Directors’ Report

The Board of Directors of Agthia Group PJSC ("the Company") is pleased to present the Company’s financial results for the nine months ended September 30, 2010.

During the first nine months of the year, the Company’s overall performance remained in line with expectation. Agthia is successfully progressing with the execution of initiatives that are helping to drive sustainable growth; including expanding the Company product portfolio, further strengthening the distribution network, and entering new margin enhancing categories. Additionally the investment in building and expanding our current brands and the growth of our brand portfolio are delivering results. These initiatives are driving our sustainable growth and will remain a core focus.

As Agthia progresses towards its goal of becoming the UAE’s leading food and beverage group, the Company is in a strong position to continue delivering increased shareholder value.

In line with management’s expansion and business diversification strategy, the Company recently announced its entry into the dairy segment. The company signed a franchise agreement with Sodima of France for exclusive rights to manufacture and distribute fresh dairy products under the Yoplait brand in the GCC. Yoplait is the number two global brand in the fresh dairy product category. The manufacturing plant will be located in Al Ain and commercial sales are expected to commence in Q4 2011.

Results Analysis

Net sales for the group increased by 6% year-on-year, or 8.4% quarter-on-quarter, reaching AED 736 million. This result was driven by a particularly strong performance in the Company’s water and beverage division which achieved a 30.6% increase in sales year-on-year. This rise in sales was primarily driven by increased investment in marketing and distribution activities and securing new institutional and export customers.

Overall Group revenue growth was softened as a result of an industry-wide decrease in animal feed prices during the period under review. In addition, the Company saw a 6.6% decrease in flour volume compared with the same period last year partly due to an isolated...
instance of disruption to production in one of the flour mills (now fully operational), some supply shortage experienced in the outsourced flour volume and the non-recurring flour sales to Charity organization during this Ramadan season. Volume recovery initiatives are linked to capacity expansion planned in the second half of 2011.

Net profit for the third quarter grew 29.4% year-on-year to reach AED 25.2 million. Net profit for the first nine months declined 17.6% to AED 79.2 million primarily due to 6.6% decrease in flour volume as explained above, higher outsourcing cost of flour, a decrease in animal feed profit margin due to lower feed market prices and higher cost of grain and the non-supply of subsidized raw tomato from UAE farms this year. Excluding the impact of feed profit margin and non-supply of raw tomato from UAE farms, net profit grew by 10% year on year.

Selling & General Administration Expenses (SG&A), at AED 113.3 million, represents an increase of 5% over the same period of last year. This increase can be mainly attributed to more aggressive marketing investment to support the brands, the full impact of Capri Sun related expenses (launched in March 2009), increased distribution expenses related to higher volume, and other inflationary increases. Excluding Capri Sun, the SG&A grew by 2.4%.

The Company also realised an additional AED 13 million in extraordinary income. This includes AED 6 million in management fees for handling the procurement of wheat on behalf of the Abu Dhabi Government, which has made donations to neighbouring countries, and the release of AED 2 million of provisions that were made in 2008-09.

The Group’s balance sheet remains strong with a debt/equity ratio of 21% and a cash balance of AED 240 million.

The Company has lodged a claim amounting to AED 10.4 million with insurer relating to business interruption occurred in one of its flour milling production lines. This amount has not been recognized in the Financial Statement as the claim has not yet been finalized and is under review by the loss adjuster.
Flour & Animal Feed

Net sales for the flour and animal feed division increased 5% quarter-on-quarter, declining 1.5% year-on-year to AED 501.4 million. The year on year decrease was due to a 6.6% decline in flour volume and a reduction in animal feed market prices. The reduced flour volume was partly due to an isolated instance of production disruption, some supply shortage experienced in the outsourced flour volume and non-recurring flour sales to charity organization during this Ramadan season. The flour mill is now fully operational. The division has also expanded its animal feed municipality distribution network.

Net profit for the division declined by 24% to AED 79.4 million, mainly due to 6.6% decrease in flour volume, higher flour outsourcing cost, and the decline in gross margin related to feed. Factors contributing to feed margin decrease include lower feed market prices and the recent surge in grain prices.

The management team is focused on ensuring that the feed division returns to normal levels of profitability and have initiated actions including cost reduction programs, improving the product volume mix and the expansion of feed production capacity, replacing the outsourced volume with more cost effective internal production and driving pricing where possible. The expansion of Agthia’s feed mill capacity is expected to be completed by the end of Q2 2011.

In line with its business diversification strategy, the Company previously announced the establishment of a frozen baked product plant in Abu Dhabi. The project will bring the latest frozen baked technology to the Middle East with production now planned to commence in Q1, 2012. The move will allow Agthia to enter the growing high margin frozen baked segment and provide the potential for further regional expansion.

Water & Beverages

The water and beverages division continued its strong performance with sales growing by 30.6% year on year to AED 193.9 million and profit reaching AED 35 million, a growth of 39%, driven by a 35% increase in sales volume. Quarter on quarter, sales and profit for the water and beverage division grew by 22% and 82% respectively. The Company continues to expand its distribution both in domestic and export markets.
The new “hot fill” bottling line has commenced trial production and will enable the Company to further expand its product portfolio. This new line is the first of its kind in the world and introduces a breakthrough technology in the hot fill industry. This revolutionized hot fill line will not only enable the Company to produce hot fill products using at least 30% less PET (Polyethylene Terephthalate) than the existing lines in the market, but will also deliver energy savings. Additionally, in order to meet the increasing bottled water demand, a new bottling line is currently being installed and production will come on stream in Q4, 2010.

Processed Fruits & Vegetables

This division has maintained its leading position in the branded UAE tomato paste segment and is continuing to grow its presence in the increasingly important frozen vegetable segment. The division’s sales grew by 9% versus 2009. The division’s domestic “branded” tomato paste products and frozen vegetables grew by 20% and 22% respectively versus last year. All focus and investment has been diverted to build the “branded” business, and gradually move away from the low margin private label export business which accounted for 55% of last year’s sales.

Non supply of subsidized fresh tomato from UAE farms, higher trade spent in export markets to support the newly opened distribution channels, and the lower export price of tomato paste in the global market led to a loss of AED 10.9 million in this segment.

As stated in the last report, the Company has initiated a number of actions and has adjusted its strategy with the objective of returning to profitable growth in this business. These initiatives have already started delivering positive results with Q3 loss reduced significantly to AED 1.6 million versus first six months losses of AED 9.3 million.

As part of Company’s strategy to expand its product offering, Agthia previously announced its entry into the fresh fruit, juices and vegetable segment by setting up a new production facility within its existing Al Ain factory. This segment provides the division with an opportunity to further expand its existing product portfolio. This fast growing segment is sizeable and provides an additional stepping stone towards the sustainable growth of this division. Commercial production is expected to commence in later part of Q2, 2011.
Export volumes from the division’s Egypt based factory have picked up, with an increase in both tomato and chilli paste sales volume. It is worth highlighting that Egypt’s tomato crop was significantly impacted by a pest disease and unusual hot weather conditions destroying more than half of this year’s summer crop. This has resulted in short supply of raw tomato at higher cost. These factors have prompted the Company to drive volumes of other products such as chilli paste, fruit puree and private label tomato and chilli paste in glass jars.

Outlook

The Company’s performance during the first nine months is in line with the expectations of management. Agthia is capturing opportunities in its different growth pillars, in a global and regional economic environment which remains challenging. The Company has adopted a sustainable business model as it pursues its strategy of product diversification, distribution expansion, high operating efficiencies, investment in brands and new manufacturing capabilities. Barring the recent surge in soft commodities prices which may negatively affect the overall flour & feed industry’s profitability, we remain optimistic about the prospects for a sustainable sales and profit growth.

On behalf of the Board
H.E. Rashed Mubarak al Hajeri
Chairman
Dated: October 27th, 2010