

PERFORMANCE

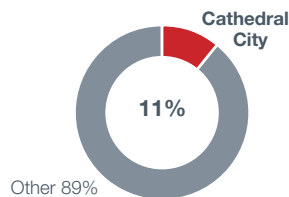
Cheese & whey



£ million	2014/15	2013/14
Revenue	274.4	264.6
Product group profit*	33.1	39.3
Margin	12.1%	14.9%

* Before exceptional items and amortisation of acquired intangibles

Share of the total retail cheese market by value



Source: IRI 52 weeks ended 28 March 2015

Dairy Crest produces and markets Cathedral City, the UK's leading cheese brand, as well as the premium Davidstow cheddar brand. Milk from around 400 farmers in Cornwall and Devon is made into cheddar cheese at our Davidstow creamery in Cornwall. The cheese is then matured for an average of 11 months at our purpose built Nuneaton facility before being cut, packed and distributed to customers. We have two cheese packing operations: a highly automated facility at Nuneaton, Warwickshire, and a plant at Frome, Somerset capable of producing more complicated packs for innovative products such as Cathedral City Chedds and Selections.

Whey is produced as a by-product of cheese making. This is currently dried and sold to food manufacturers. However we are developing a new facility at Davidstow that will manufacture demineralised whey powder and galacto-oligosaccharide, a lactose based prebiotic

Reported revenue for the year ended 31 March 2015 grew by 4% to £274.4 million. However product group profits fell back by 16% to £33.1 million and margin declined to 12.1% (2014: 14.9%).

As is usual in this business, falling milk prices have led to a short-term pressure on margins. The maturation process means that we sell cheese made with milk purchased around 11 months before the sale takes place. Falling sales realisations have now led to lower milk prices but there is a time lag before this is reflected in the costs of stock that is being sold. We expect this margin squeeze to reverse in the second half of the year ending 31

March 2016 as stock made with less expensive milk is sold.

Whey realisations have also fallen and this has contributed to lower reported margins in this business. In addition we have adjusted our aged accruals in line with the Grocery Supply Code of Practice.

Cathedral City continues to grow market share

Total retail cheese market sales were unchanged over the year although volumes fell by 3%. Cheddar accounts for more than half of all retail sales. Cathedral City continued to grow market share, recording flat volumes and 5% sales growth. According to IRI, retail sales of Cathedral City exceeded £280 million. Sales of competing cheddar brands have continued to decline. Taken together the next three largest cheddar brands totalled £141 million, down over 20%.

We continue to develop new products in the Cathedral City range. Products launched in earlier years such as Selections, Chedds, Spreadable Cathedral City and Baked Bites have all prospered. This year we have moved outside of cheddar for the first time and have selected Red Leicester and Double Gloucester for a new Selections variety pack. We have also extended the brand into flavoured cheeses.

In addition to bringing exciting new products to the market we have continued to support Cathedral City with television and other media advertising and with an appropriate promotional programme.

Dairy Crest's second cheese brand, Davidstow, has slightly strengthened its market share. We also continue to supply Marks & Spencer and Waitrose with premium own label cheddar.

During the year we have carried out a comprehensive category strategy project, 'Dairy for Life', which will form the foundation for future innovation, marketing and category merchandising for both of our cheese brands. On the back of this, in addition to the Cathedral City range developments referred to above, we have worked with customers to cross-promote Cathedral City and jacket potatoes and to create a video of 'how to make a great cheese sauce' with Cathedral City.

Growth based on top quality cheese from a highly efficient supply chain

The investment we have made in recent times in our cheese business has created a highly efficient supply chain that produces top quality products.

Making ingredients for infant formula will provide additional growth

We are investing a total of £65 million at our Davidstow creamery in Cornwall to



make demineralised whey powder and galacto-oligosaccharide, a lactose based prebiotic. Both products are used in the manufacture of infant formula for which there is growing demand across the world. We expect commercial manufacture of both products to start later this year.

During the year we entered into a strategic partnership with Fonterra, the world's leading dairy exporter. Fonterra will market and sell our products on our behalf and is also providing valuable technical and engineering support.

A business with great potential

Our Cheese and whey business has well-invested facilities, and strong brands with enviable market positions. It remains well placed to generate attractive growth.



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16th
biggest grocery
brand in Britain