
DAIRY CREST GROUP PLC

PRELIMINARY RESULTS

For the year ended 31 March 2009

Key Highlights

- Sound financial performance in tough market
- Sustained strong brand growth
- Innovation delivering results
- Good cash generation allows us to repay £59 million debt. Year end debt down to £416 million.
- Continued action on cost reduction
- Increased focus following disposal of Stilton and speciality cheese business and 49% stake in Yoplait Dairy Crest
- Dividend rebased: additional pension contributions and YDC impact

Financial Review

Alastair Murray

Financial Highlights

- Group Revenue up 5% to £1.65bn
- Profit before tax up 56% to £103.2m
- Adjusted profit before tax* down 8% to £79.5m
- Adjusted basic earnings per share* down 13% to 45.0p
- Full year dividend down 18% to 20.1p
- Net debt down £59m to £415.8m
- IAS19 pension schemes deficit of £63.3m

* before exceptional items, amortisation of acquired intangibles and pension interest credit

Income Statement

£'m	Year March 09	Year March 08	Change
Profit on operations*	101.7	104.5	- 3%
Finance costs	(29.5)	(26.2)	
Share of JV net profit*	7.3	7.7	
Adjusted profit before tax*	79.5	86.0	- 8%
Pension Interest Credit	6.9	10.1	
Exceptional items	26.4	(21.1)	
Amortisation of acquired intangibles	(9.6)	(9.0)	
Profit before tax	103.2	66.0	+56%
Taxation	(28.9)	(12.5)	
Discontinued operations	-	1.2	
Group profit after tax	74.3	54.7	+36%



* Before exceptional items, amortisation of acquired intangibles and pension interest credit

Segmental Analysis

£'m	Year March 09	Year March 08
Revenue		
Foods excl JV	537.3	499.6
Share of JV	70.3	66.9
Foods	607.6	566.5
Dairies	1,110.3	1,070.1
Total	1,717.9	1,636.6
Profit on operations *		
Foods excl JV	93.8	72.9
Share of JV (post tax)	7.3	7.7
Foods	101.1	80.6
Dairies	7.9	31.6
Total	109.0	112.2



* Before exceptional items, amortisation of acquired intangibles and pension interest credit.

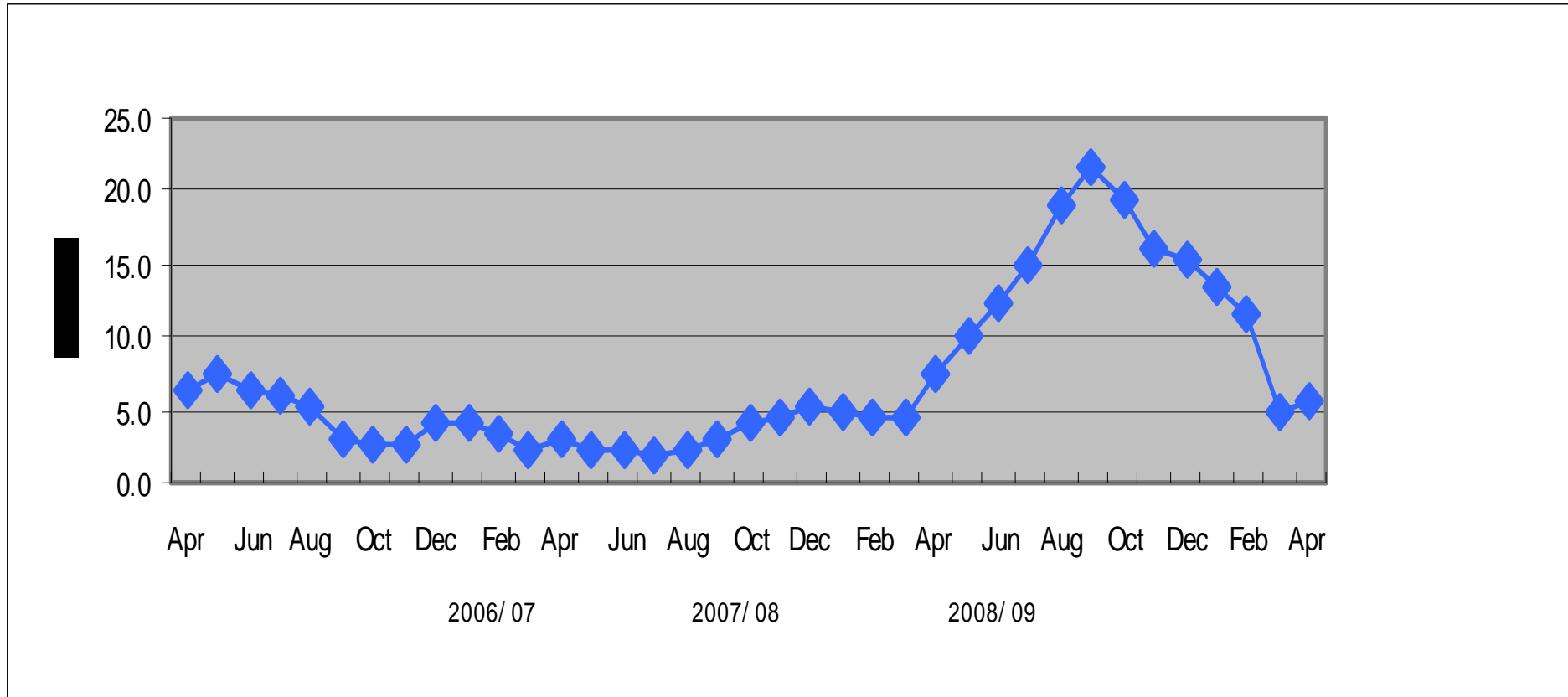
Exceptional Items

	Year March 09		
	Cash	Non-Cash	Total
Dairies restructuring	(5.6)	(3.6)	(9.2)
Nuneaton ramp-up	(3.6)	(0.1)	(3.7)
Onerous contract	(3.6)	2.6	(1.0)
	<u>(12.8)</u>	<u>(6.7)</u>	<u>(19.5)</u>
Asset impairment	-	(5.6)	(5.6)
YDC disposal	59.9	(9.5)	50.4
Hartington disposal	3.2	(7.7)	(4.5)
	<u>50.3</u>	<u>(23.9)</u>	<u>26.4</u>

Balance Sheet

£'m	Year March 09	Year March 08	Change
Fixed assets, goodwill & intangibles	834.2	812.5	21.7
Inventories	197.8	159.5	38.3
Debtors	137.8	186.1	(48.3)
Pension scheme	(63.3)	31.6	(94.9)
Creditors	(229.4)	(224.8)	(4.6)
Deferred tax & other	(104.3)	(102.4)	(1.9)
Net debt	(415.8)	(474.8)	59.0
Net Assets	<u>357.0</u>	<u>387.7</u>	(30.7)
Gearing	116%	122%	

Ingredients Stock



Operating Cash Flow

£'m	Year March 09	Year March 08
Adjusted profit on operations*	101.7	104.5
Depreciation and amortisation**	40.6	39.2
Exceptional items	(12.8)	(13.6)
Pensions	(16.0)	(11.5)
Other***	(3.5)	(2.8)
Working capital	19.1	(7.4)
Operating cash flow	129.1	108.4

* Before exceptional items, amortisation of acquired intangibles and pension interest credit

** Net of grant amortisation

*** Operating property profits, share based payments charges and impairment of JV (2008 only)

Cash Flow - Business and Asset Disposals

£'m	Year March 09	Year March 08
Businesses		
Yoplait Dairy Crest (49%)	59.9	-
Stilton Speciality cheese	3.2	-
Cotteswold	-	3.0
	<hr/> 63.1 <hr/>	<hr/> 3.0 <hr/>
Assets		
Household depots	6.9	6.5
Nuneaton	15.5	-
Westway supplement	-	6.7
	<hr/> 22.4 <hr/>	<hr/> 13.2 <hr/>
Total	<hr/> 85.5 <hr/>	<hr/> 16.2 <hr/>

Cash Flow

£'m	Year March 09	Year March 08
Operating cash flow	129.1	108.4
Capital expenditure (net of grants)	(49.3)	(34.0)
Interest	(30.3)	(22.9)
Tax	(9.2)	(6.7)
Dividends	(32.3)	(30.8)
Disposal of businesses and assets	85.5	16.2
Foreign exchange movement	(36.1)	(46.2)
Other	1.6	(7.8)
Movement in net debt	59.0	(23.8)
Opening net debt	(474.8)	(451.0)
Closing net debt	(415.8)	(474.8)

Financing

- Two key financial covenants on bank debt and loan notes
 - Borrowings Net debt to EBITDA < 3.5x
 - Cover EBITDA to Net Interest > 3.0x
- March 2009 Net Debt/EBITDA covenant ratio is less than 3.0x
- Net debt expected to decrease during 2009/10 due to improved working capital through cheese stock reduction and strong operating cashflow
- Next refinancing in November 2011 and then July 2013

£m	Facility	Net Debt	Fixed	Floating
2006 RCF (to November 2011)	100	100	-	100
2008 RCF (to July 2013)	247	120	69	51
Loan notes (to 2013/16)	143	143	143	
Loan notes (to 2014/17)	146	146	146	
Finance Leases (2014 to 2015)	14	14	14	
Cash		(107)		(107)
Total	664	416	372	44
% Fixed / Floating (excl. cash)			71%	29%

Pensions Summary

- Insurance buy-in for £150m of pensioner liabilities completed in year
- Supplementary payments of £30m made over last 3 years
- Ongoing cash contributions in 2008/09 and 2009/10 amount to 18.3% of pensionable salaries per annum
- IAS19 gross deficit at 31 March 2009 of £63.3m (2008: surplus £31.6m)
 - impact of falling asset returns mitigated by higher bond yields
 - actuarial deficit significantly worse than IAS19 deficit
- Supplementary payments to resume in October 2009 at rate of £20m per annum

Business Review

Mark Allen

Dairy Crest's Clear and Consistent Strategy

- Build market leading positions in branded and added value markets
- Focus on cost reduction and efficiency improvements
- Reduce commodity risk to improve quality of earnings
- Business acquisitions and disposals to generate growth and focus the business

Good Strategic Progress





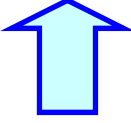








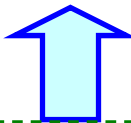




- Exceptional performance by key brands buoyed by increased spending on advertising and promotion
- Culture of innovation provides solid foundation for future
- Cost reduction programme has allowed us to deal with difficult market conditions
- Completed capital expenditure on Nuneaton cheese packing facility gives us industry leading supply chain
- Business disposals allow greater focus and reduce exposure to commodities

Acting Decisively in Difficult Markets

- Difficult markets in 2008/9 required decisive action
- Had to upweight advertising and promotional expenditure to maintain brand growth
- Needed to find cost savings to deal with a changed environment
 - head office reorganisation
 - continuing operational measures
- Anticipated a 10% profit shortfall v 2007/08 on 10th November 2008

Continuing Strong Brand Performance







- Second year of outstanding growth

Brand	2008/09 Growth	2007/08 Growth
	 22%	 23%
	 33%	 11%
	 19%	 29%
	 48%	 25%
	 9%	 17%
	 23%	 10%



Source: DC sales growth by value

Continuing Strong Brand Performance - Outperforming the Market

Brand	Market	Market growth*	Brand growth†
	UK Cheese	↑ 13%	↑ 22%
	UK Dairy Spreads	↑ 17%	↑ 33%
	UK Dairy Spreads	↑ 17%	↑ 19%
	UK Spreadable Butters	↑ 8%	↑ 48%
	French non butter spreads	↑ 1%	↑ 9%
	Flavoured Milk	↑ 6%	↑ 23%



Source: †DC sales growth by value, * AC Nielsen or IRI or TNS 52 week MAT value growth to March 2009

Investment in Advertising Successful

- Media spend has been focussed on key brands
 - Clover
 - Country Life
 - Cathedral City
 - St Hubert Omega 3
 - FRijj
- Media expenditure on these brands up 40% year on year
- New campaigns planned for 2009/10 including Country Life national press and radio

Promotions Ensuring Market Share Gain

- In addition to media, promotions have also been key in sustaining brand growth
 - offering consumer “value” in difficult times
- Dairy Crest recognised need to upweight promotions early in the year and built on existing promotional campaigns
- Stronger promotions in both cheese and butters/spreads category have increased branded sales at the expense of own label
 - own label cheese down 1.6% in year to March 2009 v 2008 (volume)
 - own label butters and spreads down 5.4% in year to March 2009 v 2008 (volume)
- Ongoing combination of advertising and promotions planned for continuing strong brand growth

Focus on Costs

- Early recognition that cost reduction was necessary
- Head office reorganisation fully implemented
- Dairies RDCs working well
- Closure of Nottingham Dairy – February 2009 (200 jobs)
- Ongoing household depot rationalisation programme
 - 15 closed 2008/09

Spreads Delivering in France and Italy

- Overall performance for year in line with our expectations
 - total sales up 3%
 - market share of French spreads up to 36% (v 34% when we purchased St Hubert in January 2007)
- Continued strong growth from Omega 3 up 9% by value and 2% by volume
 - number one brand variant in French spreads (up from second place at time of acquisition)
 - 21% of market (v 16% at time of acquisition)
- Successfully entered French hard discounters channel with St Hubert in September 2008
- Vallé performing well in Italy with sales up 8% by value
 - market share increased to 55%
- Broadening choice through St Hubert Omega 3 Lighter and Vallé + Leggera

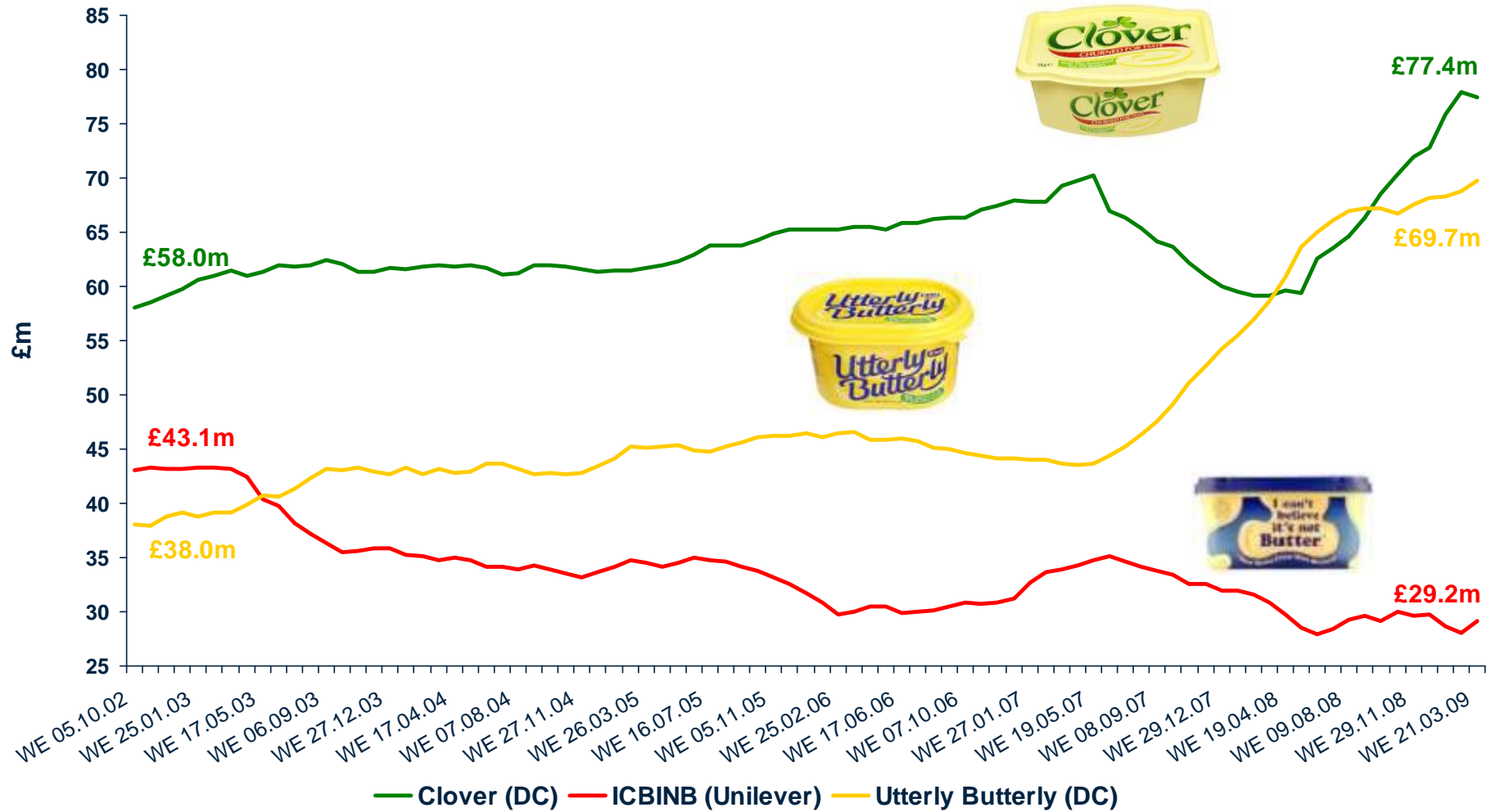


UK Spreads Increasing Market Share

- Overall increase in market share in Dairy Spreads
 - Dairy Crest strongest performing manufacturer in both value and volume across 52 and 12 weeks
 - Dairy Crest only manufacturer in volume growth in last 52 weeks
- Clover sales up 33% by value and 29% by volume
 - retail sales now £77m
- Clover Lighter outperforming rival brands
 - retail sales now £9.4 million
- Utterly Butterly also performing strongly
 - continued growth sales up 19% by value and 1% by volume
 - retail sales now £70 million



Leading UK Dairy Spreads



Source: AC Nielsen 52 w/e 21.03.09 Butters and Spreads Market (excl. Cooking)

Country Life Performing Strongly

- Total Country Life sales up 24% by value and 29% by volume
- Country Life Spreadable up 48% by value and 70% by volume
 - successful TV campaign with John Lydon
- Country Life Lighter sales up 83% by value and 99% by volume
- Country Life packet butter sales have also grown
 - up 12% by value and 5% by volume



Cathedral City Strengthens Leading Position

- Strong growth from Cathedral City with sales up 22% by value and 9% by volume
 - £192m brand at retail sales price
 - 21st in Nielsen's Top 100 UK Grocery Brands (up from 36th)
 - larger than next 3 brands combined
- Cathedral City Lighter performing well
 - growing at 91% by value, 79% by volume
- New packing facility at Nuneaton now operational
- Davidstow sales have fallen back as we promote less
- Stock profits in H2 of 2007/08 and H1 2008/09 have worked through and both cheese and whey commodity markets are under downward price pressure



Making Dairies More Efficient

- Dairies Division revenue increased by 4% in year but profitability lower due to poor ingredients returns and reduced Household profits
- Lower milk purchase prices since February 2009 and other actions are now in place to address this
- In this environment our Liquids Products business performed well
- Milk volumes to our major supermarket customers increased by 4% by volume
 - Benefit of supplying strong growth retailers Sainsbury's and Morrisons
 - Continued exclusive relationships with Waitrose & M&S
 - Coop business increased since year end
- We have innovated by developing 1% fat milk and “green” packaging
- Focus here on costs – crucial to provide value to customers and maintain growth



Frijj Winning Market Share

- Fantastic year for FRijj
 - retail sales value over £40 million (all time high)
 - over 1 million new consumers
 - 23% growth in value, 17% growth in volume over last year
 - outperforming market
- Benefited from “alternative” advertising campaign
- Continued development with different flavours and packaging



Reducing Risk in Dairy Commodity Markets

- Dairy Crest has become progressively more insulated from world dairy commodity markets
 - reduced milk into ingredients
 - sold commodity cheese business (2006)
 - sold Stilton and speciality cheese business (2008)
- However we still have some exposure – through by-products arising from production of cheese and lower-fat milks
- We maximise the value of these products by continued focus on product quality and through partnerships with the major UK food manufacturers who are our customers
- These prices were significantly down year on year

	2007/08	2008/09	Closing March 2009
German Butter	€3395/tonne	€2445/tonne	€2150/tonne
German SMP	€3110/tonne	€1920/tonne	€1600/tonne
Dutch Whey	€843/tonne	€422/tonne	€370/tonne
UK Cream	109ppl	89ppl	85ppl

- In view of this we minimised Ingredients throughput during second half of year, but despite this our Ingredients operation had a difficult year
- Lower milk prices will return this operation to a more normal position for 2009/10

Reversing the Decline in Household

- Household business adversely affected by the need to recover higher milk prices at the start of the year
- Underlying net annual decline rate exceeded 10% but is now back below this level
- Country Life brand extended to milk to increase brand footprint



- Ongoing successful trials of doorstep internet solution – milk&more - have led to a planned national roll out this summer
- Clear evidence of benefits
 - increased sales
 - better margins
 - improved cash collection
- New, improved IT platform delivers better consumer interaction
- Currently over 60,000 registered users; looking for 250,000 as we roll out nationally

Milk Purchasing

- Supply of milk remained tight throughout 2008/09

UK Milk Production	billion litres
- Quota	14.5
- 2007/08	13.2
- 2008/09	12.9

- This kept prices high during most of year, despite reduced returns from commodity markets
- Towards the end of the year demand for milk also fell and this has put downward pressure on prices
- Milk purchase prices are down around 10% since February 2009
- European prices now generally significantly lower than UK despite weak Sterling and this will continue to put downward pressure on UK milk prices in short term

Looking after our people and the community

- Reducing our impact on the environment
 - packaging developments include “Jugit” and increased use of recycled plastic
 - reduced water usage (8% less water/tonne of milk processed)
 - working with suppliers (on-farm carbon footprint tool)
- Training and empowering every employee
 - staff survey shows “engagement” up 6% from 2007
 - new induction programme
 - value based leadership training programme
- Responsible supply chains
 - established and developed milk groups
 - providing stability

Summary of the Year

- Sound financial performance in tough market
- Sustained strong brand growth
- Innovation delivering results
- Good cash generation allows us to repay £59 million debt. Year end debt down to £416 million.
- Continued action on cost reduction
- Increased focus following disposal of Stilton and speciality cheese business and 49% stake in Yoplait Dairy Crest
- Dividend rebased: additional pension contributions and YDC impact

Well Positioned Going Forward

- We are a broadly based dairy business
 - clear demonstration of benefits of this in 2009/10
- Focus will be on
 - cash management
 - brand development
- Trading at start of year in line with expectations
- Well placed to benefit when external environment improves

DAIRY CREST GROUP PLC

PRELIMINARY RESULTS

For the year ended 31 March 2009