

## Directors' Report

The Board of Directors of Agthia Group PJSC ("the Company") is pleased to present the Company's financial results for the first quarter ended 31 March 2010.

Agthia continues to successfully pursue its goal of becoming UAE's leading food and beverage group. The first quarter of 2010 saw a continuation of the well established trend of profitable growth, with the overall business performance being in line with our expectations. The past three years have seen an ongoing transformation of the business. We have achieved a strong and efficient platform from which the sustainable growth phase of our strategy can be executed with confidence. Shareholders can expect renewed vigour in the development of the business, with further investments that will ultimately fuel expansion across the businesses. Our plans include product portfolio expansion, distribution gains, brand building and entering new synergistic categories. All of these are designed with the underlying strategic goal in mind: to increase shareholder value and to become UAE's leading food and beverage group.

### Results Analysis

Net sales for the quarter ended March 31, 2010 reached AED 232 million, a 4% increase over the corresponding period in 2009 and a 2% increase over the previous quarter. Group revenue growth was softened by lower animal feed prices compared to first quarter of last year, an industry wide pattern. This meant that the percentage of sales revenue growth in the animal feed segment was marginally below the strong volume increases that we saw. Water and juice volumes grew significantly by 50% over same period of the previous year due to the successful execution of its marketing and distribution activities.

Net profit for the quarter increased by 154% quarter-on-quarter. Compared with the first quarter of 2009, the net profit for the quarter of AED 27.3 million was down by 41% due to an extraordinary one off profit in the first quarter of 2009. This was due to the extraordinary level of profit margin in the flour business during that period, where wheat prices fell faster than the flour sales prices.

Excluding this extraordinary gain, the long term profitable growth trend continued with an underlying profit growth of 4% year-on-year and an ongoing expectation for further improvements in the upcoming quarters.

Other income of AED 7.4 million includes AED 6 million of management fee for handling the procurement of wheat on behalf of the Abu Dhabi Government as a donation to neighboring countries.

Selling & General Administration Expenses (SG&A), at AED 40.4 million, represents an increase of 24% over the same period of last year. The increase is attributed to

several factors, all of which are considered as investments into the future growth of the business. These include a more aggressive level of marketing investment to support the brands, the full impact of Capri Sun related expenses (launched in March 2009), higher distribution expenses related to the expansion of our distribution capability, and other inflationary increases. Excluding Capri Sun and incremental marketing expenses, the SG&A grew by 12%.

The Group's balance sheet remains strong with a debt/equity ratio of 14% and a cash balance of AED 182 million.

## Flour & Animal Feed

In the flour and feed business, the underlying growth story continued with quarter on quarter improvements in net sales, and a 214% profit increase resulting from higher volume and improved gross profit margin. While the business saw year-on-year decline in sales revenue and profitability, this was attributable to the extraordinary one off profit gains in the same period in 2009, due to the discrepancy between grain prices and flour sales prices as outlined above.

The flour and animal feed business delivered sales of AED 163 million, a 2% quarter on quarter improvement but a 7% decline on the same period in 2009. This decrease is attributed to a slight decline in flour volumes and lower animal feed pricing compared to last year. We expect both volumes and revenues to increase in the coming quarters following the launch of new products and further expansion of our distribution network. The 12 percentage point softening of the gross profit margin is due to the reasons outlined above.

## Water & Beverages

The water and beverages division sales revenue grew by 50% to AED 54.5 million, while profit reached AED 6.8 million. This reflects a strong growth of 21% quarter-on-quarter. Water volumes grew by 41% compared with same period last year. Profit growth, while strong, was softened by a slight drop in gross profit margin and the significant increase in marketing investment to fuel the future growth for our brands. The decline in the gross profit margin is attributed to the rapid growth of our institutional business. Institutional business, while a lower margin business, is important to us as it drives sales volumes and has the effect of boosting awareness and loyalty to the "Al Ain" brand amongst the consumers. Al Ain water continues to expand its distribution channels, including exports.

The new Capri Sun and bottled water production lines commenced production in March 2010. The new 'hot fill' production line is expected to come on stream in June 2010 enabling us to further expand our product portfolio.

## Fruits & Vegetables

This division achieved a leading position in the UAE tomato paste segment and a growing presence in the increasingly important frozen vegetable segment. The division's sales grew by 33% versus last year. Falling global tomato paste prices, due to lower priced products by Chinese producers, led to a loss of AED 4 million in this segment. This development has created intense competition in domestic and export markets. To address the situation, management has initiated a number of actions and has adjusted its strategy with the objective of returning to profitable growth in this business. We expect these initiatives to deliver positive results starting in the second half of the year.

The Company's factory in Egypt, producing tomato paste concentrate and fruit puree, has further expanded its production capabilities to also produce French fries and red chilli paste.

## Outlook

Agthia is running on a solid and sustainable business model that has proven itself over the past three years. As the Company pursues its strategy of product diversification, distribution expansion and high operating efficiencies, we remain optimistic about the prospects for future revenue and profit growth. However, from a macroeconomic perspective, the Company remains cautious of the uncertainties surrounding the current economic & financial environment in the UAE, regionally and globally.



On behalf of the Board  
H.E. Rashed Mubarak al Hajeri  
Chairman

Dated: April 27<sup>th</sup>, 2010