capital requirements at very competitive pricing.

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Unallocated Corporate Items

Under segment reporting, an unallocated amount of AED 744 million represents goodwill, intangible assets and cash and bank balances as the Company's fund management is centralized at corporate level.

Capital Commitments and Contingencies

Capital commitment of AED 63 million relates to our second high speed water bottling line, warehouse expansion and other capital items. Bank Guarantees and letter of credits of AED 109 million have primarily been issued in favor of the Governmental Authorities and the Company's vendors for the supply of materials and spare parts.

Future Outlook

Despite adverse economic circumstances affecting businesses as well as consumers all around the region, we remain positive in meeting our guideline top and bottom line targets for 2016, owing to our strong product, marketing, and trade initiatives in all our categories but especially in Water, in addition to continued focus on distribution, customer acquisition and expansion in the Northern Emirates and export markets. Our efforts to land an acquisition in the Water category in the GCC continue, with the aim of securing a deal before the end of the year.

Eng. Dhafer Ayed Al Ahbabi
Chairman
November 1st, 2016