

PERFORMANCE CONTINUED

Dairies



£ million	2014/15	2013/14
Revenue	881.6	944.8
Product group profit*	1.8	18.8
Margin	0.2%	2.0%

* Before exceptional items and amortisation of acquired intangibles

Dairy Crest processes and delivers fresh conventional, organic and flavoured milk to major retailers, 'middle ground' customers (such as smaller retailers, coffee shops and hospitals) and residential customers. The Dairies product group includes revenues and profits from these operations. It also includes revenues and profits from one of our four key brands, FRijj, the country's leading ready to drink flavoured milk brand as well as cream and milk powders.

We operate three modern dairies at Severnside, Chadwell Heath and Foston where we pack milk into polybottles. We also have a glass bottling dairy at Hanworth and a specialist cream potting facility at Chard. In addition we have around 64 operational depots from which we deliver milk to residential and certain middle ground customers. Finally we also run an ingredients operation that helps balance seasonal milk supplies by drying surplus milk and selling skimmed milk powder. We aim to minimize throughput in this business to lessen our exposure to commodity markets.

The raw milk that we purchase from farms contains more cream than the milk that we sell to customers. We use some of the surplus generated during the bottling process to make bulk butter which is transferred to our Spreads and butters business at market prices. The balance of surplus cream is sold by our ingredients operation either as bulk butter or cream.

Reported revenue fell by 7% to £881.6 million (2014: £944.8 million). Both sales volumes and realisations were lower than last year. Dairies product group profits fell to £1.8 million from £18.8 million. Profits from selling surplus properties included in the Dairies product group were £17.6 million (2014: £18.2 million). In addition we have adjusted our aged accruals in line with the Grocery Supply Code of Practice.

Sale of Dairies operations

On 6 November 2014 Dairy Crest agreed to sell its Dairies operations to Müller for £80 million in cash on completion. The sale has been approved by shareholders but remains subject to the approval of the Competition and Markets Authority.

A difficult year for the whole UK dairy sector

A global surplus of milk and high production in the UK has led to a steep fall in realisations of milk and other dairy commodities. Although we and others in the UK dairy sector have reduced the price we pay dairy farmers for their milk, the profitability of our Dairies operations has fallen significantly and excluding property profits we recorded a trading loss in the year.

Property profits remain strong

As residential and middle ground sales reduce we close and sell distribution depots. Property selling prices have remained high and profits from selling properties included in the Dairies product group were £17.6 million (2014: £18.2 million).

Growing FRijj sales

FRijj is the leading brand in the ready to drink flavoured milk market. This market grew by 4% in the year ended 31 March 2015 and, buoyed by growth from sales to the food service and convenience sectors, FRijj sales increased by 7%. During the year we redesigned the packaging and introduced a reduced sugar variant.

Continued cost savings

We have continued to reduce costs in this business. Key initiatives have been a wider use of lighter weight polybottles, distribution savings and an ongoing programme of depot closures to reflect declining residential demand. Overall residential sales fell by 11% compared to the year ended 31 March 2014.

In addition we announced that we would further rationalise our Dairies operations and consult with employees regarding the closure of our glass bottling dairy in Hanworth, West London and our specialist cream potting facility in Chard, Somerset. We anticipate that Chard will close later in 2015 and Hanworth in 2016.



7%
growth in
FRijj sales



IN FOCUS

