

## **2005 Results**

### **Results for the twelve months ended 31 December, 2005**

These results are prepared under International Financial Reporting Standards (IFRS) and all comparisons are based on a restatement of 2004 financial information. A detailed IFRS restatement document is available on the Group's website at [www.glanbia.com](http://www.glanbia.com).

#### **Income statement**

Revenue increased by 4% to €1,830.0 million (2004: €1,753.6 million). The difficult environment in Ireland impacted overall profitability and margins. Operating profit pre exceptional was down 7% to €80.6 million (2004: €86.3 million) and the operating margin pre exceptional declined 50 basis points to 4.4% (2004: 4.9%).

Net financing costs pre exceptional, which includes Group interest and non-equity minority interest for preferred securities and preference shares, reduced by €3.3 million to €12.8 million as the Group continues to benefit from a refinancing during the year. This compares with €16.1 million in 2004, comprising €5.7 million Group interest and €10.4 million non-equity minority interest. Due to the timing of the implementation of IAS 32 and 39, interest on preferred securities and preference shares is shown in the income statement as part of Group interest in 2005 and as non-equity minority interest in 2004.

The Group's share of results of joint ventures and associates, post interest and tax, amounted to a profit of €932,000 in 2005, compared with a loss of €1.5 million in 2004. This result reflects the improved performance in Glanbia Cheese, the Group's UK joint venture with Leprino Foods.

Profit before tax pre exceptional, including share of joint ventures and associates, amounting to €68.7 million was similar to last year (2004: €68.6 million). Profit after tax pre exceptional increased marginally to €61.1 million (2004: €60.2 million). These figures are on a comparable basis after total financing costs.

Taxation for the year amounted to €657,000, compared with €8.4 million in 2004. This is as a consequence of an exceptional of €6.9 million, primarily due to a tax credit relating to a prior disposal of assets in the USA.

Net exceptionals for the year amounted to a €521,000 compared with €1.3 million in 2004. These include €11 million profit on the sale of quoted investments, a €3.9 million foreign exchange credit arising from the implementation of IFRS and a €6.9 million tax credit outlined under taxation. These gains were offset by restructuring charges to improve competitiveness in Ireland of €15.7 million (Agribusiness and Property €1.2 million, Consumer Foods €11.9 million and Food Ingredients €2.6 million), the cancellation cost of €5.3 million for the prepayment of US\$100 million preferred securities and €0.3 million relating to prior disposals.

Earnings per share amounted to 21.04 cent compared with 21.03 cent in 2004, while adjusted earnings per share was up 1% to 20.86 cent (2004: 20.59 cent).

#### **Balance sheet and cash flow**

In the first half of 2005 the Group completed a refinancing initiative with the prepayment of the US\$100 million preferred securities and a renewal of facilities of over €400 million to July 2010 with core banking relationships. Net debt at the year end amounted to €215.7 million, down 17% (2004: €260.9 million). While the Group continues to invest for the future with capital and development expenditure during the year of €71.6 million, the overall improvement in the Group's debt is mainly as a result of a number of initiatives to reduce investment in seasonal working capital.

The increase in the Group retirement benefit obligations to €165.0 million (2004: €126.7 million) is primarily related to the reduction in the discount rate assumptions used in the actuarial valuations. The discount rate applied to pension schemes in Ireland is 4.3% (2004: 4.8%), whilst the rate applied to UK schemes is 4.9% (2004: 5.5%).

#### **Dividends and Annual General Meeting (AGM)**

The Board is recommending a final dividend of 3.24 cent per share, compared with a 3.09 cent per share final dividend in 2004. This brings the total dividend for the year to 5.51 cent per share (2004: 5.25 cent per share), representing a 5% increase. Dividends will be paid on Monday 22 May, 2006 to shareholders on the register as at Friday 21 April, 2006. Irish dividend withholding tax will be deducted at the standard rate where appropriate. The AGM will be held on Tuesday 16 May, 2006 and the Annual Report post out date is Tuesday 11 April, 2006.

## Operations Review

Glanbia plc has operations in Ireland, Europe and the USA, with international joint ventures in the UK, USA and Nigeria. The Group is organised into three operating divisions of Agribusiness and Property, Consumer Foods and Food Ingredients, which includes the evolving Nutritionals business. The operating margins stated below are before exceptional items.

### AGRIBUSINESS AND PROPERTY

€'000	2005	2004	Change
<b>Revenue</b>	229,142	227,368	<b>Up 1%</b>
<b>Operating profit</b>	10,684	11,911	<b>Down 10%</b>
<b>Operating margin</b>	4.7%	5.2%	<b>Down 50 bps</b>

The Agribusiness and Property division has two business units. Agribusiness is the key linkage with the Group's 5,700 Irish farmer supply base and Property has responsibility for the maximisation of value from the Group's property portfolio. Agribusiness had a difficult year arising from poor global grain markets and the changing patterns of farm purchasing. These conditions led to a decline in performance and operating margin. Revenue was up 1% to €229.1 million (2004: €227.4 million). Operating profit was down 10% to €10.7 million (2004: €11.9 million) and the operating margin was down 50 basis points to 4.7% (2004: 5.2%).

Agribusiness now operates from 61 locations. In 2005 a further nine branches were closed as part of ongoing cost reduction and efficiency initiatives, which follows the closure of 12 branches in 2004. Rationalisation costs during the period amounted to €1.2 million. A programme of investment in new technology and business systems began during the year. This division also commenced the roll-out of new branch formats incorporating a wider product range and customer offering, focused on the needs of rural communities with expanding populations.

In Ireland, the environment for farming is for ongoing change during MTR which impacts Agribusiness, in particular. The challenge continues to be to effectively manage this business during this period of change.

### CONSUMER FOODS

€'000	2005	2004	Change
<b>Revenue</b>	493,582	451,124	<b>Up 9%</b>
<b>Operating profit</b>	27,139	27,906	<b>Down 3%</b>
<b>Operating margin</b>	5.5%	6.2%	<b>Down 70 bps</b>

The Consumer Foods Division, incorporating liquid milk, chilled foods and pig meat, had a mixed year. A good improvement in performance from the pig meat business was offset by competitive markets in the liquid milk and chilled foods segments and the effects of rationalisation initiatives undertaken in these businesses during the year. Revenue for the division was up 9% to €493.6 million (2004: €451.1 million), mainly due to stronger pig meat markets. Operating profit was down 3% to €27.1 million (2004: €27.9 million), leading to a 70 basis points reduction in the operating margin to 5.5% for this division overall (2004: 6.2%).

Liquid milk: This business performed satisfactorily in a challenging environment, with increasing cost pressures, rising imports from Northern Ireland and the continuing growth of own brand milk. In February 2005 Glanbia concluded an agreement with Dairygold Co-operative Society Limited to take on the CMP liquid milk, cream and juice brands for a consideration of €10 million. This business has been successfully integrated into Glanbia and extends the Group's overall market reach.

Chilled foods: This business, which incorporates the Group's branded yogurt, cheese, spread, soup and sauce products, had a tough year. The trading environment was very competitive. Additional marketing investment was made in promoting key brands and new products to improve market share. Performance was also affected by the costs and timing associated with implementing a significant reorganisation of the Group's Yoplait manufacturing facility.

Rationalisation during the year, in liquid milk and chilled foods, focused on improving the competitiveness and productivity of these businesses. The total exceptional cost incurred amounted to €11.9 million. This relates to €5.7 million for the rationalisation plan at the Inch Yoplait facility, €3.3 million for the rationalisation of the Cork distribution business and €2.3 million for the reorganisation of the Dublin distribution operation. Other costs relate to sales and administration redundancies.

Although markets remain competitive, the benefits of rationalisation, product innovation and marketing underpin an improving outlook for Consumer Foods.

Pig meat: This business delivered an improved performance in 2005, after a severe market downturn in 2004. Markets recovered during the year but at a slower rate than anticipated and performance was helped by increased efficiencies at all facilities. Pig meat markets are forecast to remain reasonably stable in 2006.

## FOOD INGREDIENTS

€'000	2005	2004	Change
<b>Revenue</b>	1,107,288	1,075,153	<b>Up 3%</b>
<b>Operating profit</b>	42,746	46,440	<b>Down 8%</b>
<b>Operating margin</b>	3.9%	4.3%	<b>Down 40 bps</b>

The Food Ingredients division has operations in Ireland and the USA and is engaged in the production of cheese, butter, dairy spreads and whey protein ingredients. This division also includes the Group's evolving Nutritionals business which has a growing customer base in the USA, Europe and Asia. The USA operations and Nutritionals delivered a solid performance in 2005, growing profitability and margins. The impact of reduced EU market supports on the Irish based business crystallised in the second half, leading to a significant deterioration in profitability. Overall revenue increased by 3% to €1.11 billion (2004: €1.08 billion). Operating profit was down 8% to €42.7 million (2004: €46.4 million) and the operating margin declined 40 basis points to 3.9% (2004: 4.3%). This was a direct consequence of the decline in the performance of the Irish Food Ingredients business in the latter half of 2005.

Ireland: As a consequence of the EU Mid Term Review (MTR) of the Common Agricultural Policy, there is significant ongoing change in dairy markets arising from the reduction in EU dairy market supports. Despite this, in 2004 and early 2005 markets remained reasonably stable. However, as expected these changes began to impact performance in the second half. While revenue was marginally up for the year, pricing and inflationary cost pressures, mainly energy, led to a sharp downturn in profitability and margins. During the year, contract manufacturing agreements on milk processing and an agreement on a new joint venture to manufacture and market dairy spreads and butterfat products were completed. This resulted in a restructuring of the cheddar cheese manufacturing facilities at a cost of €2.6 million. The business continues to focus on the effective management of the impact of MTR through a combination of efficiencies, cost control and balanced pricing and product mix.

USA: This operation performed well. Market demand is strong and growing steadily and Glanbia's facilities continue to enhance output. The 30% expansion in cheese production at the Gooding facility in 2004 enabled the business to meet growing customer demand for American style barrel cheese during the year. This demand is driven by strong key account performance in the food service and retail sectors. In 2005 market prices for cheese were lower although volume growth enhanced margins.

Nutritionals: This business continued to make steady progress in 2005 and is showing good organic growth. Kortus Foods Ingredients Services GmbH, the German based nutrient delivery systems business acquired in 2004, performed ahead of expectations. Substantial investment was made in 2005 in building a strong team with a blend of skills in science-based research and development and marketing, to drive this business forward.

As a large user of energy, particularly in Food Ingredients Ireland, the high cost of energy is an issue for the Group. Any significant and sustained upward shift in pricing from current levels would be a cause for concern and the overall management and consumption of energy is a key objective for this business in 2006.

The Group's USA operations continue to perform well and good progress is expected in Nutritionals during 2006.

## **INTERNATIONAL JOINT VENTURES**

The Group has a number of significant international Joint Ventures producing cheese, whey and milk products.

UK: Glanbia Cheese, a joint venture with Leprino, produces mozzarella cheese for the European market. This business reported an improved performance arising from increased demand and the benefits of investment.

Nigeria: Nutricima is a US\$25million joint venture with PZ Cussons plc. During 2005 the new milk factory opened on schedule. Sales of powdered milk began mid-year, followed by the launch of evaporated milk later in the year. Products have been well received in the market and sales are ahead of expectations.

USA: Commissioning of the Southwest Cheese facility began in October 2005, and is the first phase in an 18 month scale up process towards full production. Southwest Cheese is a US\$190 million cheese and whey products facility in New Mexico. This joint venture, with the main partners Dairy Farmers of America and Select Milk Producers Inc., will make Glanbia the number 1 producer of American cheese, when it reaches full production. Overall this development is progressing well and initial customer feedback has been very positive.

## **Strategy**

Glanbia's strategy is to build international relevance in cheese, nutritional ingredients and selected consumer foods, balancing our strong market positions in Ireland with an increasing presence in overseas markets. The Joint Ventures in Nigeria and the USA are central to this strategic development, as is the continuing development of our evolving Nutritionals business.

## **Outlook**

The Group expects to deliver 2006 results in line with current guidance. While there are ongoing challenges in Irish operations and unpredictability in energy prices, we expect key cost and product development initiatives in these businesses together with ongoing international development to underpin the 2006 results. Growing momentum within the business maintains Glanbia's steady progress towards double digit growth in 2007.