

Finance review

Glanbia delivered a good set of results in 2008 and the Group's key annual financial targets set out in our 2007 to 2009 Strategic Roadmap were comfortably achieved or exceeded. This positions us well for a challenging 2009.

Geoff Meagher



2008 Highlights

- Operating margin pre exceptional up 80 basis points;
- Profit before tax pre exceptional up 20.8%;
- Adjusted earnings per share up 18.5%, following a 26.6% increase in 2007;
- Good cash generation and robust debt ratios;
- 2008 EBITDA / net financing cost cover at 7.9 times;
- EBIT to net financing cost cover at 6.4 times; and
- Net debt/EBITDA ratio at 2.7 times.

Summary

Revenue grew 1.0% to €2,232.2 million (2007: €2,206.6 million). Revenue growth was positive across almost all the business, with favourable pricing

and good organic volume increases, particularly in Food Ingredients USA and Nutritionals. Revenue growth was offset by the sale of the Group's Pigmear business in March 2008 and the effect of currency translation. Like-for-like revenue grew 8.9%. Operating profit pre exceptional increased 15.7% to €134.1 million (2007: €115.8 million).

Operating margin pre exceptional increased 80 basis points to 6.0% (2007: 5.2%). All businesses in the Group increased margins in 2008 with the exception of Food Ingredients Ireland where the decline in global dairy markets resulted in a significant imbalance between market returns and raw material input costs.

Profit before tax pre exceptional grew 20.8% in the year to €120.3 million (2007: €99.5 million) driven by the first time contribution of Optimum and good organic growth in all business segments except Food Ingredients Ireland. Like-for-like profit before tax pre exceptional grew 21.4%.

Net financing costs

Financing costs increased €3.8 million to €21.1 million (2007: €17.3 million) due mainly to the financing cost associated with the acquisition of Optimum. EBIT to net financing cost cover was 6.4 times in 2008 compared to 6.7 times in 2007. EBITDA to net financing cost cover was 7.9 times compared to 8.6 times in 2007.

Operating margin pre exceptional

+80 basis points

Adjusted earnings per share

+18.5%

Table 1: Summary income statement

	2008	2007	Change
Revenue	€2,232.2m	€2,206.6m	Up 1.0%
Operating profit pre exceptional	€134.1m	€115.8m	Up 15.7%
Operating margin pre exceptional	6.0%	5.2%	Up 80 bps
Net financing costs	(€21.1m)	(€17.3m)	Up €3.8m
Share of results of Joint Ventures & Associates	€7.3m	€1.0m	Up €6.3m
Profit before tax pre exceptional	€120.3m	€99.5m	Up 20.8%
Taxation pre exceptional	(€21.5m)	(€16.4m)	Up €5.1m
Profit after tax pre exceptional	€98.7m	€83.1m	Up 18.8%
Exceptional items	(€19.4m)	(€22.8m)	Down €3.4m
Earnings per share	26.76c	20.42c	Up 31.0%
Adjusted earnings per share ¹	35.86c	30.25c	Up 18.5%
Dividend per share in respect of the full year	6.51c	6.08c	Up 7.1%

1: Before exceptional items and amortisation of intangibles (net of related tax)

In 2008, the average interest rate for the Group reduced by approximately 70 basis points to 5.1% primarily due to lower US dollar rates. The Group operates a policy of fixing a significant amount of its interest exposure with approximately 80% of the Group's net debt currently contracted at fixed interest rates for 2009 and approximately 70% contracted at fixed rates for 2010.

Joint Ventures & Associates

Glanbia's share of revenue from Joint Ventures & Associates increased 4.9% to €370.3 million (2007: €353.0 million) with strong growth in Southwest Cheese. Glanbia's share of profits post interest and tax grew strongly in 2008 to €7.3 million (2007: €1.0 million). Both Southwest Cheese and Glanbia Cheese improved profitability and margins. Nutricima, the Group's Nigerian joint venture, consolidated its market position in 2008 but it was not possible in a developing economy to pass on all of the increases in raw material costs and as a result profits and margins were below 2007.

Taxation

The 2008 pre exceptional tax charge increased €5.1 million to €21.5 million (2007: €16.4 million), reflecting growth in international profits, which attract higher tax rates. The effective tax rate for the Group, excluding Joint Ventures & Associates, was 19.1% in 2008 (2007: 16.7%).

Exceptional items

In 2008, Glanbia initiated a rationalisation programme costing €14.5 million. 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. This programme is mainly focused on the Consumer Foods, Agribusiness and Food Ingredients Ireland businesses and associated costs relate primarily to redundancy.

An exceptional charge of €3.9 million was incurred on finalising the Group's exit from its Pigmear business announced in March 2008. A deferred taxation charge of €1.0 million arose in Glanbia Cheese due to a change in UK taxation legislation.

Total exceptional costs for 2008 amounted to €19.4 million (2007: €22.8 million). Exceptional costs in 2007 arose due to a provision for the exit from Pigmear and restructuring costs incurred in Consumer Foods.

Earnings per share

Earnings per share increased 31.0% to 26.8 cents (2007: 20.4 cents) due to higher profits and lower exceptional costs, relative to 2007. Adjusted earnings per share increased 18.5% to 35.86 cents (2007: 30.25 cents).

Dividends

The Board is recommending a final dividend of 3.76 cents per share (2007: final dividend 3.58 cents per share), an increase of 5.0%. This brings the total dividend for the year to 6.51 cents per share (2007: 6.08 cents per share), representing a total increase of 7.1% for the year.

Finance review (continued)

Glanbia will concentrate on the opportunities for organic growth that exist within the current business, as a prudent and conservative approach to reduce capital and operating spend is consistent with the challenging external environment.

Table 2: Divisional results pre exceptional

	Revenue €'m	2008 Operating profit €'m	Operating margin %	Revenue €'m	2007 Operating profit €'m	Operating margin %
International	1,489.2	82.5	5.5%	1,403.2	85.2	6.1%
Ireland	743.0	51.5	6.9%	803.4	30.6	3.8%
Total	2,232.2	134.1	6.0%	2,206.6	115.8	5.2%
Joint Ventures & Associates	370.3	17.0	4.6%	353.0	5.9	1.7%
Group total	2,602.5	151.1	5.8%	2,559.6	121.7	4.8%

2008 Divisional results

International activities include Food Ingredients, in Ireland and the USA, and the Group's global Nutritionals business. Food Ingredients Ireland is included in international activities as the majority of its products are sold to international customers.

The Ireland division includes Consumer Foods and Agribusiness & Property.

Joint Ventures & Associates includes the Group's three key strategic joint ventures, which are Southwest Cheese, Glanbia Cheese and Nutricima.

Segmental analysis is contained in Table 2 above and further more detailed information on divisional results is in the operations reviews commencing on page 14.

Development expenditure

In August 2008 the Group completed the acquisition of Optimum for a total consideration of €217.9 million (US\$323.0 million). This was funded from the Group's existing bank facilities.

During the year Glanbia continued its strategic capital investment programme with €63.4 million expenditure focused mainly on Food Ingredients and Nutritionals. In the two-year period since 2007, the Group has invested a total of €351.0 million on acquisitions and development capital expenditure.

Cash flow

Net debt increased €231.9 million in the year to €452.1 million (2007: €220.2 million) primarily due to the acquisition of Optimum.

The Group generated good free cash flow of €72.4 million in 2008, (2007: €53.1 million). A summary 2008 cash flow is contained in Table 3 on page 35. Free cash flow is after charging business sustaining capital expenditure and before acquisition costs, strategic capital expenditure and the payment of equity dividends.

Financing and financial flexibility

The Group has total debt facilities of €661.5 million - bank facilities of €598.0 million and €63.5 million cumulative redeemable preference shares. Bank facilities are held with nine banks under bilateral arrangements with common documentation and terms.

€30.0 million of the facilities are renewable in December 2009, €158 million in July 2012 and €410 million in July 2013. The cumulative redeemable preference shares mature in July 2014. Glanbia manages its bank debt position within a number of financial covenants. The key covenants are:

- That consolidated net bank borrowings shall not exceed three times EBITDA on the last day in any financial year;

- That consolidated net bank borrowings shall not exceed four times EBITDA on any other day of the financial year; and
- That consolidated EBIT shall not be less than 3.5 times of consolidated net borrowing costs in any financial year.

Group Treasury monitors compliance with all financial covenants and recent trends in these ratios are outlined in Table 4.

For financial prudence Glanbia sets more stringent internal net debt to EBITDA targets to recognise that the Group's net debt is subject to seasonal fluctuations and as a result average debt can be up to 30% above year-end debt levels.

In light of the above, the Directors of Glanbia have a reasonable expectation that the Group has adequate resources to operate for the foreseeable future. Therefore they continue to adopt the going concern basis in the preparation of this Annual Report.

Balance sheet

The equity of the Group decreased €6.7 million to €227.9 million at the end of the year (2007: €234.6 million). Retained earnings in 2008 decreased €1.5 million as retained profits of €78.4 million were offset by adverse reserve movements due to the increase in the pension deficit.

Pension deficit

Glanbia operates defined contribution and defined benefit pension schemes in Ireland and the UK and defined contribution schemes in the USA and other international locations. The deficit in the Group's defined benefit pension schemes increased at the year-end by €50.2 million to €164.4 million (2007: €114.2 million). The deficit on the Irish schemes at year-end amounted to €142.2 million and €22.2 million related to UK schemes. This total deficit was adversely impacted in the year by a negative return on pension fund assets and an enhancement in the actuarial assumptions used in the calculation of the pension liabilities. A review of the funding deficit of the Irish schemes is currently underway as the 10-year funding proposal submitted to the Irish Pensions Board is not currently on track due to low investment returns in 2008. The Group operates defined benefit pension schemes in the UK that relate to UK liquid milk businesses which were disposed of in 1999. Funding is in place to fund the deficit of the UK pension schemes over a 10-year period.

Financial risk management

The conduct of Glanbia's ordinary business operations necessitates the holding and issuing of financial instruments and derivative financial instruments by the Group. The main risks, arising from issuing, holding and managing these financial instruments, typically include liquidity risk, interest rate risk and currency risk. The Group's approach is to centrally manage these risks against comprehensive policy guidelines. The Board agrees and regularly reviews these guidelines and more detailed information on financial risk is contained in Note 3.1 'Financial risk factors' in the notes to the financial statements and in the risk section on pages 36 to 37 in this report.

Table 3: Summary cash flow

	2008 €'m	2007 €'m
EBITDA pre exceptional	167.6	149.2
Working capital movement	0.5	(39.1)
Net interest and taxation paid	(49.7)	(20.0)
Additional pension contributions	(14.0)	(11.0)
Business sustaining capital investment	(23.6)	(20.8)
Other	(8.4)	(5.2)
Free cashflow	72.4	53.1
Acquisitions	(229.4)	(19.7)
Disposals	22.2	18.4
Strategic capital expenditure	(63.4)	(38.5)
Equity dividends	(18.5)	(17.3)
Currency exchange/fair value adjustments	(15.2)	8.2
Net (increase)/decrease in debt during the year	(231.9)	4.2
Net debt at beginning of the year	(220.2)	(224.4)
Net debt at end of the year	(452.1)	(220.2)

Table 4: Net finance cost ratios

	2008	2007	2006	2005
Net debt : EBITDA (times)	2.7	1.5	2.0	2.1
EBITDA : Net finance cost (times)	7.9	8.6	8.1	8.2
EBIT: Net finance cost (times)	6.4	6.7	6.1	6.2

Investor relations

Glanbia operates an active domestic and international Investor Relations and Financial Media Relations Programme each year. Glanbia plc is a subsidiary of Glanbia Co-operative Society Limited, an Irish industrial and provident society, which owns 54.6% of the Company. The remaining 45.4% free float is well balanced between institutional and retail investor ownership and between domestic and international institutional ownership. In 2008, management met with over 190 existing and potential investors.

Farewell

This will be my last finance review as I am retiring from Glanbia on 30 June 2009. I would like to take this opportunity to express my thanks to John Moloney and all the team at Glanbia. It has been a wonderful privilege to work with a great group of people and I wish them continued success in the future.

Conclusion

Glanbia delivered a strong set of results in 2008 and the Group is well positioned for a challenging 2009. Glanbia has prioritised debt reduction for 2009, recognising the significant investment made in recent years and the current turmoil in global credit markets. The Group will concentrate on the opportunities for organic growth that exist within the current business, as a prudent and conservative approach to reduce capital and operating spend is consistent with the challenging external environment.



Geoff Meagher
Deputy Group Managing Director
Group Finance Director