

Group Managing Director's review

2008 was a year of delivery. Across the business a strong operational performance underpinned a good set of results. The Group also completed a major strategic acquisition and achieved key financial targets.

John Moloney



A year of delivery

Glanbia's businesses performed well during 2008. Throughout the Group, revenues, profits and operating margins improved with the exception of Food Ingredients Ireland. For this business unit the downturn in global dairy commodity prices affected margins, as reductions in the price paid for milk lagged the decline in global dairy prices. Elsewhere in the International division, Food Ingredients USA had a strong performance with high cheese prices, good demand and very efficient production, generating record revenues and positive margin expansion. Nutritionals had a good year driven by organic volume growth, buoyant whey markets and a continued good performance from the premix business.

Optimum, acquired in August 2008, made a first time contribution in line with expectations.

In the Ireland division, Consumer Foods had a satisfactory year. This compares with a very challenging 2007 when results were affected by a time lag in recovering the impact of higher costs in the market place. Agribusiness results were ahead of 2007 as a result of a good performance in the feed and fertiliser segments and a strong focus on cost reduction. Glanbia has a very conservative approach to its Property business, which manages the Group's surplus property. This business performed broadly in line with 2007.

A highlight of the year was a significant improvement in the performance of the Group's Joint Ventures & Associates, most notably Southwest Cheese, which had an excellent year. Glanbia Cheese achieved margin growth despite a challenging market in 2008.

However, Nutricima had a difficult year, where it was not possible to pass on the full extent of the significant increases in raw material commodity prices. Notwithstanding this, Nutricima is, I believe, an excellent long-term strategic investment and is developing a branded milk product portfolio of liquid, condensed and powder formats to serve a growing market.

€351 million

Acquisition and development capital expenditure since 2007

Overall, Glanbia's share of profit after tax and interest, from Joint Ventures & Associates, grew to €7.3 million, up from €1.0 million in 2007.

World-class capability

Food Ingredients USA, together with Southwest Cheese, is the largest producer of American-style cheddar cheese in the USA, with close to 20% market share. In 2008, the Group's three US cheese plants produced and sold over 340,000 tonnes of cheese. Glanbia is one of the world's leading manufacturers of whey-based nutritional ingredients, producing 59,000 tonnes of value-added whey products in its three whey-based ingredients plants. In total, over 3 billion litres of milk was processed in 2008 by businesses that employ 900 people.

Southwest Cheese is the Group's joint venture with The Greater Southwest Agency. It is based in Clovis, which is located in the high plains of eastern New Mexico, USA. Southwest Cheese is a US\$226.0 million cheese and whey products facility, built on a greenfield site. From commissioning of the facility in October 2006 to today, this business has grown significantly and now generates revenue in excess of US\$600.0 million. The success of Southwest Cheese in three years is a strong illustration of Glanbia's core capabilities, which include:

- the ability to foster long-term partnerships with leading companies and organisations in high growth markets;
- the management skills to deliver major investment projects, on time and on budget, from a greenfield site to fully commissioned large scale facilities;
- world-class manufacturing skills in a wide variety of dairy products and ingredients; and
- strong and deep customer relationships in all key cheese and food ingredients markets.

Major strategic acquisition

Glanbia has also developed the capability to successfully acquire and integrate strategic acquisitions. The latest of which is Optimum, acquired in August 2008, for a total consideration of US\$323.0 million (€217.9 million).

Optimum is a leading manufacturer of nutritional supplements for the sports nutrition sector, in particular the use of whey protein as a functional supplement, where 'ON' is a leading brand. Optimum was a privately owned company with a successful 22-year history in the manufacture and supply of premium nutritional supplements to the US and global sports nutrition markets. It has three operating facilities in Illinois, South Carolina and Florida.

Optimum takes Glanbia's nutritional business further up the value chain and enhances the Group's route to market for innovative nutritional applications and solutions. An opportunity also exists to grow the business internationally through Glanbia's nutritional sales network, with offices in China, Singapore and Latin America.

Optimum has performed in line with expectations since acquisition and sales have remained resilient. We believe this is because in sports nutrition, protein is a key lifestyle component as opposed to discretionary spending.

Optimum is an excellent strategic fit with Glanbia's existing businesses and also fits well with the Group's stated growth strategy and ambition to continue to internationalise Glanbia, in high growth markets.

A difficult macro environment

Much has and will be written about the global economic downturn and the crisis in financial and credit markets. Commodity prices are also very volatile. While a reduction in oil prices is a positive for the energy intensive elements of our business, the decline in world dairy prices has an asymmetric – plus and minus – affect across the Group's portfolio of businesses. In Food Ingredients Ireland, where the bulk of output is exported into global commodity dairy markets, the price we pay for milk to farmer suppliers lags the price for dairy products on world markets. As a consequence this business encountered very difficult trading conditions in 2008 as global dairy markets experienced a steep decline, from the historic highs achieved in 2007.

Changing consumer trends

Another facet of the current downturn is the effect it is having on consumer confidence and spending patterns. Consumers have become more value conscious and Glanbia is addressing this in two ways.

The first is to manage our branded product portfolio more strategically, adding key offerings for the value conscious consumer or 'quality at a price'.

Glanbia is also addressing the flight to value through a strong cost focus. A significant rationalisation programme, costing €14.5 million is ongoing across the Group. This is as a result of an imperative to remain cost competitive, particularly in relation to the effect the global economic downturn is having on consumer demand. The rationalisation programme is mainly focused on Consumer Foods, Agribusiness and Food Ingredients Ireland and associated costs relate primarily to redundancy.

Group Managing Director's review (continued)

Rationalisation is not simply to cut costs but to actively manage our business consistent with the current reality and in anticipation of these trends continuing.

Balance sheet capacity and strength

Glanbia is in a good financial position. After a period of significant acquisition and development expenditure with €351.0 million invested in acquisitions and development capital expenditure in the past two years, the Group will now consolidate its operations, particularly as ample opportunity for growth exists within the current business.

A prudent and conservative approach to reduce capital and operating spend is consistent with the challenging external environment that is affecting every aspect of the Group.

In the finance review, on pages 32 to 35, detailed information is given on the Group's debt position and financial covenants.

Our people and responsibilities

Today, Glanbia has a local and global footprint through its operations, partners and customer relationships. The Group, including Joint Ventures & Associates is a significant employer with 4,300 people working across the business.

In some instances Glanbia is the principal employer in an area. Therefore our presence in a local community and the values that we set ourselves in how we engage with our employees, interact with that local community and run our business are very important.

On the other hand, aspects of our business have the potential to impact major world issues, such as climate change, through our carbon footprint.

The Group's Ballyragget facility in Ireland is the largest integrated dairy processing plant in Europe and Glanbia's facility in Gooding, Idaho, USA is the world's largest barrel cheese facility.

As a result of the scale of these and other operations, we are equally mindful of our environmental responsibilities and the need to manage and grow our businesses in a sustainable way.

In recognition of the importance of people to the Group we have a dedicated 'Our people' section on page 26 to 28 of this report. We also recognise the growing importance of Corporate Social Responsibility (CSR) and during 2009 will be formalising a Group-wide approach to key elements. The CSR section is on page 29 to 31 of this report.

2007 to 2009 Strategic roadmap

As part of the repositioning and internationalisation of Glanbia, the Group set out key financial targets in the 2006 Annual Report. Adjusted earnings per share growth was targeted at 10% to 14% per annum. In 2008, adjusted earnings per share grew 18.5%, following a 26.6% increase in 2007.

Total development expenditure in 2007 and 2008 amounted to €351.0 million. Earnings before interest and tax from International operations now represent almost two-thirds of total earnings, reflecting the Group's significant and successful presence overseas.

In a two year period the performance of Glanbia has comfortably exceeded all the Group's growth objectives for the three years 2007 to 2009.

2009 Group outlook

Glanbia performed well in 2008, delivering a good set of results, completing a major strategic acquisition and achieving key financial targets. All businesses performed to or better than anticipated, with the exception of Food Ingredients Ireland which suffered a sharp decline in profits and margins in 2008.

2009 will be a tough year. Global dairy markets have weakened considerably from previous high levels with the outlook for 2009 deteriorating further since the beginning of the year. In broad terms in 2009 we expect that global dairy markets will remain weak and somewhat volatile. We would expect that these markets will bottom out as a result of some supply contraction in a number of countries and as a result are likely to begin to rebalance through the end of 2009 and into early next year with some price recovery as a consequence.

However, in 2009 Food Ingredients Ireland will be the most challenged in the context of Global dairy markets. We expect this business to breakeven in 2009. Food Ingredients USA is expected to deliver a resilient performance, albeit down when compared with a strong result in 2008.

Reducing farm incomes will have implications for farm input sales and as a result for revenue and profits in Agribusiness. Consumer Foods, Nutritionals and Joint Ventures & Associates are expected to deliver robust performances.

Based on current market conditions, the Group now expects 2009 earnings to be in a range of low to mid single digit growth. Glanbia is continuing to maximise organic growth opportunities and aggressively manage costs to sustain the business through the current challenging environment.

Recent acquisitions and the Group's direct investment in science and technology has put in place a strong framework for Glanbia's continued growth in nutritional ingredients; a high margin, high growth sector.



Southwest Cheese in New Mexico, one of the largest natural cheese and whey processing plants in the world.



Optimum sports nutrition supplements.

Looking ahead

The Group is well positioned. We made significant investment in recent years which has enhanced the geographic and sectoral spread of the business. We have diversified our earnings base from Ireland to International.

Within the International division we have diversified further up the value chain from cheese to advanced whey and into a range of nutritional products. This includes a solid mineral and vitamin formulation business, which has blue chip customers and facilities in China, Germany, California and a new plant being commissioned in Missouri in the second quarter of 2009.

There is a robust programme of cost saving measures in place across the Group and we would expect those to yield considerable benefits on an annualised basis.

2009 will be a year of consolidation for Glanbia, prioritising debt reduction, after having made a major acquisition in Optimum in 2008.

We have good organic growth opportunities in the business including Nutricima, Southwest Cheese, Nutritionals and Optimum in particular.

I believe that as the general economic environment improves over the next few years Glanbia is in a good place to benefit.

John Moloney
Group Managing Director