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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, 2011.

Overall Company performance for the period was satisfactory in light of the challenging environment for food & beverage manufacturers of increasing input costs, accelerating cost of inflation and regional unrest. Nevertheless, business fundamentals remain strong as evident by the Company's strong sales and volume growth across all categories during the first nine months of the year 2011, this performance is consistent with our long term growth model.

Our investments remained focused on growth opportunities, while we continued addressing the challenge of higher input costs by pursuing cost savings initiatives, pricing opportunities, and by accelerating entry into new categories.

The strategic initiatives announced in late 2010, in relation to Company's entry into fresh dairy products, under the "Yoplait" brand, and its recently announced entry into long shelf life 100% natural fruit juice segment, under the "Chiquita" brand, are progressing well and on track for a planned launch in Q4 of this year. The Company's entry into processed fresh fruits and vegetables category, targeting the UAE's hospitality and catering industry, commenced with a selective fresh fruit juices range under the "Al Ain Fresh" brand. Further product launches under the "Al Ain Fresh" brand are expected in 2012.

Sales

Net sales for the Company have increased by 14% year on year, reaching AED 841 million. This growth in sales was driven by consistent strong performance in the Company's Water & Beverages business which delivered strong 22% sales growth year on year; and a significant 12% year on year growth in Company's Flour & Animal Feed business.

Net Profit

Net profit for the Company at AED 60 million reflects a drop of 24% versus the same period last year due to four percentage points contraction in gross profit margin. As stated in last quarter's directors' report, this drop is basically attributed to two factors (a) the continued increase in input cost of raw materials (grains and PET) and (b) during the same period last year, the Company's Flour business benefited from a decline in wheat prices which outpaced the drop in the market selling price of flour resulting in higher one off profit margin.

Other Income

During the first nine months of the year, the Company recognized an income of AED 10 million, which includes the settlement of AED 4.3 million business interruption insurance claims relating to a fire incident in one of our flour mills in mid 2010.

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Selling & General Administration Expenses (SG&A)

SG&A as a percentage of sales has declined to 14.2% from 15.4% of last year. Overall SG&A at AED 120 million has increased by 5.6% compared to the same period last year basically reflecting the higher distribution costs, full year impact of last year hiring and other inflationary increases.

Cash Flow

Net cash utilization from operation of AED 56.1 million resulted from lower profits and increased inventory level (higher grain cost plus forward cover). Inventory levels are expected to drop to reasonable levels by year end.

Cash and cash equivalents as of September 30, 2011 amounted to AED 147.2million.

To ensure availability of funds, the Company maintains sufficient bank credit lines to cover short term working capital requirements.

Unallocated Corporate Items

Under reportable segment assets, an unallocated amount of AED 284 million represents the Company's cash and bank balances, as fund management is centralized at the corporate level. This also includes goodwill and corporate office related current and fixed assets.

Capital Commitment and Contingencies

Capital commitments of AED 126 million relates to the dairy plant, new flour mill, frozen baked project, the expansion of existing animal feed and flour lines, and the investments in delivery trucks and other capital items.

Bank Guarantees and letters of credit of AED 53.6 million have primarily been issued in favor of Company's vendors for the supply of materials and spare parts.

Flour and Animal Feed

The Company's Flour & Animal Feed business recorded a net sales growth of 12% year on year to AED 563 million, driven by pricing and 4% volume increase.

Net profit for the segment has declined by 21% year on year. This is mainly attributed to the gross margin contraction of four percentage points due to a significant increase in grain prices as well as for the fact that the flour segment during the same period last year benefited from a decline in grain prices which outpaced the adjustment in market selling price resulting in higher one off profit margin.

Actions are under execution to improve the profitability of this segment which among others include the production capacity expansion of existing flour & animal feed mills. This incremental capacity will replace the currently higher cost of outsourced volume. The flour mill

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expansion has been completed and the mill is running at installed capacity. The feed mill expansion is expected to reach the installed capacity by Q1, 2012. We expect the profitability of Flour & Feed business to improve starting Q4 2011, provided no major escalation in grain prices.

Water and Beverages

The Company's Water & Beverages business has delivered strong consistent sales growth of 22% year on year, reaching AED 236 million. Overall net sales growth is attributed to strong volume growth, where water volume grew by 18% and Capri Sun juice volume grew by 27%.

Net profit in this segment dropped by 15% versus same period last year, attributed to the rising cost of PET. A price increase of approximately 10% has been implemented on bottled water and Capri Sun juice in September 2011. This will partially offset the increased PET cost and will improve the margin going forward.

Processed Fruits and Vegetables

Sales in the Processed Fruits & Vegetables business grew by 4% year on year. Branded business sales were up by 22%, in line with the Company's strategy to move away from the low margin private label export business.

Net loss of this segment at AED 4.5 million has significantly dropped versus last year's loss of AED 11 million. The Company remains focused on further improving profitability and expects the business to return to profitability in the short term.

Company's Egypt operation during the nine months of the year delivered improved results versus same period last year, although our exports business was impacted by the regional unrest. We have also entered the domestic retail market by launching "Pure Natural" branded tomato and chilli paste in glass jars and the initial market response has been encouraging.

Outlook

It is quite clear that food & beverage manufacturers will have to contend with higher and more volatile input cost while the repercussions of the recent regional unrest remain a concern. Despite a truly challenging environment, we expect strong sales performance which is an indication of Company's strategies delivering results. However, the higher input cost will have an impact on our profit delivery in 2011.

As we enter our next phase of growth next year, we are targeting continued good sales and profit performance in the years ahead.

On Behalf of the Board
Chairman
25 October 2011

The Agthia Promise
A total commitment to quality, naturally

100% Recycled Paper

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