

Operating Review

DCC Food & Beverage

DCC Food & Beverage is principally focused on the sales, marketing and distribution of food and beverage products in Ireland and on retail restaurant and outsourced hospitality services through a joint venture company.

Markets and Market Position

In Ireland, DCC Food & Beverage markets, sells and distributes a range of its own and third party agency brands and provides category management and merchandising services to a broad range of customers including grocery multiples, symbol and independent retailers including pharmacies, off-licenses, hotels, restaurants and cafes.

The majority of DCC Food & Beverage's operations are focused on the Irish grocery market which has shown some contraction over the last number of years due to the general economic downturn. As economic conditions remain challenging, consumers continue to search for value and to reduce their discretionary spending both in grocery and out of home. Recent market data has shown that consumers have reduced their purchase volumes over the past twelve months however underlying inflation is keeping the value of sales relatively flat.

While private label now accounts for approximately 35% of all sales by value, brands continue to be important to the Irish consumer. DCC Food & Beverage continues to develop its own branded offering and company owned brands now account for approximately 34% of total revenue.

DCC Food & Beverage's businesses enjoy a number of leading market positions in the categories in which they operate.

In Ireland, the business is the leading and most comprehensive supplier of healthy foods and beverages, fine foods and vitamins, minerals and supplements ('VMS'), selling owned and agency brands directly to both the grocery and pharmacy sectors. DCC Food & Beverage's healthfood brand, Kelkin, is recognised as the leading brand in the ambient health/'better for you' food sector and offers a healthy choice in many food categories. The Kelkin brand is also a strong and developing brand in the VMS sector.

Also in Ireland, the business is a leading value added distributor of indulgence products in the grocery, impulse and food service sectors with a strong, complementary range of company owned and agency brands, specialising in wine, hot beverages, home cooking (herbs, spices and colourings), snacks, confectionery and soft drinks.

DCC Food & Beverage is now the leading distributor of wine in Ireland to both the on and off-trade, providing an extensive and recently expanded portfolio of international wine brands. It is also focused on further developing its spirits portfolio and offers its principals significant on-trade reach in the Irish marketplace.

In Britain, the business is a leading supplier of branded (both company owned and agency) and exclusive retail wine solutions to the multiple off-trade as well as the on-trade sector of the UK wine market.

DCC Food & Beverage is also a leading temperature controlled distributor in Ireland. It offers a full range of temperature controlled supply chain solutions (procurement, brand management and selling, warehousing and distribution) to major retailers, manufacturers and food service customers.

Kylemore Services Group (50% owned by DCC) is a leading operator of retail restaurants and outsourced hospitality services in Ireland, serving approximately 10 million customer meals annually throughout Ireland.

Strategy and Development

The Group's strategy is to develop DCC Food & Beverage into a leading added value sales, marketing and distribution business, building number 1 or number 2 branded positions in focused segments and delivering an above average return on capital. This will be achieved by building on current positions in the healthfood, indulgence and logistics markets, both organically and through acquisition.

The business will continue to increase its focus on brands, building on the progress that has been made to date with the company owned brands of Kelkin, Robert Roberts, Goodall's, YR (home cooking) and Lemon's. The business will also continue to actively develop its extensive range of third party agency brands across its healthfoods and indulgence categories with particular focus on selling, marketing and category management.

Revenue

€212.9m

2012: €223.4m

Change on prior year

Reported: -4.7%

Constant currency: -6.1%

Operating profit

€7.5m

2012: €10.7m

Change on prior year

Reported: -29.6%

Constant currency: -29.6%

Return on total capital employed

9.5%

2012: 13.7%

Brands

Healthfood - Alpro, Biofreeze, Celtic Chocolates, Filippo Berio, Fry Light, Hipp, Jakemans, Kallo, Kalms, Kelkin*, Nairns, Nanny Care, Ocean Spray, Olbas, Ortis, Pomegreat, Popz, St Dalfour, Vitabiotics, Whole Earth.

Indulgence - Andrew Peace, Antinori, Beringer, Bollinger, Chapoutier, Cono Sur, Elizabeth Shaw, French Connection*, Freixenet, Glenfiddich, Goodalls*, Hula Hoops, KP, Lemons*, Lindemans, Louis Jadot, McCoys, Masi, Mateus, Meanies, Moreau, Oatfield, Penfolds, Rancheros, Ritter, Robert Roberts*, Sacla, Sea Dog*, Skips, Stolichnaya, Sutter Home, Topps, Torres, Tullamore Dew, Wakefield, Wilton Candy*, Wolfblass, YR*.

Logistics - Allied Foods*, Mr. Food*.

Other - Kylemore.

* DCC owned brands



Operating Review

DCC Food & Beverage (continued)



Case Study

GOODALL'S

The Goodall's brand, comprising a range of herbs, spices, flavours and colours, was acquired in December 2010. Since the acquisition the brand has been refreshed with new packaging, new displays, new distribution, new advertising and new product development.

Sales of the Goodall's range continued to increase during the year, with the rollout of the brand's new look, which was updated in line with contemporary Irish food values. The brand engaged successfully with opinion formers through the launch of 'A Modern Irish Cookbook', Ireland's first 'blogger' cookbook. New customers have been attracted to the brand through a strong website and social media presence, whilst traditional media and recipe leaflets continued to play a part in retaining the loyalty of established customers.

Goodall's also took advantage of the rise in popularity of home baking by introducing a theme of 'Make it your own' and bringing a number of innovative products to market. A range of nine new products for the baking sector were launched during the year including vanilla pods, vanilla extract with seeds and writing icing. Also new to the Irish market was 'Marshmallow Crème', a versatile product which can be used as a cake topping or dessert ingredient. The product was customer tested both at product and packaging stage and has also been supported on social media post launch. It is now available nationwide throughout Ireland and the Goodall's range continues to grow in the Irish market.

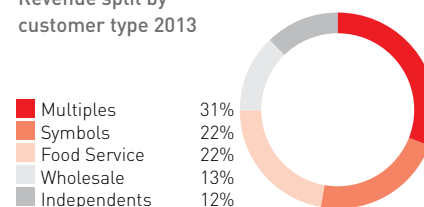
Our wine and spirits business in Ireland will continue to develop its range and grow its market share, particularly in the on-trade sector.

Customers

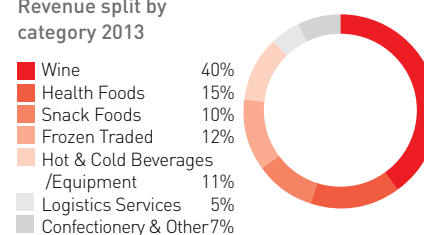
DCC Food & Beverages' business is primarily based in Ireland, with a modest wine business in Britain. The ten largest customers accounted for approximately 50% of total revenue in the year ended 31 March 2013.

DCC Food & Beverage's different operating companies each have their own focused sales teams that regularly interact with our customers on developing joint business plans that focus on sales, marketing, category management, advertising, promotions, new product development and product quality.

Revenue split by customer type 2013



Revenue split by category 2013



Suppliers

DCC Food & Beverage deals with a broad base of approximately 1,900 suppliers. The supply base is quite fragmented and the top ten suppliers account for only approximately 24% of total revenues. A key to success in our businesses is remaining close to new trends and developments in the categories in which we operate, and as a result, DCC Food & Beverage remains in constant contact with its supply base to ensure that it brings the best of what is new to its customers.

DCC Food & Beverage: Key Financial Performance Indicators

Strategic objective	KPI	Performance
Drive for enhanced operational performance	Revenue growth (constant currency)	<div><div></div><div></div></div> <div>€212.9m2013 €223.4m2012</div> <div>Constant currency 2013 v 2012: -6.1%</div>
Drive for enhanced operational performance	Operating profit growth (constant currency)	<div><div></div><div></div></div> <div>€7.5m2013 €10.7m2012</div> <div>Constant currency 2013 v 2012: -29.6%</div>
Grow operating margin	Operating margin	<div><div></div><div></div></div> <div>3.5%2013 4.8%2012</div>
Deliver superior shareholder returns	Return on capital employed ('ROCE')	<div><div></div><div></div></div> <div>9.5%2013 13.7%2012</div>
Generate cash flows to fund organic and acquisition growth and dividends	Operating cash flow	<div><div></div><div></div></div> <div>€5.5m2013 €5.0m2012</div>
Deliver superior shareholder returns	10 year operating profit CAGR	<div><div></div><div></div></div> <div>-2.2%2013 0.4%2012</div>

Our People

DCC Food & Beverage employs management teams with deep category and industry knowledge, combined with strong operational capability. This depth of knowledge is continually enhanced by a focus on product training particularly in wine, hot beverages (coffee and tea) and healthfoods/VMS.

DCC Food & Beverage currently employs 915 people.

Key Risks

DCC Food & Beverage, like all the businesses within the Group, faces a number of strategic, operational, compliance and financial risks. The division is made up of a number of consumer focused businesses where further economic downturn and its impact on consumer spending remains a key risk faced by the division as does the related issue of changing market demand for certain products and product substitution.

Product quality is central to our success and remains under constant review with focused quality assurance undertaken within each of our businesses.

Sustainability

Sustainability within DCC Food & Beverage is aimed at creating long term shareholder value by generating economic, environmental and social value. The sustainability agenda of the division includes health and safety, climate change, product stewardship (sustainable sourcing, healthy eating, responsible advertising, packaging and labelling compliance) and business ethics. In addition, the division focuses on engagement, development and well being of employees across the businesses. There has been a good improvement in the number of lost time accidents across the division during the year.

Performance for the Year Ended 31 March 2013

As anticipated, operating profit in DCC Food & Beverage declined due to the full year effect of the loss of a major contract in the frozen and chilled logistics business in the second half of the prior year and a reduction in the profitability of the wine business in Britain.

The branded distribution activities in Ireland delivered growth in revenue and operating profit driven by a good performance in company owned brands. The Kelkin healthy foods brand continued to grow sales, particularly in the gluten free product category.