Directors' Report

The Board of Directors of Agthia Group PJSC (the "Company") is pleased to present the Company's financial results for first quarter ended 31 March 2011.

The Company has achieved growth in all categories in the first three months of 2011, maintaining the growth momentum. We continue to invest for the future while addressing the challenge of higher input costs by accelerating entry in to new categories as well as ensuring the appropriate balance between cost savings and pricing.

During quarter one 2011, the Company signed a distribution agreement for the exclusive rights to market and distribute "Isklar" Norwegian premium glacial mineral water in the UAE, Qatar, Bahrain, and Kuwait. Distribution of Isklar in the UAE will commence in quarter two 2011. Furthermore, the Company also entered into partnership with global brand Chiquita USA, for exclusive rights to manufacture and distribute natural fruit juice products under the "Chiquita" brand, in the UAE, GCC, Levant and Egypt. Chiquita's global brand presence and extensive expertise will further strengthen the Company's growing product portfolio and regional profile. Manufacturing and distribution of "Chiquita" branded juices in the UAE is expected to commence in quarter four 2011.

The initiatives announced in 2010 relating to entry in to fresh dairy products (Yoplait) and processed fresh fruits and vegetables are on track for the planned launch in 2011.

Sales

In the first three months of 2011, net sales increased by 20% year on year reaching AED 278 million. This solid performance was led by strong 31% sales growth delivered by the Water & Beverages segment and 19% growth achieved by the Flour & Animal Feed segment.

Net Profit

Net profit for the first three months of 2011 declined by 19% year on year to AED 22 million. The gross margin contraction of 450 basis points is primarily attributed to the flour segment, which during the same period last year benefited from decline in grain prices while the market selling price didn't change at the same pace. This resulted in higher profit margin in quarter one last year.

Other Income

Other income of AED 5.2million includes recognition of business interruption insurance claim of AED 4.3 million relating to the fire incident in one of our flour mills in mid 2010.

Selling & General Administration Expenses (SG&A)

SG&A at AED 42 million represents an increase of 4.6% over the same period last year. The increase relates to higher distribution cost and other inflationary increases. SG&A as percentage to sales at 15.2% declined by 230 basis points compared with fiscal 2010.

Cash Flow

Cash provided by operating activities totaled AED 4.9 million in the first three months of 2011, higher than a year ago due to decreased use of working capital in the period. Inventories increased in the three months period primarily reflecting the increased cost of grains.

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Cash used by investing activities during the three months period ended March 31, 2011 was AED 57.6 million which primarily includes investment in new corporate office and plant & machinery.

Cash and cash equivalent at March 31, 2011 was AED 313.5 million versus fiscal 2010 of AED 178.6 million.

To ensure availability of funds, we maintain bank credit lines sufficient to cover our short term working capital requirements.

Unallocated Corporate Items

Under reportable segment assets, unallocated amount of AED 432 million represents cash & bank balance as fund management is centralized at corporate level, the goodwill and corporate office related current and fixed assets.

Capital Commitment and Contingencies

Capital commitment of AED 105 million relates to dairy and new flour mill projects, expansion of existing animal feed and flour lines, delivery trucks and other capital items.

Bank Guarantees and letter of credits of AED 68.4 million have primarily been issued in favor of raw material suppliers.

Flour and Animal Feed

The segment recorded net sales growth of 19% year on year to AED 194 million driven by 12% volume increase.

Net profits for the segment declined by 27% year on year, to AED 26 million. The gross margin contraction of 710 basis points, as mentioned earlier, is attributed to the flour segment, which during the same period last year benefited from a decline in grain prices while the market selling price didn't change at the same pace. This resulted in higher profit margin in quarter one last year.

Actions are under execution to improve the profitability of this segment which among others includes the production capacity expansion of existing flour & animal feed mills. This incremental capacity will replace the currently higher cost of outsourced volume. These expansions will be completed in early part of quarter three 2011.

Water and Beverages

This segment maintained its growth momentum, delivering solid net sales growth of 31% year on year, reaching AED 71.4 million. Water volume grew by 26% while Capri Sun juice recorded a growth of 32%.

Net profit at AED 9.4 million grew ahead of the sales growth at strong 38% year on year. The drop in gross profit margin of 180 basis points is attributed to significant increase in PET input cost.

As part of the Company's pursuit towards new product development, the Company recently launched the first vitamin water in the UAE under the brand "WOW" with three distinct flavors.

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Processed Fruits and Vegetables

The segment's sales dropped by 8% year on year while branded business sales were up 14%. The drop in sales is the reflection of Company's strategy to move away from low margin private label export business and build the branded business. Also the regional unrest has impacted the export business out of Egypt.

Profitability for the first three months of 2011 has improved compared to same period 2010 as a result of the actions initiated in the second half of last year. The Company remains focused on turning this segment to profit.

Fiscal 2011 Outlook

The spreading regional civil unrest and heightened commodity market volatility are certainly challenging, yet our businesses are progressing in line with our long term strategy. We anticipate the regional civil unrest to have some impact on our export business and the rising commodity and PET prices pressuring our profit margins, nevertheless, we expect to target another year of good business growth in 2011.

HE Rashed Mubarak Al Hajeri
Chairman
April 27, 2011

The Agthia Promise

A total commitment to quality, naturally

100% Recycled Paper

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