

# **DAIRY CREST GROUP PLC**

## **INTERIM RESULTS**

**For the period ended 30 September 2006**

# Financial Highlights

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## *Improving the quality of the Group's earnings*

- Group Revenue (including share of jvs) £622.6m (2005: £590.1m)
- Adjusted profit before tax\* £31.8m (2005: £25.4m)
- Adjusted earnings per share\* 18.2 pence (2005: 14.4 pence)
- Interim dividend up 6% to 6.7 pence (2005: 6.3 pence)
- Net debt £329.0m (2005: £301.2m)

\* From continuing operations, including share of joint ventures and before exceptional items and amortisation of acquired intangibles

# Business Highlights

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## *Improving the quality of the Group's earnings*

- Active six months with strong profit growth
- Good performance from Cathedral City, Country Life and Friij
- Country Life extended as a cross category dairy brand with launch of premium cheese range and organic milk
- Sale of majority of retailer brand cheese operations completed
- Improved performance from the Dairies division
- Acquisition of Express Dairies creates the UK's leading doorstep and middle ground business
- Significantly reshaped the Group

# Financial Review

# Income Statement

| Year     | £'m                     | Half year<br>Sept 06 | Half Year<br>Sept 05 |
|----------|-------------------------|----------------------|----------------------|
| March 06 |                         |                      |                      |
| 79.1     | Profit on operations**  | <b>36.1</b>          | 32.4                 |
| (14.3)   | Net finance costs       | <b>(4.3)</b>         | (7.0)                |
| 64.8     | Profit after interest** | <b>31.8</b>          | 25.4                 |
| (22.2)   | Exceptional items       | <b>(0.2)</b>         | (4.1)                |
| (1.0)    | Intangible amortisation | <b>(0.6)</b>         | (0.3)                |
| 2.9      | Discontinued Operations | <b>(4.1)^</b>        | 0.7                  |
| 44.5     | Profit before tax       | <b>26.9</b>          | 21.7                 |
| (9.7)    | Taxation                | <b>(7.5)</b>         | (6.0)                |
| 34.8     | Profit after tax        | <b>19.4</b>          | 15.7                 |

\* All items include share of joint ventures

\*\* From continuing operations and before exceptional items and amortisation of acquired intangibles

^ Includes exceptional item of £4.0m relating to disposal of majority of retailer brand cheese operations



# Earnings and Dividends

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| Year<br>March 06 | Pence per share    | Half Year<br>Sept 06 | Half Year<br>Sept 05 | Change |
|------------------|--------------------|----------------------|----------------------|--------|
| 38.7             | Adjusted EPS*      | <b>18.2</b>          | 14.4                 | + 26%  |
| 25.5             | Basic EPS*         | <b>17.8</b>          | 11.9                 | +50%   |
| 21.5             | Dividend declared  | <b>6.7</b>           | 6.3                  | +6%    |
| 124.8            | Shares in issue: m | <b>124.8</b>         | 124.8                |        |

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\* From continuing operations

# Segmental Analysis\*



| Year<br>March 06 | £'m                           | Half Year<br>Sept 06 | Half Year<br>Sept 05 |
|------------------|-------------------------------|----------------------|----------------------|
|                  | <b>Revenue</b>                |                      |                      |
| 345.3            | Foods excl jvs                | <b>165.9</b>         | 167.6                |
| 69.0             | Joint ventures                | <b>34.0</b>          | 34.3                 |
| <hr/> 414.3      | Foods                         | <hr/> <b>199.9</b>   | 201.9                |
| 815.7            | Dairies                       | <b>422.7</b>         | 388.2                |
| <hr/> 1,230.0    | <b>Total</b>                  | <hr/> <b>622.6</b>   | 590.1                |
|                  | <b>Profit on operations *</b> |                      |                      |
| 52.0             | Foods excl jvs                | <b>24.7</b>          | 23.6                 |
| 9.3              | Joint ventures                | <b>4.1</b>           | 4.6                  |
| <hr/> 61.3       | Foods                         | <hr/> <b>28.8</b>    | 28.2                 |
| 17.8             | Dairies                       | <b>7.3</b>           | 4.2                  |
| <hr/> 79.1       | <b>Total</b>                  | <hr/> <b>36.1</b>    | 32.4                 |

\* From continuing operations and before exceptional items and amortisation of acquired intangibles

# Operating Margin\*



| Year<br>March 06 | %              | Half year<br>Sept 06 | Half Year<br>Sept 05 |
|------------------|----------------|----------------------|----------------------|
| 15.1             | Foods excl jvs | 14.9                 | 14.1                 |
| 13.5             | Joint ventures | 12.1                 | 13.4                 |
| <hr/> 14.8       | Foods          | <hr/> 14.4           | <hr/> 14.0           |
| 2.2              | Dairies        | 1.7                  | 1.1                  |
| <hr/> 6.4        | Total          | <hr/> 5.8            | <hr/> 5.5            |

\* From continuing operations and before exceptional items

# Balance Sheet



| Year<br>March 06 | £'m                  | <b>Half Year<br/>Sept 06</b> | Half Year<br>Sept 05 |
|------------------|----------------------|------------------------------|----------------------|
| 558.6            | Net operating assets | 605.8                        | 533.2                |
| (20.4)           | Tax                  | (23.4)                       | (12.2)               |
| <u>538.2</u>     |                      | <u>582.4</u>                 | <u>521.0</u>         |
| (280.2)          | Net debt             | (329.0)                      | (301.2)              |
| <u>258.0</u>     | Net assets employed  | <u>253.4</u>                 | <u>219.8</u>         |
| 109%             | Gearing              | 130%                         | 137%                 |

# Operating Cash Flow

| Year        | £'m                             | Half Year   | Half Year   |
|-------------|---------------------------------|-------------|-------------|
| March 06    |                                 | Sept 06     | Sept 05     |
| 79.1        | Adjusted profit on operations*  | 36.1        | 32.4        |
| 37.6        | Depreciation and amortisation** | 19.5        | 18.0        |
| (14.3)      | Exceptional items               | (0.2)       | (3.8)       |
| (1.3)       | Pensions                        | (1.8)       | 3.7         |
| (11.4)      | Joint ventures and other        | (8.1)       | (6.0)       |
| (16.3)      | Working capital                 | (21.1)      | (25.3)      |
| <b>73.4</b> | <b>Operating cash flow</b>      | <b>24.4</b> | <b>19.0</b> |

\* From continuing operations, including share of joint ventures and before exceptional items

\*\* Net of grants

# Cash Flow

| Year     | £'m                                 | Half Year<br>Sept 06 | Half Year<br>Sept 05 |
|----------|-------------------------------------|----------------------|----------------------|
| March 06 |                                     |                      |                      |
| 73.4     | Operating cash flow                 | 24.4                 | 19.0                 |
| (44.0)   | Capital expenditure (net of grants) | (18.8)               | (21.3)               |
| (57.5)   | Interest, tax and dividends         | (26.1)               | (37.0)               |
| 9.0      | Dividends received from jvs         | 2.8                  | -                    |
| (43.7)   | Acquisitions                        | (37.5)               | (38.9)               |
| 9.4      | Disposals of fixed assets           | 5.9                  | 4.1                  |
| 0.7      | Other                               | 0.5                  | 0.4                  |
| (52.7)   | Movement in net debt                | (48.8)               | (73.7)               |
|          | Net debt at 31 March 2006           | (280.2)              |                      |
|          | Net debt at 30 September 2006       | (329.0)              |                      |

# Pensions Summary

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- IAS19 gross deficit at 30 September 2006 of £54.2m
  - £4.8m underlying reduction since March 2006
  - additional £3.0m expected curtailment gain on cheese disposal
- Scheme closed to new entrants from July 2006
- Additional cash contributions of £17.0m in 2006/07
  - existing £12.0m per annum commitment
  - extra £5.0m following retailer brand cheese disposal
- Next full actuarial valuation as at 31 March 2007

# Business Review

# Spreads

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- Country Life performing strongly with successful marketing campaign
  - packet sales up 3% by value
  - spreadable sales up 26% by value
- Clover has strengthened its position as the leading Dairy Spreads brand
  - sales up 2% by value
- Overall spreads branded sales flat
  - Utterly Butterly down 11% by value
  - St. Ivel Gold down 18% by value
- Capitalise on opportunities from growing trend towards healthy eating
  - Country Life Spreadable Lighter to be launched early 2007
- Continued new product development

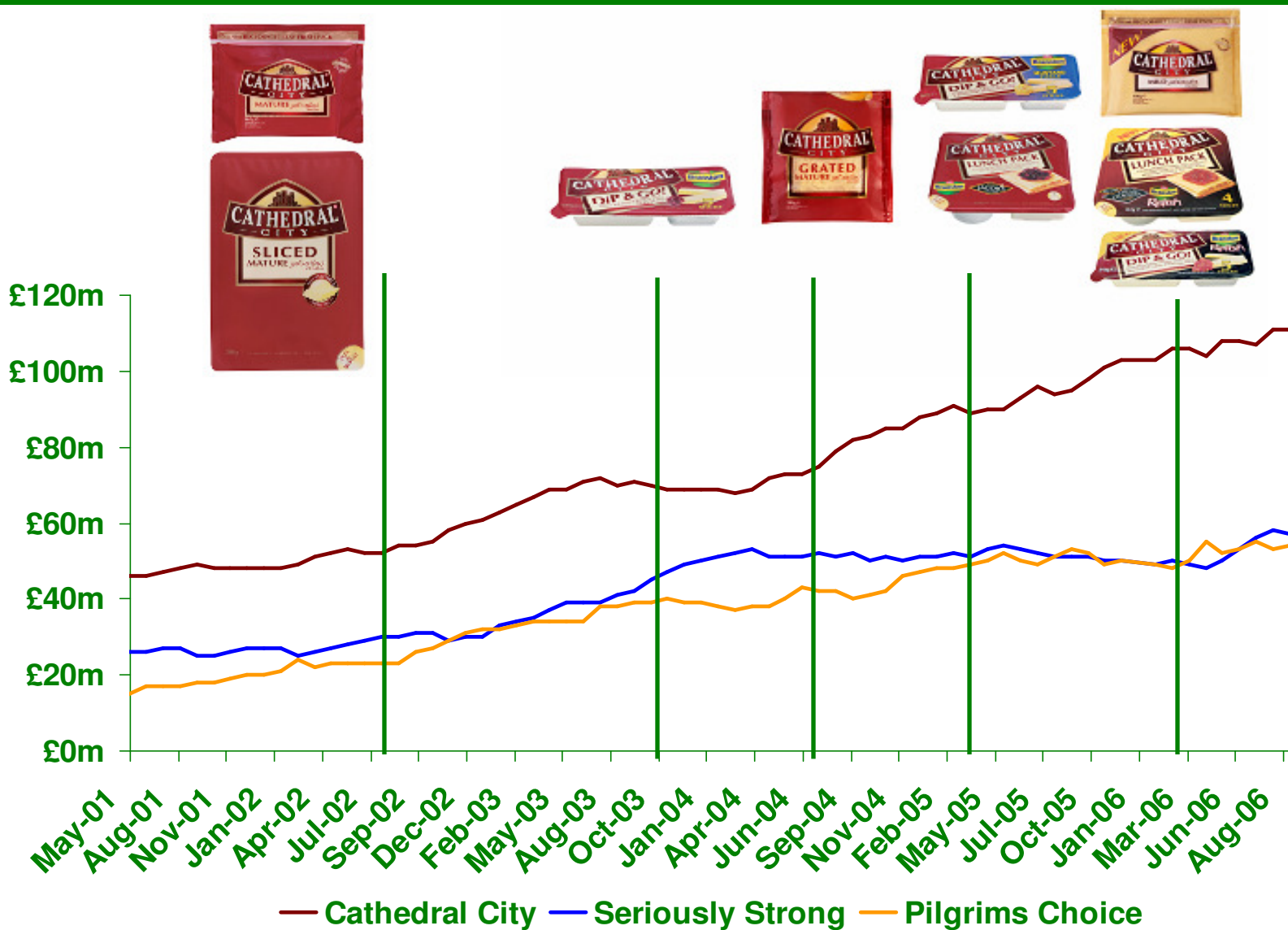
# Cheese



- Strong growth from Cathedral City
  - sales up 19% by value
  - £113m retail sales brand value
  - Cathedral City Mild launched May 2006
- Davidstow sales down 14% by value
  - fewer promotions versus H1 last year
- Recently launched a range of premium cheeses under the Country Life brand
  - Cornish cheddar, Stilton, Dovedale and Cornish Brie



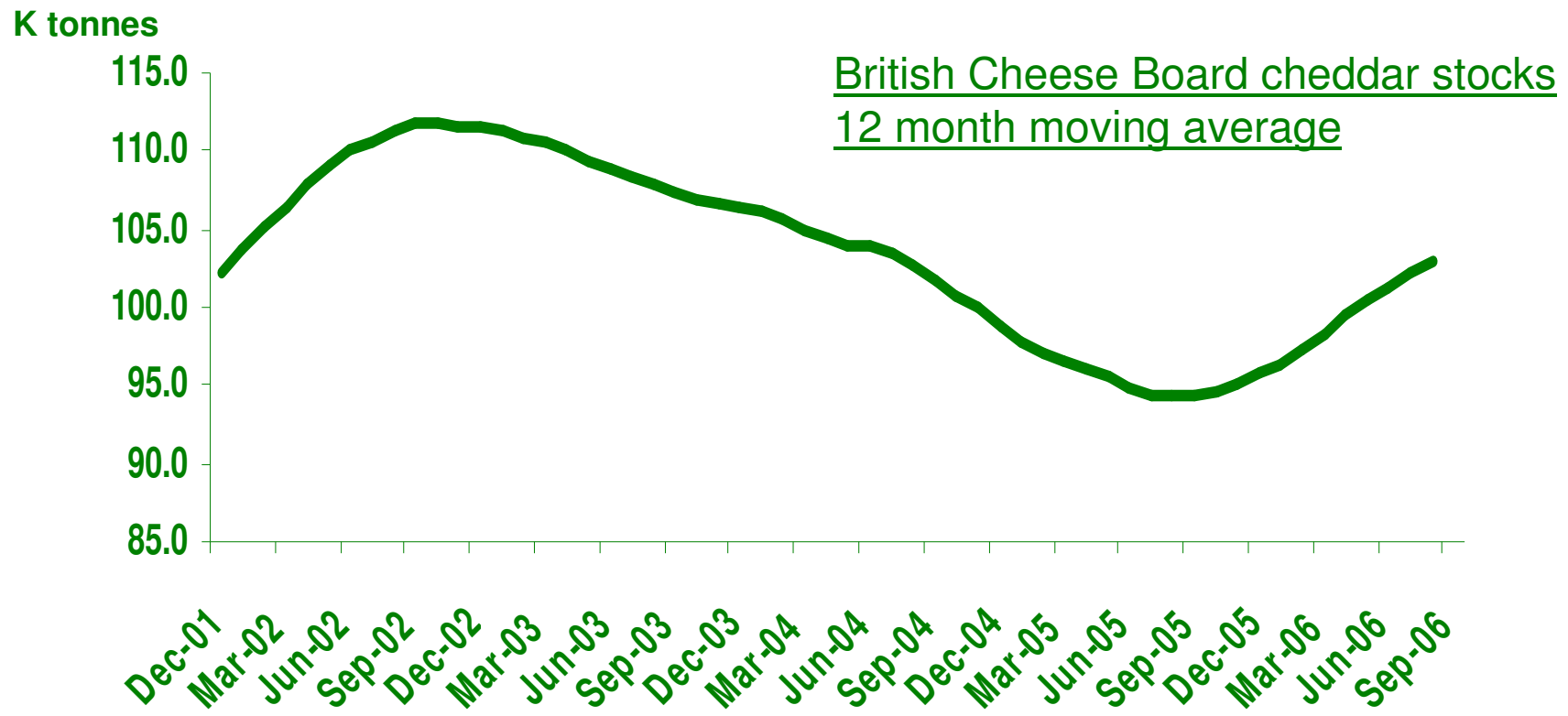
# Cathedral City Growth



Source: TNS (MAT) 10<sup>th</sup> Sept 2006

# Cheese Stocks

- Industry cheese stocks have continued to grow
  - some downward pressure on cheese pricing in H1 2006/07
  - mainly impacting commodity end of the market





# Retailer Brand Cheese Disposal

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- Dairy Crest to focus future cheese activities on accelerating the development of its branded and added value products
  - Cathedral City, Davidstow, Country Life, Stilton and speciality cheese
- Completed the disposal of the majority of retailer brand cheese operations on 14 October 2006
  - £61.9m cash consideration
  - cheddar manufacturing sites at Aspatria and Haverfordwest
  - pre-packing and whey processing site at Maelor
- Invest in new pre-packing facility – likely to be at Nuneaton
- Disposal expected to have a small positive impact on Group profits
  - reinvestment in marketing and NPD to drive growth
- Improves the quality of the Group's earnings

# Yoplait Dairy Crest

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- Overall Yoplait brand sales up 2% by value
- Weaker sales performance from Petits Filous and Frubes reflecting impact of promotional phasing and increased competitor activity
  - Petits Filous down 9% by value
  - Frubes down 4% by value
- Weight Watchers returns to growth with sales up 12% by value
- Yop sales up 5% by value
  - repositioning within adult yogurt category
- Wildlife sales up 9% by value
  - new TV advertising campaign



# Liquid Products

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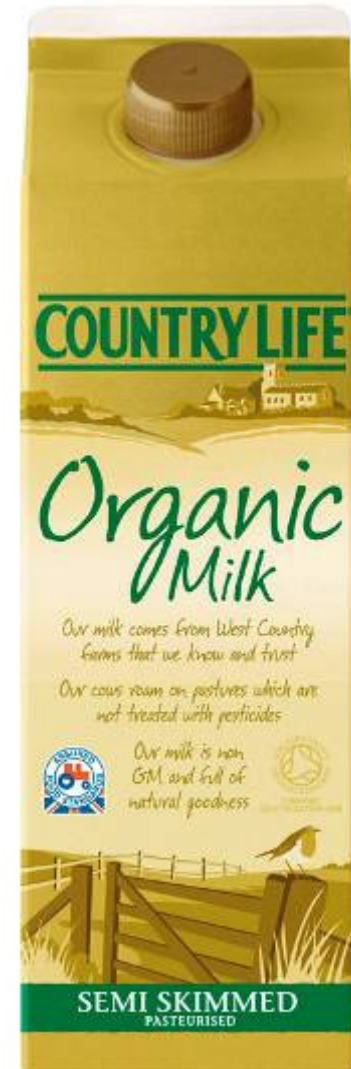
- Retail milk volumes up 4% half on half
  - additional Morrisons volume from October 2005
  - full impact of Midlands Co-op Dairies
- Retained position as key supplier to Sainsbury's
  - launch of Sainsbury's Dairy Development Group with 450 farmers
- Flavoured milk sales up 69% by value
- Potted cream sales down 9% by value
  - M&S sole supply position from August 2006 successfully implemented

# Other Liquid Products

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- FRijj returned to strong growth
  - capacity constraints addressed
  - Sales up 28% by value
- St. Ivel advance continues to develop
  - increased levels of trade distribution
- Launch of Country Life organic milk brand
  - in Tesco from September 2006
  - rollout to other retailers from January 2007
  - distribution through Household from December
  - termination of licence agreement for manufacturing Rachel's organic milk brand



# Household

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- Overall household volumes up 3% half on half excluding Express Dairies
- Underlying doorstep decline slightly improved to below 8%
- Non-milk product sales up by 29%
- Annual doorstep price increase from September 2006 of 1 pence per pint
- Results include six weeks trading of Express Dairies

# Express Dairies Acquisition

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- Completed acquisition on 19 August 2006
  - £33m cash consideration (excluding working capital adjustments)
  - 76 depots distributing approximately 390 million litres of milk
  - Dairies in Nottingham and Liverpool
  - 1,850 employees
- Creates the UK's leading doorstep and middle ground business
  - broad coverage across England and Wales
  - 1.6 million direct customers
- Significant synergies will be delivered
  - anticipated to peak at around £9.0m in 2008/09
  - assets acquired include a substantial property portfolio

# Milk Procurement

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- Currently buying approximately 2.4 billion litres of milk per annum
- Strong working relationship with Dairy Crest Direct
  - approximately 75% of raw milk sourced from Dairy Crest Direct
- Price reductions on liquid and cheese contracts during H1
  - guaranteed until January 2007 to provide stability for suppliers
- Price increase of 0.2ppl from November on liquids contracts
  - improved returns from commodity markets
- Transitional arrangements for direct suppliers impacted by cheese disposal to First Milk

# ACQUISITION OF ST HUBERT





# Dairy Crest Strategy

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- Build market leading positions in branded and added value markets
- Invest in industry leading facilities to create competitive advantage
- Strategic acquisitions
  - branded and added value markets
  - opportunities for synergistic acquisitions in Dairies division
- Downsize commodity risk to improve quality of earnings
- Deliver excellent value to our shareholders and other stakeholders

# St Hubert Rationale

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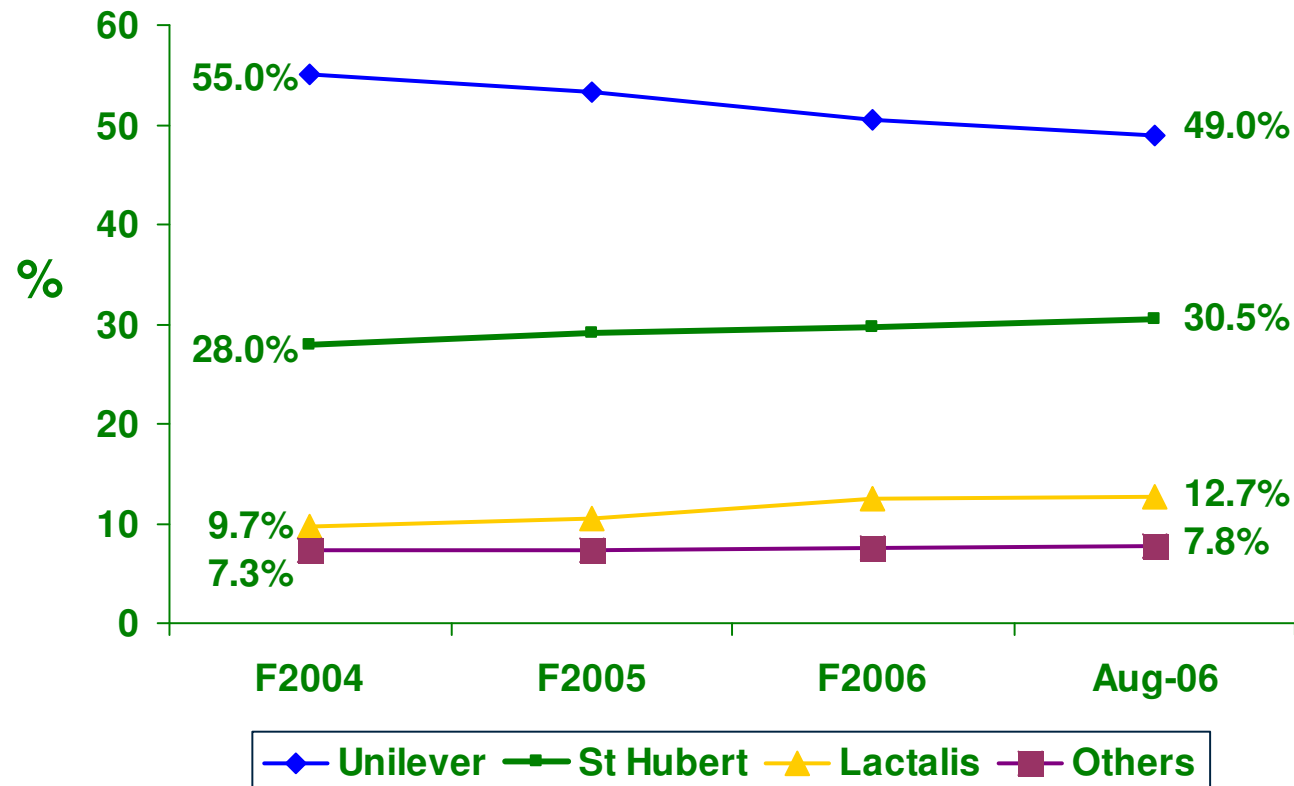


- Meets strategic objective to invest in leadership positions in branded and added-value markets in the dairy sector
- Increases proportion of Group profits derived from brands and therefore improves the quality of Group earnings
- Secures 100% branded business with market leading positions in France and Italy
- A good fit with existing operations providing further scale and diversity whilst leveraging existing spreads experience
- Move into continental Europe should provide opportunities for future growth

# France – St Hubert is clear No.2 and growing



## France – spreads market share evolution

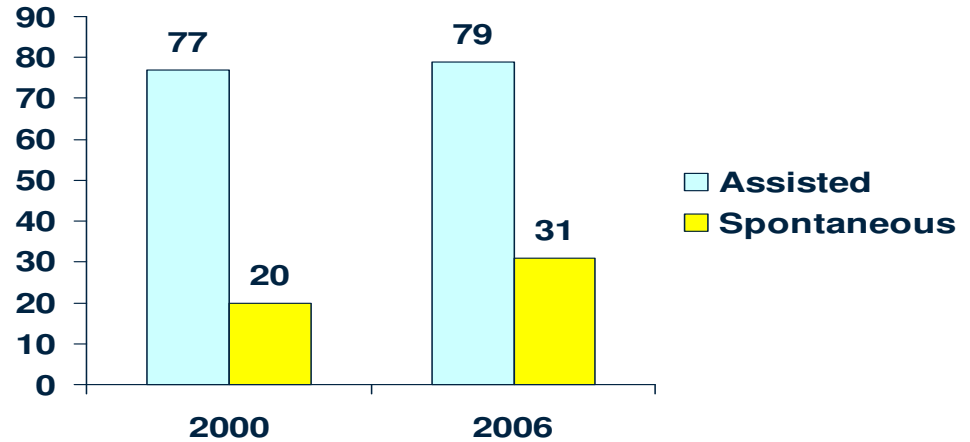


# St Hubert - Platform for Future Growth



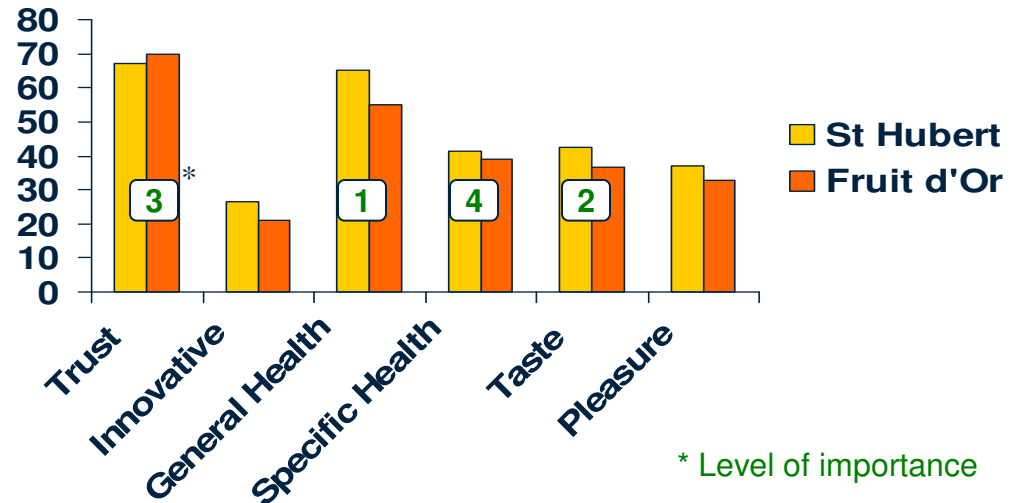
Almost a quarter of French households buy St Hubert each year

High degree of brand awareness continues to grow



## Strong Image with Consumers

- Associated with countryside, butter, spreading, well-being, modernity and youth
- Ahead of key competitor in 3 of the top 4 drivers of preference for health spreads



# Plans for Business and Opportunities

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- Continue to develop Healthy spreads proposition through St Hubert Omega 3 and Cholegram
- Support Classic brands performance through increased marketing and new product innovation
- Opportunities for operational and commercial benefits from linking with UK spreads business
- The move into Continental Europe should provide opportunities for future growth

# Overview of Financials



| €m                   | Year to 31<br>March 2004 | Year to 31<br>March 2005 | Year to 31<br>March 2006 | 6 months to<br>30 Sep 2006 |
|----------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| Sales                | 89.2                     | 92.0                     | 93.5                     | 47.4                       |
| EBIT                 | 26.8                     | 32.7                     | 28.4                     | 15.2                       |
| EBITDA               | 32.0                     | 37.9                     | 34.0                     | 17.2                       |
| Capital<br>employed* | 21.5                     | 16.6                     | 14.5                     | 9.7                        |

Note: Figures are quoted on a statutory basis reflecting Uniq's management charges for the period

\* Excluding cash and intercompany indebtedness

# Financing

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- Acquisition of St Hubert for €370m (£248m) in cash on completion
- New bank facilities of £200m on similar terms to existing bank facilities and within the existing net debt to EBITDA covenant
- Equity placing of c.£35m fully underwritten by Hoare Govett and Citigroup
- Remaining consideration to be financed through existing borrowing arrangements

# Acquisition Agreement

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- Main elements of Acquisition Agreement agreed but under French Law cannot be entered into by Uniq until post employee consultation
- MOU signed and following employee consultation period, Dairy Crest obliged to enter into Acquisition Agreement but no obligation on Uniq
- Acquisition Agreement likely to be signed in early-mid December with shareholder circular posted shortly thereafter
- Completion expected early January 2007
- Break fees payable by Dairy Crest and Uniq

# Summary

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## *Attractive opportunity for Dairy Crest*

- Compelling strategic rationale and fit
- Improves the quality of Group earnings
- Market leading brand positions
- Experienced and capable management team
- Move into Europe should provide opportunities for future growth
- EPS accretive and ROIC in line with WACC in first full year

# Outlook

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- Strong profit growth in H1, together with corporate activity, gives us a sound platform for the rest of the year
- Further development of brand portfolio
- Significantly reshaped the Group and improved the quality of earnings
  - acquisition of Express Dairies
  - sale of majority of retailer brand cheese operations
  - acquisition of St Hubert
  - focus on realising the financial and operational benefits
- Expect a good outcome for the full year in spite of challenging trading conditions

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9 November 2006