شركة الإمارات للأغذية والمياه المعدنية (أغذية) ش.م.ع
Emirates Foodstuff and Mineral Water Company (AGTHIA) P.J.S.C.

Directors' Report

The Directors are pleased to present the Annual Report together with the Audited Financial Statements of Emirates Foodstuff and Mineral Water Company (Agthia) PJSC ("Company) for the year ended December 31, 2007.

Financials

(AED Million)	2007	2006	% change
Net Sales	578.7	433.6	33.5
Gross Profit Margin	18.5%	17%	+150bp
Net Profit	38.2	29.1	31.1
Total Assets	866.8	822.7	5.4
Shareholders' Equity	723.4	685.2	5.6
Earning Per Share (AED)	0.064	0.049	31.1

Your Company, during 2007, made remarkable progress on its Financial Turnaround Strategy set at the beginning of the year. We have achieved strong Sales growth of 33.5%, reaching AED 578.7 million. Despite a challenging environment from a cost perspective, which is discussed below, we also managed to achieve Net Profits of AED 38.2 million, compared with AED 29.1 million the previous year. This represents a growth of 31% compared to 2006 and comes as a result of a higher volume, pricing strategy and cost reduction initiatives.

Market Overview: Challenging Conditions for the F&B Industry

The UAE economy continued to expand in 2007, with GDP growth of 7.4% for the year. While this clearly had a number of significant benefits, it also resulted in a number of challenges for all companies across a wide range of sectors, including AGTHIA. Employees' costs, fuel prices and the prices of basic commodities not only accelerated inflation in general, but also had a direct impact on most industries, including AGTHIA.

تلفون: ٢٢١ ٥٥ ٤٤ / ٤١٤٦٤٤٤ ٢ ٩٧١+ – فاكس: ٦٤٤ ٦٣ ٤٤ ٢ ٩٧١+ – ص.ب: ٣٧٧٢٥ - أبوظبي، الإمارات العربية المتحدة www.agthia.com
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The year under review also saw significant rise in grain prices in the international market, and so far there are no signs of grain prices easing. Prices of wheat, corn and barley have more than doubled and the rising trend is expected to continue in the near future. Furthermore, ocean freight costs have more than doubled, and local inflation is putting additional external pressure on our business. According to the major international grain dealers, the world wheat reserve is at its lowest level in the last 60 years.

In order to protect the consumer from the impact of soaring grain prices in the international market and to stabilize the consumer prices of flour and feed in the local market, the Government of Abu Dhabi partially compensated the Company for the high grain cost. This social commitment by the Government of Abu Dhabi is welcomed by your Company.

Group Performance Remained Strong

Despite the unprecedented rise in grain prices in the global market, your Company managed to deliver a gross profit margin improvement of 150 basis points to 18.5%, compared with 17% in 2006. This was due to a combination of price increases and a number of cost efficiencies. However, gross profit gains were partially offset by higher marketing, selling and general & administrative expenses.

Marketing spend reflects the strategic investment behind brand building and promotional activities (in particular, our water business). Selling & general administrative expenses increased due to the full year impact of the new organization set up, which was required to meet future robust growth plans, coupled with general inflationary increases and bad debt provision relating to old receivables.

Flour & Feed

Combined Flour and Feed sales, at AED 479.6 million, recorded solid growth of 33%, while the gross profit margin of 14.5% improved by 220bp compared with last year. This was primarily driven by pricing, volume/mix and cost efficiencies. Flour Mill is now running at its full capacity while Feed plant reached 70% capacity utilization . Plans are underway to increase the capacity of our Flour Mill.

During the year your Company signed a Memorandum of Understanding (MoU) with Allatini S.A. Greece, a leading Food manufacturer. This strategic alliance will pave the way for your Company to further diversify into the value added flour based products category as well as giving access to significant technical know-how.

Beverages

Al Ain Water continued strengthening its number two market position with sales growth of 35% and market share of 23.3%, up from 21.4% a year ago. Al Ain now enjoys number one position in Abu Dhabi Emirates with 41.4% market share. This business is fast expanding in the GCC region, and we have appointed distributors in Oman, Bahrain and Qatar and plan for further geographical expansion. While the gross profit margin for the water business slipped marginally in 2007 due to a one time cost of AED 1.7 million associated mainly with plant impairment, excluding this, margin improves by 50bp.

In July, Al Ain Water unveiled its exciting new brand image including grab & go formats as it seeks to further build on its market share and broaden distribution throughout the UAE. The Company is very confident that its new, more modern and dynamic image will help strengthen the brand and increase sales throughout the Emirates. During the year Al Ain Water also launched a new product "Al Ain 4 Kids". Initial trade and consumer response has been very encouraging.

In July 2007 Agthia signed an exclusive agreement with Mother Parker Tea & Coffee Inc. Canada, a leading tea & coffee manufacturer. The deal will see the company managing the marketing and distribution of Mother Parker products throughout the UAE.

Your Company acquired a leading, Abu Dhabi based 5 gallon water brand "Ice Crystal" in December 2007. The acquisition of Ice Crystal is a strategic move by the Company to enter into the sizable and fast growing 5 gallon bottled market. The integration of this business into our Al Ain Water operation is almost complete, and this new business will be managed by the Al Ain Management.

Others

At the beginning of 2007, the Company took a challenging but visionary decision to implement a new ERP (Enterprise Resource Planning) system to replace the previous, non-integrated system. The new system aims to improve the efficient running of the business and to support the future business growth plans. We are delighted to inform you that the fully integrated, new ERP system went live at all locations successfully by January 1, 2008.

In accordance with Federal Law No. 8 of 1984 (as amended) and the Company's Articles of Association, 10% of the year's net profit has been transferred to the Statutory Reserve.

Subsequent Events

The Management is excited to report that in February 2008, your Company signed an exclusive licensee agreement, covering the GCC excluding Saudi Arabia, for the production and distribution of the well known fruit juice brand, "Capri Sun". We are aiming to start commercial production and distribution in first quarter of 2009.

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In January 2008, your Company acquired Al Ain Vegetable Processing & Canning Factory, based in Abu Samra, Al Ain. The acquisition is a strategic move to enter the fast growing tomato paste and frozen vegetables categories, both in domestic and international market.

Management also decided to establish a state-of-the-art tomato paste and frozen vegetable plant in Egypt. The plant is expected to be operational by the first quarter of 2009. This move is intended to capitalize on the rapidly growing tomato paste and frozen vegetable categories, both in UAE and international markets, and further to tap into other profitable related products segments where potential synergies can be identified.

Directors

Present Directors will retire on 24th April 2008 and are eligible to contest election as per the Article of Association of the Company.

No remunerations were paid to the Board members during 2007.

Dividend

The Board of Directors has recommended that, in order to facilitate plans for future strategic growth and expansion, no dividend is proposed for the year 2007. We believe that retaining the funds within the Company will be of greater benefit to shareholders over the medium to long term.

Auditors

The present Auditors M/s KPMG, retire and being eligible, offer themselves for re-appointment at the AGM.

Future Outlook

Our dual strategy of Financial and Strategic Turnaround has been executed and is already delivering positive results. 2007 performance was strong despite the macro economic challenges caused by input price inflation, as discussed above. However, the management has initiated all necessary steps, under its control, to mitigate the impact.

We will continue to invest in brand building and introduce new products to our valued consumers and enter into new and profitable Food & Beverages categories. We will focus on distribution, marketing, and regional expansion opportunities, and, at the same time, will maximize business synergies and cost savings to improve profitability for our shareholders.

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Code of Corporate Governance

The Board of Directors and management of the Company are committed to the principles of Good Governance and obliged to be compliant with the requirements well within the stipulated time. During 2007, we have formalized plan for implementation of Code of Governance, the Company also formed an Audit Committee and a Compensation Committee.

Financial Reporting Framework

The Directors confirm that:

The financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operation, cash flows and changes in equity.

The Company has maintained proper books of accounts.

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Financial Reporting Standards (IFRS), as applicable in the UAE, have been followed in preparation of these financial statements.

There is no doubt about the Company's ability to continue as a going concern.

The Board would like to take this opportunity to express its appreciation to the employees of the Company for the commitment, hard work and cooperation throughout the year. We would like to thank our shareholders for their continued support.

On behalf of the Board

Ilias Assimakopoulos
Chief Executive Officer
Abu Dhabi

19th March, 2008

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