

AGTHIA GROUP PJSC DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Directors' Report and condensed consolidated financial statements of Agthia Group PJSC (the "Company") and its subsidiaries (the "Group") for the period ended 30 June 2022.

In the first half of 2022, we continued focusing on our transformational journey in the face of the ongoing market volatility and inflationary environment. On one hand, we are proactively managing cost and supply chain disruptions by broad based pricing, optimizing our product and channel mix, and accelerating synergy extraction from the seamless integration of the acquired entities. On the other hand, we continue to invest in top-line growth and improved customer value proposition:

- **Acquisition of Auf Group in Egypt¹:** In July, the board approved the acquisition of 60% of Auf Group, a specialized healthy snacks and coffee manufacturer and retailer in Egypt. The acquisition allows Agthia to further penetrate one of the region's fastest-growing markets while also boosting the snacking vertical and strengthening the consumer business by providing immediate access to new revenue streams and product lines.
- **Expansion of the protein business in KSA:** The board approved an AED 90 million investment for the construction of a manufacturing facility for one of Agthia's protein brands, in Jeddah KSA in response to the strong demand from local customers. The expansion will strengthen Agthia's footprint in the Kingdom, support further growth of the protein vertical and contribute to the establishment of Agthia as one of the leading consumer packaged goods players in the MENA region.
- **International recognition of Agthia product quality:** Seven of Agthia's products won the 2022 Superior Taste Award granted by the International Taste Institute in Belgium. This is a recognition of our continued efforts to innovate and deliver superior customer value proposition.

In line with our semi-annual dividend distribution policy, the board today recommends 8.25 fils dividends per share for the first half of 2022, subject to shareholders and regulatory approvals.

First half of 2022 Highlights

During the first half of 2022, Agthia achieved **Group net revenues** of AED 2.0 billion, representing 51% y-o-y growth and reflecting the consolidation of all five acquisitions announced in 2021. The Protein & Frozen segment contributed 29%, Snacking segment 21%, Water & Beverage and Other Food items segment 23%, and Agri segment 27% to H1 2022 Group revenues.

Consumer business division (CBD), under which the newly acquired entities are consolidated, recorded 71% of revenue growth y-o-y. With revenue of AED 1.5 billion, CBD now encompasses 73% of total group sales, in line with our strategy of diversifying our revenue streams towards higher growth consumer goods categories.

- **Protein & Frozen:** Revenue of AED 570 million during H1 2022, of which AED 493 million contributed by the consolidation of newly acquired protein businesses in Jordan and Egypt. Both businesses recorded double digit sales growth versus the same period last year, driven by higher volume and selling prices. Overall segment margin improved on the back of the above-mentioned accretive acquisitions. The segment faced headwinds in the form of higher raw material and freight costs,

¹ The acquisition is subject to satisfying customary closing conditions, including obtaining relevant regulatory approvals.

which had a more evident impact on the margins of the protein business in Jordan, due to its exposure to food service channel; and the devaluation of the Egyptian Pound in late March, which adversely impacted the expected contribution from Egypt operations.

- **Snacking:** Revenues of AED 417 million reflect the consolidation of BMB which contributed AED 149 million and the discontinuation of our frozen and ambient Bakery business in the UAE. Both dates and Kuwait bakery businesses recorded higher y-o-y top-line growth - the former benefitted from our focus on improving product and channel mix contributing to higher sales during off-season periods, and the latter from the opening of schools. Overall profitability for the segment improved on continued cost optimization and synergies, which more than offset higher raw and packaging material costs.
- **Water & Other Food:**
 - **Water & Beverage:** Revenues of AED 382 million, broadly in line with last year's on the back of improved performance in the UAE, Kuwait, Oman and Turkey countered by lower KSA sales due to competition and to the discontinuation of the loss-making Beverage business (lost sales of AED 8.5 million). UAE water (Bottled Water + 5-gallon HOD) recorded higher sales during the period, largely driven by rebound in volumes across retail and food services channels for bottled water and across home and corporates for 5-gallon HOD. In the retail channel, Agthia's bottled water portfolio continues to preserve market leadership at a respective 28.5% and 28.2% volume and value shares², despite the highly competitive environment. The impact of higher PET resin prices, packaging material and transportation costs continues to linger on water segment profitability. Additionally, the ongoing restructuring of the Saudi water business will continue to weigh down segment profitability in the short term.
 - **Other Food items** (Dairy and Trading Items): Other Food Items recorded sales of AED 93 million, up 4% relative to the same period last year, driven by favorable mix management, strategic pricing activations and competitive promotions.

Agri-business division (ABD): Revenues of AED 534 million, achieving a 15% growth y-o-y. Despite inflation in grain prices and freight costs, the profitability of the segment improved, driven by operational efficiencies, pricing adjustments, as well as an inflation-adjustment compensation in the subsidized flour segment.

Group net profit³ in the first half of 2022 reached AED 118 million, growing 74% y-o-y, at a higher rate versus top-line. This is mainly driven by the consolidation of margin-accretive acquisitions and cost optimization initiatives relating to business integration and productivity enhancements.

Total group assets as of 30 June 2022 reached AED 6.3 billion. **Total shareholders' equity** stood at AED 2.8 billion.

² AC Nielsen retail audit for bottled water excluding mineral water - MAT May 2022 submission

³ Attributable to shareholders

Second quarter of 2022 Highlights

During the second quarter of 2022, **Group net revenues** reached AED 0.94 billion, up 44% y-o-y on the consolidation of the five acquisitions announced in 2021. The Protein & Frozen segment contributed 29%, Snacking segment 17%, Water & Beverage and Other Food items segment 26%, and Agri segment 28% to Q2 2022 Group revenues.

Consumer business division (CBD) recorded significant growth of 59% versus last year. With revenues of AED 675 million, CBD constitutes 72% of total group sales as we continue to adopt a more consumer-centric business model.

- **Protein & Frozen:** Revenue of AED 276 million during Q2 2022, of which AED 240 million contributed by the acquisitions of Nabil Foods in Jordan and Atyab in Egypt. The same period last year reflected only AED 85 million of Nabil Foods revenues, given that Atyab inclusion was only effective starting August 1st 2021. It is worth noting that the Jordanian business recorded higher sales y-o-y driven by higher volumes from the food service channel and higher selling prices in response to raw material inflation.
- **Snacking:** Revenues of AED 162 million, of which AED 73 million was contributed by the acquisition of BMB. Top-line performance excludes frozen and ambient Bakery operations in the UAE, which were discontinued. Both dates and Kuwait bakery recorded higher y-o-y top-line growth versus the same period last year. Our efforts towards product and channel mix improvements at the dates business resulted in the company reaching profitability in the period, despite the historical seasonal trend of negative profit on the back of lower sales in Q2.
- **Water & Other Food items:**
 - **Water & Beverage:** Revenues of AED 197 million in line with last year's on the back of strong performance in the UAE, Kuwait, Oman and Turkey and lower than expected KSA sales impacted by competition and lost sales from the strategic decision to discontinue the loss-making Beverage business (lost sales of AED 1.2 million).
 - **Other Food items** (Dairy and Trading Items): Other Food Items recorded sales of AED 40 million, relatively flat versus same period last year.

Agri-business division (ABD) revenues in Q2 stood at AED 267 million, up 17% versus the same period last year. The adverse impact of higher wheat prices on the subsidized municipality channel observed since the beginning of this year was recovered in Q2 2022.

Group net profit⁴ reached AED 36 million in Q2 2022, a 96% growth y-o-y. Net Profit growth was almost double the revenue growth rate, largely due to the consolidation and integration of the margin-accretive acquisitions.

In summary, I am pleased with the progress we have made so far in delivering on our strategy, while integrating the newly acquired companies and navigating an uncertain inflationary environment. We remain committed to a continued improvement in our customer value proposition and on delivering enhanced value to our shareholders and the communities we operate in.



Khalifa Sultan Al Suwaidi

Chairman

04 August 2022

⁴ Attributable to shareholders