

Report of the Directors

for the year ended 3 January 2009

Introduction

The Directors are pleased to present their report to shareholders together with the audited financial statements for the year ended 3 January 2009.

Principal activities

Glanbia is an international dairy, consumer foods and nutritional products group. It is principally engaged in the processing and marketing of cheese, dairy-based food ingredient and nutritional products; dairy-based consumer products; manufacture of animal feedstuffs and trading in agricultural products.

Results and dividends

Revenue grew 1.0% to €2,232.2 million (2007: €2,206.6 million). Revenue growth was positive across almost all the businesses, with favourable pricing and good organic volume increases, particularly in the International division. This positive revenue growth was offset by a decline in revenue due to 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). The International division was broadly in line with 2008, as a strong performance by Food Ingredients USA and Nutritionals was offset by a difficult year for Food Ingredients Ireland. The Ireland division delivered a satisfactory result from Consumer Foods and Agribusiness & Property. Joint Ventures & Associates had a good year with a particularly strong performance from Southwest Cheese.

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 businesses, except Food Ingredients Ireland. Like-for-like profit before tax pre exceptional grew 21.4%.

In 2008, the Group 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 in 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 in the year on finalising the Group's exit from its Pigmear business and an exceptional 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 increased 31.0% to 26.76 cents per share (2007: 20.42 cents per share) due to higher profits and lower exceptional costs, relative to 2007. Adjusted earnings per share increased 18.5% to 35.86 cents per share (2007: 30.25 cents per share).

Net debt increased €231.9 million in the year to €452.1 million (2007: €220.2 million), mainly as a result of the acquisition of Optimum. The Group generated good free cash flow of €72.4 million in 2008 (2007: €53.1 million). Free cash flow is after charging business sustaining capital expenditure and before acquisition costs, strategic capital expenditure and the payment of equity dividends. The Group has prioritised debt reduction for 2009, recognising the significant investment made in recent years and the current turmoil in global credit markets. 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 that is consistent with the challenging external environment.

An interim dividend of 2.75 cents per share on the ordinary shares amounting to €8.1 million was paid to shareholders on 1 October 2008. The Directors have recommended the payment of a final dividend of 3.76 cents per share on the ordinary shares which amounts to €11.0 million. Subject to shareholders approval this dividend will be paid on 20 May 2009 to shareholders on the register of members as at 24 April 2009, the record date.

Some key performance indicators are set out in the finance review on pages 32 to 35. The financial statements for the year ended 3 January 2009 are set out in detail on pages 53 to 116.

Business review

Glanbia is organised into two main geographic areas, International and Ireland. The International division activities include Food Ingredients Ireland and the USA and Nutritionals. 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 in the USA, Glanbia Cheese in the UK and Nutricima in Nigeria.

For the full year 2008, 71% of Group revenue and 65% of Group operating profit pre exceptional were generated from the International division, 29% of Group revenue and 35% of Group operating profit pre exceptional was generated in the Ireland division.

Results for the International division were adversely affected by the performance of Food Ingredients Ireland. The decline in global dairy commodity prices lowered margins in this business as reductions in the price paid for milk lagged the decrease 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 strong organic volume growth, buoyant value added whey markets and a continued good performance from the premix business. Optimum 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 marketplace. 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's Property business performed broadly in line with 2007.

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for the year ended 3 January 2009

Comprehensive reviews of the development, financial and operating performance of the Group during 2008 are set out in the Group Managing Director's review on pages 10 to 13, the separate operations reviews for each of the divisions on pages 14 to 25 and the finance review on pages 32 to 35. The treasury policy and objectives of the Group are set out in Note 3.1 to the financial statements.

Outlook

Glanbia performed well in 2008, delivering a good set of results, completing a major strategic acquisition and achieving key financial targets. All businesses, including Joint Ventures & Associates, 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. Food Ingredients Ireland will be the most challenged in this context and we expect this business to breakeven this year. 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.

Board of Directors

Mr E Power and Mr M Walsh retired on 28 May 2008 and Mr A O'Connor and Mr R Prendergast were appointed to the Board on the same day. In accordance with the Articles of Association of the Company, Mr A O'Connor and Mr R Prendergast will retire at the 2009 Annual General Meeting and, being eligible, offer themselves for re-appointment.

In accordance with the Articles of Association of the Company, Mr H Corbally, Mr E Fitzpatrick, Mr J Gilsenan, Mr P Haran, Mr L Herlihy, Mr J Liston, Mr M Merrick and Mr K Toland retire from the Board by rotation and, being eligible, offer themselves for re-appointment.

In accordance with the provisions of the 2006 Combined Code on Corporate Governance of the Irish and London Stock Exchanges, Mr J Callaghan, Mr W Murphy and Mr V Quinlan, being Directors who have each served a period in excess of nine years on the Board will retire at the 2009 Annual General Meeting and, being eligible, offer themselves for re-appointment.

None of the Directors proposed for re-appointment has a service contract with the Company.

The Chairman wishes to confirm that, following the completion of the performance evaluation process, all Directors proposed for re-appointment continue to be effective and these Directors continue to demonstrate commitment to their roles.

The Chairman of the Company is Mr L Herlihy. Mr Herlihy was appointed as Chairman on 28 May 2008 following the retirement of Mr M Walsh. The Company has two Vice-Chairmen, Mr J Fitzgerald and Mr V Quinlan. Mr Fitzgerald was appointed Vice-Chairman on 28 May 2008 in succession to Mr Herlihy.

Employees

The Group's 4,300 employees are the key to building sustainable growth through delivery of the strategy. The Group provides opportunity, development and reward to those who enjoy working in a challenging, delivery focused environment and is proud to be an employer of choice at its worldwide locations.

Books of account

The measures taken by the Directors to secure compliance with the Company's obligations to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Glanbia House, Kilkenny, Ireland.

Share capital and options

The authorised share capital of the Company is 306,000,000 ordinary shares of €0.06 each. The issued share capital as at 3 January 2009 was 293,555,684 ordinary shares of €0.06 each, of which 54.6% was held by Glanbia Co-operative Society Limited ('the Society'), an Irish industrial and provident society.

The rights attaching to the ordinary shares of €0.06 each are set out in the Memorandum and Articles of Association of the Company, a copy of which may be obtained from the Company's website www.glanbia.com. All shares rank pari passu and the principal rights are the right to vote, the right to receive a dividend and the right to capital on a winding up or a return of capital.

Options outstanding under the Company's 2002 LTIP as at 3 January 2009 amounted to 2,258,000 ordinary shares (29 December 2007: 2,467,000) as set out hereunder. There were no options outstanding under the Company's 1988 Share Option Scheme as at 3 January 2009 (29 December 2007: 325,000).

	No of ordinary shares	Price range	Dates exercisable
2002 LTIP	2,258,000	€1.55 - €4.25	2009 – 2017

As at 3 January 2009 share awards had been granted under the Company's 2002 LTIP over 118,600 ordinary shares (29 December 2007: 134,600).

As at 3 January 2009 share awards had been granted under the Company's 2007 LTIP over 169,500 ordinary shares (29 December 2007: 183,500).

As at 3 January 2009, share awards had been granted under the Company's 2008 LTIP over 583,000 ordinary shares (29 December 2007: nil).

Share trust

As detailed in Note 27 to the financial statements at 3 January 2009, 570,054 ordinary shares were held in an employee benefit trust for the purpose of the Group's employee share schemes. Whilst any shares in the Company are held by the trustees, the trustees shall refrain from exercising any voting rights which may attach to the shares save that, if the beneficial interest in any share has been vested in any beneficiary, the trustees shall seek and comply with any direction from such beneficiary as to the exercise of voting rights attaching to such share.

Substantial interests

As at 3 March 2009, the Company has been advised of the following notifiable interests in its ordinary share capital:

Shareholder	No of ordinary shares	% of issued share capital
Glanbia Co-operative Society Limited	160,277,308	54.6%

Authority to purchase own shares/Authority to allot relevant securities

At the annual general meeting in 2008 the Company was authorised by shareholders to purchase up to 10% of the aggregate nominal value of the issued share capital of the Company as at the close of business on 14 May 2008.

The Company allotted 209,000 ordinary shares during 2008. As detailed in Note 27 to the financial statements at 3 January 2009, 570,054 ordinary shares were held in an employee benefit trust for the purpose of the Group's employee share schemes. During the year, the Glanbia Employees Share Trust purchased 381,510 shares, with 50,000 shares being issued.

Directors' and Secretary's share interests

The interests of the Directors and Group Secretary and their spouses and minor children in the share capital of the Company, subsidiary companies and the holding society are disclosed in Note 43 to the financial statements.

Appointment and replacement of Directors

The Company is a subsidiary of Glanbia Co-operative Society Limited ('the Society'), an Irish industrial and provident society, which owns 54.6% of the issued share capital of the Company. The Society nominates from its Board of Directors, which is elected on a three-year basis, fourteen of the eighteen non-executive Directors for appointment to the Board of the Company.

Principal risks and uncertainties and financial risk management

Under Irish company law (Statutory Instrument 116.2005-European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), the Group is required to give a description of the principal risks and uncertainties which it faces. These appear on pages 36 to 37 of the risk and risk management report.

A comprehensive analysis on the financial risk management objectives and policies of the Company and the Group, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used and the exposure of the Company and the Group to price risk, credit risk, liquidity risk and cash flow risk, is contained in Note 3.1 to the financial statements.

Corporate governance

The Directors of the Company are committed to maintaining the highest standards of corporate governance and a statement of how the Company applies the main and supporting principles of the 2006 Combined Code on Corporate Governance of the Irish and London Stock Exchanges ('the Combined Code') appears on pages 45 to 52.

Research and development

The Group is committed to an ongoing and extensive innovation programme to support a customer led business and marketing approach. There is growing consumer awareness of the link between health and diet and the Group is committed to achieving the highest standards of best practice in relation to science-based innovation. It is directed towards the development of technically superior dairy-based food ingredient and nutritional products, cheese, high value consumer food products, other products and the enhancement of proprietary technologies and processes.

Through its research and development facilities in Kilkenny and Idaho, USA, the Group's business has developed and launched advanced, differentiated and branded ingredients and consumer products targeted at a range of nutritional benefits such as weight management and immune enhancement.

Subsidiary and associated undertakings

A list of the principal subsidiary and associated undertakings is included in Note 44 to the financial statements.

Political donations

The Electoral Act, 1997 requires companies to disclose all political donations over €5,079 in aggregate made during the financial year. The Directors, on enquiry, have satisfied themselves that no such donations in excess of this amount have been made by the Company.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Special business at the Annual General Meeting

Notice of the 2009 Annual General Meeting with details of the special business to be considered at the meeting is set out in a separate circular which is enclosed with this Annual Report.

Authority to allot relevant securities

Under the first item of special business, shareholders are being asked to renew the Directors' authority to allot relevant securities, within the meaning of Section 20 of the Companies (Amendment) Act, 1983, up to an aggregate nominal value of €746,658.96.

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Disapplication of pre-emption rights, purchase of Company shares and treasury shares

Under the second item of special business, shareholders are being asked to renew the authority to disapply the strict statutory pre-emption provisions in the event of a rights issue or any other issue up to an aggregate amount of €746,658.96 in nominal value of ordinary shares, representing 4.24% of the nominal value of the Company's issued ordinary share capital for the time being. This authority will expire on the earlier of the close of business on 12 August 2010 or the date of the Annual General Meeting of the Company in 2010.

At the last annual general meeting of the Company shareholders passed a resolution to give the Company, or any of its subsidiaries, the authority to purchase up to 10% of its own shares. This authority will expire on 13 May 2009. Under the third item of special business, shareholders are being asked to extend this authority until the earlier of the close of business on 12 August 2010 or the date of the Annual General Meeting of the Company in 2010. While the Directors do not have any current intention to exercise this power, this authority is being sought as it is common practice for public companies.

Shareholders are also being asked under the fourth item of special business to pass a resolution authorising the Company to reissue such shares purchased by it and not cancelled as treasury shares. Such purchases would be made only at price levels which it considered to be in the best interests of the shareholders generally, after taking into account the Company's overall financial position. Furthermore the authority being sought from shareholders will provide that the minimum price which may be paid for such shares shall not be less than the nominal value of the shares and the maximum price will be 105% of the then market price of such shares.

On behalf of the Board

L Herlihy
Chairman

J Moloney
Group Managing Director

Glanbia House
Kilkenny
3 March 2009

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the profit of the Group for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 to include a management report containing a fair review of the development and performance of the business, the position of the Company and the Group and a description of the principal risks and uncertainties facing the Group.

The Directors confirm to the best of each person's knowledge and belief that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.