

4 Exceptional items

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Impairment of property, plant and equipment and intangibles	(3.6)	(1.7)
Redundancy costs	(3.8)	(5.1)
Duplicate running costs	–	(3.9)
Other rationalisation costs	(1.8)	(2.7)
Restructuring costs	(9.2)	(13.4)
Provision for onerous contract	(1.0)	(4.4)
Duplicate running costs at National Distribution Centre	(3.7)	–
Loss on disposal of Stilton and speciality cheese business	(4.5)	–
Impairment of plant and equipment	(5.6)	–
Office of Fair Trading ('OFT') settlement including related costs	–	(10.0)
Overage profit on previously sold site	–	6.7
	(24.0)	(21.1)
Tax relief on exceptional items	3.9	5.2
Profit on disposal of Yoplait Dairy Crest Limited	50.4	–
Deferred tax provision in relation to cessation of Industrial Buildings' Allowances ('IBAs')	(14.3)	–
Discontinued exceptional item (after tax)	–	1.2
	16.0	(14.7)

2009

Exceptional items in 2008/09 comprise:

Dairies

- Restructuring costs in relation to a wide-ranging efficiency improvement project within Dairies manufacturing and distribution (£9.2 million). These costs comprise the closure of the Nottingham dairy processing plant and associated distribution network restructuring costs. Cash costs comprise £5.1 million and relate principally to redundancy and related expenditure. Furthermore there was a non-cash asset impairment of £1.7 million for plant and equipment and £0.4 million for intangible assets. In the year ended 31 March 2008, the Group closed its dairy at Totnes. This resulted in exceptional costs of £4.8 million including impairment of property, plant and equipment. Since that time the land and buildings at Totnes have been held at fair value less costs to sell. In the year ended 31 March 2009, there have been significant delays in the planning process for the sale of this land at Totnes and any sale is now likely to take several years. Additionally, during this time the property market has weakened substantially. These factors have led to a further impairment of £1.5 million against the carrying value of Totnes assets to a level that reflects management's best estimate of the revised fair value less costs to sell and a further £0.5 million cash costs relating to the site that will now not be recovered through disposal proceeds.
- In the year ended 31 March 2008, the Group provided £4.4 million for an onerous long-term milk supply contract. The contract had become onerous as a result of unprecedented increases in milk prices during 2007/08. A combination of higher milk costs in the first half of 2008/09 and a negotiation with the customer that was longer than expected have resulted in a further charge of £1.0 million being required in the year ended 31 March 2009. This comprises £0.9 million for onerous cash outflows to the expected renegotiation date (of which £0.4 million was utilised in the year ended 31 March 2009) and a further £0.1 million for impairment of plant and equipment that is expected to form part of the negotiated settlement with the customer (this is a non-cash charge). From the first half of 2009/10, this contract is no longer expected to be onerous to the Group. See Note 24.

Foods

- In October 2006 the Group sold its retailer brand cheese business to First Milk Limited. This included the cheese cutting and packing facility at Maelor. First Milk Limited have continued to cut and pack cheese since that time under a three year transitional service agreement. Significant capital investment was undertaken during 2008 to build a modern, efficient cheese cutting and packing facility at our national distribution centre at Nuneaton. In the period from January 2009 to July 2009 volumes are being transferred from Maelor to Nuneaton as the latter gradually increases processing volumes. During this ramp up phase, there are duplicate running costs resulting from cutting and packing at two separate sites and inefficiencies at Nuneaton due to low initial volumes. These duplicate running costs amounted to £3.7 million in the year to 31 March 2009, of which £3.6 million were cash. A further £1.0 million is expected to be incurred in the first half of 2009/10.
- On 23 August 2008, the Group disposed of the property, plant and equipment and the inventories of its Stilton and speciality cheese business based in Hartington, Derbyshire to Long Clawson Dairy Limited. The results of this business have not been classified as discontinued operations since it is not considered a major line of business in the context of Group revenue and profit.

66 Notes to the financial statements continued

4 Exceptional items (continued)

The loss on disposal amounted to £4.5 million and comprises:

	£m
Sales proceeds – cash consideration	3.8
Book value of property, plant and equipment disposed	(4.4)
Book value of intangible assets disposed	(0.4)
Book value of inventories disposed	(3.3)
Other fees and costs	(0.7)
Loss on disposal	(5.0)
Associated pension curtailment gain	0.5
Exceptional charge (before tax)	(4.5)

- An impairment of £5.6 million has been charged against the carrying value of plant and equipment at our cheese manufacturing plant in Wexford, Ireland. The profitability and cash generation of this business was adversely impacted in the year ended 31 March 2009 as realisations for commodity cheese declined. Following a review for possible impairment, these assets have been written down to their fair value less costs to sell based on managements' best view as to their current market value.
- On 26 March 2009, the Group sold its 49% share in Yoplait Dairy Crest Limited ('YDC') to Yoplait SAS, the majority owner, for cash consideration of £63.5 million. The YDC joint venture had been accounted for using the equity method up to the date of its disposal. The results of this business have not been classified as discontinued operations since it was not considered a major line of business or geographical area of operations. The profit on disposal amounted to £50.4 million and can be analysed as follows:

	£m
Sales proceeds – cash consideration	63.5
Group share of YDC net assets at date of disposal	(8.6)
Provision for cost of insuring YDC defined benefit pension scheme liabilities (see Note 24)	(3.5)
Other fees and costs	(1.0)
Gain on disposal	50.4

Tax

- The cessation of IBAs was enacted during the year ended 31 March 2009. Under IFRS the Group has charged an increased deferred tax provision in respect of IBAs as the tax written down value has decreased significantly. This provision has been charged as exceptional due to its one-off nature and material size. The provision will unwind in future periods offsetting the cash impact of the cessation of IBAs on the Group's effective tax rate.

2008

Exceptional items in 2007/08 comprised:

- £4.8 million charge in relation to the closure of a dairy at Totnes. This charge included cash costs of £3.1 million principally in respect of redundancies (£2.0 million) and a non-cash asset impairment of £1.7 million for plant and equipment.
- £8.6 million cash charge of restructuring expenditure with respect to the rationalisation of the Express Dairies depot operations and the Liverpool and Nottingham dairies of Arla Foods UK Limited, which were acquired on 19 August 2006. These restructuring costs comprised £3.1 million of redundancy costs, £3.5 million of duplicate running costs and £2.0 million of other rationalisation costs.
- £10.0 million charge for penalties and associated legal fees in relation to settlement of the OFT investigation into 'milk price initiatives'. On 20 September 2007 the Office of Fair Trading ('OFT') issued a detailed Statement of Objections to certain retailers and dairy processors in its investigation into pricing in the dairy produce sector. On 7 December the Group announced that it had reached an early resolution agreement with the OFT concerning this investigation. Under this agreement the Group expects to pay a significantly reduced fine of £9.4 million. In addition, legal fees of £0.6 million have been charged in relation to the investigation. The exceptional cost has been allocated £3.6 million Foods and £6.4 million Dairies. Cash costs incurred in the year ended 31 March 2008 amounted to £0.4 million of legal fees.
- £4.4 million provision for an onerous long-term milk supply contract. This contract became onerous during the year ended 31 March 2008 as a result of unprecedented increases in milk costs combined with weaker cream prices in the second half. The provision comprised the present value of estimated cash outflows under this contract through to its term as estimated in March 2008. Cash utilisation of this provision in the year to 31 March 2008 was £1.5 million. See Note 24.
- £6.7 million profit on a site in west London originally sold in October 2002. The site was sold with a potential future overage receipt from the purchasers should certain planning permissions be obtained. A cash amount of £6.7 million was received in the period in full and final settlement of this overage clause.
- £1.2 million final tax adjustment on the disposal of the majority of our retailer branded cheese business to First Milk in October 2006.