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 Agthia Group PJSC ("Company") for the year ended December 31, 2008.

The Company's excellent performance in 2008 added to the momentum that the Company built in 2007. Strong growth across all key financial and operational indicators reaffirm the positive impact the Financial and Strategic Turnaround initiatives have had on the Company's performance.

Group Highlights Delivering On Strategy

AED Millions	2008	2007	Change
Net Sales	854	579	48%
Gross Profit Margin	21%	18.5%	250bp
Net Profit	72.2	38.2	89%
Total Assets	1060	867	22%
Shareholders' Equity	795	723	10%
Earning Per Share (AED)	0.120	0.064	89%
Return on Capital	12%	6.4%	560bp

The strong sales, profit and EPS growth that has been delivered by Agthia underlines the defensive quality of the Food and Beverage sector. The clearly defined strategy and the successful implementation of that strategy have provided the backdrop to the year's strong performance in what has been a difficult year, economically, across the globe. The Company's management and each of its employees are fully focused on delivering the overall strategic objective of becoming the UAE's best food and beverage company. We define "Best" as: best performance, best products, best people, best brands and best business practices.

Record Results: An Analysis

2008 saw strong revenue growth in each of Agthia's operating companies, with total Group Sales of AED 854 million, up 48% from 2007. The main drivers behind this performance include strong volume growth across the portfolio, an improved pricing structure and the addition of the tomato paste and frozen vegetable business (TP&FV), acquired in January 2008. Excluding TP&FV, sales grew by 40%.

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Selling & General Administration expenses increased by 53% to AED 115 million, (excluding TP&FV 43%) predominantly due to strong volume growth resulting in higher distribution costs (volume related), TP&FV expenses that were not included in the 2007 results, higher employee costs resulting from headcount and compensation increases, strategic marketing investments aimed at further building the Company's brands, and the full year impact of Agthia's newly introduced organizational set up.

Cost of Goods Sold grew by 43% to AED 675.4 million, which is less than the period's sales growth of 48%. This predominantly reflects production efficiencies and cost reductions. In 2008, the state subsidy of AED 358.6 million from Abu Dhabi Government on Flour & Feed business was recognized in the Accounts as a reduction from cost of goods sold. The purpose of the subsidy was to partially reduce the impact of increased and volatile global grain prices on food retail prices for consumers in the Abu Dhabi Emirate. This social commitment by the Government is welcomed by your Company.

Non-recurring income/charges

The Company incurred a cost of AED 49 million due to a fall in the net realizable value of its grain inventory resulting from the easing of global grain prices. The impact of this charge was offset by one off items: firstly, the abolition (write back) of an amount payable to the General Holding Corporation (parent Company with 51% holding in Agthia) resulted in a gain of AED 33 million; and secondly a net gain of AED 16 million resulting from booking the assets and liabilities of the newly acquired TP&FV business at their net realizable value.

Profitability

Net Profit for the full year rose by 89% from the previous period to AED 72.2 million, driven mainly by increased volumes, higher plant capacity utilization, cost saving initiatives and improved pricing structures.

Agthia's gross margin for the year improved to 20.9% from 18.5%, reflecting an improvement of 240 basis points. Had the compensation on Flour & Feed been recognized as Sales instead of deduction from cost of goods sold, the restated gross margin would have been 14.7% - this drop in margin reflects the higher input cost of grains.

Earning per share improved to AED 0.12, reflecting a 89% growth. This was in line with the profit growth. Return on Capital almost doubled to 12% compared with 6.4% in 2007.

Agthia's balance sheet remained healthy, with a debt to equity ratio of 15%. Return on equity also improved, reaching 9.1% compared to 5.3% in 2007. Inventories, Trade & Other Receivables reflect a reduction of AED 10 million versus last year despite the sales growth of 48%, demonstrating the tight management of the Company's working capital.

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These record results are in line with management's desire to grow profits faster than sales, effectively drawing to a close the first phase of management's growth strategy. Agthia is now in a strong position to enter the second stage of its business strategy: **"Sustainable Growth"** aiming at becoming the category leader in chosen categories, leveraging its brands, pursuing regional expansion, product portfolio expansion and achieving functional excellence.

Management Stock Incentivisation Broadened

The Board of Directors recognises the importance of aligning the interests of management with those of the Company's shareholders. In order to strengthen this alignment, Agthia broadened its stock incentivisation scheme in 2008 to include a greater number of senior management across the Group. The programme builds upon the existing performance bonus incentives that reward individuals based on achievement of yearly financial targets. The newly broadened stock scheme further rewards management with Agthia stock based on the overall performance of the Company, measured on a three year compounded EPS growth target basis, and the performance of the individual. Specific financial, operational and development goals are set each year.

Flour & Feed

Grain prices having reached a record high in 2008 due to global grain shortages, it was encouraging to see the prices easing off following the global financial crisis and because of a good harvest year. The decrease in grain prices is highly positive news for the flour and feed industry and bodes well for the Company's future performance in this market.

Feed & Flour sales of AED 672.6 million represent a 40% increase over the same period last year realised mainly by higher sales volumes. Gross Profit grew ahead of the Sales growth at 57%, as a result of higher sales volumes and the impact of favourable pricing

Flour & Feed represents 79% of the Group's total revenues, a drop of 4 percentage points from 2007 reflecting our strategy to improve the contribution of Company's high profit margin businesses and gradually reducing the reliance on flour & feed business.

As part of the Company's ongoing initiatives to improve margins through the introduction of new value added products, Agthia launched new flour retail packs for consumers, frozen bakery products for HORECA channel and improver & mixes products for bakeries. Early indications are the product launches have been a success.

Water & Beverages

2008 was a year of continued momentum for Company's water business, with total sales reaching AED 138.6 million, a growth of 40% over the same period of 2007. Excluding the impact of the newly acquired Ice Crystal business, year-on-year growth was 33%. Water sales volume registered strong growth versus last year resulting from increased distribution channels, particularly in the Modern Trade channel, enhanced product visibility and in-store displays, and the strong performance of the 5 gallon Ice Crystal brand.

Water business now represents 16% of the Group's total revenues, a decrease of one percentage point from 2007.

Gross profit margin for the division, at 42%, reflects an improvement of 320 basis points over last year and comes as a result of pricing and cost reduction initiatives.

The Company is progressing swiftly towards its objective of becoming the market leader in the UAE's small format bottled water segment and is pleased to report that the Al Ain brand has reached MAT (Moving Annual Total) volume market share from 22.5% in 2007 to 24% in 2008 *(Source: AC Nielsen UAE Retail Audit, Dec 08/ Jan 09))*. During the year, the Company launched "Kids Water" with added calcium and fluoride and, in January 2009, a range of vitamin enhanced flavoured waters were introduced to the market.

The integration of Capri Sun is progressing on schedule and the Company expects production and distribution will commence in March 2009, as planned. As a world leader in "Kids" juice drink, Capri Sun is an important addition to Agthia's beverage division's product portfolio and management is very excited with its growth potential in the UAE and the broader GCC. This brand has strong synergies with our existing product range and we believe that the Company's association with this world-renowned brand will be of great benefit to Agthia.

In line with the Company's commitment to focus on environmental issues, the Company has reduced the usage of PET by 8% by reducing the weight of bottles and has launched "Shrink a bottle" campaign, which aims to encourage recycling among children in the UAE. Corporate social responsibility remains a fundamental principle for the Company and management looks forward to developing further the Company's work in this field.

Underlining the strict adherence to KPI targets across the Group, distribution of the Mother Parker tea and coffee brands was discontinued in 2008. Due to a combination of logistical issues and general market conditions, the brand failed to perform in line with expectations.

Tomato Paste & Frozen Vegetables (TP&FV)

Al Ain Vegetable & Tomato Paste, which was acquired in January 2008, is now fully integrated into the Company. As a result of a multi-faceted turnaround strategy, the first year, post-acquisition sales reached AED 43 million, double that of the previous year. Gross profit for the period increased to AED 13 million (2007 : loss of AED 1.5 million).

TP&FV represents 5% of the Group's total revenues (2007: Nil)

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The business division is focused on improving revenues and profits by rationalizing the product portfolio, organizational restructuring, improving production efficiencies and procurement, revamping the brand and capitalizing on pricing opportunities.

The progress so far has been very encouraging and the growth potential of the categories remains strong. The launch of a sleek, modern, new brand in December 2008, along with improved, high quality products, epitomises the progress made in 2008 and represents a fresh start for the business.

The establishment of a Greenfield production facility in Egypt is progressing as planned and commercial production is expected to commence in the second quarter of 2009. This facility will be a sourcing point for tomato paste for our Al Ain Factory and majority of the Egypt production will be exported in bulk in the international market.

Subsequent Events

The first quarter of 2009 has seen no significant events. While uncertainty continues in the global markets, including the UAE, Agthia's business continues to perform in line with management expectations.

Directors

The present Board Directors were re-elected at the Annual General Meeting on 24th April 2008 for a term of three years.

Directors' fees of AED 900,000 relating to 2007 were paid to Board members in 2008.

Dividend

Agthia is a growth company. Therefore, the Board of Directors has recommended that, in order to invest in the Company's future growth and expansion, no dividends should be paid to shareholders for the year ending 2008. It is believed that retaining the funds within the Company for investment purposes will be of greater benefit to shareholders over the medium to long term. This decision is further strengthened due to the difficulty of obtaining investment funding from external sources due to the lack of credit in the market that is a core characteristic of the global financial problems.

Auditors

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

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Future Outlook

The Board of Directors of Agthia is encouraged with the positive results delivered through the successful execution of the Company's strategy of Financial and Strategic Turnaround. Agthia has now entered the Sustainable Growth phase of the strategy, aiming at delivering sustained performance ahead of the industry average.

As the results show, Agthia is progressing well towards its goal of becoming a true leader in the UAE food and beverages industry. The Company's core businesses continue to perform well, and with the addition of new and added value products, and the enhancement of existing products, the outlook for future revenue and profit growth remains favourable.

A possible deepening of the global financial crisis, however, may put further pressure on the UAE economy and subsequently may impact Agthia's future performance. This could particularly hinder the Company's expansion plans, as credit becomes more difficult to obtain.

Code of Corporate Governance

The Board of Directors and management of the Company are committed to the principles of Good Governance and are aiming to be compliant with ESCA corporate governance requirements well within the compliance deadline of May 2010. During 2008, Agthia formalized plan for implementation of its Code of Governance and moved further towards compliance with the formation of an Audit Committee and a Compensation Committee.

Financial Reporting Framework

The Directors of Agthia Group PJSC, to the best of their knowledge, believe that:

a. 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.

b. The Company has maintained proper books of accounts.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment. During the 2008, the Company changed it's policy for the cost formula used in determining cost of inventories changing it from weighted average cost formula to the FIFO method.

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

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

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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

Rashed Mubarak Al Hajeri
Chairman

Dated: March 24, 2009

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