

**Milk Procurement**



**We are proud of our links to the countryside and of our British dairy heritage. We have a strong working relationship with our farmers, many of whom have supplied us for over 15 years, which is greatly valued by our business. Our strategy is geared to building our direct supplying farmer base and working in partnership with our farmers in order to deliver a sustainable supply chain.**

Whilst we experienced much better weather during 2013 than the previous year, with a warm and sunny growing season, severe flooding was a real challenge in some southern parts at the year end. The rise in the number of extreme weather patterns over recent years makes this an increasingly prominent factor in predicting future milk production levels.

At the start of 2013 we saw milk production held back due to the knock-on effects of poor weather in the previous year, but this has recovered towards the latter part of the year, resulting in extremely strong supply as we enter the peak period of milk production for 2014.

**Milk price and contracts**

As well as experiencing different weather patterns during the year, we recognise that our farmers have very different business models and aspirations. Our aim is to treat every one of our farmers individually and to offer flexibility and choice through a portfolio of contract options so that they can optimise their production from which both they and we benefit.

Last year we launched an innovative formula pricing mechanism, the first milk processor to do so. We are very proud of the process we undertook to deliver a new way of milk pricing. We did this in partnership with Dairy Crest Direct ('DCD') which is the independent organisation which represents our farmers. Our formula is independent, responsive to dairy markets and farm costs and transparent. It has helped build trust in the milk pricing process, therefore strengthening the relationship we have with our farmers.

Following the success of the initial 12-month formula contract we have developed two new Liquid contract options for the coming milk year, both using the formula mechanism. The new options have been developed with DCD, taking in account feedback from our farmers for more straightforward contract terms and competitive pricing.

We also introduced a Volume Incentive Scheme to help farmers increase their

milk production following poor production conditions in 2012. This was made available to all our farmers on standard contracts and resulted in a substantial proportion of our farmers achieving a price premium on their additional milk.

**Farmer support & benefits**

In addition to the new contract opportunities, we have invested in the service we provide to our farmers through our Farm Business team. In mid 2013 we introduced the Farm Business Centre, a new head office based team with farming knowledge and experience, focused on direct supply management. We have also refreshed the role of our regional, field based team of Farm Business Managers, focusing them on delivering the many added value services we offer our farmers.

This new service package has received excellent feedback and is further supported by our interactive website, Farm Connect. The website provides a valuable farm management tool, with online access to individual farm production and payment data, contractual and technical information and news about Dairy Crest.

Our farmers continue to benefit from the unique WhiteGold Service provided by AB Sustain. This independent on-farm advisory service is recognised by our farmers as adding significant value to their business through practical support and advice on farm assurance together with technical and regulatory requirements.

**Working together**

The development of the new contract options and farmer service package has been done in close consultation with DCD. This collaborative approach has further strengthened our relationship. There is close engagement with DCD at all levels within our business including the Executive team.

**Efficiency and innovation**

As we are supporting our farmers to be more efficient for a sustainable future, we remain focused on our milk collection service and how we can use technology to improve operational performance and standards. Developments within our ex-farm collection fleet, including GPRS data transfer, auto sampling and new 'blue sky' routing systems, have enabled us to increase efficiency and improve the way we work with our farmers and our customers.

**Future milk supply**

We are continuing to work to expand the proportion of milk we buy from our direct supplying farms through both recruitment and growth on our current farms. We have

a very competitive offer with our portfolio of contract options being supported by a strong service package.

Our Farm Business team continues to engage in meetings and events with our farmers and with industry opinion formers, to help facilitate and encourage the sharing of best practice and knowledge transfer.

**Dairy Crest's farmer commitment – we will:**

Continue to innovate & build added value sales across our dairy product range in the UK and overseas

Work in true partnership with farmers – offering a fair and market-related price and a choice of relevant contracts

Provide the most comprehensive farm support service for farm businesses

Remain true to our British dairy heritage and strong values

**Looking ahead**

Optimism amongst dairy farmers in the UK is higher than at any point in recent years – as a result of better weather, higher milk prices and reduced costs. Milk production is at 10 year highs and we are seeing evidence of higher levels of farm investment, both to expand production and upgrade existing facilities. This is really positive news for our business and a key factor in ensuring we continue to deliver a sustainable and efficient supply of milk for Dairy Crest.

Although we do not expect the abolition of UK milk quotas from April 2015 to significantly affect UK milk production, as noted above, production was extremely strong in the second half of the year ended 31 March 2014 and we expect favourable conditions and strong supply in the year ending 31 March 2015. Our balanced business and well-invested assets leave us well placed to be able to deal with any further uplift.