THINKING DIFFERENTLY

DAIRY CREST

Dairy Crest Group plc
Annual Report 2014

Cows pictured with kind permission of their owners: John S. Pile (Farms) Ltd, Middle Farm, Lewes, East Sussex and D.Goodwin & Sons, Hill House Farm, Lindfield, West Sussex; both of whom supply their milk to Dairy Crest.

Dairy Crest is the largest UK-owned dairy food company. We process and market nutritious fresh milk and branded dairy products. The Company has a well-established strategy, a clear vision, robust values and good people.

The year ended 31 March 2014 was one of consolidation for Dairy Crest. Following the transformational sale of our French spreads business, St Hubert, last year we have continued to execute our long term strategy of growing our key brands and other added value sales and reducing our costs.

We constantly innovate, bringing new products to market and new ways of working across the business.

We are a responsible business and have recently been awarded 4.5 stars by Business in the Community, their highest ranking in the whole of the UK.

Dairy Crest is well positioned to generate growth which will benefit everyone associated with the business.

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Non-GAAP measures of financial performance used throughout this Annual Report and Accounts are defined in the Financial review on pages 28 to 31 and in Note 1 to the financial statements.

Who we are

Dairy Crest is the largest UK-owned dairy food company, processing and selling fresh milk and branded dairy products in the UK

Vision

- **We are proud of our links to the countryside, our dairy heritage and the part they play in everyday life**
- **We want to earn the right to consumers' loyalty by providing healthy, enjoyable, convenient products**
- **We aim to meet consumers' needs and go where this takes us**
- **As we grow, we will look after our people and the communities where we work**

Strategy

- **To build market-leading positions in branded and added value markets**
- **To focus on cost reduction and efficiency improvements**
- **To improve quality of earnings and reduce risk**
- **To generate organic growth and to make acquisitions and disposals where they will generate value**

Product groups

Spreads & butters

Dairy Crest produces some of the UK's leading spreads and butter brands. We focus on two key brands Clover and Country Life.

We also manufacture and sell Frylight one calorie cooking spray.

Cheese & whey

Dairy Crest has the leading cheese brand in the UK, Cathedral City, and a world-class cheese supply chain. Cathedral City is made at our Davidstow creamery in Cornwall from milk supplied by local dairy farmers. The cheese is matured, cut and wrapped at our purpose-built facility in Nuneaton from where it is despatched to retailers. We also have a smaller cheese packing facility at Frome, Somerset which provides the business with additional flexibility. Whey, a by-product of cheese-making, is also produced at Davidstow and is currently dried and sold as whey powder.

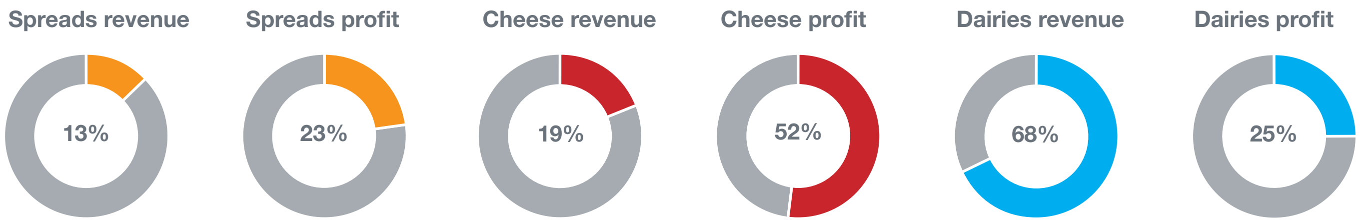
Dairies

We process and deliver fresh conventional, organic and flavoured milk to major retailers, 'middle ground' customers including smaller retailers, coffee shops and hospitals, and residential customers.

We also manufacture and sell FRijj, the leading fresh flavoured milk brand, cream and milk powders.

Contribution to Group

% of total Group
Revenue excludes other revenue. Profit is product group profit excluding associates



Highlights

- In a difficult butter and spreads market Clover grew volume but lost a little market share, Country Life spreadable grew and outperformed the market but sales of Country Life block butter declined
- The rationalisation of our spreads and butter manufacturing onto one well-invested site is nearing completion
- Frylight sales have grown strongly in the year

- Cathedral City continues to grow market share and is now Britain's 18th largest grocery brand (Source: The Grocer)
- Cathedral City brand extended outside of cheese for the first time with Baked Bites – Cathedral City biscuits
- On track to commence demineralised whey powder (a base ingredient for infant formula) production in 2015

- Increased profits from Dairies arising from strong property sales
- Cost savings delivered ahead of target
- FRijj capacity extended and new flavours and pack sizes successfully introduced

Markets

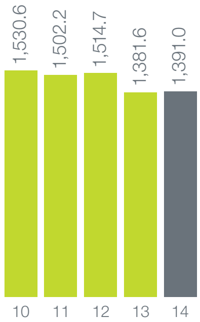
Dairy is
now worth

£10.6bn

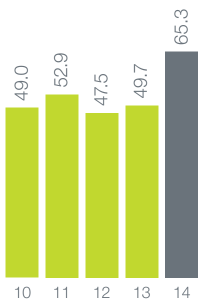
Source:
IRI 52 weeks ended
29 March 2014

Financial highlights

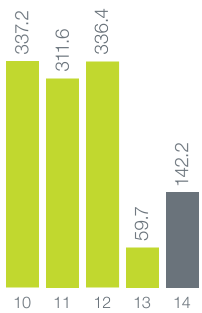
Revenue (£m)



Adjusted profit before tax* (£m)

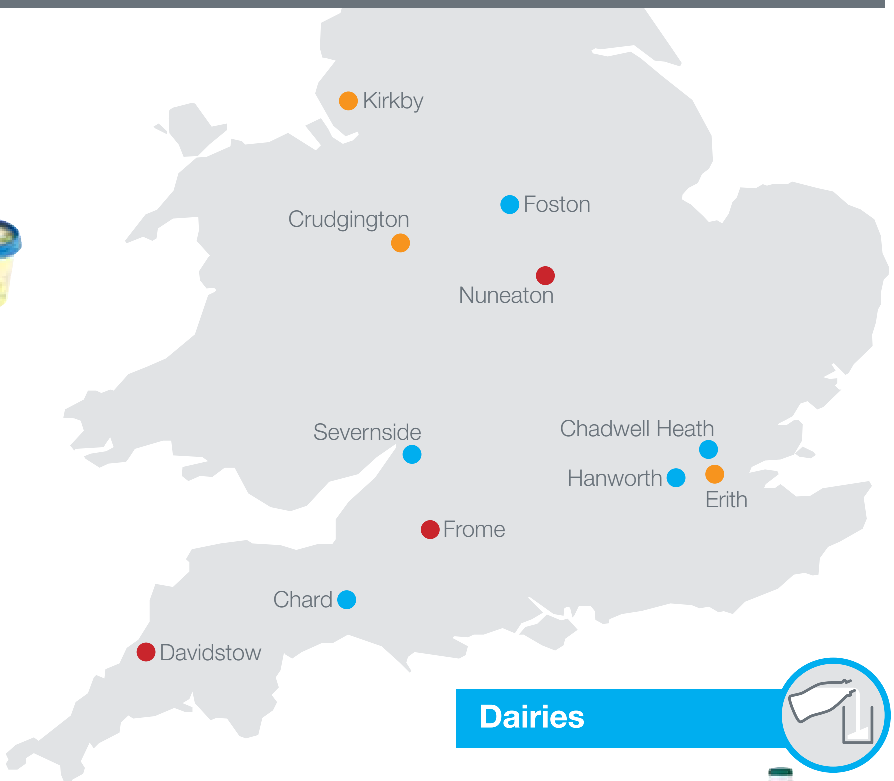


Net debt (£m)



* Before exceptionals, amortisation of acquired intangibles and pension interest

Production sites



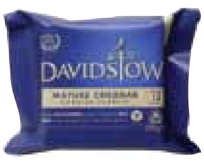
Spreads & butters

No1 UK
dairy spread

Frylight 1Cal

Cheese & whey

No1 UK
branded cheese



Dairies

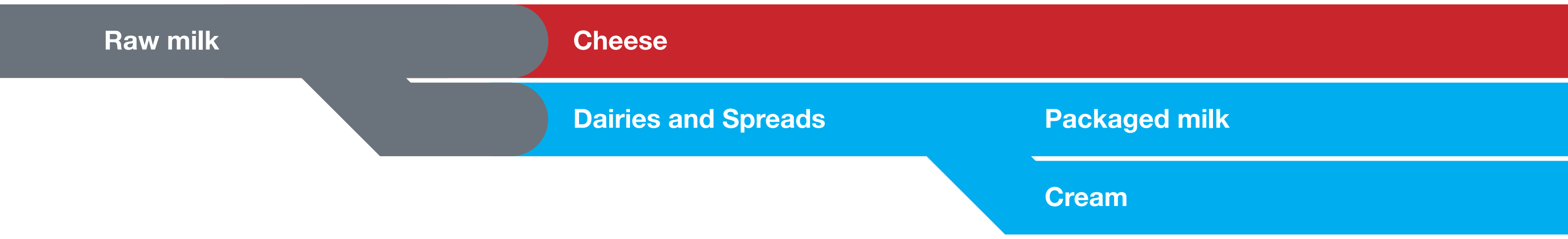
Fresh milk to retailers

Country Life milk

No1 **ready to drink flavoured milk**

Residential delivery – 'milk&more'

Making the most from milk



Dairy Crest is the largest UK-owned dairy food company. Our business depends on milk and we make sure we use every drop we buy. This diagram shows how milk flows through our business and the products we make from it.

We have three product groups: Cheese & whey, Spreads & butters and Dairies.

Milk Procurement

A sustainable supply of high quality milk is important to Dairy Crest. We buy 1.9 billion litres each year – around 1 litre in every 6 produced in Great Britain.

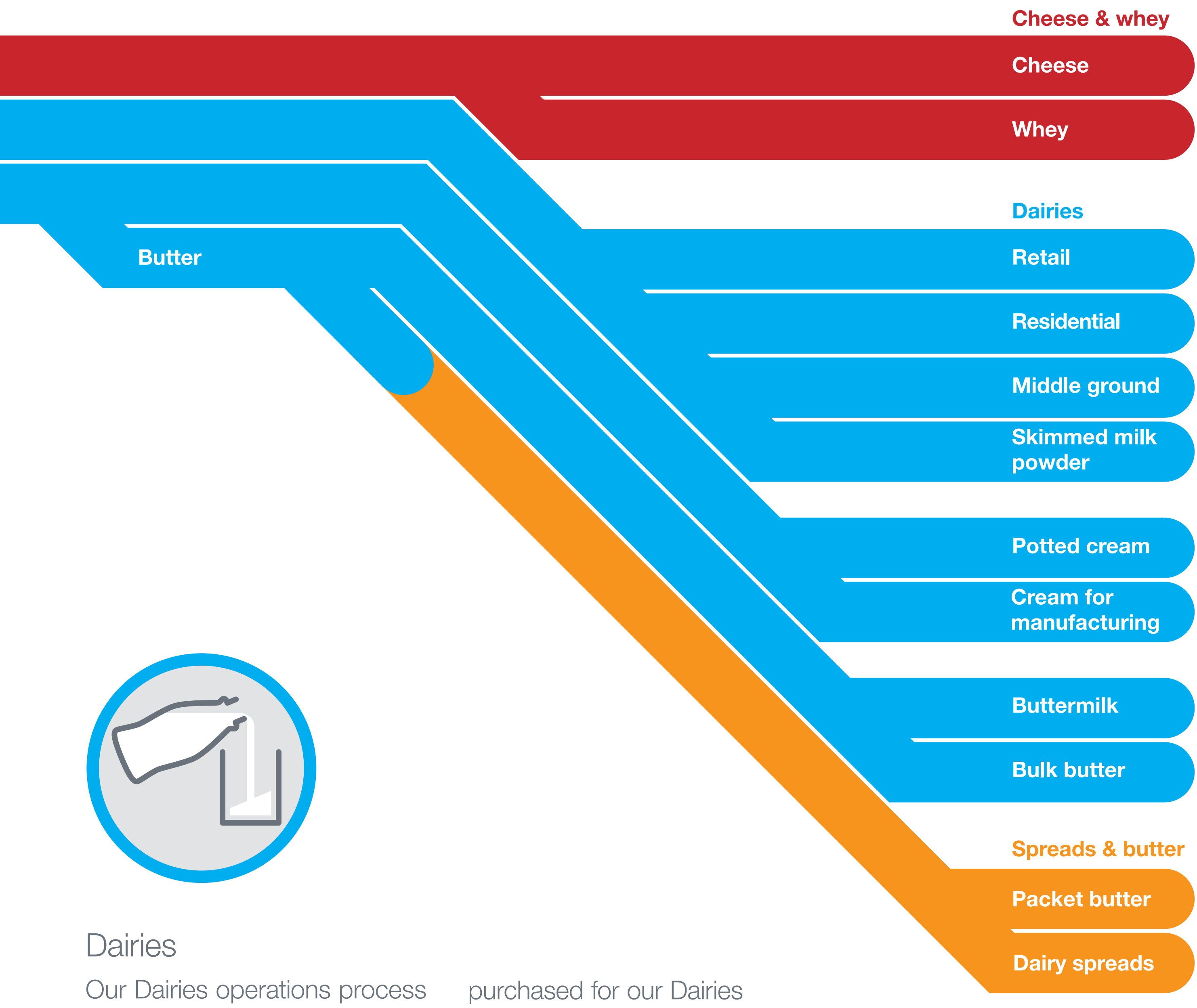
Cheese & whey

We process over 400 million litres of milk into cheese each year; which is all sourced direct from dairy farmers in Devon and Cornwall and turned into cheddar cheese at our creamery in Davidstow.

Currently we dry the whey that is produced as a by-product of making cheese and sell it to food manufacturers. In future we plan to make demineralised whey powder – a key ingredient in infant formula.

Spreads & butters

Our Spreads & butters operation makes butter and dairy spreads from cream separated from the milk processed by our Dairies operations and vegetable oil.



Dairies

Our Dairies operations process around 1.4 billion litres of milk each year. Most is sourced direct from dairy farmers across the southern half of England and Wales. Milk production is seasonal with more being produced in the spring, but because our consumers want to drink the same amount every day, we turn any surplus milk we have into skimmed milk powder and butter. Over 90% of the milk purchased for our Dairies operations is sold in liquid form, through UK retailers, 'middle ground' customers ranging from coffee shops to hospitals, and direct to consumers' doorsteps by our milkmen.

Today's consumers prefer to drink lower fat varieties of milk so we separate the cream and sell it or churn it into butter.

Our Dairies operations also produces a range of potted cream for consumers to enjoy.

Dairy Crest has a clear strategy. We have also created a strong vision and robust values for the business which underpin all we do.

We constantly innovate, bringing new products to market and new ways of working across the business.

We aim to generate cash and reward shareholders with a progressive dividend.

During the year we have refined our key performance indicators which are summarised opposite. These KPIs are also used as measures for our Long Term Alignment Plan (LTAP) for Directors and senior employees. (See pages 59 to 60 for more detail).

Operational performance – pages 17 to 22

Financial performance – page 28

Corporate responsibility performance – page 23

See how we make 'The most from milk' through our integrated business model – pages 4 and 5

Further details of our LTAP – pages 52 and 53

Our vision

We are proud of our links to the countryside, our dairy heritage and the part they play in everyday life

We want to earn consumers' loyalty by providing healthy, enjoyable, convenient products

Our strategy	Progress 2013/14
1 To build market-leading positions in branded and added value markets	Cathedral City continued its strong performance and again significantly outperformed the market. It is now Britain's 18th largest grocery brand (Source: The Grocer, March 2014). We also made progress with Country Life Spreadable, although Clover, FRijj and Country Life block butter all lost market share. Frylight one calorie cooking spray, a brand we acquired in 2011/12, is making good progress. We have identified and committed to invest £45 million to start manufacturing demineralised whey powder, adding value to the whey we produce as a by-product of cheese manufacture.
2 To focus on cost reduction and efficiency improvements	Projects initiated in the year have delivered annual benefits of £25 million – ahead of our £20 million target. Greatest cost savings have arisen from the reorganisation of the business into 'One Dairy Crest'. This reorganisation was completed early in the year and combined our Foods and Dairies businesses into one management and operating structure. It allows us to have an integrated supply chain and will lead to further efficiencies and greater focus on the consumer. We have also made savings by on-going closure of depots, increased use of lighter polybottles for milk and reduced distribution costs.
3 To improve quality of earnings and reduce risk	Since last year's disposal of St Hubert we have not identified any suitable acquisition opportunities and are investing in our existing business which has lower execution risk. The demineralised whey project will also give us access to new markets. We have also introduced innovative milk purchasing contracts where prices are calculated based on a formula. This adds predictability for both us and the dairy farmers who supply us.
4 To generate organic growth and make acquisitions and disposals where they will generate value	We continue to simplify the business and have sold our depot based business in the North West of England. We have also shut Proper Welsh Milk and are carrying out a strategic review of FoodTec.

Our values

WE LISTEN
Consumers are at the heart of our business

WE CREATE
We constantly look for new and better ways of doing things

We aim to meet consumers' needs and go where this takes us

As we grow, we look after our people and the communities where we work

Strategic report

Future priorities

We continue to seek to grow our four key brands and will support them with television advertising. We will also keep bringing out new innovations.

This will be focused around making our brands healthier, without compromising on taste and improving the packaging so that we give consumers a choice of sizes and make our brands more convenient for them.

We expect further progress from Frylight which plays to the healthy and convenient drivers.

We expect to complete the demineralised whey investment in 2014/15 and that this project will generate an additional £5 million annual profit from 2015/16.

We expect to benefit from lower spreads manufacturing costs as we consolidate production at Kirkby and close Crudgington.

Our focus remains on reducing the cost of moving milk through the supply chain and we have several initiatives underway to do this.

Following the One Dairy Crest reorganisation we will continue to integrate our planning to reduce wastage and deliver improved customer service.

As residential sales decline we will continue to manage the associated costs and use property sales to mitigate any associated impact on profits.

We will continue to develop milk contracts that reduce risk.

We have agreed with the Pension Scheme Trustee to reduce the scheme's exposure to higher risk assets.

We will continue to assess investment opportunities and make disposals where appropriate.

Since the year end we have further simplified the business by selling our remaining 30% stake in Wexford Creamery Limited.

We are confident that we can generate profit growth in all three of our product groups over the medium term.

We also expect to increase free cashflow.

Key performance indicators and performance in the year ended 31 March 2014

DELIVER progressive dividends with cover between 1.5 and 2.5 times (31 March 2013: increase 1.5%; cover 1.4 times).

In the year ended 31 March 2014 the Board is recommending a total dividend up 3%. This is covered 1.9 times.

GROW earnings before, interest, tax and depreciation (adjusted EBITDA) and adjusted profit before tax (adjusted PBT). In the year ended 31 March 2014 adjusted EBITDA is up 7% and adjusted PBT up 31% (31 March 2013: adjusted EBITDA unchanged; adjusted PBT +7%).

DELIVER an acceptable return on capital employed (ROCE).

ROCE for the year ended 31 March 2014 was 13.8%, ahead of the long term target of 12% (31 March 2013: 13.3%).

MAINTAIN net debt / EBITDA within a range 1 – 2 times.

At 31 March 2014 net debt / EBITDA was 1.3 times (31 March 2013: 0.6 times).

GROW our four key brands ahead of the market.
In the year ended 31 March 2014 only one of our four key brands grew ahead of the market (31 March 2013: three key brands in growth). (Further details, page 13).

DELIVER cost savings initiatives.

Cost reduction projects initiated in the year ended 31 March 2014 have delivered annual benefits of £25 million, ahead of our annual target of £20 million (31 March 2013: £23 million).

ACHIEVE revenue targets for products developed in the last 3 years.

In the year ended 31 March 2014 around 4% of our total revenue and 7% of our key brand revenue has come from such sales against a target of 10% (31 March 2013: 5% of total revenue; 9% of key brand revenue).

IMPROVE corporate responsibility measures.
Under a new marking system, we have been awarded 4.5 stars by Business in the Community and are its highest ranked UK business (31 March 2013 BITC Platinum Big Tick Award).

There is a more detailed review of our performance against KPIs on pages 59 and 60

WE LEAD
We value success and strive to be the best

WE RESPECT
We value our people and are stronger together

WE CARE
We act responsibly with a passion to do the right thing

THINKING DIFFERENTLY

To be the best we have to attract and retain people of the highest calibre. To achieve this we offer employees a wide range of training and development opportunities, ensure the vast majority of employees have access to a bonus or incentive scheme and have introduced policies that help encourage people to achieve a healthier work life balance.

Learning & development

One of the main focus areas for our learning and development team this year has been the roll out of our integrated business planning process which followed the reorganisation of our business into a single One Dairy Crest structure. The extensive training that has taken place, which will continue this year, focuses on the working processes and behaviours to achieve optimum performance from our new business model. Once fully implemented, integrated business planning will enhance forecasting and give employees more empowerment to deliver our overall strategy.

Our Eden engineering and technology apprenticeship programmes, run by MGTS and Reaseheath College respectively, continue to go from strength-to-strength. Launched in 2012 the engineering programme is a four year, full time academic and work based advanced apprenticeship. This provides participants with a comprehensive understanding of the dairy industry, a NVQ Level 3 in engineering systems and a BTEC Level 3 in operations and maintenance engineering. The technology programme, now in its fifth year, is helping us find and develop the technical and operational leaders of tomorrow, which is vital for the future of dairy processing in the UK. As part of the programme, students learn key science principles associated with dairy and process improvement techniques required to run an efficient modern dairy operation.

Investing in our front line management

Manufacturing sites have been running development programmes focusing on core management skills, and encouraging managers to learn together in teams. These programmes benefit from the active support and involvement of the site senior managers, providing the context and background to the programme and ensuring effective transfer of learning to achieve maximum business benefit.

Since 2010

1,570

of our people have registered on our online e-learning portal

As well as providing our staff with face-to-face training we also continue to invest in our online development offering so that staff can enhance their skills and knowledge. Since 2010 1,570 of our people have registered on our online e-learning portal and made use of the extensive suite of courses on offer.

Looking to the future and developing the skills of young people, Dairy Crest provides expertise and support in a number of areas.

In response to a recognised shortage of people studying food science in the UK, we continue to sponsor A-Level and GCSE course places at Nottingham and Reading universities' Food Science summer schools. In 2013 we continued our support for the IGD's 'Feeding Britain's Future' programme which saw employees from across Dairy Crest support over 400 unemployed young people in their quest to get a job. Building on last year's events held at Davidstow and Nuneaton, this year we also held over 30 joint events with Sainsbury's, Asda and Marks & Spencer at their stores or in the local job centres.

Employee engagement

We strive to improve employee engagement as this delivers improved customer service and productivity. After a year of considerable change in the business there was, understandably, a slight decrease in our overall employee engagement score. Encouragingly, this does remain above the UK average and staff told us we had many of the attributes in place to be a high performing company, including, 'commitment to great customer service', 'high product quality' and 'continually looking for ways to improve'. As a result of the survey, local action plans have been put in place and progress will be regularly monitored by the Management Board.

One of the most important ways of enhancing engagement is by ensuring that staff know what is happening across the business in a timely fashion. To help accomplish this we have in place several staff communication channels including an intranet which can be accessed at work and at home, and weekly and bi-monthly staff briefings. In addition to this Dairy Crest also runs an annual strategy roadshow that all employees are invited to attend. Last year 177 sessions took place across our workplaces with 76% attendance (an increase on the previous year of over 10%). Finally, our CEO, Mark Allen, hosts employee lunches once a month at different workplaces where staff have the opportunity to hear business updates and ask the questions important to them.

Diversity

Our mission for diversity and inclusion at Dairy Crest is for all of our people to feel valued, listened to and able to reach their potential. We will attract, develop and retain from the widest pool of talent because we truly believe that it is key to our business success.

We recognise that diversity brings fresh ideas and innovations to improve our products, services and working practices, delivering commercial benefit and shareholder value.

Employees are encouraged to reach their full potential regardless of their age, gender, marital status, disability, nationality, colour, ethnic origin, sexual orientation or religious affiliation. The Company will not tolerate discrimination or harassment on any of these grounds. In 2014 we will re-launch our Diversity Committee to reflect the One Dairy

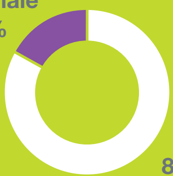
Crest structure, having recently agreed membership and objectives to further drive our progress in this area.

People who are able to balance their working life with their private life are not only happier but they are also more productive. To help make sure we achieve this at Dairy Crest we allow staff from all areas of the business to apply for flexible working hours. In addition, we offer employees the opportunity to take sabbaticals and to undertake voluntary work. Our maternity and paternity leave policies are significantly above the statutory minimum. All employees, regardless of their status, location or role should feel that they are treated flexibly in their ways of working according to business needs.

Gender profile

All employees

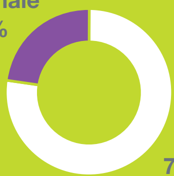
Female 17%



Male 83%

Senior management

Female 23%



Male 77%

Reward and recognition

We know that being valued and recognised at work is important. To this end, alongside a range of market leading benefits including pension and holiday entitlements above statutory levels, the vast majority of employees are members of a bonus or incentive scheme which is linked to either personal or site/company performance. To share further in the Company's success, all employees are invited on a regular basis to join a 'sharesave' scheme.

Pension auto-enrolment went live in April 2013 with over 90% of our workforce now participating in a workplace pension scheme that after a year's service offers an employers' contribution above that required by law. Recently we have launched a supporting, bespoke pensions and retirement infosite to encourage responsible retirement saving.

Finally, we're proud that we have in place a recognition scheme that means any member of staff can nominate another employee for an award that carries with it a financial reward. Last year 551 such awards were approved. As well as celebrating individual achievements we have a team of the year award recognising the great innovations that can be made when employees work well together.

Over 90%

of our workforce now participate in a workplace pension scheme

It is with sadness that, in my current role of Acting Chairman, I am delivering this year's statement on behalf of our Chairman, Anthony Fry, who is currently away from the business for health reasons.

Anthony has led Dairy Crest's transformation with great skill over the last four years and our thoughts are with him and his family at this time. We wish him a full and fast recovery.

Living by our Vision and Values

The Board fully recognises the importance of corporate governance in underpinning the integrity and performance of the business. It is acutely aware of Dairy Crest's responsibilities to the farmers who supply us with milk, our employees and franchisees, our pensioners, the communities in which we operate and our shareholders. We use the framework provided by our Vision and Values to balance the different interests of these groups. This has served us well in the past and continues to underpin everything we do today.

A simpler, more financially robust business

Last year's transformational sale of our French spreads business, St Hubert, made Dairy Crest a simpler, more financially robust business and provided a strong base for future growth. By continuing to execute our long term strategy of growing our key brands and other added value sales and of reducing our costs we have continued to strengthen our business.

The pleasing financial results for the year ended 31 March 2014, delivered against the backdrop of a trading environment that remains challenging, demonstrate that the transformed business can deliver improving returns for shareholders.

We have chosen not to make any significant acquisitions since the disposal of St Hubert. We gave thorough consideration to doing so but to date we have not identified any opportunities which could provide the attractive returns which we can achieve by continuing to invest for growth in our existing business. The Board believes that choosing to invest in projects such as demineralised whey production provides a better route to profitable growth and has lower execution risk. Entering the demineralised whey powder market will also allow us to access new markets and should contribute to increased stability.

Corporate responsibility

Dairy Crest is a responsible business that demonstrates its commitment to corporate responsibility in many ways. This has been recognised by Business in the Community, including coming second in its Company of the Year competition last year. This year we have been awarded 4.5 stars by BITC and are its highest ranked business in the UK.

A stable Board

Other than the appointment of Tom Atherton as Group Finance Director from 23 May 2013, there have been no Board changes or Management Board changes during the year.

Increased dividend recommended

The Board is recommending a final dividend of 15.4 pence per share, making a full year dividend of 21.3 pence per share, up 2.9% from last year. This dividend is covered 1.9 times by adjusted basic earnings per share, up from 1.4 last year. Looking beyond this year we propose to maintain our progressive dividend policy within a target cover range of 1.5 to 2.5 times.

Summary

The year ended 31 March 2014 was a good one for Dairy Crest. We have consolidated the significant changes we made last year and are benefiting from operating as one business. Good progress is being made with our demineralised whey project which will provide increased stability and profit growth.

Richard Macdonald Acting Chairman
21 May 2014

Financial highlights

- Adjusted profit before tax up 31% to £65.3 million, including higher profits from sale of surplus properties
- Year end net debt at £142 million leaves gearing within targeted range at 1.3
- Proposed final dividend payment up 3% to 15.4p

Strategic highlights

- Reorganised into one business structure
- Demineralised whey project on track to enhance annual profits from 2015/16 by £5 million – in exclusive talks with one customer
- Move to a single spreads manufacturing facility nearing completion
- Reduced pension scheme contributions from 2014/15

Operating highlights

- On-going growth for Cathedral City ahead of market
- Continued focus on costs: £25 million annualised cost savings delivered in 2013/14, with a further £20 million identified for 2014/15
- Strong Corporate Responsibility commitment: highest UK ranked business by BITC

CHIEF EXECUTIVE'S REVIEW

I start my review by echoing the thoughts of Richard Macdonald, our Acting Chairman, regarding Anthony Fry, our Chairman. Everyone in Dairy Crest wishes Anthony a successful recovery. His guidance and inspiration are missed.

Summary

The year ended 31 March 2014 was one of consolidation for Dairy Crest. Following the transformational sale of our French spreads business, St Hubert, last year we have completed our reorganisation into one business structure and are seeing the benefit of this project in the form of greater focus on consumers and a more integrated supply chain. This has also helped in our constant drive to reduce costs. Our largest brand, Cathedral City, continues to grow strongly.

The rationalisation of our butter and spreads manufacturing onto one well-invested site at Kirkby, Merseyside is nearing completion and our plan to close our factory in Crudgington is progressing.

In parallel to the continued strengthening of our existing operations we have initiated a major project to add value to the whey we produce as a by-product of cheese manufacturing. In total we are investing £45 million at our cheese creamery at Davidstow, Cornwall to allow us to manufacture demineralised whey powder which we expect to boost annual profits by around £5 million from 2015/16. We are in the process of agreeing a contract with an exclusive customer which is already well established in the appropriate markets. The customer will also provide technical advice as the project moves forward.

Adjusted Group profit before tax increased by 31% to £65.3 million (2013: £49.7 million). Adjusted basic earnings per share increased by 39% to 40.8 pence (2013: 29.4 pence). Key factors behind the increase in adjusted Group profit were higher profits from selling surplus properties, which increased by £10.5 million, and lower interest costs which reduced by £8.8 million.

Exceptional costs fell sharply in the year from £56.5 million in the year ended 31 March 2013 to £10.4 million in the year ended 31 March 2014 reflecting the reduced level of restructuring across the business.

Group net debt at 31 March 2014 was £142 million, up from £60 million at 31 March 2013, but significantly lower than at 31 March 2012, prior to the sale of St Hubert, when it was £336 million. Net debt fell significantly in the second half of the year. Significant factors in the increase from 31 March 2013 were one-off payments resulting from the sale of St Hubert to the pension scheme and bondholders which together totalled £49 million. As noted above, we also invested significantly at Kirkby and Davidstow.

Market background

The year has seen an on-going decline in food sales by the major retailers, our principal customers. They continue to be intensely competitive and liquid milk in particular remains a key product where they are seeking to offer value to consumers. In this environment it has been difficult to pass higher input costs onto our customers and this emphasises the importance of our own cost reduction initiatives.

Towards the end of the year most major retailers chose to reduce the price at which they sell milk to consumers. This had the effect of further increasing the gap between these prices and those which we charge our residential customers. We expect this to accelerate the downward trend in our residential sales.

The background on the supply side is very different. UK milk production is buoyant and dairy farmer confidence high. We remain committed to paying fair, market related prices to the dairy farmers who supply us with milk. The milk prices we pay our farmers increased by 8% over the year ended 31 March 2014 and we continue to work with our direct suppliers to offer them a choice of milk supply contracts. These include those with prices determined by formulas, which allow them to optimise their production. We have broadly maintained our milk purchase prices since the year end although market prices are now starting to fall.

Looking ahead, European milk supply is likely to increase after the abolition of production quotas from April 2015. UK production, which has been below the available quota for over a decade, is unlikely to be affected by this change. Consumer preferences and the economics of milk transportation make it unlikely that liquid milk will be imported into the UK. It is possible that some additional cheese produced in Ireland, for example, may be exported to the UK but other global markets may well be more attractive. If more cheese was to be imported into the UK it could put downward pressure on commodity cheese prices and farmgate milk prices. However, we anticipate that our market-leading Cathedral City brand, will continue to perform strongly.

Branded sales

We have continued to support our four key brands, Cathedral City, Clover, Country Life and FRijj. As the table shows, total sales of these brands have grown by 4% this year. Cathedral City continued its strong performance and again significantly outperformed the market. It is now Britain's 18th largest grocery brand (Source: The Grocer, March 2014).

Brand	Market	Dairy Crest sales growth*	Market statistics**	
			Brand growth	Market growth
Cathedral City	Cheese	+12%	+10%	unchanged
Clover	Butters, spreads, margarine	-6%	-6%	-4%
Country Life	Butters, spreads, margarine	-4%	-7%	-4%
FRijj	Ready to drink flavoured milk	-4%	unchanged	+16%
Total		+4%	+3%	

*Dairy Crest value sales 12 months to 31 March 2014 v 12 months to 31 March 2013 **IRI data 52 weeks to 29 March 2014

In the butters and spreads market, which is declining, Clover's market share reduced slightly. However, Country Life spreadable grew share and outperformed its major spreadable rivals. Country Life block butter sales fell as we reduced promotions due to higher cream input costs.

Over the year as a whole FRijj sales fell by 4%. However, FRijj sales rebounded strongly in the second half following the upgrade of our production facilities in the first half.

Innovation is key to the success of these brands. We have an ambitious target that 10% of our sales will come from products introduced in the last three years. This year around 4% of our total revenue and 7% of our key brand revenue has come from such sales. This is a key target as we continue to move our focus to a consumer driven, demand led business. To support this we are building a new innovation centre in partnership with Harper Adams University, Shropshire.

Cost cutting

Cost reduction remains an important part of our strategy. We have made good progress to improve efficiency across the business. Cost reduction projects initiated in the year have delivered annual benefits of £25 million, ahead of our £20 million target. We have also continued to benefit from work done in previous years. The greatest cost savings this year have arisen from the reorganisation of the business into 'One Dairy Crest'. Next year we expect to benefit from lower spreads manufacturing costs as a result of the consolidation of our spreads manufacturing into Kirkby as well as lower milk distribution costs.

Future prospects

The current trading environment is challenging. However, the strength of our key brands and our proven ability to cut costs and drive efficiencies mean that we remain confident that we can generate profit growth in all three of our product groups over the medium term. Additional profit growth will come from our project to add value to the whey stream at Davidstow, which is on track.

Our net debt is comfortably within our targeted range and we expect to be able to reduce it further in the future as capital expenditure on our existing business falls back towards depreciation and we continue to sell surplus properties. Debt reduction will also be supported by the reduction in our annual contributions to the Dairy Crest Group Pension Fund from £20 million to £13 million for the next two years.

Mark Allen Chief Executive
21 May 2014

4%
Sales growth of four key brands

31%
Increase in Adjusted Group profit before tax

8%
Increase in milk price paid to our farmers

39%
Increase in Adjusted basic earnings per share

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk to help us achieve our strategic objectives and protect our reputation

The Audit Committee is responsible for overseeing the Group's risk management processes and the Board is responsible for the appropriate identification of risks and the effective implementation of mitigating activities.

Internal Audit provides independent assurance to management and the Audit Committee as to the effectiveness of mechanisms put in place to mitigate risks. This process explicitly recognises the relationship between Internal Audit and Risk Management. The Audit Committee is satisfied that the processes are adequate and appropriate. Further details are set out in the Corporate Governance report on pages 35 to 44.

Following the reorganisation of the business into One Dairy Crest we have revised how we compile our risk register. Central, demand and supply risks are identified separately by members of the Management Board and senior managers and consolidated into an initial register that is then reviewed and refined by the Management Board as a whole to create the Group Risk register. The Board formally reviews the Group Risk Register annually when the budget is set. The Company Secretary and General Counsel is responsible for highlighting to the Board any changes to the Group's Risk Register identified during the intervening periods.

The principal risks and uncertainties facing the Group are set out in the table below. This is not intended to be an exhaustive analysis of all risks facing the Group.

Commercial risks

Reduced profitability

Risk area and potential impact

We operate in extremely competitive markets. If we fail to compete effectively or are subject to higher input prices that cannot be recovered by raising selling prices without losing volumes we could lose sales and profits.

Mitigating controls

We set ourselves the target of continually reducing our cost base and are able to invest in our supply chain to help achieve this.

No one customer accounts for more than 15% of total revenues and we continually strive to widen our customer base. Despite challenging trading conditions we have maintained investment in marketing our four key brands. Our innovation programme continues to generate new products that reinforce our appeal to customers. We recognise the importance of strong customer relationships and the executive team plays an active part in maintaining and developing these. They are also involved in major customer negotiations. We conduct customer surveys to benchmark our performance and we continuously monitor the service and quality levels provided to our customers and consumers, and have procedures in place to react quickly to any issues. Our commitment to corporate responsibility is an important part of our overall proposition to some customers.

Reduced demand from consumers

Risk area and potential impact

Consumers could move away from dairy products for economic, health, ethical, or other reasons leading to lower sales and profits.

Mitigating controls

Consumers are at the heart of our business and we regularly monitor consumer trends. We continue to promote the health benefits provided by dairy products and develop healthier products. We also continue to maintain our focus on developing a compelling new product development pipeline, enabling us to react to consumer trends, for example with more environmentally-friendly packaging, and healthier variants of our key brands. We have increased our direct involvement with government to understand and influence future legislation that could affect future consumer demand.

Input cost volatility

Risk area and potential impact

Volatile milk and non-milk costs (vegetable oils, diesel, electricity, gas and packaging) could reduce margins unless we can manage cost risk, find other cost efficiencies elsewhere or increase selling prices.

Milk prices could become increasingly volatile as European milk production quotas are abolished from April 2015.

Mitigating controls

This area is closely reviewed by the Management Board which has established a risk committee to monitor and hedge forward non-milk commodity prices as appropriate. The risks associated with purchasing large volumes of milk have been reduced by establishing milk pools linked to major customers. We seek to absorb short term cost movements through supply chain efficiencies. Our purchasing and commercial teams have clear lines of communication between them to ensure customers are kept aware of changes to our cost base and requests for price increases can be fully justified.

We have reviewed the effect that we believe the abolition of milk quotas will have on our business. We believe it is commodity cheese markets, in which we don't operate, that are most likely to be affected, but we will continue to monitor this closely.

Operational risks

Inability to source milk

Risk area and potential impact

Without milk we would not have a business. Restricted milk supply due to economic factors, weather, fuel availability or an epidemic which affects dairy cows could restrict milk supply. This in turn could lead to lower sales and profits. Consumer confidence in dairy products could also be adversely affected.

Mitigating controls

We invest significant resources in maintaining strong relationships with our milk suppliers by attending forums and discussing current issues and pressures that affect both the farms and our business. The majority of our milk comes directly from farms on contracts that include a notice period of between three months and one year. Our experienced milk procurement team understand milk production and are alert to changes in supply. We aim to pay a fair, market related milk price and closely monitor the milk price we pay to suppliers in order to ensure we can purchase the right quantity of milk to meet demand forecasts and have established procedures for allocating milk between our businesses if a short term shortfall in supply does arise. We have contingency plans established for major incidents and work closely with DEFRA and industry bodies to ensure these are appropriate. These plans are regularly tested and reviewed with the Management Board.

Failure of a key supplier

Risk area and potential impact

We are dependent on key suppliers and could lose sales and face financial penalties from customers if suppliers' failure leaves us unable to supply. Failure of key information technology suppliers could adversely affect our financial systems.

Mitigating controls

Our purchasing team regularly monitors suppliers' ability to supply and puts in place alternative arrangements, including dual purchasing, if appropriate. We have taken specific actions to reduce our dependency on information technology suppliers.

Other operational risks

Risk area and potential impact

An accident, product contamination, the failure of equipment or systems or deliberate act could disrupt production, affect food safety, cause injury, and/or cause reputational damage with adverse consequences. We are also reliant on information technology and exposed to losses in the event that systems fail.

Mitigating controls

Dairy Crest takes product quality very seriously and has rigorous quality controls in place to minimise potential risks. Plans are maintained to respond quickly to any product quality concerns and minimise any impact to the Group. Our business is also committed to the health and safety of all our employees and maintains systems aimed at ensuring everyone is able to complete their work safely. All of our manufacturing sites have a trained engineering resource, are supported by our major equipment suppliers and hold appropriate stocks of spare parts. They also all have fire protection systems and regular fire drills. Our information technology systems are regularly backed up and duplicated in the majority of areas. We have procedures in place to help us deal with major incidents and insurance cover for property damage and business interruption risks.

People risks

Disease epidemic

Risk area and potential impact

A disease epidemic such as swine flu could adversely affect the health of our employees and prevent them working, leaving us unable to service customers.

Mitigating controls

Contingency plans which include working with industry bodies are in place for known epidemic risks.

Recruitment and retention

Risk area and potential impact

We need to retain high quality employees to provide customers and consumers with safe, high quality products and services.

Mitigating controls

We carry out rigorous selection procedures and benchmark pay and benefits to ensure we can attract and retain the best people. We have a wide bonus scheme and a range of other incentives to reward good performance. Our Long Term Alignment Plan aligns the interest of management to shareholders and helps to retain key senior employees. There is a performance review and talent management scheme to identify and develop our own people. To encourage two-way communications with employees we invite them all to attend an annual roadshow at which they are encouraged to ask questions important to them. We undertake regular surveys to monitor the relationship with our employees and their engagement.

Financial risks

Pension scheme

Risk area and potential impact

Despite the action we have taken to reduce the risks associated with our pension scheme, including closing the scheme to future accrual in 2010 and buying insurance to meet the liabilities associated with many of our retired members in 2008 and 2009, the deficit could continue to increase and we may then have to increase our contributions.

Mitigating controls

We continue to work closely with the Trustee of the Pension Fund to improve the Fund's financial position at an acceptable cash cost to the business. Our one-off cash contribution of £40 million to the Pension Fund in April 2013 reduces the risk of the deficit increasing.

Legal and compliance risks

Risk area and potential impact

Our sector is subject to a number of complex statutory requirements. There is a risk of fines or lawsuits and reputational damage if we fail to comply.

Mitigating controls

We have a strong in-house legal function supported by external advisers. We have undertaken Group-wide training in respect of competition law and actively monitor and adjust to on-going legal and regulatory changes. We have a Business Conduct Policy, and a programme designed to ensure that all relevant employees understand what is and is not permissible under the UK Bribery Act.

Major project risk

Risk area and potential impact

To remain competitive we periodically undertake major transformational projects following strategic reviews. Successful execution of these projects is often key to delivering strategic objectives. At the same time we have to ensure that major projects do not divert from the on-going day-to-day delivery of products and services to our customers.

Mitigating controls

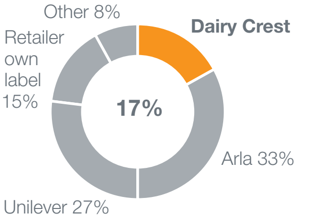
We have a good track record of managing projects and use experienced and appropriately skilled senior managers to lead these. Supervisory governance structures are also put in place to help successful delivery. We are aware that too much change concentrated in too short a timescale can be detrimental and manage this by ensuring key project resource is full time with appropriate backfilling and use of third parties.

THINKING DIFFERENTLY

Spreads & butters

£ million	2013/14	2012/13
Revenue	**177.4**	194.5
Product group profit	**16.8**	25.5
Margin	**9.5%**	13.1%

Share of retail butter and spreads market by value



Source: IRI 52 weeks ended 29 March 2014

We make butter at our Severnside dairy in Gloucestershire and pack butter and make spreads in Kirkby, Merseyside. We have two key brands, Clover (a dairy spread) and Country Life (spreadable and block butter). We also have several secondary brands in the spreads category and we produce and sell Frylight one calorie cooking spray through MH Foods.

Reported revenue for the year ended 31 March 2014 fell by 9% to £177.4 million. Profits from the Spreads and butters product group declined by 34% to £16.8 million, resulting in a margin of 9.5% (2013: profit £25.5 million, margin 13.1%) Although the year was a difficult one overall, lower cream prices in the last few months of the year and strong results from MH Foods meant the second half performance was better than the first. Looking forward, the action we have taken to reduce our cost base will make us more efficient and allow us to continue to compete strongly. Spreads and butters remains a high margin product group.

Mixed performance of key brands in a difficult market

The butter and spreads market continued to decline during the year. Market volumes fell by around 5% and values by 4%. Own label sales grew at the expense of brands and butter sales declined less than those of spreads. Both butters and spreads were heavily promoted but this failed to reverse the downward trend in consumption.

Clover grew volume but lost a little value market share. During the year we introduced a new range of healthy spreads into the Clover range and supported them and the other products in the range with TV advertising.

Country Life spreadable grew sales and volumes, outperforming the market and other spreadable brands. However higher cream prices for most of the year increased the cost of Country Life block butter and we chose to promote it less. This led to significantly lower sales and market share. For the first time Country Life spreadable sales were higher than those of Country Life block butter.

In addition, the declining spreads market has led to some retailers reducing the amount of space they allocate to butters and spreads in their store and one of our secondary brands, Utterly Butterly, was particularly adversely affected.

Good performance by Frylight one calorie cooking spray

We purchased MH Foods in 2011/12 and have grown sales and profits consistently. Following a significant rationalisation of the product range last year we have cut production costs and reinvested some of the savings in higher marketing expenditure. The brand has responded well and sales and profits have grown.

Looking forward – a more efficient business

We will shortly complete the rationalisation of our spreads and butter manufacturing onto one well-invested site in Kirkby, Merseyside, where we have spent over £30 million to create a modern, efficient facility. As previously announced, we expect to close our factory in Crudgington, Shropshire, in the year ending 31 March 2015. We expect this to generate significant cost savings that will benefit the future profitability of our Spreads and butter operations.

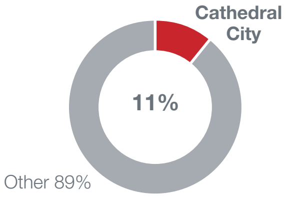
£30m

Investment to create a modern manufacturing and packing facility in Kirkby

Cheese & whey

£ million	2013/14	2012/13
Revenue	**264.6**	231.3
Product group profit	**39.3**	33.1
Margin	**14.9%**	14.3%

Share of the total retail cheese market by value



Source: IRI 52 weeks ended 29 March 2014

Dairy Crest produces and markets the UK's leading cheese brand, Cathedral City, as well as the premium Davidstow cheddar brand.

The short supply chain starts with milk from around 400 dairy farms in Cornwall and Devon. This is made into cheese at our Davidstow creamery in Cornwall. The cheese is then matured for on average 11 months at our purpose-built Nuneaton facility before being cut packed and distributed to customers. We also operate a highly flexible packing site in Frome, Somerset. The whey produced as a by-product of cheese making is also processed at Davidstow.

Since the year end we have further simplified the business by selling our remaining 30% stake in Wexford Creamery Limited for €3.4 million.

Reported revenue for the year ended 31 March 2014 grew by 14% to £264.6 million and profits from the Cheese and whey product group grew by 19% to £39.3 million, resulting in a margin of 14.9% (2013: profit £33.1 million, margin 14.3%).

Total retail cheese market sales remained unchanged in the year although volumes fell back by 3%. Cathedral City sales strongly outperformed the market, growing 12% by value and 9% by volume. As a result Cathedral City now has an 11% share of retail cheese, up from 10% last year. Retailer own label cheese sales account for nearly 55% of this sector. Cathedral City sales continue comfortably to exceed the sales of the next three cheddar brands added together and it is now Britain's 18th largest grocery brand (Source: The Grocer, March 2014).

Innovation driving Cathedral City's success

New product development remains key to the success of Cathedral City. Grated mini-bags, spreadable cheese and Selections have all widened the appeal of the brand, as have new launches under the children's brand, Cathedral City Chedds. For the first time we extended the Cathedral City brand outside of cheese with Baked Bites – Cathedral City cheese biscuits – which are manufactured by Burton's Biscuit Company. Cathedral City also continues to lead the way with innovative packaging and has recently responded to consumer demand by introducing new 'easy-tear' packaging across its range.

Advertising and promotions are also important and Dairy Crest has continued to invest in Cathedral City's award winning advertising campaign.

Alongside Cathedral City, Dairy Crest's premium cheddar brand, Davidstow, has performed strongly in the year. Sales of this brand, supported by new varieties and improved packaging, have grown 3% by value.

Although nearly all of its sales are branded, Dairy Crest does supply cheese to two premium retailers for their own label products. One of these customers, Marks & Spencer, has awarded Dairy Crest sole supply of its entire cheddar range from April 2014.

Dairy Crest's Cheese operations are highly efficient and product group profits continue to be boosted by improved efficiencies at all three of its manufacturing locations.

Demineralised whey powder project on track to grow future profits

Profits have also been supported by strong returns from whey. At present this is dried into powder and sold to food manufacturers. Dairy Crest has initiated a project to invest in the manufacture of demineralised whey powder, a base ingredient of infant formula. We plan to spend around £45 million on new manufacturing assets at Davidstow before May 2015. We expect production of demineralised whey powder to commence in mid 2015. We anticipate that the project will have a five year cash payback and enhance annual Cheese and whey product group profits by over £5 million from 2015/16. We are in the process of agreeing a contract with an exclusive customer who is already well established in the appropriate markets and who will provide technical advice as we move the project forward.

Looking forward – well positioned for growth

Looking forward our strong cheese brands and efficient production facilities, together with the exciting whey project, leave us well positioned to increase the already strong returns from this product category.

12%

Growth in Cathedral City sales by value

THINKING DIFFERENTLY

Dairies

£ million	2013/14	2012/13
Revenue	**944.8**	951.6
Product group profit	**18.8**	9.8
Margin	**2.0%**	1.0%

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

We operate three modern dairies at Severnside, Chadwell Heath and Foston where we pack milk into polybottles; Hanworth, where we pack milk into glass bottles for residential customers; and a specialist cream potting facility at Chard. In addition we have around 70 operational depots from which we deliver milk to middle ground and residential customers.

We also run an ingredients operation that helps balance seasonal milk supplies by drying surplus milk and selling skimmed milk powder. We aim to minimise throughput in this business to reduce our exposure to commodity markets as far as possible.

The raw milk that we purchase from farms contains more cream than the milk sold to customers does. We use some of the surplus cream generated during the bottling process to make butter with cream being transferred into our Spreads operation at market prices. The balance of this surplus cream that is not used to make butter is sold by our ingredients operations either as bulk butter or cream.

Reported revenue was broadly flat in the year at £944.8 million (2013: £951.6 million) with higher selling prices offsetting lower volumes. Profits from the Dairies product group increased to £18.8 million (2013: £ 9.8 million).

Medium term target to achieve 3% return on sales

We have set ourselves the target of achieving a 3% return on sales from our Dairies operations and in the year ended 31 March 2014 the margin increased from 1% to 2%.

There are 4 elements to our plan:

- **Growing FRijj**
- **Reducing costs and becoming more efficient**
- **Getting the right returns from fresh milk sales**
- **Maximising profits from the sale of surplus properties**

Increased profits from these actions are offset by cost inflation and reduced residential sales which command an above average margin.

The improvement in margins in the year came about from higher profits from the sale of redundant properties. For the year ended 31 March 2014 these were £18.2 million against £7.7 million in the prior year. The uplift was partially offset by higher employee bonuses which would not have been paid had the higher level of property profits not been achieved. Margins excluding property profits declined partly as a result of these higher bonuses and partly because of lower cream prices in the last part of the year, which were not reflected in lower milk purchase prices. We anticipate profits from the sale of surplus properties to continue at a more normal level of between £5 million and £10 million in future years.

FRijj – on track for growth after upgrade of production facilities

Over the year as a whole FRijj sales declined by 4% by value and 5% by volume. FRijj sales were down 17% by value in the first half as we scaled back promotions while we increased our production capacity and capability. Second half sales were much stronger following the upgrade of our production facilities in the first half. We also introduced new flavours and new pack sizes and configurations into the market. Sales in the second half of the year ended 31 March 2014 grew by 11% compared to the second half of the year ended 31 March 2013.

The ready to drink flavoured milk market, in which FRijj is the leading brand, has continued to grow strongly during the year. Total market sales are up by 16% in value and 9% by volume.

The upgrade of our production facilities also delayed the full launch of our new long life product which we now expect to take place in the year ending 31 March 2015. This will allow us to grow FRijj sales into convenience and other outlets where less refrigerated storage is available.

Cost saving initiatives underpin improved profitability

Across Dairy Crest as a whole we implemented annual cost saving initiatives during the year of £25 million, ahead of our established target of £20 million. Our Dairies operations benefitted most from these. Key elements of the savings were the on-going closure of depots, increased use of lighter bottles which contain less plastic and reduced distribution costs.

The total annual cost of moving milk from the farms that supply us to our customers via our dairies exceeds £200 million. We use a combination of our own transport and that of third parties. We collect milk for our dairies from over 1,000 farms across England and Wales and deliver daily to many of our customers including around 700,000 residential customers and the individual stores of most of our major retail customers. More efficient vehicles, improved routing software and better driver utilisation and training can all make a significant difference to the cost of this operation. We expect to make further savings in our distribution costs in the future.

Recovering higher milk costs

The prices we paid our farmers for milk increased by around 8% during the year. This resulted in additional raw material costs for our Dairies operations of over £40 million. For most of the year these higher costs have been recovered from higher cream selling and transfer prices (from our Spreads operations), and higher selling prices to our customers. In a tough consumer environment increasing selling prices was not easy and we chose to stop supplying some smaller customers who were not prepared to pay higher prices.

Higher prices to farmers also meant that we had to increase the price we charged our residential customers.

Delivering milk to these customers remains important to us but sales continue to fall as more customers choose to buy their milk from shops rather than having it delivered by their milkman. Overall residential sales fell by 10% compared to the previous year. We continue to support our internet proposition for residential customers, milk&more, and we believe this has reduced the decline in residential sales.

As a result of lower milk sales to middle ground and residential customers we sold our depot based business in the North West of England and we also closed a small dairy in Wales, Proper Welsh Milk. We are also carrying out a strategic review of FoodTec UK Limited, a small subsidiary which manufactures food ingredients.

Towards the end of the year cream prices fell and this adversely impacted revenues and profits from the Dairies operations – with some benefit being seen in our Spreads operations.

At the same time most major retailers chose to reduce the price at which they sell milk to consumers. This had the effect of further increasing the gap between these prices and those which we charge our residential customers. We expect this to have an adverse effect on our residential sales and the profits we make from this delivery channel.

Property profits exceed expectations

As residential and middle ground sales reduce we close distribution depots. Sales of these surplus properties generate cash and the profits from them contribute to our targeted 3% margin. In January 2014 we completed the sale of one such depot, Nine Elms, in London. The sale of this particularly valuable property for £17.6 million generated a profit of £15.3 million and contributed to total property profits of £18.2 million in the year. Looking forward we anticipate profits from the sale of depots we no longer require are likely to return to a more normal £5 million to £10 million in future years.

£25m

Cost saving initiatives implemented during the year

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.

Corporate Responsibility

Dairy Crest places considerable store in its Corporate Responsibility ('CR') work and oversight

It is a core principle of the business to hold high values in the safety and wellbeing of our people; to engage with our local communities; to reduce our environmental footprint; and to play our part in a healthy marketplace. More information can be found in our CR Online Report which includes progress the business has made against its 40 CR pledges.

Awards

First place
Dairy Crest came top of the prestigious BITC CR Index 2014 with 4.5 stars (98%)

Highly Commended
Responsible Business of the Year 2013

Winner
Jaguar Land Rover Sustainable Marketplace Award 2013

Winner
Sustainable Supply Chain Award 2013

Finalist
FT Corporate Responsibility Company of the Year 2014

Winner
Sustainable Leaders Awards – Supply Chain Sustainability 2013

Winner
Food Manufacturer Awards – Judges Award for Sustainability 2013

Top 50
Reputation Institute

Mandatory Greenhouse Gas Report

In line with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 our greenhouse gas ('GHG') emissions are quantified below.

We follow the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard to calculate emissions from the combustion of fuels (Scope 1) and from purchased electricity, heat, steam and cooling (Scope 2). Carbon emission factors are used to convert each activity that gives rise to GHG emissions to a carbon dioxide equivalent (CO_2e) using the latest UK government conversion factors for company reporting.

The GHG data reported below relates to emissions from activities in the operational control of Dairy Crest Group plc from 1 April 2013 to 31 March 2014 consistent with our financial reporting period.

Green House Gas Emissions for 1 April 2013 to 31 March 2014

Scope 1	87,256	Tonnes CO_2e
Scope 2	74,646	Tonnes CO_2e
Total – Scope 1 and 2	**161,902**	**Tonnes CO_2e**
Intensity ratio	74.71	kg CO_2e per tonne of milk intake
Emissions from biomass fuel	27,619	Tonnes CO_2e

Scope 1 emissions data includes material sources of fossil fuels used at manufacturing sites and depots and road fuel used in the transport and distribution of intermediate and finished products. Road fuel used in company cars operated by Dairy Crest for business travel is also included. Minor losses of refrigerants used in cooling equipment have been converted to tonnes of carbon dioxide equivalent and are included for completeness.

Scope 2 emissions data includes material sources of purchased electricity used at manufacturing sites, depots and offices.

We employ a 'per tonne of milk intake' denominator as the most effective measure of relative performance. This measure is consistent with our internal target setting process and how we communicate progress.

Consistent with the GHG Protocol emissions from biologically sequestered carbon are reported separate from the other Scopes. These comprise emissions from combustion of biomass fuel at our creamery in Davidstow that significantly reduce Scope 1 emissions from fossil fuels. Emissions from combustion of biomass fuels are not included in the emissions intensity ratio reported above.

Environment

Primary distribution vehicles have an average carbon equivalent emission rate of 794 grams per kilometres travelled

We avoid sending 91.1% of our manufacturing waste to landfill

Since 2007 our carbon emission equivalent from manufacturing energy is down by 23.7%

We are on target to reduce this to 30% by 2020

Dairy Crest has reduced water usage by 17.4% since 2007

On target to achieve a 20% reduction by 2015

Marketplace

Our lighter brands have a retail sales value of £65.7m

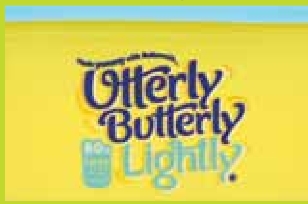
'Lighter' spreads & butters: £27.3m

Cathedral City Mature Lighter: £33.9m

New brands launched in 2013/14

Clover Additions

Utterly Butterly Lightly



Clover Lighter than Light

Frylight Garlic Oil

All of the fresh milk we use is British and farm assured

We are committed to paying our farmers a fair, market led price

Environment

As a leading dairy manufacturer and processor we are aware of global trends and we are determined to play an active role in tackling climate change, reducing waste and looking after our natural resources.

Greenhouse gas emissions

As one of the UK's leading dairy companies we are determined to play our full part in helping tackle climate change by reducing our energy consumption and dependency on fossil fuel.

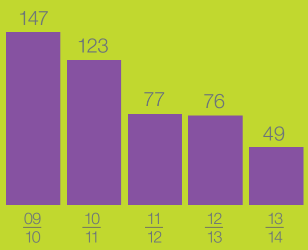
Since 2007 we have reduced our carbon emissions equivalent from manufacturing energy use by 23.7% and are on course to exceed our target of a 30% reduction by 2020. Progress to date has principally been achieved through the use of environmentally friendly biomass boilers and through everyday efficiency saving and awareness programmes. Good examples of these include the investment we are making to replace lighting systems with LED alternatives in our factories which are much more energy efficient and the progress we are making to replace the few smaller remaining refrigeration systems that run on HCFC's by 2015.

Today our fleet of primary distribution vehicles has an average carbon equivalent emissions rate of 794 grams per kilometre travelled and all company cars have an average published emissions level of less than 121 grams per kilometre travelled.

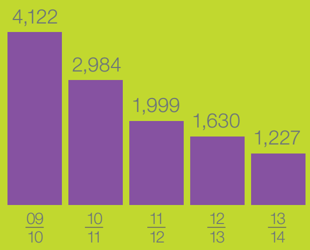
Our total scope 1 and scope 2 greenhouse gas emissions for 2013/14 are reported on page 23.

Workplace

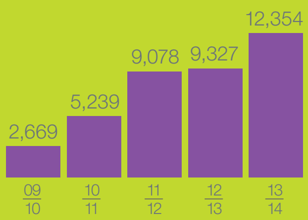
Number of accidents reportable to the HSC
Progress against 3-year strategy



Days lost



Number of safety issues reported (near misses)
Increased awareness of potential safety at work issues



Community

Over the course of 2013/14 our staff supported over 110 local health, education and countryside related good causes

Our staff charity partner is the Prince's Countryside Fund

In September 2013 we supported over 400 young people in their quest to get a job through the IGD's Feeding Britain's Future Programme

Staff volunteer to support 'meals on wheels'

THE PRINCE'S COUNTRYSIDE FUND

MEALS ON WHEELS
deliver a difference

Water
Over the course of the year we continued to reduce the amount of water we use in our sites by a further 1.7% which now means we have reduced water usage by 17.4% since 2007 and are on target to exceed our target of a 20% reduction by 2015 against that same base line.

In addition to reducing our own water footprint we are also helping farmers reduce theirs by paying for them to use 'WaterWell' an innovative on-farm water auditing programme. Through this programme our farmers can request a practical assessment of water usage for all aspects of their dairy enterprise. This tool provides the farmer with a detailed report benchmarking their results against industry data and provides them with recommendations for greater efficiency.

Waste
We want to reduce waste that arises throughout our supply chain, from the point at which goods enter our doors right through to when the customer disposes of our packaging. Our overall aim is zero waste to landfill by 2015 (except where it is not environmentally beneficial to do so) and by the year end we achieved a 91.1% landfill avoidance across our manufacturing sites.

In addition to avoiding sending waste to landfill we have also invested in new ways of packaging our products so they are not only made with less material but they are also made with more recycled material. Highlights include the continued roll out of our newly designed plastic milk bottle that is made from 15% less plastic on average compared to its previous counterpart and it is now made using up to 20% recycled material since February 2014.

Marketplace

We are committed to creating healthy, tasty enjoyable products, making it easier for consumers to choose healthier foods and to play our part in helping to tackle obesity.

Independent research tells us that three quarters of people in the UK want to eat more healthily with fat, salt, sugar and calories respectively topping the concerns of consumers. To ensure we give consumers what they want we have continued to invest in our portfolio of lower fat brands through advertising, promotions, reformulation, rebranding and innovation.

Consumer data shows that last year the lighter variants of our brands achieved a collective retail sales value of £65.7 million with Cathedral City Mature Lighter leading the way with a retail sales value of over £33.9 million, our lighter spreads and butters brands now have a retail sales value of over £27.3 million.

It has been a busy year for innovation this year and over the course of 2013/14 we were proud to develop and launch several healthier products including our Clover Additions range, Clover Lighter than Light, Utterly Butterly Lightly and Frylight Garlic Oil.

As part of our commitment to helping consumers manage their calorie intake and in order to meet the commitment we made as part of the Department of Health's Responsibility Deal we have launched a greater range of portion sizes including a new 250ml sized bottle of FRijj milkshake and smaller individual 48 gram sized packs of Cathedral City Mature Lighter which are 150 calories.

Dairy Crest remains fully committed to building a strong and secure business on which our farming suppliers can depend and as the only listed British dairy company we are proud that the 1.9 billion litres of milk we use each year to make our products is British and farm assured.

We are publicly committed to offering our supplying farmers a fair and competitive milk price, help them focus on efficiency and best practice throughout the milk supply chain and provide advice and support services on issues such as legislation, animal welfare and wildlife support.

We also work collaboratively with non farming suppliers to ensure compliance with our Ethical Supply Policy. The policy, which was introduced in 2011 and reviewed in 2013, is designed to extend our vision and values across a diverse and extensive supplier base, whilst recognising that those who supply our business with much needed goods and services operate in a variety of different cultural environments.

Workplace

Safety at work

Our safety at work objective is simple; we want everyone who works for us, and with us, to go home to his or her family at the end of their working day without any injury or occupational ill health.

Although a single accident is always one too many, over the course of the last 12 months we have made good progress in achieving our targets and the number of accidents with more than three days lost time or reportable to the HSE has fallen for the fifth consecutive year – since April 2013 our accident rate has fallen by a further 30% to 708.

Despite changes by the HSE in 2012 to the Riddor regulations which require companies to report accidents that result in seven days off work, or those involving specified injuries, we will continue to target a reduction in accidents that result in three days off work as we believe this target will help us further reduce accidents at work and maintain the focus required, in reducing all accidents with lost time. We will continue to concentrate on further reducing slips, trips and falls as this accounts for 45% of lost time accidents.

Mirroring our progress in reducing accidents the number of days lost has also fallen for the fifth consecutive year, last year reducing by a further 24.7% from 1,630 to 1,227.

In addition to maintaining and growing accident awareness campaigns we have also worked hard to encourage colleagues to formally report near misses and hazards as we know that being aware of a potential problem is the most effective method of preventing it. We have also heavily promoted safety conversations, which include correcting unsafe behaviours and encouraging safe behaviours. To this end we have seen a continued increase year on year in both aspects with near misses and hazards increasing by 32% to 12,354 and conversations by 118% to 53,143 compared with last year.

Our wellbeing strategy

We are particularly proud of the scale and integrated approach to our wellbeing strategy which is based on three key strands:

- **for everyone who works for us, and with us, to be physically healthier**
- **to use our position as a food manufacturer to encourage and engage our employees and consumers to live healthier lifestyles**
- **to ensure our approach to wellbeing is integrated into all parts of our business so it reduces risk and enhances our reputation for producing healthy products**

With an in-house Occupational Health team in place, Dairy Crest offers staff a range of special services including free voluntary health checks for all employees, including cholesterol and blood pressure. Over the course of 2013/14 almost 30% of employees had a health check related either specifically to the risks in their jobs or as part of our health promotion campaign. This builds on the 40% of employees who had a health check in 2012/13. We also began a new wellbeing programme to deliver two wellbeing days at each site and depot over the next 12-18 months, in order to increase participation in our voluntary wellbeing checks to a level cumulatively above 50% by 2018.

Community

We know the actions we take often have an effect on the neighbourhoods where we are based, and as the main employer in many areas we believe we have a unique opportunity to play a positive role in supporting local and national community projects that make best use of our expertise and knowledge, provide a legacy and support our overall business strategy. With this is mind our community programme is divided into four strands:

1. Looking after the countryside and broader environment
2. Promoting healthy living
3. Supporting education and employability
4. Engaging with local communities

1. Looking after the countryside and broader environment

As the UK's leading British owned dairy company we know that family run dairy farms are the backbone of the dairy sector in the UK and without them we wouldn't have a business. We also know that for our business to remain successful the countryside needs to be an attractive place to live and that the rural economy is hugely important to the UK, turning over £300 billion, employing 5.5 million people and offering untapped potential to generate another £236 billion to £347 billion per year.

To help achieve these aims through our community programme we support several key projects:

The Prince's Rural Action Programme and The Prince's Dairy Initiative

Through the Prince's Rural Action Programme, which was until recently chaired by Mark Allen, we are working with a diverse number of companies from banks to retailers to understand the impact businesses can have on improving rural communities and put these thoughts into action. Through one such project The Prince's Dairy Initiative, chaired by Lyndsay Chapman, our Director of Agriculture and Farming Communications, we are continuing to work with other businesses to help the most vulnerable, non-aligned, dairy farmers become more economically viable. Since we successfully completed the pilot with 74 dairy farms in 2012 we have continued to make progress on our target of helping a further 300 farms by 2016.

The Prince's Countryside Fund

Working alongside HRH the Prince of Wales and a handful of other businesses, Dairy Crest helped set up the Prince's Countryside Fund the purpose of which is to; improve the sustainability of British farming and rural communities, target the areas of greatest need; reconnect consumers with the countryside and to support farming and rural crisis charities through a dedicated emergency funding stream. The latter of which was of particular importance in the winter of 2013/14 when there was severe flooding in many parts of the UK, in particular Somerset.

By working collaboratively through the Fund, and with our Davidstow and Country Life brands, since 2010 all the companies involved have been able to donate £3.9 million in grants, support over 87 rural projects ranging from helping upland farmers through to supporting rural youth unemployment groups the UK. In total the Fund has helped more than 64,000 people.

Pub is the Hub

Aware of the dwindling number of local facilities available to rural communities, and conscious that this decline has a detrimental effect on the sustainability of rural economies, we are proud to support 'Pub is the Hub' a not-for-profit organisation that encourages local authorities, local communities, licensees and pub owners to work together to support, retain and locate services within rural pubs.

To date 27 different varieties of services have been developed using pubs, including: shops, school meals, post offices, community centres, community cafes, keep fit, library services, allotments, play areas, take away food, cinemas, theatre, community travel, community acquisition and computer training.

Of these projects Dairy Crest is particularly proud of the rural community shops we have helped fund in pubs in the South West of England – facilities that provide isolated communities with access to locally produced food and household goods.

2. Promoting healthy living

With a significant catering and residential delivery business (Foodservice and milk&more) in 2012 we were proud to become the first company to support Elmbridge Council's Meals on Wheels programme delivering much needed, hot, fresh meals to vulnerable people in our local community.

The support we give this programme was highlighted in September 2013 when staff from our Claygate office were filmed as part of the save 'Meals on Wheels' campaign which was fronted by celebrity cooks Si and Dave – more commonly known as the Hairy Bikers, who said:

"Thank you to the lads and lasses at Dairy Crest who are volunteering their time to deliver hot meals to local people who need them. You've made a big difference to our saving 'Meals on Wheels' campaign".

3. Supporting education and employability

To make sure we are able to play our part in helping young people onto the career ladder and to showcase a career in food production we have proactively set up a number of education programmes catering for GCSE, A-Level, undergraduate and postgraduate students and this year we again played a leading role in supporting the Institute of Grocers and Distributors (IGD) Feeding Britain's Future Programme.

Feeding Britain's Future at a glance

- Dairy Crest continues to sit on the steering group of the Institute of Grocers and Distributors (IGD) Employability Group
- In 2013 we supported over 400 young people in their quest to get a job
- We held events at our Davidstow Creamery and Nuneaton Distribution Centre
- We co-hosted over 30 sessions with Sainsbury's, Asda and Marks & Spencer

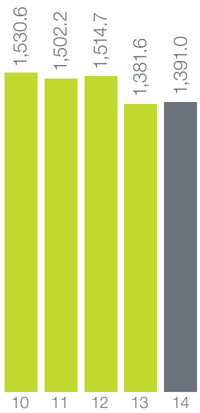
In September 2013 we set up a new employability steering group to ensure that going forward we continue to focus on the skills gaps needed for both Dairy Crest and food manufacturing as a whole.

4. Engaging with local communities

The fourth strand of our community strategy is our Local Community programme which is owned and run by our staff. Through this programme any employee can put forward a good cause they would like the Company to support either through money, a product donation or volunteering. Over the course of 2013/14 Dairy Crest staff supported over 110 good causes.

Financial review

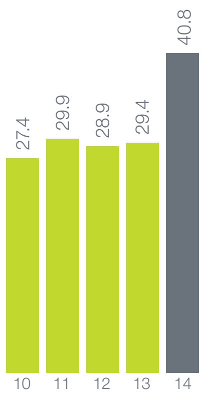
Revenue (£m)



Product group profit (£m)

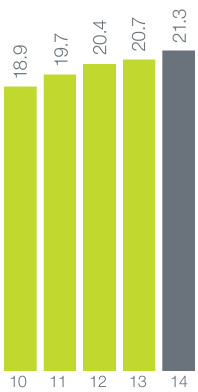
Before exceptional items and amortisation of acquired intangibles; includes associates

Adjusted earnings per share (pence)

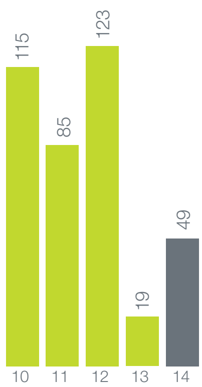


Before exceptional items, amortisation of acquired intangibles and pension interest

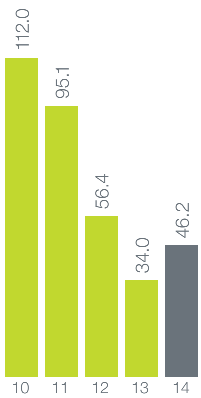
Total dividends per share (pence)



Gearing (%)

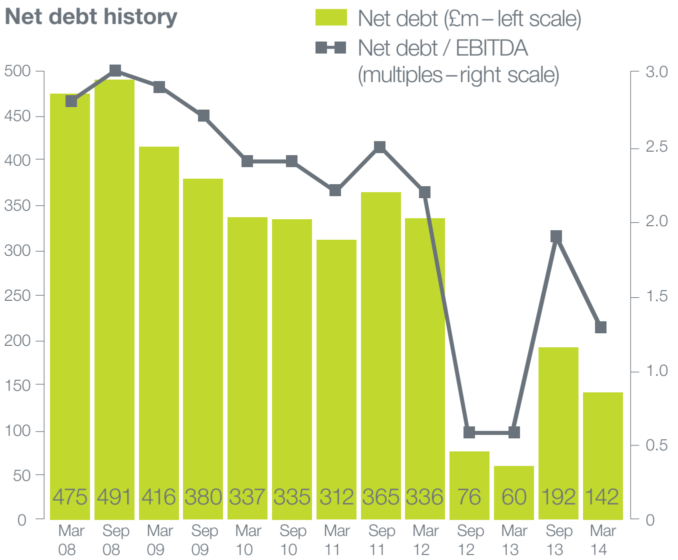


Cash generated from operations (£m)



Before exceptional items, amortisation of acquired intangibles, share of associates and discontinued operations

Net debt history



Overview

The sale of our French spreads business, St Hubert, in August 2012 significantly reduced levels of Group borrowings and has enabled us to increase investment in our core UK business this year. This investment, targeted at areas of growth opportunity and cost efficiency will help drive growth in future years. The three main areas of capital investment are:

- **A new demineralised whey capability at Davidstow to take advantage of high global growth in added value whey protein products**
- **Increased FRijj capacity and capability at Severnside to drive the brand in a growing category**
- **Expansion of our spreads site at Kirkby to enable the closure of Crudgington in 2014**

Group profits have benefited this year from reduced interest charges following the St Hubert sale and the early repayment of loan notes in April 2013. Furthermore, we had higher than usual profits from the sale of surplus depots due to the gain of £15.3 million on the sale of a site in Nine Elms, Battersea. The trading environment remains challenging as milk input costs have increased by over £40 million in the year and consumers' real incomes remain under pressure, however we have continued to focus on cost reduction and on our key brands in order to maintain margins.

Product group revenue	2014 £m	2013 £m	Change £m	Change %
Cheese	264.6	231.3	33.3	14.4
Spreads	177.4	194.5	(17.1)	(8.8)
Dairies	944.8	951.6	(6.8)	(0.7)
Other	4.2	4.2	–	–
Total external revenue	1,391.0	1,381.6	9.4	0.7

Following our major reorganisation at the start of the financial year which removed the divisional structure, we have assessed that the Group has only one reporting segment in accordance with the requirements of IFRS 8. However, we have chosen to provide product group analysis consistent with prior years to assist the users of the Accounts.

Group revenue increased by 0.7% to £1,391.0 million, predominantly as a result of increased revenues in the Cheese business as volumes rose and selling prices increased reflecting higher milk costs. Spreads revenue decreased by 8.8% as we promoted less butter for much of the year in an environment where cream prices were high and Utterly Butterly volumes reduced. Dairies revenues decreased slightly reflecting levels of decline in our residential business.

Product group profit	2014 £m	2013 £m	Change £m	Change %
Cheese	39.3	33.1	6.2	18.7
Spreads	16.8	25.5	(8.7)	(34.1)
Dairies	18.8	9.8	9.0	91.8
Share of associate	0.3	–	0.3	n/a
Total product group profit	75.2	68.4	6.8	9.9
Remove share of associate	(0.3)	–	(0.3)	n/a
Acquired intangible amortisation	(0.4)	(0.4)	–	n/a
Group profit on operations (pre-exceptionals)	74.5	68.0	6.5	9.6

Product group profit increased by £6.8 million to £75.2 million driven by a strong performance in Cheese and a higher than usual level of property profits in Dairies. Our Spreads business had a challenging year as the category declined overall and we promoted less butter. However, our plans to close Crudgington in 2014 are on track and this will deliver cost savings in 2014/15.

Following changes to IAS 19 that took effect from 1 April 2013, the Group recognises pension scheme administrative expenses within operating costs. All prior year amounts have been restated accordingly and further details are set out in Note 20 to the Accounts. The table above quotes profit after pension scheme administrative expenses of £1.0 million (2013: £0.9 million).

Exceptional items

Pre-tax exceptional charges of £10.4 million have been recorded in the year (2013: £56.5 million).

In September 2012 we announced the closure of the Crudgington site with production moving to Kirkby. This project, now nearing completion, will generate significant savings in future years. Exceptional costs of £3.8 million have been recorded in the year, the majority of which are non-cash asset write-downs. Cash expenditure in the year was £2.4 million. We expect further exceptional costs of approximately £8.0 million in 2014/15 as this project comes to an end.

In February 2013 the Company announced a major reorganisation, removing divisional structures and resulting in one unified business. Exceptional costs of £4.4 million have been charged in the year being redundancy and restructuring costs. No further exceptional costs will be incurred in 2014/15.

In December 2013 we announced the closure of Proper Welsh Milk, a processing facility in Wales. In March 2014, we announced a strategic review of FoodTec UK Limited, an ingredients plant near Crewe. In line with Group policy, the costs of closure of these sites, which are predominantly non-cash write-downs, have been classified as exceptional. In total, the exceptional costs in relation to the closure of these peripheral elements of the Dairies manufacturing base amounted to £2.0 million.

A small £0.2 million adjustment to the exceptional finance charges accrued in 2012/13 was made during the year. This relates to the early repayment of loan notes completed in April 2013.

Finance costs

Finance costs have reduced by £8.8 million to £9.9 million. This primarily reflects the reduction in net debt following the sale of St Hubert in August 2012 and the further benefit from the early repayment of loan notes in April 2013 which removed the inefficiency of holding excess levels of cash on the balance sheet.

Other finance expenses of £0.3 million (2013: £3.5 million) comprise the net expected return on pension scheme assets after deducting the interest cost on the defined benefit obligation. Following changes to IAS 19 that took effect from 1 April 2013, the expected return on assets is calculated by reference to the discount rate applied to scheme liabilities rather than assumed rates of return on asset classes held by the pension scheme. Prior year amounts have been restated and further details are set out in Note 20 to the Accounts.

Other finance expenses are dependent upon the pension scheme position at 31 March each year and are volatile, being subject to market conditions. We therefore exclude this item from headline adjusted profit before tax.

Interest cover excluding pension interest, calculated on total product group profit, remains comfortable, at 7.6 times (2013: 3.7 times).

Profit before tax	2014 £m	2013 £m	Change £m	Change %
Total product group profit	75.2	68.4	6.8	9.9
Finance costs	(9.9)	(18.7)	8.8	47.1
Adjusted profit before tax	65.3	49.7	15.6	31.4
Amortisation of acquired intangibles	(0.4)	(0.4)	–	–
Exceptional items	(10.4)	(56.5)	46.1	81.6
Other finance expense – pensions	(0.3)	(3.5)	3.2	91.4
Reported profit/(loss) before tax	54.2	(10.7)	64.9	n/a

Adjusted profit before tax (before exceptional items and amortisation of acquired intangibles) increased by 31% to £65.3 million. This is one of management's key Group profit measures. The reported profit before tax of £54.2 million represents a significant improvement from 2013 (£10.7 million loss) reflecting improved profit before tax and significantly lower levels of exceptional charges in 2013/14.

Taxation
The Group's effective tax rate on profits from continuing operations (excluding exceptional items) was 14.6% (2013: 20.1%). The effective tax rate continues to be below the headline rate of UK corporation tax due to the property profit income stream, on which the tax charges are sheltered by brought forward capital losses or roll over relief. The higher level of property profits this year has reduced the effective rate of tax but we expect the effective tax rate to increase next year to approximately 18%.

Future decreases in the rate of UK corporation tax to 20% were enacted in 2013 and the one-off impact that this has on deferred tax balances has been classified as exceptional. This resulted in an exceptional tax credit of £1.9 million in the year ended 31 March 2014.

Group result for the year
The reported Group profit for the year amounted to £50.2 million (2013: £46.6 million). The 2013 result included discontinued operations in relation to St Hubert; both profits for the period to August 2012 and the gain on disposal of the business.

Earnings per share
The Group's adjusted basic earnings per share from continuing operations increased by 39% to 40.8 pence per share (2013: 29.4 pence per share). This reflects improved operating profits and reduced interest costs benefiting from the loan note repayments made in April 2013.

Basic earnings per share from continuing operations, which includes the impact of exceptional items, pension interest expense and the amortisation of acquired intangibles, amounted to 35.8 pence per share (2013: 5.9 pence loss per share).

Dividends
We are committed to a progressive dividend policy and have delivered against that policy in the year ended March 2014. The proposed final dividend of 15.4 pence per share represents a 0.4 pence per share increase compared to last year. Together with the interim dividend of 5.9 pence per share this brings the total dividend to 21.3 pence per share for the full year, 2.9% higher than last year (2013: 20.7 pence per share). The final dividend will be paid on 7 August 2014 to shareholders on the register on 4 July 2014.

Dividend cover of 1.9 times is within the target range of 1.5 to 2.5 times (2013: 1.4 times).

Pensions
Following the sale of St Hubert, the Group entered into discussions with the Pension Fund Trustee about the impact of early loan note repayments. Consequently, on 18 April 2013 the Group made an additional one-off cash contribution to the Fund of £40 million. At the same time the Group granted the Trustee a floating charge over maturing cheese inventories, with a maximum realisable value of £60 million. This charge was put in place to protect the Fund in the unlikely event of an insolvency of Dairy Crest Limited.

During the year, the Group paid £20 million cash contributions into the closed defined benefit pension scheme in line with the schedule of contributions agreed in June 2011. The latest full actuarial valuation was performed at 31 March 2013 and resulted in an actuarial deficit of £145 million (£105 million after taking account of the £40 million one-off contribution paid in April 2013).

Following discussions with the Trustee a new schedule of contributions was signed in March 2014. The Trustee has recognised that investments we are making in the business are expected to improve the covenant strength in future years and as a consequence the level of cash contributions has been reduced over the next three years. For 2014/15 and 2015/16 cash contributions will total £13 million per annum and in 2016/17 will total £16 million. No further security has been granted to the Trustee to support this position.

The biggest threat to future levels of cash contribution is the relatively high proportion of risk assets held by the scheme (predominantly equities). Excluding insurance policies, approximately 75% of scheme assets are currently held in equities or other risk asset classes. The main focus of both the Trustee and the Group over the coming years is further to reduce pension risk by reducing the proportion of equities to which the scheme is exposed. The latest funding plan assumes a full funding position within six years, based on company contributions reverting to £20 million per annum from 2017/18 and the proportion of risk assets reducing from 75% to 20%. However, the level of contribution for 2017/18 and beyond and the recovery period will be reassessed at the next triennial actuarial valuation in March 2016 and changes to this plan will be made accordingly based on actual performance of the scheme.

The reported IAS19 pension liability at 31 March 2014 was £57.7 million comprising an IAS 19 deficit of £47.6 million and a £10.1 million additional liability reflecting an unrecoverable notional surplus that is required to be recognised under IFRIC 14. The reported deficit at 31 March 2013 was £67.2 million. Asset returns were strong during the year, however, corporate bond yields declined as investor demand for corporate bonds picked up as the global economic outlook improved.

Cash flow
Cash used in operations was £13.8 million in the year (2013: cash generated £19.1 million). This includes a working capital outflow of £22.6 million (2013: £40.0 million outflow) due mainly to the higher value of cheese stocks compared to March 2013 – £167.2 million in March 2014 versus £155.5 million last year. Stock value increases are a result of increased manufacturing to support future volume growth and milk cost increases during 2013. Furthermore, the cash outflow from operations includes £20.8 million of exceptional items (2013: £29.9 million) and the £40 million one-off cash contribution to the pension scheme.

Capital expenditure of £58.8 million was £7.9 million higher than last year (2013: £50.9 million). Significant investment has been made at our spreads manufacturing site, Kirkby, to accommodate production of spreads following the closure of Crudgington planned for 2014. We invested in our FRijj capacity and capability at Severnside to support future brand growth and substantial investment has already been incurred at our cheese creamery in Davidstow in relation to the demineralised whey production, albeit we have spent less in the year to March 2014 than was originally anticipated.

Proceeds from the sale of depots amounted to £25.1 million including £17.6 million from the sale of our Nine Elms depot in Battersea. In addition, certain FRijj capital expenditure was funded through equipment finance resulting in a cash inflow of £7.4 million. Financing was for six years at fixed rates of interest and allowed us to take advantage of attractive longer term funding rates in the absence of any required refinancing in the next 12 months.

Cash interest amounted to £14.0 million (2013: £18.0 million) and tax refunds totalled £2.1 million resulting from high levels of restructuring charges, pension contributions and capital expenditure in previous years (2013: tax payments £4.7 million).

Looking ahead, our ambition is to generate strong free cash flows. Higher conversion of profits into cash will be helped in the future by: lower levels of cash exceptionals; reduced capital expenditure in our existing business; lower pension contributions; and lower working capital requirements following two years of milk cost inflation.

Capital expenditure in our core business will reduce in 2014/15 to approximately £35 million and we expect to spend a further £35 million completing our investment in demineralised whey capability.

Net debt

Net debt increased by £82 million to £142 million at the end of the year albeit it reduced by £50 million in the second half of the year. The opening net debt of £60 million did not include the costs of the April 2013 one-off pension contribution (£40 million) or the cost of loan note repayments (£9 million).

Net debt as defined includes the fixed Sterling equivalent of foreign currency loan notes subject to swaps and excludes unamortised facility fees. At 31 March 2014, gearing (being the ratio of net debt to shareholders' funds) was 49% (2013: 19%).

Borrowing facilities

At the start of the financial year, the Group's borrowing facilities comprised: £330 million of loan notes (at the effective swapped exchange rate) maturing between April 2013 and November 2021, and a £170 million plus €150 million revolving credit facility expiring in October 2016.

On 4 April 2013, £60 million of notes from the 2006 series which had reached their maturity were repaid.

On 18 April 2013, a further £100 million of loan notes were repaid from the 2007 series. Of these notes, the majority (£69 million) were due for repayment in April 2014 with the balance due in April 2017. This has reduced the Group's future interest payments. The repayment was effected by exercising the Group's right to early redemption on payment of a make-whole premium.

Following these repayments, the Group has £170 million of notes outstanding which mature between 2014 and 2021. A further £25 million of notes matured in April 2014 funded from the revolving credit facility.

In 2013 the Group also reduced its revolving credit facility by €60 million to £170 million plus €90 million (approximately £244 million).

Borrowing facilities are subject to covenants which specify a maximum ratio of net debt to EBITDA of 3.5 times and a minimum interest cover ratio of 3.0 times. The Group remains very comfortably within its covenants with a net debt to EBITDA ratio of 1.3 times as of 31 March 2014 (March 2013: 0.6 times).

Post balance sheet events

On 16 May 2014, we completed the sale of our 30% shareholding in Wexford Creamery Limited for €3.4 million (£2.8 million). At 31 March 2014, the net carrying value totalled £2.1 million comprising share of associates, deferred consideration and valuation of options net of contract provisions.

On 14 April 2014, we completed the sale of a depot in Surbiton, Surrey for proceeds of £5.4 million resulting in a profit on disposal of £4.9 million.

Treasury policies

The Group operates a centralised treasury function, which controls cash management and borrowings and the Group's financial risks. The main treasury risks faced by the Group are liquidity, interest rates and foreign currency. The Group only uses derivatives to manage its foreign currency and interest rate risks arising from underlying business and financing activities. Transactions of a speculative nature are prohibited. The Group's treasury activities are governed by policies approved and monitored by the Board. These policies are summarised in Note 30 to the financial statements.

Going concern

The financial statements have been prepared on a going concern basis as the Directors are satisfied that the Group has adequate financial resources to continue its operations for the foreseeable future. In making this statement, the Group's Directors have: reviewed the Group budget, strategic plans and available facilities; have made such other enquiries as they considered appropriate; and have taken into account 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009. Further information is presented in the Directors' Report on page 63.

Tom Atherton Finance Director
21 May 2014

The Strategic report from pages 4 to 31 has been approved by the Board and is signed on its behalf by

Robin Miller Company Secretary & General Counsel.
21 May 2014

BOARD OF DIRECTORS AND ADVISERS

Dairy Crest is led by an experienced Board of Directors, which today comprises three Executive Directors, one Non-executive Chairman and four independent Non-executive Directors. Together the Executive Directors have over 30 years experience of the business.

The Board sets strategy and monitors progress. Day-to-day matters are the responsibility of the Management Board, which today comprises the three Executive Directors, the Company Secretary & General Counsel and three other senior managers.

1. Mark Allen
Chief Executive ◊ Δ

Appointed a Director in 2002 and became Chief Executive in January 2007. He joined Dairy Crest in August 1991. He was formally with Shell UK Ltd. He is Chairman of the BITC South West Regional Advisory Board and a Trustee for The Prince's Countryside Fund. He is Vice Chairman of Dairy UK and a Non-Executive Director of Howden Joinery Group Plc.

2. Tom Atherton
Finance Director ◊ Δ

Appointed May 2013. A Chartered Accountant who has worked for Dairy Crest for over 8 years. Prior to his appointment to the Board he served as Director of Financial Control. He has previously held senior finance positions in Logica plc and Thorn plc.

3. Martyn Wilks
Executive Managing Director ◊ Δ

Appointed in January 2008. He was President of the Snackfood Division of Mars USA, and has held other senior management positions within Mars Incorporated including Managing Director of Mars, France, and Global Vice President for Sales and Marketing. Martyn is also currently an Appointed Non-executive Director of England Netball, the governing body for the sport.

4. Anthony Fry
Chairman ‡

Appointed as a Non-executive Director in July 2007, as Chairman on 1 January 2010 and as Chairman of the Nomination Committee in May 2011. Until March 2011 he was Senior Adviser of Evercore Partners in the firm's London office. He has previously held senior appointments at Lehman Brothers, Credit Suisse and the Rothschild Group in a career in merchant banking which has spanned more than 30 years. In November 2010 he was appointed Chairman of Cala Group Limited and in November 2012 he was appointed Senior Adviser to the Board of Espirito Santo Investment Bank. He became Chairman of the Premier League on 1 June 2013 and is a Non-executive Director of Control Risks and of Twig Europe. He is on a number of advisory boards and has served on the boards of Mowlem, The British Standards Institution and Southern Water as well as numerous not-for-profit organisations.

Anthony Fry was taken ill early in March 2014 and has been unable to work since then. At the time of writing this Annual Report he is on sick leave.

5. Richard Macdonald
Acting Chairman * ◊ ‡

Richard Macdonald has assumed the role of Acting Chairman and acting member and Acting Chairman of the Nomination Committee since Anthony Fry was taken ill in March 2014.

Appointed as a Non-executive Director in November 2010, Chairman of the Corporate Responsibility Committee in May 2011 and Senior Independent Director in May 2012. He had a 30 year career with the National Farmers Union, serving as Director General for 13 years. He is a Non-executive Director of Moy Park Limited and until April 2014 was Chairman of DEFRA's Better Regulation Task Force. He is a Governor of The Royal Agricultural University Cirencester, Vice Chairman of the National Institute of Agricultural Botany and became Chairman of Farm Africa in 2013. He joined the board of the Environment Agency on 1 June 2013.

6. Stephen Alexander
Non-Executive Director * † ‡

Appointed as a Non-executive Director in January 2011 and Chairman of the Remuneration Committee in May 2012. He is Chairman of Immediate Media Company Ltd, an Operating Partner at OpCapita LLP and Chairman of Look Ahead Care and Support. Previously Chairman of Maltby Capital Ltd (parent company of EMI Group), Chairman of Odeon Cinemas, Chief Executive of Hillsdown Holdings Ltd and held senior positions with Allied Domecq PLC and Imperial Foods. He was also Senior Independent Director at Devro plc.

7. Andrew Carr-Locke
Non-Executive Director * † ‡

Appointed as a Non-executive Director and Chairman of the Audit Committee in August 2009. A Fellow of the Chartered Institute of Management Accountants, he has previously held senior finance positions at Courtaulds Textiles, Diageo, Bowater Scott and Kodak and was Group Finance Director at George Wimpey plc until 2007. More recently he was Executive Chairman of Countryside Properties. He has previously held Non-executive directorships at Royal Mail Holdings, Venture Production and AWG.

8. Sue Farr
Non-Executive Director † ◊

Appointed as a Non-executive Director in November 2011. She is a member of the Executive Management Team of Chime Communications PLC, a position she has held since 2003. She has extensive marketing communications experience, having served as Marketing Director of the BBC for 7 years, Director of Corporate Affairs, Thames Television for 3 years and Director of Corporate Communications, Vauxhall Motors. She was a Trustee of the Historic Royal Palaces until April 2013, is a Non-executive Director of Motivcom plc and was appointed a Non-executive Director and member of the remuneration committee of Millennium & Copthorne Hotels plc on 12 December 2013.

9. Robin Miller
Company Secretary & General Counsel ◊ Δ #

Appointed in April 2008. He is a solicitor having worked in private practice and in-house in both retail and international manufacturing, latterly with Gallaher Group Plc.

*** Audit Committee Member**
† Remuneration Committee Member
‡ Nomination Committee Member
◊ Corporate Responsibility Committee Member
Δ Management Board Member
 # Not a Board Member

Auditor
Ernst & Young LLP

Solicitors
Eversheds LLP

Principal Bankers
The Royal Bank of Scotland plc

Rabobank International, London Branch

Lloyds TSB plc

Santander UK plc

Corporate Brokers
J. P. Morgan Cazenove

Jefferies Hoare Govett

Registered Office
Claygate House, Littleworth Road, Esher, Surrey KT10 9PN

Registered in England
No. 3162897

MANAGEMENT BOARD

Day-to-day matters are the responsibility of the Management Board, which currently comprises the three Executive Directors, the Company Secretary & General Counsel, the Group Procurement Director, the Group Supply Chain Director and the Group HR Director. Other senior managers attend by invitation. The Management Board normally meets weekly.

◊ Corporate Responsibility Committee Member
∆ Management Board Member

11. Mike Sheldon
Group Procurement Director ∆

Mike joined Dairy Crest from PepsiCo 21 years ago. He has held several senior management positions within the business. He took up his current role in 2012.

12. Mike Barrington
Group Supply Chain Director ∆

Before joining Dairy Crest in 2011, Mike held senior management positions with Cadbury Schweppes and Kraft Foods, latterly Manufacturing Director for Cadbury in the UK & Ireland. Mike joined Dairy Crest as Supply Chain Director, Dairies and was appointed to his current role in April 2013.

13. Robert Willock
Group HR Director ◊ ∆

Robert joined Dairy Crest 8 years ago as HR Director, Dairies from The Maersk Company where he was Director of Human Resources. He was appointed to his current role in April 2013.

CORPORATE GOVERNANCE

Acting Chairman's introduction

Strong governance promotes better business and helps boards to run companies well. It is the Chairman's responsibility to lead the Board in fulfilling its obligations to the Company's shareholders, the Group's employees, suppliers, the customers and consumers of our products, in short, all our stakeholders, to ensure that an appropriate governance framework is in place at Dairy Crest. Your Board and I believe in the importance of corporate governance and the vital role it plays in underpinning the integrity and performance of our organisation. Amongst the myriad duties the Board and I owe to the broad constituency of stakeholders in our organisation, establishing, embedding and maintaining an effective governance framework through which it is able effectively to direct and control the Group is paramount. The Board recognises its duty to set the right tone at the top in order to guide our organisation's behaviour and ensure that we live by and demonstrate the right values which in turn enable entrepreneurial and prudent management of the resources which you, our shareholders, have entrusted to us so that we can deliver long term success for Dairy Crest and all its stakeholders.

In this, our Corporate Governance report, the Board and I shall try and demonstrate how we have brought to life the principles of good governance through, amongst other things, ensuring that an effective internal framework of systems and controls is in place which clearly defines authority and accountability while at the same time allowing the appropriate management of risk. A key benchmark is our compliance with the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in September 2012 ('Code') – which can be found at www.frc.org.uk. I am pleased to report that apart from Code provision B6 (for further information see page 37) we have complied with all relevant provisions of the Code during the 2013/14 year.

The Board recognises its collective responsibility for the governance of the Company. Its strong governance framework (as illustrated below) is supported by a combination of clear values which are discussed elsewhere in this Report (see pages 6 to 7), appropriate policy and an environment of transparency and accountability. The Board's central role is to work alongside the executive team providing support, challenge, guidance and leadership. I believe that the Board of Dairy Crest is well balanced with a broad range of skills, diversity and experience.

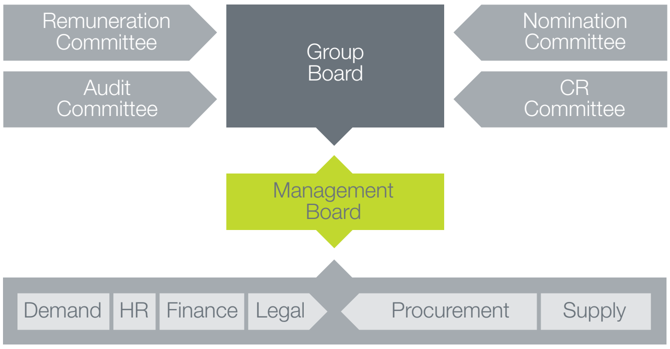
One of the Chairman's key objectives for the coming year is to maintain focus on succession planning at Board and senior management levels. The changes which the Group underwent in 2013 with the One Dairy Crest project demonstrated the value of good succession planning and I and the Board were pleased to see the promotion of good internal candidates as some of the personnel changes associated with that project were implemented.

We continue to review our governance structure and processes, to ensure that governance at Dairy Crest evolves against the backdrop of an ever-changing world.

Richard Macdonald Acting Chairman
21 May 2014

Governance framework

The diagram below sets out the structure used to govern the Company. Through our governance structure we have established a clearly defined set of values which are communicated throughout the Group. Our values are supported by a range of procedures and guidelines providing an appropriate roadmap to inform employees' behaviour. Together with external governance codes they set an effective framework for the Group's standards and governance.



The Board

Role: The Board is collectively responsible for the entrepreneurial leadership and control of the Company against a framework of prudent and effective controls enabling the assessment and management of risk. As custodian of the Group's strategic aims, vision and values it ensures that the necessary human, financial and other resources necessary for the delivery of long term success of the Group are in place and scrutinises and reviews Management's performance. Each Director is aware of his/her responsibilities, individually and collectively, to promote the long term success of the Company consistent with their statutory duties.

How it operates: The Board's agenda through the year is pre-planned with sufficient time allowed to enable the Board to react and respond to the changing landscape of the Group's business as the year progresses. The Board's key accountabilities are:

- Approval of the Group's long term objectives and business strategy
- Approval of the annual operating and capital expenditure budgets
- Maintaining an overview and control of the Group's operating and financial performance
- Ensuring the maintenance of a sound system of internal control and risk management
- Oversight of the Company's governance and compliance framework, including key Group policies, for example Health and Safety and Business Conduct and considering regulatory changes and developments

A formal schedule of matters reserved has been adopted by the Board and is available on the Group's website www.dairycrest.co.uk.

Delegation of authority: the Board has delegated authority to five committees;

- Management Board
- Audit Committee
- Nomination Committee
- Corporate Responsibility Committee
- Remuneration Committee

The individual reports of the Audit, Nomination, Corporate Responsibility and Remuneration Committees prefaced by an introduction from the chairman of each can be found at pages 39 to 62. The Committees' terms of reference, which to the extent required, comply with the Code can be found on the Group's website. Day-to-day management responsibility rests with the Management Board which under its terms of reference has delegated authority from the Board over operational decisions.

Composition: At the date of this Report, the Board comprises eight Directors (three Executive, a Non-executive Chairman (who was independent on appointment) and four independent Non-executive Directors). Directors' biographical details, experience, responsibilities and other commitments set out at pages 32 to 33.

Balance and Independence: With four independent Non-executive Directors and a Chairman who was independent on appointment, all of whom are free of any relationship which could materially interfere with the exercise of their independent judgement, the composition of the Board satisfies the requirements of the Code. The Board considers that the Directors demonstrate the suitable breadth of experience and backgrounds required to provide effective leadership for the Group. Details of the Group's approach to diversity are set out in the Report of the Nomination Committee at pages 42 to 43.

Chairman and Chief Executive: These roles are distinct and separate with clearly defined accountabilities set out for each which can be found on the Group's website (Chairman/Chief Executive Division of Responsibilities). The Chairman has particular responsibility for the effectiveness of the Group's governance. He is accountable for ensuring the Board's effectiveness in discharging its responsibilities, safeguarding shareholder and other stakeholder interests and promoting effective communication with shareholders. Together with the Chief Executive and with the assistance of the Company Secretary he sets the agenda for Board Meetings and directs the focus of the Board ensuring that adequate time is available for all agenda items. In promoting a culture of openness among the Board and ensuring constructive relations between Executive and Non-executive Directors, he facilitates the effective contribution of all Directors. To help ensure a proper dialogue with all Directors the Chairman meets with Directors individually and talks to the Non-executive Directors in the absence of Executive Directors.

Senior Independent Director: As a result of Anthony Fry's absence from the Group for medical reasons, Richard Macdonald is currently fulfilling the role of Acting Chairman. Ordinarily in his role as Senior Independent Director, Richard provides a sounding board to the Chairman. He also acts as a lightning rod should matters arise which Directors wish to discuss with someone other than the Chairman. He is available to shareholders and other stakeholders in the Group's business as needed; and where required, he deputises for the Chairman.

Non-executive Directors: All Non-executive Directors (including the Chairman) confirmed on appointment that they had sufficient time available to fulfil their obligations as Directors and that they would inform the Board should the position change. Details of the Chairman's other significant professional commitments are included in his biography (page 32). The Board is satisfied that he continues to have sufficient time available to fulfil his obligations as a Director and Chairman. All significant commitments of Non-executive Directors were disclosed to the Board prior to their appointment and the Board was informed of subsequent changes.

As members of a unitary board, the Non-executive Directors scrutinise Management's performance in meeting agreed goals and objectives. The Board as a whole monitors the reporting of performance. The Chief Executive's objectives, achievement of which influences his remuneration, are agreed with the Remuneration Committee following initial discussion with the Chairman. Performance against those objectives is scrutinised by the Remuneration Committee. The Audit Committee monitors and scrutinises the integrity of financial information as well as the robustness and defensibility of financial controls and systems of risk management. The Remuneration Committee is responsible for determining appropriate levels of remuneration for Executive Directors. The Nomination Committee has a prime role in selecting and appointing Directors and in succession planning. The appointment of Directors to or the removal of Directors from the Board is a matter reserved to the Board as a whole.

The Chairman periodically meets individually or collectively with the Non-executive Directors in the absence of the Executive Directors. Were Directors to have unresolved concerns about the running of the Company or a proposed action, they would be recorded in the Board minutes. The Non-executive Directors recognise the principle that if on resignation from the Board a Director has unresolved concerns, that Director should provide a written statement to the Chairman for circulation to the Board. The concept that Non-executive Directors are free to question any executive decision of the Company is enshrined in the engagement letter of each Non-executive Director.

Information and Support: The Company Secretary advises the Chairman and the Board on all governance matters and ensures Board procedures are followed and applicable rules and regulations complied with. He ensures that the Board is supplied in a timely manner with information in a form and of a quality which enables the Board to discharge its duties. The Board, the Committees and all Directors have access to the advice and services of the Company Secretary. He provides the Board with regular reports on governance issues. Procedures exist for Directors to seek independent professional advice at the Company's expense where required.

Effectiveness: Normally the Board has eight scheduled meetings in its annual work plan. It holds additional meetings on an ad hoc basis as and when required. Details of the Board and Committee meetings held during the 2013/14 year and Directors' attendance at those meetings is set out in the table below.

Board and main Committee meetings

The following Directors held office during the year. The number of Board and Committee meetings attended by Directors in the year is shown in the table below. The numbers in brackets show the maximum number of meetings Directors could have attended during 2013/14.

	Board	Audit	Remuneration	Nomination	Corporate Responsibility	Management Board
Mr A Fry	6(8)	–	–	1(1)	–	–
Mr M Allen	8(8)	–	–	–	4(4)	29(39)
Mr T Atherton [i]	7(7)	–	–	–	3(3)	32(39)
Mr A Murray [ii]	1(1)	–	–	–	1(1)	4(7)
Mr M Wilks	8(8)	–	–	–	4(4)	34(39)
Mr S Alexander	8(8)	5(5)	9(9)	1(1)	–	–
Mr A Carr-Locke	8(8)	5(5)	8(9)	1(1)	–	–
Ms S Farr	8(8)	–	7(9)	–	4(4)	–
Mr R Macdonald	8(8)	5(5)	–	–	4(4)	–

i Tom Atherton was appointed to the Board on 23 May 2013

ii Alastair Murray stepped down from the Board on 23 May 2013

In 2011/12 the Board undertook an externally facilitated process to evaluate its effectiveness. Rathmullan, a boutique evaluation and performance audit consultancy, conducted interviews with each of the Directors and the Company Secretary leading to a discursive review of the output from those interviews focusing not only on Board effectiveness but the effectiveness of the Chairman. 2012/13 was an important year for the Board being the first full year of its then applicable composition and the second full year of Anthony Fry's chairmanship. Accordingly, rather than immediately revert to an internally managed evaluation process, the Board felt there would be added value brought to the process by adopting a hybrid approach starting with an internal process using questionnaires which it then followed up with individual interviews with the Directors and Company Secretary. Interviews were conducted by IDDAS, a specialist mentoring, coaching and effectiveness consultancy focused on boards and senior executives. At the time of the last Report that effectiveness review had not been concluded, but has been concluded in the interim. Its focus was to continue with the themes of the previous effectiveness review and in particular to ensure adequate progress had been made with the conclusions drawn from the previous review. The review concluded that the Board had made good progress in ensuring its visibility through more regular site visits and that relationships amongst the Board continued to work well with any issues arising being quickly resolved in an open and constructive manner. During the year the Board visited the Group's sites at Frome, Somerset (September 2013) and Chadwell Heath, London (January 2014). The Board expects to continue to rotate visits around the Group's sites. The review further concluded that following changes to the Board's composition in May 2013 when Alastair Murray had stepped down from the Board and Tom Atherton had been appointed Group Finance Director, Tom had assimilated well into the Board quickly consolidating the relationships which he had begun to build with the Directors in his previous role as Director of Financial Control.

It had been intended that the annual appraisal of the Board's effectiveness required by provision B6 of the Code for the 2013/14 financial year would be undertaken in the spring of 2014. However, in light of Anthony Fry's absence due to ill health and in recognition of the pivotal role played by the Chairman and the appraisal of his performance in the overall appraisal of the Board's effectiveness and performance, the Board has decided to postpone the annual appraisal of its performance pending Anthony's return to his duties as Chairman.

The performance of Executive Directors in the context of their management and operational responsibilities was appraised in the normal way. As is the case with all management grade employees, Executive Directors participate in the Group's performance and development review process. Under that process, the Chairman appraises the performance of the Chief Executive and the Chief Executive appraises the performance of the other Executive Directors. The outcome of reviews of performance of all of the Executive Directors is scrutinised by the Remuneration Committee. The outcome of the performance review of Executive Directors is set out in the Directors' Remuneration Report at page 52.

Induction and development: the Company Secretary ensures that Directors undergo a comprehensive induction programme on appointment. In addition to equipping Directors with sufficiently detailed knowledge of the operations of the Group's business necessary to enable them effectively to carry out their duties, the induction programme is tailored to their experience, background and particular area of focus. A detailed development programme has been implemented to assist Tom Atherton's development as Group Finance Director, details of which are set out in the Report of the Nomination Committee.

Conflicts of interest: CA 2006 places a duty on each Director to avoid a situation in which he or she has or can have a direct or indirect interest which conflicts or may conflict with the interests of the Company. That duty is in addition to the obligation owed by Directors to the Company to disclose to the Board any transaction or arrangement which gives rise or may give rise to a conflict of interest under consideration by the Company. Procedures are in place for Directors to disclose conflicts or potential conflicts of interest. The Company's Articles of Association ('Articles') authorise the Directors, where appropriate, to authorise conflicts or possible conflicts of interest between Directors and the Company. Non-executive Directors' letters of appointment require Non-executives to obtain the prior approval of the Board to appointments external to the Company. That requirement assists the Board to ensure no conflict of interest may result from such appointments. When considering conflicts or potential conflicts of interest, the conflicted or potentially conflicted Director is excluded from participation in the Board's consideration of the conflict or potential conflict situation. At its meeting in July 2013, the Board received confirmation from all Directors that there were no arrangements, situations or transactions either current or anticipated, which they believed might give rise to any conflict of interest between them and the Company. Directors are required to confirm that there are no actual or anticipated conflicts of interest at least annually as part of the year-end sign off process when they approve of their emoluments statements and the confirmation process was repeated at the Board's meeting on 14 April 2014. No Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

Appointment and re-election: The Articles provide that the Directors or the members, by ordinary resolution, may appoint a Director either to fill a vacancy or as an additional director. A Director appointed by the Directors shall retire at the next AGM following appointment and shall be eligible for election by the members. The Articles require all Directors to be elected annually. All Directors will stand for re-election at the Company's 2014 Annual General Meeting ('AGM'). Having regard to the roles performed by each of the Directors, the individual input and contribution they make and their individual expertise and experience, the Board is satisfied that each candidate's performance justifies nomination for re-election by shareholders. Service agreements of Executive Directors and a template letter of appointment of Non-executive Directors are published on the Company's website and are available for inspection by any person at the Company's registered office during normal office hours and will also be available at the 2014 AGM for 15 minutes before and throughout the meeting.

Dialogue with shareholders

The Board believes in the importance of an on-going relationship with its shareholders. It fully supports the principles encouraging dialogue between companies and their shareholders in the Code and the UK Stewardship Code. The Chief Executive and Group Finance Director have primary responsibility for investor relations. They are supported by the Group's Corporate Affairs Director who, amongst other matters, organises presentations for analysts and institutional investors and holds meetings with key institutional shareholders to discuss strategy, financial performance and investment activities immediately after the Interim and Preliminary Results Announcements. Slide presentations made to institutional shareholders are made available on the Company's website along with annual and interim reports, interim management statements, trading updates and company announcements. Announcements are made as appropriate and required through a Regulatory Information Service.

All the Non-executive Directors, and, in particular, the Chairman and Senior Independent Director, are available to meet with shareholders. Feedback from meetings with shareholders is provided to the Board to ensure that all Directors have a balanced understanding of the issues and concerns of shareholders. The Board receives feedback from the Chief Executive and the Group Finance Director on their meetings with shareholders, periodic reports on investor relations and independent feedback from the Company's brokers on the views of major shareholders.

The notice of each AGM together with other related papers is dispatched to shareholders at least 20 working days before the meeting. All Directors attend the AGM and are available to answer shareholder questions before, during and after the meeting. The Chairman of the Board provides the meeting with an update on the progress and performance of the Group before the formal business of each AGM is addressed and a resolution is proposed relating to the Annual Report and Accounts. Details of the proxy voting on each resolution are announced at the AGM including the level of votes for and against resolutions and abstentions, and are posted on the Company's website following the conclusion of the meeting. At the last AGM, consistent with corporate governance best practice, voting was conducted on a poll and the result was published on the Company's website after the meeting. Voting will again be conducted on a poll at this year's AGM.

Risk management and internal control

The Board determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. It has overall responsibility for the Group's system of internal control and for reviewing its effectiveness in which task it is assisted by the Audit Committee and the Group Internal Audit function. It has delegated responsibility for management of day-to-day operational risks to the Management Board and responsibility for the detailed review of internal control to the Audit Committee. It has established a sound system of risk management and internal control, the key components of which are set out below. Group Internal Audit supports the Board and Audit Committee in reviewing the effectiveness of the system of internal control. Through periodic reviews during the year, the Board has satisfied itself that its systems accord with the FRC's Guidance on Internal Control (the 'Turnbull Guidance') and that satisfactory internal control procedures and systems have been in place throughout the year in compliance with the requirements of the Code. A rolling audit programme conducted by Group Internal Audit across the Group forms a key facet of the Group's systems of internal control. The Head of Group Internal Audit reports independently to the chairman of the Audit Committee on assurance matters. It is not possible entirely to eliminate risk; accordingly, although the systems are designed to manage risks they cannot provide absolute assurance against material misstatement or loss. They provide reasonable assurance that potential issues can be identified promptly and remedied appropriately. The key components of the risk management and internal control systems include:

- Reservation to the Board of control of, amongst other matters, all significant strategic, financial and organisational risks
- A management structure which includes clear lines of responsibility and documented delegations of authority with appropriate policies, levels and rules for, amongst other matters, incurring capital expenditure or divesting of the Group's assets
- The operation of comprehensive financial and strategic planning, forecasting and review processes
- Exercise of oversight by the Audit Committee, with input from the Head of Group Internal Audit, over the Group's control processes designed to ensure the integrity of internal and external financial reporting
- The preparation of monthly management accounts packs for the business, including KPI dashboards for each constituent part of the Group's business, trading results, balance sheet and cash flow information with comparison against prior year and budget, all of which are reviewed by the Management Board and the Board
- Monthly scrutiny of performance against budget (including analysis of key trends, variances and key risks and plans for mitigation as well as the continued appropriateness of those risks) in meetings known internally as Accounts Reviews where each key constituent part of the Group and key departments report performance year-to-date and forecast against budget to a panel comprising the Management Board and other senior executives
- Formal documented financial controls and procedures including specific procedures for treasury transactions and the approval of significant contracts

- Quarterly completion by each key constituent part of the Group of a self-assessment controls questionnaire that requires the approval of business unit management
- Preparation and refreshment of risk registers which are reviewed by senior management, the Management Board and the Board with the assignment of individual responsibility for the ownership and mitigation of significant risks to members of the Management Board and independent assurance over the appropriate implementation and operation of mitigating activities provided by Group Internal Audit
- Review by the Audit Committee of the Group's risk register processes
- Review and approval of the audit plan for the Group's Internal Audit function together with progress against and revision of the plan as appropriate, throughout the year
- Receipt by the Audit Committee and the Management Board of all Group Internal Audit reports detailing audit issues noted, corrective action plans and progress against those plans
- The implementation of an integrated business planning process with formal procedures for highlighting on a monthly cycle financial performance and risks to budgetary delivery together with associated opportunities to counteract or mitigate those risks to performance

Fair balanced and understandable: Provision C.1 of the Code introduces the new principle that the Directors should present a fair, balanced and understandable assessment of the Company's position and prospects. At its meeting in September 2013 the Audit Committee with the assistance of the external auditor considered the adoption of a detailed process to enable the Board to ensure its ability to report against this principle of the Code. That has resulted in a more structured approach to the preparation of this year's Report and Accounts which was formally signed off at the Board's meeting in May 2014 at which meeting, the Board was satisfied that the Annual Report and Accounts for financial year 2013/14, taken as a whole, is fair, balanced and understandable and the Board believes that the information contained therein provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Audit Committee report

In his introduction to the Corporate Governance section of the Annual Report the Acting Chairman stressed the importance of governance and the emphasis which the Board places on it. Being entirely independent of Management and enjoying a free ranging remit on behalf of the Board, the Audit Committee plays a critical role in the governance of Dairy Crest, providing oversight of the essential checks, balances and controls on which the owners of our business rely in order to have confidence that their interests are appropriately safeguarded. It is not possible to succeed in business without taking some risk. However, risk should be properly understood and appropriately mitigated. The Board is responsible for the identification, assessment and management of risk. It has asked the Committee to assist it in the oversight of risk. The Committee and I are acutely conscious of the responsibility entrusted to us to ensure that the Group operates an appropriate framework within which the risks which Dairy Crest assumes to generate growth in our business and enhance shareholder value are properly controlled and mitigated. Oversight of the control environment is only one facet of our accountability as a Committee. Equally important is our responsibility to give shareholders the comfort and reassurance that there is appropriate independent oversight of the Group's financial management and reporting so that they may have confidence in the integrity of reporting on the Company's financial performance and have sound information on which to base their investment decisions.

In the fulfilment of the responsibilities which I have identified above, the Committee has clearly defined accountabilities which are set out in its terms of reference and has a work programme which encompasses regular, routine activity, planned proactive activity and when necessary, reactive activity. The Committee is supported in its work by Ernst & Young LLP ('EY'), the Company and Group's external auditor, and by Group Internal Audit. The Code provides us with a useful framework against which to judge the appropriateness of the governance structure we have in place and performance against it.

Details of the Committee's work programme undertaken during the year are set out in the Report below. For the first time this year though, the Code encourages audit committees to report not just on the areas of work they have undertaken, but also on the significant issues they have considered during the year. From my perspective, as Dairy Crest has gone through a period of significant change over the last year and the major internal restructuring associated with the One Dairy Crest project has been implemented, the Committee's key activity has been ensuring oversight of the continued integrity of financial reporting as the Group's finance team has undergone significant change; including, the promotion of good internal talent into new and more stretching roles with greater responsibility, not least the transition Tom Atherton has undertaken from Director of Financial Control to Group Finance Director. The other notably significant issues which the Committee considered during the year which particularly stand out were:

- An enquiry from the Financial Reporting Review Panel ('FRRP') concerning the manner of calculation of diluted EPS in the Company's interim results announcement for the period ended 30

September 2012 and the Company's compliance with IAS 33 in the preparation of that disclosure: Although there had been no material misstatement of diluted EPS for the period in question and prior year comparatives, the FRRP's enquiry was welcomed by the Committee and led to corrections to the prior year comparatives used in the Company's interim results announcement and to proposed disclosure in its 2012/13 financial statements
- The appropriate approach to adopt to segmental reporting following the changes brought about to the Group through the One Dairy Crest project: The Committee concluded that for IFRS8 purposes only one segment should be reported on but that the previous product group analysis should be reported on as well in order to assist users of the financial statements in the transition to the new segmental analysis
- The changes and potential risks arising from the significant internal restructuring: I have already referred above to the focus brought to bear on ensuring the effectiveness of the Group's finance function; in addition, the Committee reviewed the Group's policies and internal controls to ensure the control environment was maintained during the transition
- Cyber security: In response to the identified growing threat to business organisations generally from cyber security issues, the Committee instigated a third party review of risk and controls and reviewed recommended changes in policy to ensure continued appropriate security
- The carrying value of property, plant and equipment in the Dairies cash generating unit: In the context of possible indicators of impairment, the Committee reviewed an assessment of the carrying value of the Dairies cash generating unit compared to its value in use. The assessment concluded that no impairment was required; however, as the value in use headroom over carrying value is limited and sensitive to small changes in key assumptions the Committee will keep the assessment under review

Looking more externally, considerable focus is rightly placed on the objectivity and independence of the external auditor and the committee has focused throughout the year on the evolving regulatory environment related to external audit. During the year the Committee reviewed the Group's policy on external audit tendering keeping in mind the evolving regulatory backdrop. In last year's Report we undertook to report more fully on the Code's requirements on external audit tendering which we shall do later in this Report alongside an examination of expected future developments related to the external audit driven by the European Commission.

Andrew Carr-Locke Chairman of the Audit Committee
21 May 2014

Membership: details of the members of the Committee at the date of this Report and any changes throughout the year together with details of attendance at meetings are set out at page 37. The Board considers that the Chairman of the Committee has recent and relevant financial experience for the purposes of the Code.

Invitations to attend meetings: A standing invitation has been made by the Committee to the Chairman of the Board as well as all other Directors to attend the Committee's meetings. The Group Reporting Controller, Group Financial Controller, Head of Group Internal Audit and representatives of EY attend also meetings at the invitation of the Committee. During the year the External and Internal Auditors attended all meetings and also met privately with the Committee.

Role and responsibilities: Consistent with the FRC's "Guidance on Audit Committees" the Committee's role and responsibilities are concerned with financial reporting, narrative reporting, whistleblowing and fraud, internal controls and risk management systems, internal audit and external audit. The Committee's scheduled activities are planned in accordance with its terms of reference, which have been approved by the Board.

Terms of reference: the Committee has documented terms of reference which are approved by the Board. They are reviewed at least annually and during the year they were reviewed at the Committee's meeting in September 2013. Its terms of reference are in compliance with the Code and can be found on the Group's website.

Objectives: the Board has delegated authority to the Committee to oversee and review the Group's financial reporting process, system of internal control and management of business risks, the internal audit process, the external audit process and relationship with the external auditor and the Company's process for monitoring compliance with laws and external regulations. Final responsibility for financial reporting, compliance with laws and regulations and risk management rests with the Board to which the Committee regularly reports back.

Meetings: During the year, the Committee undertook the following core work at its meetings;

13 May 2013	• Reviewed the external auditor's 2013 Audit Results Report
	• Reviewed compliance during the year with Management and the Board's procedures related to the preparation of the Going Concern Statement and the statement for inclusion in the Accounts and the draft Report and Accounts for the year ending 31 March 2013 and recommended their adoption to the Board
	• Reviewed prior year agendas and planned agendas against its work plan and terms of reference and satisfied itself that sufficient additional time existed to accommodate one-off items arising
	• Reviewed its own performance and that of EY along with EY's objectivity and the independence and effectiveness of EY's processes, and recommended to the Board EY's reappointment as the external auditor
	• Received Group Internal Audit's updates on pre-existing whistleblowing notifications and any new notifications as well as its report on financial and operational controls audits and its progress against audit plan. Approved Group Internal Audit's work plan for the next financial year
15 July 2013	• Received and considered recommendations contained in EY's management letter findings and responses from its 2013 audit
16 September 2013	• Received Group Internal Audit's report on financial and operational controls audits, pre-existing whistleblowing notifications and any new notifications
	• Received an update report on the tax affairs of the Group
	• Considered and approved EY's 2013/14 audit planning report
	• Received training concerning the Committee's obligations related to changes to corporate governance, regulation and auditing standards
	• Examined the potential risks to the financial control systems associated with the One Dairy Crest project and associated opportunities to identify new ways of working for management with clearer lines of responsibility; including, review and refreshment of key financial control documents (Authority Protocols and Minimum Levels of Financial Control) and other appropriate steps for mitigation of project risks. Approved new Authority Protocols and new Minimum Levels of Financial Control

16 September 2013 continued	• Reviewed and approved appropriately amended Committee terms of reference in the context of the FRC's (Guidance on Audit Committees) issued in September 2012
	• Considered a proposed plan of action to address the new fair, balanced and understandable requirement
	• Reviewed the Company's policy on external auditor independence and provision of non-audit services including evolving audit tender regulation
1 November 2013	• Received and considered EY's Interim Review Report for the period ended 30 September 2013
	• Reviewed and approved for recommendation to the Board draft Interim Accounts for the period ended 30 September 2013
	• Reviewed Management's self-assessment of IT security and an independent assessment of the Group's IT security and business systems controls environment conducted by PwC, and agreed with Management specific actions to improve that control environment
	• Received Group Internal Audit's report on financial and operational controls audits, pre-existing whistleblowing notifications and any new notifications
	• Received and considered an update on further evolution of external audit tendering regulation and adopted appropriate amendments to the Group's external audit tendering policy
7 March 2014	• Received Group Internal Audit's update on audits conducted in the period and progress with its audit plan, as well as whistleblowing notifications received during the period and an update on investigations into previous notifications
	• Reviewed the year end process and timetable particularly in the context of the fair, balanced and understanding obligations
	• Received and considered EY's Audit Update Report
	• Approved the adoption of an updated audit tender policy for the Company and Group
	• Reviewed the Committee's performance during the year against its work plan satisfying itself that it had achieved its work plan as well as a number of additional matters which had arisen during the year
	• Reviewed and approved updated Treasury and Accounting Policies for the Company and the Group
	• Reviewed and considered an independent cyber maturity benchmark prepared by PwC following work on cyber security undertaken earlier in the year and endorsed proposed actions for implementation

External auditor objectivity and independence: The objectivity and independence of the external auditor is critical to the integrity of the audit. During the year the Committee reviewed the external auditor's own policies and procedures for safeguarding its objectivity and independence. The audit engagement partner gave representations as to the external auditor's independence and confirmed that the external auditor's reward and remuneration structure includes no incentives for audit engagement partners to cross sell non-audit services to audit clients. The Committee's assessment is underpinned by the Group's policy on the engagement of the external auditor for the provision of non-audit services, which was revised and significantly strengthened in the prior year. The Committee conducted a review of the policy during the year and was satisfied that it continued to be appropriate. The policy contains a presumption against the use of the external auditor for non-audit services. The external auditor may only be engaged for the provision of non-audit services in contravention of that presumption where those services are expressly permitted under the policy and where there is a demonstrable efficiency, audit enhancement or cost benefit resulting from the engagement of the external auditor. Furthermore, before it may be engaged for the provision of such non-audit services, alternative providers must have been considered and discounted.

Services which the external auditor is prohibited from providing to the Group include, amongst others:

- Bookkeeping services and preparation of financial information
- The design, supply or implementation of financial information systems
- Appraisal or valuation services
- Internal audit services
- Actuarial services

Fees paid to EY during the year are set out in the table below, together with prior year comparisons:

	2013/14 £m	2012/13 £m
Total audit fees	0.4	0.4
Non-audit fees		
Taxation services	0.1	0.1
Other non-audit services	–	0.2
Total non-audit fees	0.1	0.3
Total Fees	0.5	0.7

Details of the non-audit work undertaken by EY during the year are set out at Note 2 to the Accounts at page 84.

The Committee was satisfied that the overall levels of audit related and non-audit fees were not material relative to the income of the external auditor firm as a whole. It was satisfied that the objectivity and independence of the external auditor was maintained throughout the year.

External auditor appointment:
EY was first appointed as external auditor to the Company in 1996. There are no contractual restrictions on the Company with regard to its appointment. The external audit appointment to the Company and Group has not been tendered competitively since EY's appointment.

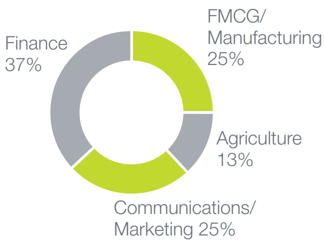
As reported last year, the Committee has been closely monitoring regulatory developments concerning external auditor tendering. Since the publication of the Code in September 2012 where at provision C.3.7 it required that FTSE 350 companies "should put the external audit contract out to tender at least every 10 years", the Competition Commission's report on the statutory audit tender market was expected to result in a requirement that audit services are tendered at least each ten years and should they not be tendered each five years, companies should explain why it is in the best interests of their shareholders that the audit engagement is not tendered. Furthermore, the Competition Commission had stated an intention to introduce a requirement that companies who last put their audit to tender before 2005 must do so within two years of the next rotation of their audit engagement partner. In the case of Dairy Crest, that will require that the Group tenders the external audit engagement in 2019. As of January 2014, the Competition Commission had announced its intention to place implementation of an Order on hold pending the outcome of the European Commission's review of the external audit market and its implementation of anticipated regulation placing particular requirements or companies for the tendering and rotation of external audit services. Should the European Commission implement regulation in the anticipated form, companies will be required to change auditor each 10 years. It is anticipated that national states shall be able to derogate from the regulation by allowing an extension of up to 10 years for rotation, provided shareholders ratify the implementation of such extension. The Company has introduced a policy which requires the tendering of the external auditing engagement each 10 years, the first of which tendering exercises must be undertaken not later than the end of 2019. The Committee shall continue closely to monitor the developing regulatory landscape and will review the Company's policy on audit tendering as required in response to further regulatory changes.

The Committee monitors the performance of the external auditor throughout the year and formally concludes the assessment of its performance in each May and makes a commensurate recommendation on the appointment of EY for the financial year to the Board. Shareholders then formally appoint the auditor at the AGM in July. In the light of the assessments and review undertaken, the Board endorsed the Committee's recommendation which was approved by shareholders in July 2013. At its meeting in May 2014, the Audit Committee considered the appropriateness of the re-appointment of EY as the Group's external auditor for the 2013/14 year. In doing so it took account of the Committee's review of the external auditor's independence and objectivity, the ratio of audit to non-audit fees and the effectiveness of the audit process together with other relevant review processes conducted throughout the year. The Committee was satisfied that it should recommend to the Board the re-appointment of EY as the Company's and Group's external auditor at the AGM on 15 July 2014.

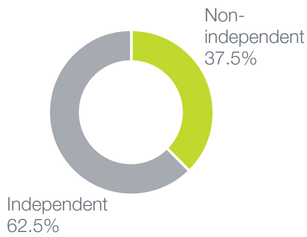
Nomination Committee report

In Anthony Fry's absence I present to shareholders the report on the work of the Nomination Committee during the 2013/14 financial year. Details of the membership of the Committee and the attendance of members at Committee meetings during the year are set out on page 37.

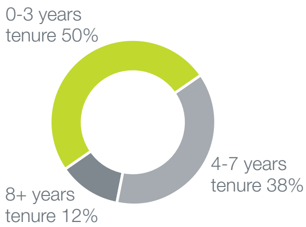
Sector experience



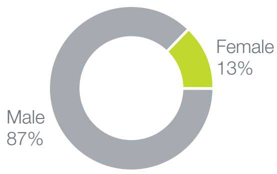
Independence



Length of tenure



Board gender



The Committee is responsible for overseeing the selection and appointment of Directors and making its recommendations to the Board. In conjunction with the Chairman, it also evaluates the commitments of individual Directors and ensures that the membership of the Board and its principal committees are refreshed periodically. The Board believes that it is in the best interests of the Company that Executive Directors take up opportunities to act as non-executive directors in other appropriate companies. Executive Directors are permitted to serve in a non-executive capacity on the board of one other company and to retain any fees received. Non-executive Directors may serve as directors, executive or otherwise, on the boards of other companies. As Non-executive Directors' letters of appointment require them to seek prior approval from the Board for other appointments, the Board is given the opportunity to satisfy itself that their other commitments allow sufficient time for Non-executive Directors to devote adequate time to their commitments to the Company. The Board approved all new appointments of Directors during the year and is satisfied that all Directors continue to have sufficient time to devote themselves properly to their duties for the Company.

The Committee has not been required during the year to assist the Board with the recruitment of a Director. Were it to be so required, it would ensure that the recruitment exercise was conducted against a documented brief setting out the requirements of the role and the skills and experience required of the person to fill it. In the past, the Company has engaged the services of external search consultancies and it is anticipated, in the ordinary course, that it would continue to do so in the future. Were it not to do so, open advertising would be used as an alternative. None of the Non-executive Directors, or the Chairman, who was independent on appointment, has yet served six years in office. Andrew Carr-Locke is the longest serving of the independent Non-executive Directors, the test of independence no longer applying to the Chairman. He will have served six years on the Board in August 2015.

Following on from the work of the Committee in the prior year, its focus during 2013/14 has been on ensuring the appropriate balance of skills and experience on the Board. As Tom Atherton took on the role as Group Finance Director in the early summer 2013, the Committee was keen to ensure that he was given the appropriate support and guidance to help him flourish in his new role. Through the Board, the Committee took steps to ensure that he was given the necessary formal training and was provided with support, in the guise of a coach/mentor. In tandem with the Audit Committee, the Committee also wanted to ensure that appropriate steps were taken amongst the senior management group in the finance arena to enable Tom to focus on his new role and not get drawn into the work and accountabilities of his previous role as Director of Financial Control. That meant ensuring that there was sufficient breadth of experience and expertise in the finance team working for Tom such that they were able properly to support him in his new role.

During 2013/14 there were a number of other changes which occurred within the senior management team of the Group arising from the One Dairy Crest project. The Committee ensured that appropriate succession planning was in place for the level below the Board and we have been pleased to see a number of internal promotions to senior positions, including promotions to the Management Board.

The Group has not adopted targets for female representation amongst the Directors. It interprets diversity in its widest sense and aims to achieve the best possible leadership for the Group by ensuring an appropriate mix of skills, backgrounds, gender, experience and knowledge amongst its Directors, senior managers and other employees. The Committee considers that first and foremost, appointments must be made based on an objective assessment of who is the best person to fill a role, with candidates drawn from a diverse range of backgrounds. The Group will continue to operate policies giving equal opportunities to all, irrespective of age, gender, marital status, disability, nationality, colour, ethnic origin, sexual orientation or religious affiliation.

Richard Macdonald Acting Chairman of the Nomination Committee
21 May 2014

Report of the Corporate Responsibility Committee

As Chairman of the Corporate Responsibility Committee I am pleased to present the Group's Corporate Responsibility report to shareholders for the financial year 2013/14 on pages 23 to 27. The Committee oversees the Group's corporate responsibility programme and ensures that key social, ethical and environmental issues are assessed and prioritised including reviewing the Company's 40 corporate responsibility pledges. Sue Farr, each of the Executive Directors, the Company Secretary, the Group HR Director and Head of Corporate Responsibility are the other members of the Committee. To ensure risks are fully identified staff with expertise in the relevant corporate responsibility issues are invited to present to the Committee at each of the meetings.

Over the course of the year we believe good progress has been made towards ensuring that the Group's commitment to 'doing the right thing' has benefitted the environment and society, and that the actions taken have improved profits and reduced risks for the business. Highlights include: the continued reduction of accidents in the workplace, which have fallen for the fifth consecutive year; the continued reduction of water usage and the launch of innovative, healthier products.

In 2013/14 the Group also benefited from working in collaboration with other businesses to deliver larger scale benefits to society, examples of which include working in partnerships to help young unemployed people gain employment and the work done through the Prince's Dairy Initiative which helps the most vulnerable dairy farmers become more economically sustainable.

The Committee believes that the Group's employees should be especially proud of achieving four and a half stars in the 2014 BITC corporate responsibility audit. This is the highest rating of any participating member company and builds on the Platinum Big Tick achieved in 2013. The Committee also noted the great achievement of being shortlisted to be the FT's Responsible Business of the Year 2014 and the several other prestigious sustainability accolades independently awarded over the course of the last 12 months.

Overall the Committee views corporate responsibility as an opportunity to improve the business. Accordingly, good corporate responsibility is in the interests of all of Dairy Crest's stakeholders. We believe that the Group's approach helps to spark creative, innovative ideas which contribute to the business' better understanding of its consumers.

Richard Macdonald Chairman of the Corporate Responsibility Committee
21 May 2014

Management Board

The Chief Executive chairs the Management Board which comprises the other Executive Directors and senior members of the Group's executive team. Details of the members of the Management Board can be found at pages 32 to 34. The Management Board is responsible, amongst other matters, for implementing the Group's strategic direction and monitoring the performance of the business and its control procedures on a day-to-day basis, as well as the day-to-day operations of the Group's business, its performance against forecasts and budgets and profitability. The Management Board normally meets weekly.

Information included in the Directors' report

Certain information fulfilling the requirements of the Corporate Governance Report can be found in the Directors' Report at pages 63 to 65 under the headings "Substantial shareholdings", "Rights and obligations attaching to shares", "Articles of association" and "Purchase of own shares" and is incorporated into this Corporate Governance Report by reference.

By order of the Board

Robin Miller Company Secretary & General Counsel
21 May 2014

DIRECTORS' REMUNERATION REPORT

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the 2013/14 financial year.

The Dairy Crest remuneration policy continues to be based upon a core set of principles which support the strategic and financial ambitions of the Company:

- The remuneration package should support a performance based culture, attract and retain talented personnel and align executives' and shareholders' interests.
- The remuneration structure is both uncomplicated and transparent, and we remain committed to open disclosure.
- The measures used for incentive plans reflect the strategic priorities which the Committee considers critical to the future success of the Company.

During the year, the Committee has reviewed the components of executive remuneration in order to ensure that they remain true to these guiding principles, are motivating to Executives, appropriate to the needs of the business and competitive with the market.

2013/14

2013/14 has been a year of progress for Dairy Crest in which we have continued to deliver against our strategy despite challenging trading conditions reflecting a very competitive UK grocery market. The completion of our internal restructure delivered the forecast savings and streamlined and improved our processes. The new structure has delivered a greater focus on both customer and consumer insight, whilst offering opportunities to develop talent within the Company. The development of the whey business provides exciting revenue potential as well as further opportunities to nurture talent within the business. During the year the cost base has been effectively managed. In a year of considerable change and progress for the business, leadership by the Executives has been key in delivering value.

The Dairy Crest annual bonus incorporates stretching short term financial targets and personal objectives. This year's bonus payments reflect improved profit before tax performance (including enhanced property profits), resulting in payments of 81.75% of salary for Mark Allen, 75.50% for Martyn Wilks and 81.75% for Tom Atherton.

Awards under the Long Term Incentive Share Plan ('LTISP') 2011 had a three-year performance period to March 2014. Of the total award, 40% was based on the Group's adjusted basic earnings per share ('Adjusted EPS') and 60% was dependent on the Company's total shareholder return ('TSR') performance against the TSR of the FTSE 250 (excluding financial services companies, real estate companies and investment trusts). The Company did not achieve the minimum Adjusted EPS target threshold and so for this element, no awards will be released. Against the TSR performance measure, the Company achieved 39.1% growth which resulted in 23.5% of awards vesting.

Following a broad shareholder communication and consultation process we were delighted to receive strong shareholder support at the 2013 AGM for the revised long term incentive scheme, the LTAP, with a 97.8% vote in support. Constructed around a set of strategic Key Performance Indicators ('KPIs') supported by a 3 year performance measure relating to dividend performance, we believe this incentive structure delivers value to both the Company and its Executives and further aligns their interests with shareholders.

- For the 2012/13 financial year, performance against the LTAP scorecard delivered a grant of 80% of basic pay for Executive Directors, reflecting the strong performance of Dairy Crest against the Company's strategic objectives. In the year, the Company faced highly challenging market conditions with reductions in milk production leading to significant increases in milk price. The achieved EBITDA growth represented a good performance against this very challenging backdrop. Particularly strong performance was noted against the balance sheet efficiency and ROCE metrics, with the disposal of St Hubert supporting a significant reduction in net debt and gearing. One of the key strategic objectives of Dairy Crest continues to be on-going annual cost savings and in 2012/13 the Group delivered savings of £23 million, combined with savings from factory closures, exceeding target. The 2012/13 LTAP award was granted in August 2013, and therefore full details of the outcomes are given in the Implementation Report under "Scheme interests awarded during the financial year"
- For the 2013/14 financial year, the LTAP grant will be 80% of basic pay for the Executive Directors, which reflects the continued strong performance of Dairy Crest. In particular, EBITDA performance, which is key to our progressive dividend policy, has shown considerable improvement against the backdrop of a difficult market and another year of high milk prices. ROCE for the year of 13.8% was ahead of the long term target (12%), demonstrating a strong return on investment for Dairy Crest while maintaining a sustainable gearing level. This LTAP grant also recognises the above target cost savings of £25m achieved in the year and the Company's progress towards our brand growth and innovation goals. As the 2013/14 grant level was determined based on performance against the LTAP scorecard over the previous financial year, we have provided full details of the outcomes against these measures in this report. This is contained in the Implementation Report under "Statement of implementation of policy in the following financial year"
- All grants under the LTAP will vest in two equal tranches after four years and five years, subject to the dividend performance condition being met

2014/15

2014/15 is expected to be another challenging year particularly in light of the intensely competitive UK grocery market. Our focus will continue to be on investment in brands and innovation, reductions in our cost base and improving the quality of earnings.

Mark Allen and Martyn Wilks will receive no salary increase in 2014. This is in line with our approach to salary reviews for Administrative and Managerial employees for this year. As referenced in last year's remuneration report, Tom Atherton's promotion to Group Finance Director was at a salary level significantly below the market rate, but with a clear plan for enhanced salary adjustments in line with increasing experience and good performance in the role. I am pleased to confirm that further to an on-going review of Tom's performance his salary will be increased by 18% to £260,000 p.a.. This change represents a move to a lower quartile position as compared to FTSE 250 CFOs. In line with our remuneration policy, it is anticipated that Tom's salary will be moved towards the median for comparable roles over time.

Changes to reporting

Preparing a report in line with the new reporting requirements has been a key focus of the Remuneration Committee during 2013/14.

Supportive of the principles underpinning the new regulations, we have delivered a report that fulfils the requirements, providing details of our remuneration policies and outcomes in a way we believe will be most helpful to shareholders.

Approved by the Board and signed on its behalf by

Stephen Alexander
Chairman of the Remuneration Committee

This report covers the reporting period from 1 April 2013 to 31 March 2014 and provides details of the Remuneration Committee and remuneration policy for the Company, together with payments and awards made to Directors.

It complies fully with the new disclosure requirements for remuneration reporting, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the rest of this remuneration report is split into two parts as follows

- The Directors' Remuneration Policy sets out the Company's proposed policy on Directors' remuneration and the key factors that were taken into account when determining it. It is intended that the policy in this report will apply for a three year period from 1 April 2015. However, if the remuneration policy ceases to be appropriate, the Committee will consider changes, putting any amended policy to a shareholder vote at the relevant time. This part of the report is subject to a binding vote by shareholders at the 2014 AGM.
- The Annual Report on Remuneration sets out the Remuneration Committee's activities, payments and awards made to the Directors and details the link between company performance and remuneration for the 2013/14 financial year. This part of the report (together with the Annual Statement) is subject to an advisory vote at the 2014 AGM.

Directors' remuneration policy

Directors' remuneration policy

We seek to ensure that remuneration packages contribute to the delivery of long term shareholder value. This is reflected in the Company's annual bonus scheme and long term alignment plan, which are explained in more detail below. The Committee will be requesting shareholder approval of the following remuneration policy at the Annual General Meeting on 15 July 2014 to cover a period of three years from 1 April 2015.

Future policy table

The remuneration structure for Executive and Non-executive Directors (who are paid only fees and receive no additional benefits), at Dairy Crest, and the underlying principles on which each element of the package is based are set out below:

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used, and time period applicable
Base salary Reflect assessment of market practice based on role and experience.	Benchmarked against executives with similar responsibilities in companies of comparable size and complexity, in particular the constituent companies of the FTSE 250 index (excluding financial services). Paid in 12 equal monthly instalments during the year. Reviewed annually and any changes are in the ordinary course effective from 1st July.	Increases will normally be broadly in line with inflation and the wider employee population. The Committee retains the flexibility to award higher base salary increases and to position salaries in such a way that ensures Dairy Crest remains competitive in the market, and to take into account an individual's personal performance and experience in the role – as such the Committee may apply increases over time as appropriate to achieve alignment with market levels. Changes may also be made in the case of a change in role or responsibility.	Not applicable.
Pension Provide a market competitive level of provision with appropriate flexibility whilst minimising risk to the Group.	There is a defined contribution scheme and/or salary supplement in place. No further service accrual under final salary pension scheme from 1 April 2010.	Mark Allen and Tom Atherton receive employer contributions up to Annual Allowance plus cash supplements. Total benefit will not exceed 23% of salary. Martyn Wilks receives a cash supplement of 23% of salary.	Not applicable.
Benefits Provide market-competitive benefits.	Includes company car benefit, life assurance cover, permanent health insurance and medical insurance. Dairy Crest pays the cost of providing the benefits on a monthly basis, or as required for one-off events. The Remuneration Committee reserves the right to add to or remove these benefits as required.	All Executives receive a company car/car allowance and private medical insurance, commensurate with market levels. Mark Allen and Tom Atherton receive life insurance cover of 7 x annual salary. Martyn Wilks receives life insurance cover of 4 x annual salary.	Not applicable.

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used, and time period applicable
Bonus Ensure that annual reward is consistent with successfully achieving the short term financial targets and strategic objectives of the Group.	To deliver an appropriate balance between long term and short term reward, any bonus earned over 50% of annual salary is deferred into shares (see below). The remainder is paid as cash. The cash element of the bonus is paid three months after the end of the financial year to which it relates.	Current maximum award: 100% of salary. Target award: 50% of salary. Threshold award: 0% of salary. In 2013/14 the Remuneration Committee adopted discretion to increase the maximum award to 150% of salary in exceptional circumstances. The Committee is not aware of any such circumstances and so does not currently expect to make awards above the maximum of 100% of salary.	Performance is measured by reference to the financial year. Metrics used to determine performance under the bonus will be based on a mix of financial, operational and personal measures. The Committee has the flexibility to vary the performance measures and weighting of metrics under this plan.
Deferred bonus Deliver appropriate balance between long term and short term reward and to build up Directors' shareholdings in line with policy.	Any bonus over 50% of annual salary is deferred for three years, conditional on continued employment until vesting date. Delivered in shares. Participants will normally be entitled to an amount, payable in shares, on vesting equal in value to the dividends payable on deferred bonus shares over the deferral period.	Policy maximum award: 50% of salary (maximum potential deferral). In the exceptional event the Remuneration Committee exercises discretion to award a bonus above 100% of salary, any bonus earned above 50% of salary would be deferred into shares.	None. Value growth is achieved only through change in share price, and dividend equivalents paid.
Long Term Alignment Plan (LTAP) Encourage and reward continuing improvement in the Group's performance over the longer term. Alignment of interest between participants and shareholders. Measures identified are central to Dairy Crest's strategy and are considered by Directors in overseeing the operation of the business.	Annual grant of share awards. Awards will be subject to a phased vesting requirement, with 50% of the award vesting in year 4 and 50% in year 5 following grant. Participants will normally be entitled to an amount on vesting, paid in shares, equal in value to the dividends payable on shares awarded. The Board may at any time up to and on vesting reduce the number of shares that vest, should material misstatement or misconduct occur.	Maximum award: 90% of salary. If performance falls below a minimum level against the scorecard no award will be made.	Achievements over the prior year against a pre-grant performance scorecard comprising measures aligned to Dairy Crest's strategic priorities. The Committee has flexibility to amend the relevant measures, weightings and KPIs which determine the size of the awards granted. The weighting of financial KPIs in determining annual grant levels will be at least 60% of the scorecard. Vesting is subject to continued employment. The level of vesting may be reduced dependent on a dividend underpin over the first three years of the vesting period. An amount of the award proportional to the percentage decrease in dividend may be clawed back in the event of a decline of up to 50%. If the decline exceeds 50%, the Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest. Dividend cover must be maintained in a specific range over the three-year measurement period. The Remuneration Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range. The dividend cover range will be determined by the Committee annually, and may be adjusted if the Committee determines this to be appropriate.
Shareholding requirement Alignment of interest between participants and shareholders.	Directors are encouraged to build a shareholding in the Company. Such shareholdings exclude unvested options under the Long Term Incentive Share Plan and include unvested deferred shares granted to Executive Directors as part payment of bonuses and unvested LTAP awards. Directors who have not achieved the minimum shareholding requirement will be encouraged to retain 50% of any shares released under the deferred bonus/LTAP until the required level of shareholding is reached.	The shareholding requirement for Executive Directors is 200% of salary.	Not applicable.

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used, and time period applicable
Non-executive Directors' fees Remunerates Non-executive Directors and attracts Non-executive Directors of suitable calibre.	Benchmarked against Non-executive Directors with similar responsibilities in companies of comparable size and complexity. The remuneration of the Non-executive Chairman is determined by the Board following recommendations from the Remuneration Committee and Chief Executive. The remuneration of Non-executive Directors is determined by the Board following recommendations from the Chairman of the Remuneration Committee having consulted with an external adviser and the Chief Executive.	The total fees for Non-executive Directors remain within the limit of £600,000 set out in the Articles of Association.	Not applicable.
Provisions of previous policy that will continue to apply – awards made in 2011 and 2012			
Long Term Incentive Share Plan (LTISP) Alignment of interest between participants and shareholders.	Annual grant of share awards. Three-year vesting period.	Annual limit – 150% of salary.	60% subject to three-year relative TSR performance against a comparator group comprising FTSE 250 constituents (as at the grant date) (excluding financial service companies, real estate companies and investment trusts). 40% subject to three-year Adjusted EPS growth targets.

Notes on policy table and components of remuneration

Performance measures and targets

Measures for incentive plans reflect the strategic priorities which the Committee considers critical to the future success of the Company. Targets are set by reference to budgeted financials, wider Group targets, external market consensus and stretching strategic growth outcomes.

Changes to remuneration policy from that operating in 2013/14

Base salary – No change

Benefits – No change

Pension – No change

Bonus – See Bonus policy page 47

Long term incentive – In 2013 the Committee introduced the LTAP to replace the LTISP. The LTAP was approved by shareholders at the 2013 AGM, with the first grants made in August 2013.

Differences in remuneration for all employees

The majority of employees participate in a bonus plan. The size of award and the weighting of performance conditions vary by level, with specific measures incorporated where relevant.

All members of the senior management team have historically participated in the LTISP arrangement. A smaller group of senior management now participates in the LTAP at a reward level appropriate to their role.

Statement of consideration of employment conditions elsewhere in the Company

The Committee considers the remuneration of the wider workforce when determining appropriate pay levels for Executive Directors. For 2013/14 there was an 2% increase in basic pay and associated payments for operative level employees and an increase in salaries for administrative and managerial employees of 1.5%. However, the Directors and senior management group did not receive a general increase.

As the Committee has oversight of remuneration matters for the broader senior management population, it brings the reward of these individuals into consideration when discussing packages for Executive Directors.

The Committee does not specifically ask employees to comment on matters related to the remuneration of Executive Directors, but any comments received are taken into account.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay a competitive salary as appropriate to attract and motivate the right talent in the role.

The following table sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an Executive Director. Any new Director's remuneration package would include the same elements and be subject to the same constraints as those of the existing Directors performing similar roles, as shown below:

Component	Policy and principles
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual and the salaries paid for similar roles in comparable companies. Depending on the circumstances of any particular appointment the Committee may choose to set base salary above market median to attract the right talent, or below market median with increases applied over a period of time to achieve alignment with market levels for the role with reference to the experience and performance of the individual, all subject to the Company's ability to pay. Should relocation of a newly recruited Executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support could include but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel cost, a contribution to stamp duty, and replacement of non-transferrable household items. In addition, the Committee may grant additional support as appropriate. Other benefits provided will be aligned to those set out on pages 46 to 47.
Pension	The Executive Director will be able to participate in the defined contribution scheme up to the annual allowance and a cash supplement payment above this. Total benefit will not exceed 23% of Basic Salary.
Annual bonus	The Executive Director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table. The policy maximum award under the bonus will be 100% of salary. The Remuneration Committee has discretion to increase the maximum award to 150% of salary in exceptional circumstances. Any bonus over 50% of salary is deferred into shares for three years as set out in the remuneration policy table.
Long term incentives	The Executive Director will be eligible to participate in the Long Term Alignment Plan at the Remuneration Committee's discretion. The maximum potential opportunity under this scheme is 90% of salary. Associated performance measures would apply as set out in the remuneration policy table.
Replacement awards	The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of quantum or vesting period than the awards forfeited from a new recruit's previous employer. In determining quantum and structure of replacement awards, the Committee will seek to replicate the value taking into account, as far as practicable, the timing, form and performance requirements of remuneration forgone. The Committee has the flexibility to use cash and/or shares as the format for delivery of any replacement awards.

Service contracts and policy on payment for loss of office

Service contracts and letters of appointment include the following terms.

Executive Director	Date of commencement of contract	Notice period
M Allen	18 July 2002	12 months
M Wilks	7 January 2008	12 months
T Atherton	23 May 2013	12 months

Executive Directors' service agreements are available on the Company's website www.dairycrest.co.uk.

Non-executive Director	Letters of appointment	Notice period
A Fry	15 July 2009	3 months
A Carr-Locke	15 July 2009	3 months
R Macdonald	4 October 2010	3 months
S Alexander	4 October 2010	3 months
S Farr	6 October 2011	3 months

It is the Company's policy that Non-executive Directors should not normally serve for more than nine years. A template Non-executive Director's letter of appointment is available on the Company's website.

External Appointments

Executive Directors may be invited to become Non-executive Directors of other companies and it is recognised that exposure to such duties can broaden their experience and skills which will benefit the Company. External appointments are subject to agreement by the Chairman and reported to the Board. Any external appointment must not conflict with a Director's duties and commitments to Dairy Crest. Fees may be retained by Directors for such appointments.

Termination policy

The Remuneration Committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination, contractual obligations of both parties as well as share plan and pension scheme rules (including relevant performance conditions).

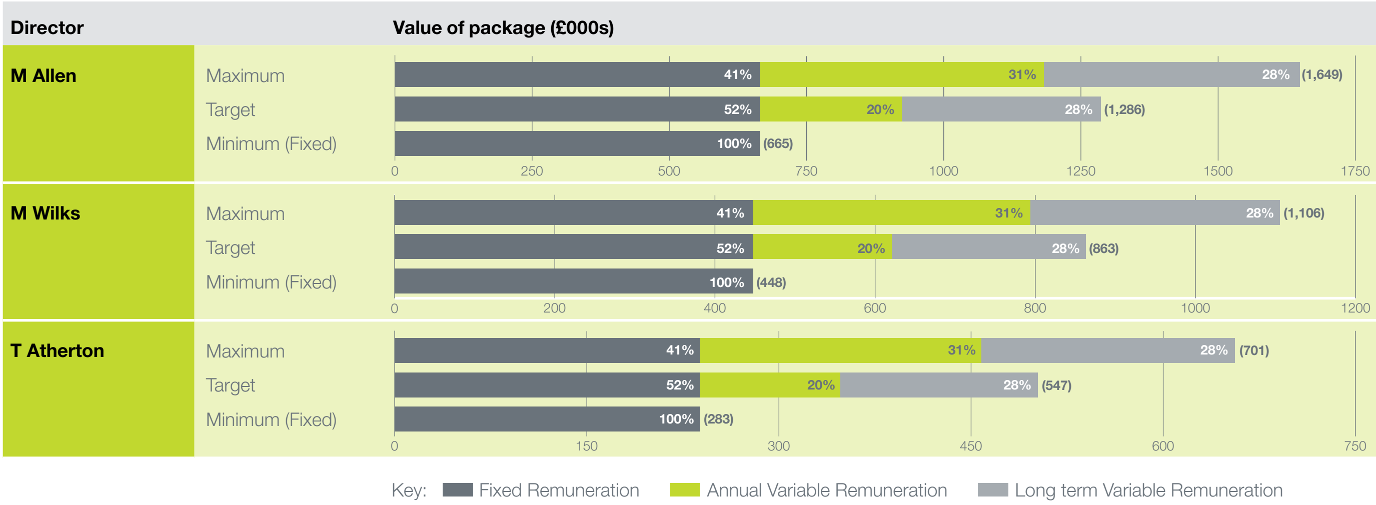
The table below summarises the key elements of the Executive Director service contract and policy on payment for loss of office.

Component	Policy and principles
Notice period	12 months' notice from Company. 12 months' notice from Director.
Compensation for loss of office in service contracts	Up to 12 months' salary plus an additional 3% to account for presumed salary increases from any salary review that may have taken place in the notice period. Payable monthly and subject to mitigation if Director obtains alternative employment up to 12 months after termination. Other payments to the Director in question include medical benefits, cost of company car and a sum equivalent to 23% of annual salary representing pension contribution for the unexpired part of the contractual notice period. Under the terms of Mark Allen's contract payments on termination are calculated as 90% of the sum of the following items – annual salary, benefits, pension plus 50% of maximum bonus opportunity for the notice period. This will not be the Company's policy going forward for other Executive Directors. Under the terms of Martyn Wilks' contract, payments on termination are calculated as annual base salary, benefits and pension contribution, half of which would be paid on termination and the remainder paid in six equal monthly instalments. Contractual provisions in respect of compensation for loss of office for Mark Allen and Martyn Wilks are therefore grandfathered. In the event of a compromise or settlement agreement, the Remuneration Committee may make payments it considers reasonable in settlement of potential legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Remuneration Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements. The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee, as may the continuation of benefits for a limited period.
Treatment of unvested deferred bonus awards under plan rules	If termination is by way of death, injury, illness, disability, redundancy, retirement, or any other circumstances the Committee determines, deferred shares may be released on termination. Otherwise, the proportion of awards released will be determined at the discretion of the Board.
Treatment of unvested long term incentive plan awards under plan rules	Any outstanding award will lapse at cessation of employment with the Company, unless the reason for cessation is by way of injury, ill-health, disability, redundancy, retirement, or any other circumstances the Committee determines, when the award will vest at the normal vesting date with the underpin and other conditions considered at the time of vesting. Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee taking into account satisfaction of the underpin and any other factors the Committee consider relevant. A proportion of the LTAP award will vest immediately on death, pro-rated for time.
Exercise of discretion	Any discretion available in determining treatment of incentives on termination of employment is intended only to be relied upon to provide flexibility in certain circumstances. The Remuneration Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Company.
Change of control	Outstanding awards and options would normally vest and become exercisable on a change of control to the extent that any performance condition has been satisfied. The proportion of awards that vest under the LTAP will be determined by the Remuneration Committee. Deferred bonus awards would normally be released in full. The Committee reserves the right to alter the performance period or the performance measures and targets of the annual bonus plan or of any outstanding awards under the annual bonus plan or the LTAP in the event of a change of control, to ensure that the performance conditions remain relevant but challenging. The Committee has the discretion to test performance at the point of change of control or to allow awards to continue or roll-over in any reasonable manner with agreement of the acquirer, taking into account the circumstances of the change of control.

There are no pre-determined special provisions for Non-executive Directors with regard to compensation in the event of loss of office.

Illustration of application of remuneration policy

A significant proportion of a Director's total remuneration package is variable, being subject to the achievement of specified short term and long term business objectives. The charts below show the composition of total remuneration at minimum, target and maximum performance scenarios for the Executive Directors.



Notes to the scenarios:

Fixed: This element comprises salary as of 1 April 2014, pension benefits (including salary supplement) and other fixed benefits (company car, etc) as per the last known number.

Annual variable Remuneration: This element shows annual bonus (including any amount deferred) at 100% of salary in the maximum scenario and 50% of salary in the target scenario.

Long term Variable Remuneration: This element shows remuneration in respect of the LTAP, at 90% of salary in the maximum scenario and 70% of salary in the target scenario. No allowance is made for share price growth, in accordance with the requirements of the disclosure rules.

Statement of consideration of shareholders views

The Board consulted with several larger shareholders on the proposal to replace the LTISP with the new LTAP. Following an in-depth consultation process, the Remuneration Committee and the Board considered the feedback received and put final proposals to a shareholder vote at the 2013 AGM, where a strong vote in favour of 97.8% was received.

The Committee discusses matters relating to Directors' remuneration with major investors on an on-going basis and takes into account any comments which are received.

Annual report on remuneration

Single total figure of remuneration – subject to audit

The table below sets out the analysis of total remuneration for each Director. An explanation of how the figures are calculated follows the table. The total remuneration for each Director reflects the performance of the Company and the contribution each individual has made to the on-going success of the Company.

Director	Base salary/fees		Taxable benefits		Bonus		LTISP 2011 [iii]		Pension [iv]		Total	
(£'000s)	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
Non-executive Chairman												
A Fry	**155**	155	**–**	–	**–**	–	**–**	–	**–**	–	**155**	155
Executive Directors												
M Allen	**518**	518	**28**	28	**423**	272	**193**	–	**119**	119	**1,281**	937
M Wilks	**346**	346	**22**	21	**261**	171	**129**	–	**80**	80	**838**	618
A Murray [i]	**51**	345	**3**	21	**–**	170	**92**	–	**11**	80	**157**	616
T Atherton [ii]	**183**	–	**13**	–	**149**	–	**26**	–	**42**	–	**413**	–
Non-executive Directors												
A Carr-Locke	**43**	43	**–**	–	**–**	–	**–**	–	**–**	–	**43**	43
R Macdonald	**48**	47	**–**	–	**–**	–	**–**	–	**–**	–	**48**	47
S Alexander	**43**	42	**–**	–	**–**	–	**–**	–	**–**	–	**43**	42
S Farr	**38**	38	**–**	–	**–**	–	**–**	–	**–**	–	**38**	38

i Alastair Murray left the Board on 23 May 2013.
ii Tom Atherton joined the Board on 23 May 2013.
iii The values included for the 2011 LTISP have been calculated using the average middle market price during the final quarter of 2013/14. Awards will vest on 1 July 2014. Should an Executive Director leave employment before 1 July 2014, vesting shall be dependent upon qualification as a good leaver under the scheme rules. The 2013 LTAP award will be included in the single figure table in the 2015/16 annual report on remuneration following completion of the dividend underpin performance period for this award.
iv Pension amounts include employer's pension contribution and salary supplement.

Base salary, bonus and LTISP are defined on pages 46 to 48. Bonuses detailed above include the full value of bonus entitlement including bonus to be deferred in shares being £164k for Mark Allen, £88k for Martyn Wilks and £67k for Tom Atherton.

Taxable benefits comprise £63k, valued at the taxable value.

During the year, Mark Allen held the position of Non-executive Director including Audit Committee member and Remuneration Committee member at Howdens Joinery Group plc, with fees in association with this work totalling £43k (2013: £40k).

Additional requirements in respect of the single total figure table – subject to audit

Performance against targets for annual bonus

Payment of the bonus is subject to the achievement of demanding short term financial targets and personal objectives. To ensure that an appropriate balance is maintained between long term and short term reward, any bonus earned over 50% of annual salary is paid in the Company's shares and deferred for a three-year period subject to continued employment.

Bonus payouts for the 2013/14 performance year are set out below:

Measure	Details	Maximum potential as a % of salary	M Allen – outcome as a % of salary	M Wilks – outcome as a % of salary	T Atherton – outcome as a % of salary
Profit before tax	Stretching targets based on budget, with a sliding scale between threshold and maximum	60%	60%	60%	60%
Net debt	Stretching targets based on budget, with a sliding scale between threshold and maximum	15%	3%	3%	3%
Personal objectives	A range of non-financial operational and strategic objectives will be assessed by the Committee, with an appropriate award level set under this element with reference to the overall performance of the business.	25%	18.75%	12.5%	18.75%

Measure	Details	Maximum potential as a % of salary	M Allen – outcome as a % of salary	M Wilks – outcome as a % of salary	T Atherton – outcome as a % of salary
Total	–	100% of salary –	81.75% of salary £423k	75.50% of salary £261k	81.75% of salary £149k
Deferred into shares	–	–	31.75% of salary £164k	25.5% of salary £88k	31.75% of salary £67k

Group adjusted profit before tax increased by 31% in the year to £65.3m triggering a maximum payout in respect of the profit target.

Net debt increased by £82m in the year, albeit reduced by £50m from 30 September 2013. Despite this improved second half performance, the overall increase in net debt resulted in an award at the lower end of the range.

Long Term Incentive Share Plan 2011

Awards under the LTISP 2011 had a three-year performance period to 31 March 2014. 40% of the total award was based on the Group's Adjusted EPS and 60% was measured against the TSR performance of the FTSE 250 (excluding financial services companies, real estate companies and investment trusts).

Measure	Threshold	Maximum	Outcome	Vesting (as % award granted in 2011)
TSR performance against FTSE 250 constituents (60% of total LTISP award)	Median (30% of TSR award vests)	Upper quartile or above (100% of TSR award vests)	73/155	23.5%
EPS target (40% of total LTISP award)	RPI + 1% p.a. over the three year performance period (30% of EPS award vests)	RPI + 5% p.a. over the three year performance period (100% of EPS award vests)	Threshold level not achieved	0%
Overall outcome				**23.5%**

Current position on outstanding LTISP awards – not subject to audit

The table below sets out the current position against performance targets for the LTISP award granted in 2012:

Measure	Threshold	Maximum	Outcome	Vesting (as % award granted in 2012)
TSR performance against FTSE 250 constituents (60% of total LTISP award)	Median (30% of TSR award vests)	Upper quartile or above (100% of TSR award vests)	59/159	40.3%
EPS target (40% of total LTISP award)	RPI + 1% p.a. over the three year performance period (30% of EPS award vests)	RPI + 5% p.a. over the three year performance period (100% of EPS award vests)	Threshold level unlikely to be achieved	0%
Overall outcome				**40.3%**

Current position on outstanding LTAP awards – not subject to audit

The LTAP award made in the year under review is subject to a dividend underpin for three years following the award being made. An amount of the award proportional to the percentage decrease in dividend may be clawed back in the event of a decline of up to 50%. If the decline exceeds 50%, the Committee will use its discretion to determine the proportion of the award that shall vest.

Dividend cover must also be maintained in the range 1.5 – 2.5 over the three-year measurement period. The dividend increase over the period following the award is currently 3%, and the dividend cover is 1.9 times. Based on this performance continuing the full award granted would vest.

Total pension entitlements – subject to audit

Following the closure of the Dairy Crest Group Pension Fund (a defined benefit scheme) to future accruals, there is no increase in accrued pension during the year other than inflationary increases.

The scheme closed to future accrual at 31 March 2010. Mark Allen decided to draw benefits from 31 March 2010 and receives an annual pension and received a cash lump sum of £221,510 in 2010/11. Benefit accrual ceased on 31 March 2010 and Mark Allen is no longer paying contributions into the scheme.

Mark Allen and Tom Atherton were members of the defined contribution scheme throughout 2013/14. Alastair Murray was also a member of the defined contribution scheme until leaving the Company on 23 May 2013. The Company made contributions up to the £50,000 limit for employee and employer contributions. Further cash supplements were paid such that the total of cash supplements and employer contributions amounted to 23% of basic salary. Martyn Wilks was not a member of any Company pension scheme in the year ended 31 March 2014 and received a salary supplement of 23% of basic salary.

Payments for loss of office – subject to audit

Alastair Murray left the Board on 23 May 2013 and was succeeded as Group Finance Director by Tom Atherton. The payments for loss of office made to Alastair Murray are as follows:

Termination payment

The termination payment to Alastair Murray on leaving employment was £557,020, calculated in accordance with the provisions of his service contract, which entitled him to an amount based on his salary, non-cash benefits, pension benefits and 50% of the maximum annual bonus potentially payable in the financial year of his departure. This amount was pro-rated by a factor of 0.9 for accelerated payment under a contractual formula.

Deferred bonus

All outstanding deferred bonus shares were released to Alastair Murray comprising 46.692 shares (including on vesting additional shares in respect of dividends paid).

Long term incentives

As his outstanding LTISP awards did not meet the minimum performance requirements for threshold vesting, no shares were released to Alastair Murray under these schemes.

Payments to past Directors – subject to audit

No payments were made in the year to past Directors other than the termination payments to Alastair Murray detailed above.

Scheme interests awarded during the financial year – subject to audit
LTAP 2013 award

The award made under the LTAP in 2013 was made on 15 August 2013. The award level is determined based on achievements over the prior year against the pre-grant performance scorecard, comprising of measures aligned to Dairy Crest's strategic priorities. Outcomes against the 2013 scorecard are summarised in the second table below, and detail on these outcomes against the targets set and context in which decisions were made is included thereafter. Note that this award is subject to a dividend underpin for the first three years of the vesting period.

Director	Level of award % of salary	Face value £000s	Percentage vesting at threshold performance	Number of shares	End of vesting period
Mark Allen	80%	414	N/A	79,329	50% at August 2017 50% at August 2018
Martyn Wilks	80%	277	N/A	53,068	50% at August 2017 50% at August 2018
Tom Atherton	80%	160	N/A	30,651	50% at August 2017 50% at August 2018

Determination of 2013 grant:

Measure	KPI	Alignment with strategy	Weighting	Outcome
1. Profit	Adjusted EBITDA target each year.	Delivery of profit is core to the business and supports the progressive dividend policy.	30%	13%
2. Balance sheet efficiency	ROCE target each year whilst maintaining net debt/EBITDA in the 1.0-2.0 x range.	Ensuring acceptable return on investment within a sustainable level of gearing.	20%	20%
3. Corporate Activity & Efficiencies	Delivery of annual cost savings targets. Delivery of synergies and return on investment following acquisitions or successful divestments (when relevant).	Ensuring cost savings are delivered on an on-going basis. Ensuring that major acquisitions/ divestments deliver against relevant synergy and return targets.	15%	15%
4. Brand Growth	Key brand value growth over one and three years versus markets in which they operate.	Brand growth is key to longer term business growth.	15%	12%
5. Innovation	Achieve each year the targeted proportion of revenue from innovation in previous three years.	Innovation is a key driver of productivity and growth.	10%	6%
6. Corporate Responsibility	A range of metrics including improvements in accident incident rates, reduced CO_2 emissions & improved employee engagement.	Delivering results in a sustainable way which enhance reputation and stakeholder engagement.	10%	9%

Measure	KPI	Alignment with strategy	Weighting	Outcome
Total				75% For Executive Directors this converts to an award of 80% of salary.

1. Profit **Weighting: 30%. Outcome: 13%**

Profit was assessed by the Remuneration Committee against an adjusted EBITDA KPI target range set by reference to the budget and taking into consideration the level of challenge included in budget at the beginning of the year.

Conditions were particularly challenging in 2012. During the first part of the year cream prices fell dramatically before recovering as milk supply decreased. Milk costs reduced in the first quarter of 2012/13, but on-farm inflation, farmer action and significant reductions in milk production led to a 10% increase in the price of milk thereafter resulting in a c£60m increase in costs that had to be recovered. The business also incurred non-milk input cost inflation and the consumer environment remained weak.

The Remuneration Committee therefore considered that against this context the small year on year increase in adjusted EBITDA, in line with market consensus, represented a good performance although did not achieve budgeted levels. A reduced award under this component to 13% was therefore considered appropriate.

2. Balance sheet efficiency **Weighting: 20%. Outcome: 20%**

The Remuneration Committee determined balance sheet efficiency for FY 2012/13 through the assessment of ROCE performance (calculated based on average operating assets) against an annual target based on budget and the long term objective of 12%. The Remuneration Committee felt it important to underpin the assessment with the requirement that gearing (being net debt/adjusted EBITDA) remain below 2.0 times.

The disposal of St Hubert during the year transformed the Group's balance sheet, leading to a significant reduction in net debt and gearing to fall to 0.6 times by year end. ROCE for the year of 13.3% was ahead of the long term 12% target.

This result, especially its positive impact on our ability to invest in future growth, was considered a significant accomplishment against our balance sheet efficiency objectives and resulted in a full award being made under this component.

3. Corporate Activity & Efficiencies **Weighting: 15%. Outcome: 15%**

For this year, the Remuneration Committee split this measure to be based on two equally-weighted KPIs: the assessment of the full year effect of cost efficiency projects initiated in the year, and the delivery of synergies and returns on acquisitions.

The Remuneration Committee recognised that the Group delivered cost savings of £23m against a target of £20m, alongside cost benefits from factory closures, and considered that this achievement warranted the full amount of this award.

In assessing the second KPI, the Remuneration Committee considered the post-acquisition performance of MH Foods where a simplification of the business's product range helped deliver operating profits in excess of targets, again resulting in the decision to award the full amount under this measure.

4. Brand Growth **Weighting: 15%. Outcome: 12%**

Under this measure, the Remuneration Committee assessed the performance of the Cathedral City, Country Life, Clover and FRijj retail brands, both over a one year and three year timeline to ensure the rewarding of both short and long term growth.

Based on independent market data (Nielsen), brand growth for three of the four key brands was ahead of the market in 2012/13, the exception being FRijj where the market has seen several new branded entrants supported by heavy marketing and promotional activity plus our ability to promote being constrained pending the completion of our investment in Severnside which will increase capacity. In the view of the Remuneration Committee, brand performance for the year was good and also represented an improvement over the three-year performance period versus the market. Taking these factors into account an award of 12% was considered appropriate for this measure.

5. Innovation **Weighting: 10%. Outcome: 6%**

Under this measure, the Remuneration Committee took into account the Group target that 10% of annual revenue should be generated from product innovation over the previous three years. In their assessment, the Remuneration Committee noted that this target should be considered for branded sales as well as for overall Group revenue.

The Remuneration Committee considered the achievement of 5% of Group revenue and 9% of branded revenue delivered through innovation over the last three years against this target as solid progress albeit it did not meet the Group's challenging aspirations.

In the view of the Remuneration Committee an award of 6% against this measure was considered appropriate.

6. Corporate Responsibility **Weighting: 10%. Outcome: 9%**

The assessment for corporate responsibility encompasses a number of measurable targets but judgement is required in order to assess the overall performance in light of this. Overall, the Remuneration Committee noted that budget targets were met across the majority of KPIs, notably reductions in accident incident rates, CO_2 emissions and use of water. The challenging target for landfill avoidance was not achieved, albeit progress was made against the prior year.

Furthermore, Dairy Crest's success in achieving the BITC platinum BIG TICK rating was a strong endorsement of the Group's progress against the Corporate Responsibility agenda. The Remuneration Committee considered an award of 9% to be appropriate.

Dividend underpin

The level of vesting of this award may be reduced dependent on a dividend underpin over the period April 2013 – March 2016.

An amount of the award proportional to the percentage decrease in dividend may be clawed back in the event of a decline of up to 50%. If the decline exceeds 50%, the Remuneration Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest.

Dividend cover must be maintained in a specific range over the three-year measurement period. The Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range.

Shareholder dilution

In accordance with the guidelines set by the Association of British Insurers (ABI), the Remuneration Committee can satisfy awards under all its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans. Within this 10% limit, the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. Currently 6.3% of issued shares have been made under share plans, with 1.6% under discretionary or executive schemes.

Statement of Director's shareholdings and share interests – subject to audit

Executive Directors are encouraged to build a shareholding in the Company equivalent to 200% of salary and to this end would normally retain 50% of net proceeds from share plans and deferred bonus share awards until that shareholding is achieved. Shareholdings exclude unvested options under the LTISP and include unvested deferred shares granted to Executive Directors as part payment of bonuses and unvested LTAP awards. Mark Allen has satisfied the shareholding requirement. Martyn Wilks and Tom Atherton have not met the requirement and will continue to grow their shareholding.

The interests of the Directors at the end of the year in the ordinary share capital of the Company were as follows:

Director	Number of shares owned outright (including connected persons)	LTISP 2011 [i]	LTISP 2012 [ii]	Unvested LTAP shares [iii]	Deferred annual bonus shares [iv]	SAYE [v]
M Allen	143,798	37,379	169,038	80,193	7,945	3,202
M Wilks	46,411	25,005	113,080	53,646	3,426	3,202
T Atherton	3,347	4,996	22,861	30,985	–	–
A Murray [vi]	154,018	17,794	42,959	–	46,692	–
A Carr-Locke	2,000	–	–	–	–	–
R Macdonald	1,000	–	–	–	–	–
S Alexander	1,000	–	–	–	–	–
S Farr	4,465	–	–	–	–	–
A Fry	3,000	–	–	–	–	–

i Long Term Incentive Share Plan 2011 (nil cost share options) : The performance period ended on 31 March 2014 and all awards will vest on 1 July 2014. Amounts shown are numbers of shares which will vest

ii Long Term Incentive Share Plan 2012 (nil cost share options) : The performance period will end on 31 March 2015 and awards will vest on 3 July 2015. Amounts shown include initial grant and options related to 'reinvested' dividends to the date of this Report

iii Long Term Alignment Plan 2013 (nil cost share options) : The period for the dividend underpin condition will end on 31 March 2016. 50% of awards will vest on 15 August 2017 and 50% will vest on 15 August 2018. Amounts shown include initial grant and options related to 'reinvested' dividends to the date of this Report

iv This may include both deferred shares or unvested nil cost share options

v Save As You Earn Scheme 2012 (cost options) : The exercise price for these options is 281 pence per share and the exercise period is 3/2016 - 9/2016. There are no applicable performance conditions

vi Interests in shares as at 23 May 2013

There have been no changes in Directors' shareholdings between 31 March 2014 and 21 May 2014.

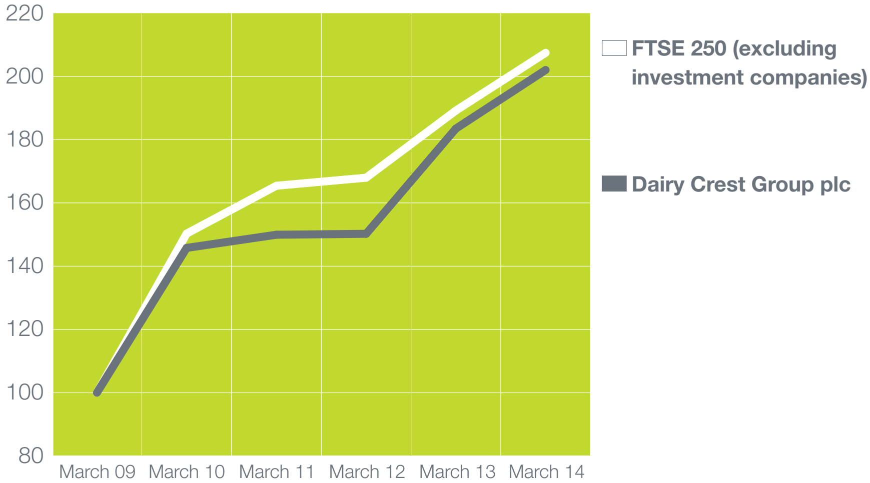
Gain on sale of share options

Director	Number of options exercised	Market value at exercise date £000s	Gain on exercise of share options £000s
A Murray	3,754	19	19

Performance graph and table

The graph below sets out for the five years ended 31 March 2014 the total shareholder return of Dairy Crest Group plc and of the FTSE 250 index (excluding investment companies) of which the Company is a constituent member.

Dairy Crest – Total Shareholder Returns for £100 invested



CEO pay	2009/10	2010/11	2011/12	2012/13	2013/14
Total remuneration (£'000s)	1,018	888	904	937	1,281
Annual bonus (% max)	94%	54%	50%	52.5%	81.7%
Long term incentive vesting (% max)	0%	0%	0%	0%	23.5%

Percentage change in CEO's remuneration

The table below sets out the percentage change in the CEO's salary, benefits and bonus between 2012/13 and 2013/14, compared with the percentage change in the average of each of these components of pay for those salaried members of the clerical, administrative, supervisory and management population allocated to Hay bands. This group comprises 27% of the total workforce, and has been identified as the most appropriate for this table in view of the comparable nature of employment and incentive arrangements:

	Salary			Taxable benefits			Bonus		
	2013/14	2012/13	% change	2013/14	2012/13	% change	2013/14	2012/13	% change
CEO (£'000s)	518	518	0	28	28	0	423	272	56
Average pay for wider employee population (£'000s)	41	40	1.4	5.2	4.8	9	5.4	3.5	56

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay at Dairy Crest, compared with distributions made to shareholders in 2012/13 and 2013/14:

£m	2013/14	2012/13	% change
Employee remuneration costs	157.0	176.5	-11.0
Dividends	28.5	27.4	4.0

Statement of implementation of policy in the following financial year

The Directors' remuneration policy will be implemented for the 2014/15 financial year as follows:

Base salary – £'000s

Role	2013/14	Effective 1 April 2014
Mark Allen	518	518
Martyn Wilks	346	346
Tom Atherton*	220	260 (from 1/7/2014)

*Tom Atherton was brought onto the Board at a salary level below the market lower quartile for his role. In line with the Remuneration Committee's intent as stated in the 2013 Remuneration Report, he has been an awarded an increase for 2014 to bring his salary closer towards a market competitive level. The 18% increase reflects his exceptional performance in his first year and takes his positioning against the market to lower quartile. This forms part of a phased increase over time, and the Remuneration Committee expects that any subsequent increases will be lower as a percentage of salary.

NED fees – £'000s

Role	2013/14	Effective 1 April 2014
Non-executive Chairman	155	155
Non-executive Director (base)	38	38
Audit Committee Chair	+5	+5
Corporate Responsibility Chair	+5	+5
Remuneration Committee Chair	+5	+5
Senior Independent Director	+5	+5

Bonus measures

Maximum opportunity for Executive Directors under the 2014/15 bonus is 100% of salary, with 50% of salary paid for on-target performance.

Performance will be assessed against the following measures:

- Profit before tax (60% of award)
- Net debt (15% of award)
- Personal objectives (25% of award)

The targets for the 2014/15 annual bonus measures are considered commercially sensitive because of the information that this provides to the Company's competitors. Payout outcomes against these targets will be disclosed in the 2014/15 report.

LTAP 2014 award

The award made under the LTAP 2014 is based on achievements over the prior year against the pre-grant performance scorecard, comprising measures aligned to Dairy Crest's strategic priorities. Outcomes against the 2014 scorecard are summarised in the second table below and detail on outcomes against the targets set and the context in which decisions were made is included thereafter. Note that this award is subject to a dividend underpin for the first three years of the vesting period.

Director	Level of award % of salary	Face value £'000s	End of vesting period
Mark Allen	80%	414	50% 4 years after the award date 50% 5 years after the award date
Martyn Wilks	80%	277	50% 4 years after the award date 50% 5 years after the award date
Tom Atherton	80%	176	50% 4 years after the award date 50% 5 years after the award date

The number of shares granted will be calculated in accordance with the rules approved by shareholders at the 2013 AGM.

Determination of 2014 grant:

Measure	KPI	Alignment with strategy	Weighting	Outcome
1. Profit	Adjusted EBITDA target each year.	Delivery of profit is core to the business and supports the progressive dividend policy.	30%	23%
2. Balance sheet efficiency	ROCE target each year whilst maintaining net debt/EBITDA in the 1.0-2.0 x range.	Ensuring acceptable return on investment within a sustainable level of gearing.	20%	17%
3. Corporate Activity & Efficiencies	Delivery of annual cost savings targets. Delivery of synergies and return on investment following acquisitions or successful divestments (when relevant).	Ensuring cost savings are delivered on an on-going basis. Ensuring that major acquisitions/divestments deliver against relevant synergy and return targets.	15%	15%
4. Brand Growth	Key brand value growth over one and three years versus markets in which they operate.	Brand growth is key to longer term business growth.	15%	5%
5. Innovation	Achieve each year the targeted proportion of revenue from innovation in previous three years.	Innovation is a key driver of productivity and growth.	10%	6%
6. Corporate Responsibility	A range of metrics including improvements in accident incident rates, reduced CO_2 emissions & improved employee engagement.	Delivering results in a sustainable way which enhances reputation and stakeholder engagement.	10%	8%
Total				74% For Executive Directors this converts to an award of 80% of salary.

1. Profit **Weighting: 30%. Outcome: 23%**

The Remuneration Committee assessed profit performance against an adjusted EBITDA KPI target range set by reference to the budget.

EBITDA performance in 2013/14 showed considerable improvement in what continued to be a challenging market. Milk prices remained high, resulting in a c£45m increase in costs that had to be recovered. Developments in the retail sector and the increased prominence of discounters led to further pressures being applied to the Dairies business.

The Remuneration Committee considered that against this context, the adjusted EBITDA outcome showed a good performance and awarded 23% on this basis.

2. Balance sheet efficiency **Weighting: 20%. Outcome: 17%**

The Remuneration Committee determined balance sheet efficiency for FY 2012/13 through the assessment of ROCE performance (calculated based on average operating assets) against an annual target based on budget and the long term objective of 12%. As last year, the Remuneration Committee felt it important to underpin the assessment with the requirement that gearing (being net debt/EBITDA) remain below 2.0 times.

ROCE for the year of 13.8% was ahead of the long term 12% target. This result represented a good performance against our balance sheet efficiency objectives and resulted in an award of 17%

3. Corporate Activity & Efficiencies **Weighting: 15%. Outcome: 15%**

Given no major M&A activity during the year, the outcome for this measure was based upon cost savings. Against a target of £20m the Group made savings of £25m. This resulted in a full award being made against this component.

4. Brand Growth **Weighting: 15%. Outcome: 5%**

The key brand performance was mixed. Three of our four key brands recorded sales growth below the market albeit both FRijj and Country Life both performed better in the second half of the year. Cathedral City continues to significantly outperform the market. Although longer-term data shows three of our four key brands outperforming the market, we believe an award of 5% is appropriate given the importance of brand growth in the current environment.

5. Innovation **Weighting: 10%. Outcome: 6%**

Under this measure, the Remuneration Committee took into account the Group target that 10% of annual revenue should be generated from product innovation over the previous three years. In their assessment, the Remuneration Committee noted that this target should be considered for branded sales as well as for overall Group revenue.

Achieving 4% of Group revenue and 7% of branded revenue through innovation was considered by the Remuneration Committee as showing some progress against this component, albeit not in line with the Group's challenging targets. As a result, an award of 6% was considered appropriate.

6. Corporate Responsibility **Weighting: 10%. Outcome: 8%**

We have made good progress on health and safety during the year but certain other targets with respect of landfill avoidance and employee engagement were not met. However, we were the highest scoring company in BITC's CR index with 4.5 out of 5.0. This measures a range of Corporate Responsibility criteria consistent with our LTAP measures and therefore an award of 8% is considered appropriate.

Dividend underpin

The level of vesting of this award may be reduced dependent on a dividend underpin over the period April 2014 – March 2017.

An amount of the award proportional to the percentage decrease in dividend may be clawed back in the event of a decline of up to 50%. If the decline exceeds 50%, the Remuneration Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest.

Dividend cover must be maintained in a specific range over the three-year measurement period. The Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range.

LTAP 2015 award

A grant will be made in 2015 under the LTAP, in line with the disclosed policy. As the grant will be based on scorecard of metrics assessed over the 2014/15 financial year, below we set out the scorecard which will determine the grants made in 2015. We have included the 2014/15 KPIs on which performance will be assessed and the associated alignment to strategy. We have not included specific targets on the KPIs, as the targets are considered commercially sensitive. The outcomes for this award will be disclosed in the 2014/15 Directors Remuneration Report.

Measure	KPI	Alignment with strategy	Weighting
Profit	Adjusted EBITDA target each year.	Delivery of profit is core to the business and supports the progressive dividend policy.	30%
Balance sheet efficiency	ROCE target each year whilst maintaining net debt/EBITDA in the 1.0-2.0 x range.	Ensuring acceptable return on investment within a sustainable level of gearing.	15%
Corporate Activity & Efficiencies	Delivery of annual cost savings targets. Delivery of synergies and return on investment following acquisitions or successful divestments (when relevant).	Ensuring cost savings are delivered on an on-going basis. Ensuring that major acquisitions/ divestments deliver against relevant synergy and return targets.	15%
Brand Growth	Key brand value growth over one and three years versus markets in which they operate.	Brand growth is key to longer term business growth.	20%
Innovation	Achieve each year the targeted proportion of revenue from innovation in previous three years.	Innovation is a key driver of productivity and growth.	10%
Corporate Responsibility	A range of metrics including improvements in accident incident rates, reduced CO_2 emissions & improved employee engagement.	Delivering results in a sustainable way which enhances reputation and stakeholder engagement.	10%
Dividend underpin	To increase the dividend over the three years post-grant in line with progressive dividend policy whilst maintaining dividend cover within 1.5-2.5 x range for the three years post-grant.	Delivery of progressive dividend policy.	

Measures and KPIs for 2014/15 are consistent with 2013/14 and support the long term strategy of the Group. However certain weightings have been adjusted to reflect changes in relative priorities over the next 12 months. The weighting for brand growth has been increased from 15% to 20% following a mixed performance in 2013/14 and the need to deliver improved growth next year. The weighting for balance sheet efficiency has been reduced from 20% to 15% reflecting improved levels of gearing following the disposal of St. Hubert. The LTAP maintains a 60% weighting of financial KPIs within the 2014/15 scorecard.

Sharesave Scheme

The Sharesave Scheme is open to all eligible employees and full time Directors. Employees enter into an approved savings contract over a three-year term to make monthly contributions up to an overall maximum of £500 per month (new maximum level with effect from 1 April 2014). At the end of the term, members have the right to buy ordinary shares in the Company at a price fixed at the time of the option grant. Options may not be granted at less than 80% of the market price at the time of grant.

Consideration by the Directors of matters relating to remuneration

Members of the Remuneration Committee

The Board has appointed a Remuneration Committee of Non-executive Directors of the Company. During the year the Committee consisted of:

- Stephen Alexander (Chairman);
- Andrew Carr-Locke; and
- Sue Farr.

Anthony Fry, Company Chairman, Mark Allen, Chief Executive and Tom Atherton, Group Finance Director attend the Remuneration Committee by invitation. Members of the Remuneration Committee have no potential conflicts of interest arising from cross-directorships and they are not involved in the day-to-day running of the Company.

The Committee's activities during the financial year

The Remuneration Committee is responsible for the broad policy with respect to senior executives' salary and other remuneration. It specifically determines, within remuneration principles agreed with the Board, the total remuneration package of each Executive Director and reviews with the Chief Executive the remuneration packages for other senior executives. A copy of the terms of reference of the Committee can be found on the Company's website.

In 2013/14, the Committee met nine times. Details of attendance are shown on page 37 and the Committee discussed, amongst others, the following matters:

Meeting	Agenda items discussed
April	• Feedback from shareholder consultation on LTAP
May	• Approval of 2012/13 bonus outcome • Approval of 2013/14 bonus targets • Implementation of LTAP • Approval of remuneration report
May	• Approval of LTAP rules
June	• Review of 2013 LTAP outturn and progress on 2014 scorecard
August	• Approval of LTAP grant for 2013 • Determination of LTAP scorecard for 2014
November	• Update on new disclosure rules for remuneration report • Review of Sharesave
December	• Implications of new disclosure rules for remuneration report • Renewal of share plan rules
January	• Review of draft remuneration report
March	• Review of potential bonus and long term incentive outcomes • Review of draft remuneration report

Advisors to the Remuneration Committee

The Remuneration Committee has appointed PricewaterhouseCoopers LLP ('PwC') to provide advice on executive remuneration. PwC have provided such advice historically, and were originally appointed through a competitive tendering process.

Work undertaken by PwC for the Committee included updates to the Remuneration Committee on remuneration and governance trends and market practice, and providing remuneration benchmarking information for Executive Directors. PwC have also supported the Remuneration Committee in the design of the LTAP, and in the preparation of new remuneration reporting disclosures under the BIS requirements. In this financial year, they were paid £95,600 based on agreed hourly rates.

During the year, PwC also provided other consultancy services to the Group, including corporate tax advice, share plans support, and programme management support.

The Remuneration Committee reviews the independence and objectivity of the advice it receives from PwC at a private meeting held in May each year. It is satisfied that PwC is providing objective and robust professional advice. PwC is a member of the Remuneration Consultants Group and has signed up to that group's Code of Conduct.

The Remuneration Committee also received materials, assistance and advice on remuneration policy from Robert Willock, the Group HR Director of Dairy Crest. The Chief Executive and Group Finance Director attend all meetings by invitation, but are not present at any discussions relating specifically to their own remuneration.

Statement of voting at General Meeting

The table below shows the advisory vote on the 2012/13 remuneration report at the 2013 AGM.

Number of votes cast	For	Against	Withheld
72,025,249	68,441,703	3,583,546	29,543
	(95.02%)	(4.98%)	

The Committee believes the 95.02% vote in favour of the remuneration report demonstrates the strength of support of shareholders for the executive remuneration arrangements at Dairy Crest. The disclosure in the 2014/15 report will include details of the binding shareholder vote on the Directors' Remuneration policy to be held at the 2014 AGM.

The Directors' remuneration report from pages 45 to 62 has been approved by the Board and is signed on its behalf by

Stephen Alexander
Chairman of the Remuneration Committee
21 May 2014

DIRECTORS' REPORT

The Companies Act 2006 ('CA 2006') together with the UK Listing Authority's Disclosure and Transparency Rules ('DTRs') and Listing Rules ('LRs') require certain disclosures to be made. The Strategic report and the Corporate Governance report at pages 4 to 31 and pages 35 to 44 respectively, together with the details at pages 32 and 33 of the Directors in office at the date of this Annual Report are expressly incorporated into this, the Directors' Report.

Going concern: The Group and Company's business activities, together with factors likely to affect future development, performance and position are set out in the Strategic report from pages 4 to 31. The financial position, cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 28 to 31 (which also form part of the Strategic report). In addition, Notes 30 and 31 to the Accounts include the Group and Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in Note 30, the Company and Group meet day-to-day working capital requirements through syndicated revolving credit facilities and cash to ensure that forecast net borrowings plus a reasonable operating headroom are covered by committed facilities which mature at least 12 months after the year end. At 31 March 2014, effective headroom was £275.7 million. There were no breaches of bank covenants in the year ended 31 March 2014 and projections do not indicate any breaches in the foreseeable future. Having reviewed and taken into account Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009, the Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Future developments: Future developments are described in the Strategic report at pages 4 to 31.

Group results: The Group's consolidated income statement set out on page 69 shows a profit for the financial year of £50.2 million compared with £46.6 million profit in 2012/13.

Dividends: the Directors are recommending a final dividend of 15.4p (2012/13: 15.0p) per ordinary share, which if approved, will be paid to members on the register at the close of business on 4 July 2013. Together, the final dividend and interim dividend (5.9p per ordinary share paid on 10 January 2014) make total dividends for the year of 21.3p per ordinary share (2012/2013: 20.7p).

Directors: Details of the Directors of the Company at the date of this Report are set out at pages 32 to 33. In addition, Alastair Murray served as a Director during the period 1 April 2013 to 23 May 2013 when he stepped down from the Board.

Directors' interests: Details of the interests in the shares of the Company of the Directors holding office as at the date of this Report, along with those of the Directors who held office during the year but retired or resigned from office, and their immediate families appear in the Remuneration Report on page 56. Details of the Directors' service contracts and letters of appointment appear in the Remuneration Report on page 49. No Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year. Procedures for dealing with Directors' conflicts of interest are in place and are operating effectively. The Company maintains liability insurance for its Directors and Officers and those of its subsidiaries. The Directors, Company Secretary and other Officers of the Company and those of its subsidiaries are indemnified by the Company to the extent permitted by company law. That indemnity provision has been in place during the year and remains in force.

Disclosure of information to the Auditor: So far as each Director in office at the date of approval of this Report is aware, there is no relevant audit information of which the Company's External Auditor, Ernst & Young is unaware. Each of the Directors has taken all steps that they might reasonably be expected to have taken in order to (i) make themselves aware of any relevant audit information and (ii) establish that the External Auditor is aware of such information. For the purposes of this statement on disclosure of information to the External Auditor, 'relevant audit information' is the information needed by the Company's External Auditor in connection with the preparation of its report at pages 67 to 68.

Political Donations: No political donations or expenditures were made or incurred during the year.

Financial instruments: Details of the use by the Company and its subsidiaries of financial instruments and any related risk management objectives and policies (including hedging policy) and exposure, including to price risk, credit risk, liquidity risk and cash flow risk (of the Company in connection with such financial instruments) can be found at Note 30 to the financial statements.

Post balance sheet events: On the 14 April 2014 the Group completed the sale of a depot in Surbiton for proceeds of £5.4 million resulting in a profit on disposal of £4.9 million.

On 16 May 2014 the Group completed the sale of it's 30% shareholding in Wexford Creamery Limited for 3.4 million Euros (£2.8 million). At March 2014 the net carrying value totalled £2.1 million comprising share of associates, deferred consideration and valuation of options net of contract provisions.

Research and development: The Group has adopted a target of delivering 10% of its annual turnover through new product development. Focus continues to be on offering consumers a wide product mix, and especially the development of lower fat variants of existing products. Dairy Crest remains at the forefront of dairy industry developments to reduce packaging waste through innovation.

Employees: At the end of March 2014, the Group employed approximately 4,500 people. It depends on the skills and commitment of its employees in order to achieve its objectives. Personnel at every level are encouraged to make their fullest possible contribution to Dairy Crest's success. Details of the Group's employment policies can be found on pages 8, 9 and 10. Employees are kept regularly informed on matters affecting them and on issues affecting the Group's performance through a variety of communication tools, including the Group intranet. Regular employee surveys are conducted, the last of which was carried out in September 2013. The employee surveys enable an understanding of, amongst other matters, the general satisfaction level of employees with their employment, any questions or concerns which employees have in relation to the business of the Group, an understanding of the effectiveness of management of and communication with employees. Following employee surveys, specific action plans are drawn up and implemented on a site by site basis to address issues which are raised through the surveys. Each year, the senior management team conducts road shows which all employees are invited to attend. The last road shows were conducted during autumn 2013 and provided a forum for, amongst other matters, the communication to employees of the performance of the business of the Group, anticipated future developments, significant matters of required focus for the coming period, and; the opportunity for employees to ask questions of the senior management. The Group has well-established consultation and negotiating arrangements with established trade unions. Employees are encouraged to acquire shares in the Group through participation in the savings-related share option scheme ('Sharesave Scheme').

Details of the Scheme are set out in Note 26 to the financial statements.

Share capital: The authorised and issued share capital of the Company together with details of movements in the Company's issued share capital during 2013/414 are shown in Note 24 to the financial statements at page 109. As at the date of this report, 136,722,751 ordinary 25p shares were in issue and fully paid with an aggregate nominal value of £34,180,687.

Rights and obligations attaching to shares: The holders of ordinary shares are entitled to receive the Company's Reports and Accounts; to attend and speak at General Meetings of the Company; to appoint proxies and to exercise voting rights. To be effective, electronic and paper proxy appointments and voting instructions must be received at the Company's registered office, or such other place in the United Kingdom specified in the relevant notice of meeting, not later than 48 hours before a General Meeting. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights. Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

Transfer of shares: Subject to applicable statutes and regulations, there are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers.

Shareholder waiver of dividends: The Company established an employee benefit trust in 1996 which in certain circumstances holds shares in connection with the Group's employee share incentive plans. As the registered holder, the voting rights in the shares are exercisable by the trustee. However, the trustee does not ordinarily exercise those rights and waives its entitlement to dividends.

Issue of shares: At the AGM on 16 July 2013, shareholders renewed the authority for the Board under the Articles to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £22,768,020.

Purchase of own shares: At the AGM on 16 July 2013, shareholders granted the Company authority to make market purchases of up to 13,660,813 of its issued ordinary shares of 25 pence each, provided that: the minimum price which may be paid for any such ordinary share is 25 pence (exclusive of expenses and appropriate taxes); the maximum price (exclusive of expenses and appropriate taxes) which may be paid for any such ordinary share shall be not more than 5% above the average of the middle market prices for an ordinary share in the Company, as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase. The Company did not exercise this authority during the year and made no market purchases. Except in relation to a purchase of ordinary shares, the contract for which was concluded before this authority expires and which will or may be executed wholly or partly after such expiry, the authority granted shall expire at the conclusion of this year's AGM. The Directors believe it advisable to seek renewal of both of the above-mentioned authorities or replacement of them with suitable alternatives, annually at the AGM. Approval will be sought from the shareholders at this year's AGM to renew the authorities for a further year.

Substantial shareholdings: As at 31 March 2014, the Company had been notified in accordance with the Disclosure and Transparency Rules issued by the Financial Services Authority of the following interests of 3% or more in the Company's existing issued ordinary share capital.

	Notified No. of shares	Notified percentage of issued share capital
BlackRock, Inc.	6,834,772	5.00

During the period 1 April 2014 to 21 May 2014 the Company has been notified by Legal & General Group Plc that it holds less than 3% of the Company's issued share capital.

Articles of association: Changes to the Articles must be approved by the shareholders in accordance with the legislation in force from time to time.

Significant agreements – change of control: A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its subsidiaries are party, to take effect, alter or terminate. The agreements that are considered significant are as follows:

Borrowing facilities – Non-compliance with the change of control clauses in the Group's funding arrangements, or failure to reach agreement with the parties on revised terms, would require any acquirer to put in place replacement facilities.

Supply agreements – Certain supply agreements contain provisions whereby on a change of control of the Group, they may be terminable. Accordingly, a change of control of the Group could result in the need for the Group to source alternative supply for certain materials.

No compensation for loss of office: The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Pensions: The Company employs only the Executive Directors. Most employees in the Group are employed by the Company's main subsidiary, Dairy Crest Limited. Relevant companies within the Group became subject to the automatic enrolment regulations on 1 April last year. Depending on their grade, effective from 1 April 2013 employees either enter the auto enrolled pension arrangements for the Group which are provided by Zurich or into the Group's defined contribution pension scheme also provided by Zurich. The Group's defined benefit pension fund is closed to future accrual and is now in run-off. It remains under the control of a corporate trustee, Dairy Crest Pension Trustees Limited, the board of which comprises four directors nominated by Dairy Crest Limited and three directors elected by all members. Its assets are held separately from those of the Group and can only be used in accordance with the rules of the fund.

Greenhouse gas emissions: The Company is required to state the annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the Group is responsible, including the combustion of fuel and the operation of any facility. Details of our emissions during the year ended 31 March 2014 and the actions which the Group has taken to reduce them are set out on pages 23 to 27 and form part of the Directors' report disclosures.

Directors' responsibility statements: The responsibility statements required under Disclosure and Transparency Rule 4.1 are set out on page 66.

Annual general meeting: The AGM will be held at Eversheds LLP, One Wood Street, London, EC2V 7WS on Tuesday, 15 July 2014 at 12.00 pm. The Notice convening the meeting will be issued separately, together with details of the business to be considered and explanatory notes relating to each of the resolutions being proposed.

Auditor: Ernst & Young LLP has expressed its willingness to continue as Auditor of the Company. A resolution to reappoint Ernst & Young LLP as the Company's Auditor will be put to the forthcoming AGM.

The Directors' Report from pages 63 to 65 has been approved by the Board and is signed on its behalf by

Robin Miller Company Secretary & General Counsel
21 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP AND COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group's and Company's financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Under company law the Directors must not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and Company;
- select suitable accounting policies in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position of the Group and Company and performance of the Group;
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are responsible and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DTR 4.1 Statement

Each of the Directors, the names and functions of whom are set out on pages 32 to 33 confirms that to the best of his knowledge, they have complied with the above requirements in preparing the Group's and Company's financial statements in accordance with applicable accounting standards and that the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's income statement and the Company's profit for that period. In addition, each of the Directors confirms that the management report represented by the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Mark Allen Chief Executive
Tom Atherton Finance Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DAIRY CREST GROUP plc

Our opinions and conclusion arising from our audit

Our opinion on the financial statements

We have audited the financial statements of Dairy Crest Group plc for the year ended 31 March 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of IAS regulation.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- Accounting for promotional accruals, including the impact on revenue recognition;
- Assessing the carrying value of non-current assets;
- The treatment of exceptional items reported; and
- Determination of reportable segments in accordance with IFRS 8, Operating Segments.

Our response to these risks

The principle ways in which we responded to the risks identified above included:

Accounting for promotional accruals, including the impact of revenue recognition

We tested the key controls to ensure the recognition of promotional accruals was appropriate and applied in line with management's policies. We performed analytical procedures to evaluate and corroborate the key inputs in calculating the level of promotional accruals to be recognised at 31 March 2014. We challenged management's calculation based on current market trends, the history of claims that have been made from customers, and the level of claims subsequent to the year-end as compared to the level of the balance.

Assessing the carrying value of non-current assets

We challenged management's assumptions used in its impairment model for goodwill, intangible and fixed assets across the Group's four cash generating units ("CGUs") as set out in notes 10 and 11. In particular, we focused on the appropriateness of the methodology applied and we challenged management on cash flow forecasts, in particular cash inflows from property sales, margin growth assumptions and the allocation of central costs across CGUs. We obtained corroborative evidence where appropriate and involved Ernst & Young LLP valuation specialist in assessing the appropriateness of property values and risk adjusted discount rates. We challenged management's sensitivity analysis particularly in relation to the Dairies CGU which has limited headroom above carrying value.

Accounting for exceptional items

We challenged the classification of items as exceptional to ensure that the nature of each item is consistent with the criteria set out in the group's accounting policy as described in note in the Accounting Policies section of the financial statements and assessed the consistency in the application of the exceptional classification with previous accounting periods. We performed tests of transactions to audit both the amount and related disclosure for all exceptional items deemed material.

Determination of reportable segments

Following a significant business restructure, we challenged management's revision of the Group's reportable segments to a single Dairy Crest Group reportable segment, in accordance with the requirements of IFRS 8, Operating Segments. We evaluated changes in the day to day management of the Group's operations, the mechanism by which forecasts were completed during the year and the nature and extent of the revised management information provided to the Dairy Crest Group plc board (the Group's "Chief Operating Decision Maker") and on which it made its resource allocation decisions.

Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. As we develop our audit strategy, we determine materiality at the overall financial statement level and at the individual account level. Performance materiality is the application of materiality at the individual account level.

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

We determined materiality for the group to be £3.0 million (2013: £2.8 million), which is approximately 5% of profit before tax, and performance materiality to be £2.25 million (2013: £2.1 million). This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million (2013: £0.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DAIRY CREST GROUP plc CONTINUED

An overview of the scope of our audit
All Dairy Crest Group plc operations are now based in the UK, with 96% of revenues and 100% of profit before tax reported through the Dairy Crest Limited statutory entity, on which we performed a full scope audit. The risk associated to other statutory entities within the group was considered and no other entities were deemed to be significant on the grounds of size. Specific procedures were performed on Philpot Dairy Products given the complex accounting relating to the financial instruments that are held in this entity. All audit worked performed for the purposes of the Group audit was undertaken by the Group audit team.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- The directors' statement, set out on page 63, in relation to going concern; and
- The part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code specific for our review.

The scope of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

The scope of our audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities on page 66, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Alison Duncan (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor
London

21 May 2014

1. The maintenance and integrity of the Dairy Crest Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2014

	Note	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Total £m	2013 – Restated Before exceptional items £m	2013 – Restated Exceptional items £m	2013 – Restated Total £m
Group revenue	1	**1,391.0**	**–**	**1,391.0**	1,381.6	–	1,381.6
Operating costs	2,4	**(1,334.7)**	**(10.2)**	**(1,344.9)**	(1,321.3)	(47.8)	(1,369.1)
Other income – property	3	**18.2**	**–**	**18.2**	7.7	–	7.7
Profit/(loss) on operations		**74.5**	**(10.2)**	**64.3**	68.0	(47.8)	20.2
Finance costs	5	**(9.9)**	**(0.2)**	**(10.1)**	(18.7)	(8.7)	(27.4)
Other finance expense – pensions	20	**(0.3)**	**–**	**(0.3)**	(3.5)	–	(3.5)
Share of associate's net profit	14	**0.3**	**–**	**0.3**	–	–	–
Profit/(loss) before tax		**64.6**	**(10.4)**	**54.2**	45.8	(56.5)	(10.7)
Tax (expense)/credit	6	**(9.4)**	**4.0**	**(5.4)**	(9.2)	12.0	2.8
Profit/(loss) from continuing operations		**55.2**	**(6.4)**	**48.8**	36.6	(44.5)	(7.9)
Profit from discontinued operations	29	**–**	**1.4**	**1.4**	6.8	47.7	54.5
Profit for the year attributable to equity shareholders		**55.2**	**(5.0)**	**50.2**	43.4	3.2	46.6

The prior year comparatives have been restated to reflect the amendment to IAS 19R: Employee Benefits (see Note 20).
The prior year comparatives and current year information include discontinued operations that were a result of the disposal of the St Hubert business in August 2012.
The post-tax profit relating to discontinued activities is further analysed in Note 29.

Earnings per share	Note	2014	2013 – Restated
Basic earnings per share on profit for the year (pence)	8	**36.8**	34.6
Diluted earnings per share on profit for the year (pence)	8	**36.4**	34.6
Basic earnings/(loss) per share from continuing operations (pence)	8	**35.8**	(5.9)
Diluted earnings/(loss) per share from continuing operations (pence)	8	**35.3**	(5.9)
Adjusted basic earnings per share from continuing operations (pence)*	8	**40.8**	29.4
Adjusted diluted earnings per share from continuing operations (pence)*	8	**40.3**	29.4
Basic earnings per share from discontinued operations (pence)	8	**1.0**	40.5
Diluted earnings per share from discontinued operations (pence)	8	**1.0**	40.5

Dividends	Note	2014	2013
Proposed final dividend (£m)	7	**21.0**	20.5
Interim dividend paid (£m)	7	**8.0**	7.8
Proposed final dividend (pence)	7	**15.4**	15.0
Interim dividend paid (pence)	7	**5.9**	5.7

* Adjusted earnings per share calculations are presented to give an indication of the underlying operational performance of the Group. The calculations exclude exceptional items, amortisation of acquired intangibles and pension interest in relation to the Group's defined benefit pension scheme, the latter being highly dependent upon market assumptions at 31 March each year.

The prior year comparatives have been restated to reflect the amendment to IAS 19R: Employee Benefits (see Notes 8 & 20).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2014

	Note	2014 £m	Restated 2013 £m
Profit for the year		**50.2**	46.6
Other comprehensive income to be reclassified to profit and loss in subsequent years:			
Net investment hedges:			
Exchange differences on foreign currency net investments		**–**	(15.3)
Exchange differences on foreign currency borrowings designated as net investment hedges		**–**	6.0
Exchange differences reclassified to income statement on sale of subsidiary		**–**	11.4
Cash flow hedges – reclassification adjustment for gains/(losses) in income statement		**20.0**	(9.5)
Cash flow hedges – (losses)/gains recognised in other comprehensive income		**(18.8)**	10.0
Tax relating to components of other comprehensive income	6	**(0.3)**	(0.2)
		0.9	2.4
Other comprehensive income not to be reclassified to profit and loss in subsequent years:			
Remeasurement of defined benefit pension plans	20	**(49.6)**	(3.2)
Tax relating to components of other comprehensive income	6	**8.7**	5.4
		(40.9)	2.2
Other comprehensive (loss)/gain for the year, net of tax		**(40.0)**	4.6
Total comprehensive gain for the year, net of tax		**10.2**	51.2

All amounts are attributable to owners of the parent

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

At 31 March 2014

	Note	Consolidated 2014 £m	Consolidated 2013 £m	Parent Company 2014 £m	Parent Company 2013 £m
Assets					
Non-current assets					
Property, plant and equipment	10	**288.6**	270.3	**–**	–
Goodwill	11	**74.3**	74.3	**–**	–
Intangible assets	12	**27.9**	30.5	**–**	–
Investments	13	**0.3**	0.3	**482.1**	480.9
Investment in associate using equity method	14	**0.8**	0.5	**–**	–
Deferred consideration	14	**1.4**	1.4	**–**	–
Deferred tax asset	6	**–**	–	**0.2**	0.4
Financial assets – Derivative financial instruments	17	**7.0**	14.5	**5.4**	12.9
		400.3	391.8	**487.7**	494.2
Current assets					
Inventories	15	**219.6**	208.2	**–**	–
Trade and other receivables	16	**118.4**	98.8	**10.5**	170.7
Financial assets – Derivative financial instruments	17	**0.4**	9.6	**–**	9.6
Cash and short-term deposits	18	**67.3**	276.1	**–**	14.8
		405.7	592.7	**10.5**	195.1
Total assets	1	**806.0**	984.5	**498.2**	689.3
Equity and Liabilities					
Non-current liabilities					
Financial liabilities – Long-term borrowings	19	**(179.7)**	(184.3)	**(144.2)**	(182.4)
– Derivative financial instruments	19	**(6.2)**	(3.9)	**(6.2)**	(3.9)
Retirement benefit obligations	20	**(57.7)**	(67.2)	**–**	–
Deferred tax liability	6	**(11.4)**	(14.6)	**–**	–
Deferred income	22	**(7.8)**	(9.6)	**–**	–
		(262.8)	(279.6)	**(150.4)**	(186.3)
Current liabilities					
Trade and other payables	21	**(218.3)**	(221.8)	**(3.8)**	(16.9)
Financial liabilities – Short-term borrowings	19	**(26.5)**	(167.5)	**(25.3)**	(165.7)
– Derivative financial instruments	19	**(2.0)**	(2.3)	**(2.0)**	(2.2)
Current tax liability		**(3.6)**	(2.6)	**(0.1)**	–
Deferred income	22	**(1.7)**	(1.6)	**–**	–
Provisions	23	**(1.7)**	(1.7)	**–**	–
		(253.8)	(397.5)	**(31.2)**	(184.8)
Total liabilities		**(516.6)**	(677.1)	**(181.6)**	(371.1)
Shareholders' equity					
Ordinary shares	24	**(34.2)**	(34.1)	**(34.2)**	(34.1)
Share premium	24	**(77.6)**	(77.5)	**(77.6)**	(77.5)
Interest in ESOP	25	**0.6**	0.6	**–**	–
Other reserves	25	**(52.3)**	(51.4)	**(156.1)**	(154.4)
Retained earnings		**(125.9)**	(145.0)	**(48.7)**	(52.2)
Total shareholders' equity		**(289.4)**	(307.4)	**(316.6)**	(318.2)
Total equity and liabilities		**(806.0)**	(984.5)	**(498.2)**	(689.3)

Mark Allen Chief Executive
Tom Atherton Finance Director

The financial statements were approved by the directors on 21 May 2014.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2014

	Attributable to owners of the parent					
2014	Ordinary shares £m	Share premium £m	Interest in ESOP £m	Other reserves* £m	Retained earnings £m	**Total Equity £m**
At 31 March 2013	34.1	77.5	(0.6)	51.4	145.0	**307.4**
Profit for the year	–	–	–	–	50.2	**50.2**
Other comprehensive gain/(loss):						
Cash flow hedges	–	–	–	1.2	–	**1.2**
Remeasurement of defined benefit pension plan	–	–	–	–	(49.6)	**(49.6)**
Tax on components of other comprehensive income	–	–	–	(0.3)	8.7	**8.4**
Other comprehensive gain/(loss)	–	–	–	0.9	(40.9)	**(40.0)**
Total comprehensive gain	–	–	–	0.9	9.3	**10.2**
Issue of share capital	0.1	0.1	–	–	–	**0.2**
Shares acquired by ESOP	–	–	(1.1)	–	–	**(1.1)**
Exercise of options	–	–	1.1	–	(1.4)	**(0.3)**
Share based payments	–	–	–	–	1.5	**1.5**
Equity dividends	–	–	–	–	(28.5)	**(28.5)**
At 31 March 2014	**34.2**	**77.6**	**(0.6)**	**52.3**	**125.9**	**289.4**
2013 – Restated						
At 31 March 2012	33.3	70.9	(0.6)	49.0	121.7	**274.3**
Profit for the year	–	–	–	–	46.6	**46.6**
Other comprehensive gain/(loss):						
Net investment hedges	–	–	–	(9.3)	–	**(9.3)**
Exchange differences reclassified to income statement on sale of subsidiary	–	–	–	11.4	–	**11.4**
Cash flow hedges	–	–	–	0.5	–	**0.5**
Remeasurement of defined benefit pension plan	–	–	–	–	(3.2)	**(3.2)**
Tax on components of other comprehensive income	–	–	–	(0.2)	5.4	**5.2**
Other comprehensive gain	–	–	–	2.4	2.2	**4.6**
Total comprehensive gain	–	–	–	2.4	48.8	**51.2**
Issue of share capital	0.8	6.6	–	–	–	**7.4**
Share based payments	–	–	–	–	1.9	**1.9**
Equity dividends	–	–	–	–	(27.4)	**(27.4)**
At 31 March 2013	34.1	77.5	(0.6)	51.4	145.0	**307.4**

* Further details are provided in Note 25.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2014

2014	Ordinary shares £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Other reserve* £m	Retained earnings £m	**Total £m**
At 31 March 2013	34.1	77.5	142.7	(1.1)	12.8	52.2	**318.2**
Profit for the year	–	–	–	–	–	24.7	**24.7**
Other comprehensive gain/(loss):							
Cash flow hedges	–	–	–	0.7	–	–	**0.7**
Tax on components of other comprehensive income	–	–	–	(0.2)	–	–	**(0.2)**
Other comprehensive gain	–	–	–	0.5	–	–	**0.5**
Total comprehensive gain	–	–	–	0.5	–	24.7	**25.2**
Issue of share capital	0.1	0.1	–	–	–	–	**0.2**
Share based payments	–	–	–	–	1.2	0.3	**1.5**
Equity dividends	–	–	–	–	–	(28.5)	**(28.5)**
At 31 March 2014	34.2	77.6	142.7	(0.6)	14.0	48.7	**316.6**

2013	Ordinary shares £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Other reserve* £m	Retained earnings £m	**Total £m**
At 31 March 2012	33.3	70.9	142.7	(1.9)	11.4	34.7	**291.1**
Profit for the year	–	–	–	–	–	44.4	**44.4**
Other comprehensive gain/(loss):							
Cash flow hedges	–	–	–	1.2	–	–	**1.2**
Tax on components of other comprehensive income	–	–	–	(0.4)	–	–	**(0.4)**
Other comprehensive gain	–	–	–	0.8	–	–	**0.8**
Total comprehensive gain	–	–	–	0.8	–	44.4	**45.2**
Issue of share capital	0.8	6.6	–	–	–	–	**7.4**
Share based payments	–	–	–	–	1.4	0.5	**1.9**
Equity dividends	–	–	–	–	–	(27.4)	**(27.4)**
At 31 March 2013	34.1	77.5	142.7	(1.1)	12.8	52.2	**318.2**

* Other reserve represents the share based payment credit in respect of amounts capitalised as investments (see Note 13).

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CASH FLOWS

Year ended 31 March 2014

	Note	Consolidated 2014 £m	Consolidated 2013 £m	Parent Company 2014 £m	Parent Company 2013 £m
Cash (used in)/generated from operations	32	**(13.8)**	19.1	**–**	–
Interest paid		**(14.0)**	(18.0)	**–**	–
Taxation repaid/(paid)		**2.1**	(4.7)	**–**	–
Net cash outflow from operating activities		**(25.7)**	(3.6)	**–**	–
Cash flow from investing activities					
Capital expenditure		**(58.8)**	(50.9)	**–**	–
Grants received	22	**–**	5.3	**–**	–
Grants repaid		**–**	(0.4)	**–**	–
Proceeds from disposal of property, plant and equipment		**32.5**	10.1	**–**	–
Purchase of businesses and investments	29	**–**	(0.6)	**–**	–
Sale of discontinued operation (net of cash disposed of and fees)	29	**–**	330.8	**–**	–
Amounts received from subsidiaries		**–**	–	**172.9**	97.1
Net cash (used in)/generated from investing activities		**(26.3)**	294.3	**172.9**	97.1
Cash flow from financing activities					
Repayment and cancellation of loan notes		**(159.4)**	(7.5)	**(159.4)**	(7.5)
New bank facilities advanced		**–**	–	**–**	–
Proceeds from issuance of loan notes		**–**	–	**–**	–
Net drawdown/(repayment) of borrowings under revolving credit facilities		**36.0**	(68.7)	**–**	(55.9)
Dividends paid	7	**(28.5)**	(27.4)	**(28.5)**	(27.4)
Proceeds from issue of shares (net of issue costs)	24	**0.2**	7.4	**0.2**	7.4
Purchase of shares by ESOP		**(1.4)**	–	**–**	–
Finance lease repayments	33	**(3.7)**	(1.7)	**–**	–
Net cash used in financing activities		**(156.8)**	(97.9)	**(187.7)**	(83.4)
Net (decrease)/increase in cash and cash equivalents		**(208.8)**	192.8	**(14.8)**	13.7
Cash and cash equivalents at beginning of year	33	**276.1**	79.4	**14.8**	–
Exchange impact on cash and cash equivalents	33	**–**	3.9	**–**	1.1
Cash and cash equivalents at end of year	33	**67.3**	276.1	**–**	14.8
Memo: Net debt at end of year	33	**(142.2)**	(59.7)	**(171.7)**	(315.5)

ACCOUNTING POLICIES

Year ended 31 March 2014

Basis of preparation

The consolidated and Company financial statements have been prepared on a historical cost basis. They are presented in sterling and all values are rounded to the nearest 0.1 million (£ million) except where otherwise indicated.

The consolidated financial statements of Dairy Crest Group plc have been prepared in accordance with IFRS as adopted by the European Union ('EU'). The separate Company financial statements have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

Having reviewed and taken into account Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009, the Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. See the Going Concern Statement on page 63 of the Directors' Report.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are (i) the measurement of the impairment of goodwill, intangible assets and property, plant and equipment (ii) the measurement of defined benefit pension scheme assets and obligations (iii) the calculation of promotional discount accruals and (iv) the estimation of tax costs in France in relation to the sale of St Hubert.

(i) The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. The assessment of value in use is compared to the carrying value of goodwill. This requires estimation of future cash flows and the selection of a suitable discount rate. Goodwill in Dairies was fully impaired in the year ended 31 March 2012.

The Group tests whether intangible assets, property, plant and equipment are impaired where there are indications that there is a risk of impairment. This requires an estimation of the value in use of the cash-generating units in which these assets reside. The assessment of value in use is compared to the carrying value of assets. This requires estimation of future cash flows and the selection of a suitable discount rate.

In the year ended 31 March 2014, the Group tested the intangible assets, property, plant and equipment of the Dairies cash-generating unit for impairment due to indicators of impairment being present. Three key assumptions in performing the test included the projected value and timing of cash flows from property sales, the allocation of corporate costs following the restructure of the business to a single operating unit and the projected profit growth. The result of the test was that no impairment was required however the headroom was low and therefore sensitive to the above assumptions.

(ii) Measurement of defined benefit pension obligations requires estimation of future changes in inflation, mortality rates, the expected return on plan assets and the choice of a suitable discount rate.

(iii) The group accrues for customer claims against agreed promotional funding. Accruals are calculated based on an estimated redemption rate of the promotion. The redemption rate used is dependent on the promotional mechanic. Management consider this to be an area of judgment that is significant due to the potential size of the claims.

(iv) The sale of the St Hubert business will result in tax payable in France both on the chargeable gain on disposal and on dividend payments made to the UK parent between 31 March 2012 and the date of disposal in August 2012. An estimate has been made of the likely tax costs resulting from these transactions however the final assessment has yet to be agreed with the French tax authorities which may result in a change to the level of tax provisioning.

The key areas where judgment has been applied are (i) The timing and nature of exceptional costs and (ii) the judgment that for IFRS 8 purposes only one segment should be reported on.

(i) Items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance are disclosed separately in the Consolidated Income Statement as exceptional. Management consider this to be an area of judgment due to the assumptions made around the timing and nature of exceptional costs.

(ii) Following the restructure of the Group to a single operating unit in 2013, management has judged that following the implementation of a new structure, the Group comprises one segment under IFRS 8.

Further analysis of the key sources of estimation uncertainty and sensitivities are included in the relevant notes to the accounts.

Changes in accounting policies

The following accounting standards and interpretations became effective for the current reporting period:

International Accounting Standards (IAS/IFRSs)

IFRS 1 – Amendment to IFRS 1 – First Time Adoption of IFRS (effective 1 January 2013)
IFRS 13 – Fair Value Measurement (effective from 1 January 2013)
IFRS 7 – Amendments to IFRS 7 – Financial Instruments: Disclosures (effective 1 January 2013)
IFRS 9 – Financial Instruments (effective 1 January 2015)
IFRS 10 – Consolidated Financial Statements (effective 1 January 2014)
IFRS 11 – Joint Arrangements (effective 1 January 2014)
IFRS 12 – Disclosure of Interest in Other Entities (effective 1 January 2014)
IAS 1 – Amendments to IAS 1: Presentation of Financial Statements (effective from 1 July 2012)
IAS 19R – Amendments to IAS 19: Employee Benefits (effective from 1 January 2013)
IAS 32 – Amendments to IAS 32: Financial Instruments (effective from 1 January 2014)
IAS 27 – Separate Financial Statements (effective 1 January 2014)
IAS 28R – Investments in Associates and Joint Ventures (effective 1 January 2014)
IAS 32 – Improvement to IAS 32: Financial Instruments (effective 1 July 2013)
IFRS 3 – Improvement to IFRS 3: Business Combinations (effective 1 January 2013)

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine (effective from 1 January 2013)

The application of these standards has had no material impact on the net assets, results and disclosures of the Group in the year ended 31 March 2014 with the exception of the amendments to IAS19R – Employee Benefits. The principal impact on the Group of the application of this standard is the requirement to use the discount rate when calculating expected returns on the asset component of pension cost. This change has resulted in higher charges to the Consolidated Income Statement for the pension interest cost. There is no material impact on the reported pension liabilities each year end as the impact in the Consolidated Income Statement is mitigated by an offsetting change in the calculation of actuarial gains and losses in the Statement of Comprehensive Income – namely the difference between actual and expected asset returns will increase.

Further details are included in Note 20 to the accounts.

The impact of IAS 1 – Amendment to IAS 1: Presentation of Financial Statements has resulted in a presentation change to the consolidated statement of comprehensive income that requires the ‘other comprehensive income’ to be grouped into one of the following:

- To be reclassified to profit and loss in subsequent years; or
- Not to be reclassified to the profit and loss in subsequent years

The IASB and IFRIC have issued the following standards (with an effective date after the date of these accounts) and interpretations:

International Accounting Standards (IAS/IFRSs)
IAS 16 – Improvement to IAS 16: Property, Plant and Equipment (effective 1 July 2014)
IAS 38 – Improvement to IAS 38: Intangible Assets (effective 1 July 2014)
IAS 24 – Improvement to IAS 24: Related Party Disclosure (effective 1 July 2014)
IFRS 13 – Improvement to IFRS 13: Fair Value Measurement (effective 1 July 2014)

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group’s financial statements in the period of initial application.

Consolidation
The Group financial statements consolidate the accounts of Dairy Crest Group plc and its subsidiaries drawn up to 31 March each year using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Subsidiaries acquired during the year are consolidated from the date on which control is transferred to the Group. Subsidiaries continue to be consolidated until the date that control ceases.

Where the Group ceases to control a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences on net assets and borrowings designated as net investment hedges, previously recorded in other comprehensive income; (iv) recognises the fair value of any investment or associate retained; (v) recognises any surplus or deficit in the consolidated income statement; and (vi) reclassifies the parent’s share of components previously recognised in other comprehensive income or retained earnings as appropriate.

Interest in associates
The Group’s investments in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exerts significant influence. The Company and its associates use consistent accounting policies. The investment in associates are carried in the balance sheet at initial fair value plus post-acquisition changes in the Group’s share of net assets, less any impairment in value and any distributions received. The consolidated income statement reflects the share of the post-tax results of associates. Where there has been a change recognised directly in the associates’ other comprehensive income, the Group recognises its share of such changes and discloses this, where applicable in other comprehensive income.

Foreign currency translation
The functional and presentational currency of Dairy Crest Group plc and its United Kingdom (‘UK’) subsidiaries is Sterling (£).

Transactions in foreign currency are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the balance sheet date. Exchange differences on monetary items are taken to the income statement, except where recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

On consolidation, assets and liabilities of foreign subsidiaries are translated into sterling at year end exchange rates. The results of foreign subsidiaries are translated into sterling at average rates of exchange for the year (being an approximation of actual exchange rates). Exchange differences arising from the retranslation of the net investment in foreign subsidiaries at year end exchange rates, less exchange differences on borrowings, which finance or provide a hedge against those undertakings are taken to a separate component of equity as long as IFRS hedge accounting conditions are met. Exchange differences relating to foreign currency borrowings that provide a hedge against a net investment in a foreign entity remain in equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated to write off the cost (less residual value) of property, plant and equipment, excluding freehold land, on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings:	25 years
Leasehold land and buildings:	25 years or, if shorter, the period of the lease
Office equipment:	4 to 6 years
Factory plant and equipment:	6 to 20 years
Vehicles:	4 to 10 years

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the estimated recoverable value, the asset is written down to its recoverable amount. The recoverable amount of plant and equipment is the greater of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are charged to the consolidated income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year that it is derecognised.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets.

All other borrowing costs are recognised as an expense in the period they occur.

Investments
The Company recognises its investments in subsidiaries at cost being the fair value of consideration paid, less provisions for impairment where appropriate.

Business Combinations and Goodwill
Business combinations from 1 April 2010 are accounted for using the acquisition method (previously used the purchase method). The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of acquiree's identifiable net assets will be determined on a transaction by transaction basis. Acquisition costs incurred are expensed to profit and loss.

Goodwill on acquisition is initially measured at cost being the cost of the acquisition (see above) less net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. All goodwill was tested for impairment at the time of transition to IFRS and no impairment was identified.

Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at the net book value as at this date and is not subsequently amortised.

As at the acquisition date, any goodwill acquired is allocated to the cash-generating unit or groups of cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The Group's cash-generating units, for the purpose of considering goodwill, are 'Dairies' (fully impaired), 'Spreads', 'MH Foods' and 'Cheese'. These represent the lowest level at which goodwill is monitored.

Goodwill arising on acquisitions before 1 April 1998 has been charged against the merger reserve and will remain set off against reserves even if the related investment becomes impaired or the business sold.

The Group has not restated business combinations prior to the transition date of 1 April 2004. Acquisitions prior to this date are recorded under previous accounting rules.

Intangible assets
Intangible assets acquired as part of an acquisition of a business are capitalised at fair value separately from goodwill if the fair value can be measured reliably on initial recognition and the future expected economic benefits flow to the Group. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Currently, all the Group's intangible assets have finite useful lives and are amortised over 3 to 15 years. Acquired intangible assets principally comprise acquired brands and, following the sale of St Hubert, principally the Frylight brand which was considered to have a useful life of 15 years at the date of acquisition.

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets generated internally comprise software development expenditure. Software development is carried at cost less accumulated amortisation and is amortised over four to seven years. Internally generated intangible assets that are not yet available for use are tested for impairment annually either individually or at the cash-generating unit level or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Research and development
Expenditure on research is written off as incurred. Development expenditure is also written off as incurred unless the future recoverability of this expenditure can reasonably be assured as required by IAS 38: Intangible Assets.

Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes the purchase price of raw materials (on a first in first out basis), direct labour and a proportion of manufacturing overheads based on normal operating capacity incurred in bringing each product to its present location and condition. Net realisable

value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling costs.

Trade and other receivables
Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Interest bearing loans
All loans and borrowings are initially recognised at the fair value net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the Consolidated Income Statement when the liabilities are derecognised.

Net debt
The Group and Company define net debt as cash and cash equivalents, interest bearing loans and finance leases. The calculation of net debt excludes the fair value of derivative financial instruments with the exception of cross currency swaps to fix foreign currency debt in Sterling where they are designated as cash flow hedges. In this case the fixed Sterling debt, not the underlying foreign currency debt retranslated, is included in net debt. It includes any cash or borrowings included within disposal groups classified as held for sale and excludes unamortised upfront facility fees.

Retirement benefit obligations
The Group operates two types of pension arrangements, a defined benefit scheme and defined contribution schemes.

Defined contribution schemes
These pension arrangements do not constitute a future obligation to the Group. Members of these schemes will contribute a percentage of their salary into the scheme and the Company will pay an additional amount into the scheme. The size of an individual's pension on retirement is based on the performance of the asset portfolio and is not linked to salary. Company contributions to the scheme are charged to the profit and loss account in the same period as services are rendered by the relevant employee.

Defined benefit schemes
Under these pension arrangements the individual and company make contributions into a scheme and future benefits to individuals are guaranteed subject to final salary, number of years service, future inflation and other factors. Scheme assets and future liabilities are recorded in the sponsoring company's balance sheet as one net asset or obligation.

The company has closed its defined benefit scheme and therefore no current service costs are required to be charged to Income Statement.

At the beginning of each financial year the scheme actuaries will provide an estimate of the interest cost on the net scheme liability/deficit. This interest is charged/credited to finance income/charges in the profit and loss account in each reporting period. Any correction required to this estimate is done at period 6 and period 12 based on updated calculations provided by the scheme actuary.

Scheme admin costs that are not directly related to investment activities are charged to the profit and loss account. Admin costs that are directly related to investment are recognised as part of the re-measurement exercise through the OCI/reserves.

Scheme admin costs, net pension interest and employer cash contributions (including any additional contributions) are posted to the retirement obligation on the balance sheet. At the half year and full year an updated actuarial valuation is obtained from external advisors. Any movement in the pension asset/liability resulting from changes in assumptions, or differences between expected and actual asset returns (namely actuarial gains or losses) are taken to the statement of comprehensive income in full along with the related deferred tax impact.

Where there is a potential pension surplus, further work would be undertaken by external advisors to ascertain the limit if any on any surplus that can be recognised. The present value of benefits from reduced company contributions beyond the agreed minimum funding level agreement form the upper limit for any recognisable surplus (IFRIC 14).

Any potential tax implications of an estimated scheme surplus would be allowed for in the total pension liability, transacted via deferred tax assets and OCI /reserves.

Any event that has a material impact on the scheme would be discussed with the scheme actuary. Examples of a material event would be a merger or acquisition or the implementation of an insurance buy-in.

Where a scheme-wide curtailment gain occurs because of amendments to the plan, the gain is recognised when the plan terms are amended even if the impact will only take effect in future accounting periods. The announcement itself of scheme term changes does not trigger a curtailment gain.

Share based payments
Equity based performance payments
The Group and Company has issued equity-settled share based payment schemes for which they receive services from employees in consideration for the equity instrument. Equity-settled share based payment schemes are measured at fair value at the grant date by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

The cost of equity settled transactions with employees is measured by reference to the fair value and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees became fully entitled to the award. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Rights granted to employees of subsidiary undertakings over equity instruments of the Company are treated as an investment in the Company's balance sheet.

Employees' Share Ownership Plan ('ESOP')
The shares in the Company held by the Dairy Crest Employees' Share Ownership Plan Trust to satisfy Long Term Incentive Share Plan awards are presented as a deduction from equity in arriving at shareholders' equity. Consideration received from the sale of such shares is also recognised in equity with no gain or loss recognised in the Consolidated Income Statement.

The Group and Company have not adopted the exemption to apply IFRS 2 Share-based payments only to awards made after 7 November 2002.

Leased assets
Assets acquired under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at fair value of the leased asset or, if lower, the present value of the minimum lease payments. The net present value of future lease rentals is included as a liability on the balance sheet. The interest element of lease rentals is charged to the Consolidated Income Statement in the year. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

Revenue
Revenue on sale of food and dairy products is recognised on delivery. Revenue comprises the invoiced value for the sale of goods net of value added tax, rebates and discounts and after eliminating sales within the Group.

Discounts comprise mainly promotional accruals where the Group accrues for customer claims against agreed promotional funding. This is an area of judgment that management consider significant due to the potential size of the claims. Accruals are calculated based on an estimated redemption rate of the promotion. The redemption rate used is dependent on the promotional mechanic and considers known historic data on the performance of that mechanic.

Dividend income is recognised when the Company's right to receive payment is established.

Other income
Other income comprises the profit on disposal of closed household depots.

Exceptional items
Certain items are recorded separately in the Consolidated Income Statement as exceptional. Only items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance are disclosed in this manner in order to give a better understanding of the underlying operational performance of the Group. The profits arising on disposal of closed sites, other than as a result of depot rationalisation, are reported within exceptional items.

Government and other grants
Government grants are initially recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the Consolidated Income Statement over the expected useful life of the relevant asset in equal annual instalments.

Income tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except as indicated below.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset only if a legal enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

Income tax is charged or credited to Other Comprehensive Income if it relates to items that are charged or credited to Other Comprehensive Income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the Consolidated Income Statement.

Financial assets
The Group and Company classifies financial assets that are within the scope of IAS 39 as:

- financial assets at fair value through profit and loss;
- loans and receivables;
- held-to-maturity investments; or
- available-for-sale financial assets, as appropriate.

The Group and Company determines the classification of financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value. The Group and Company currently hold only loans and receivables.

Derivative instruments
The Group and Company use derivative financial instruments such as forward currency contracts, cross-currency swaps and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value at each balance sheet date.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and cross-currency swap contracts is determined by reference to market values for similar instruments and specific valuations performed by counterparties at the balance sheet date.

For the purpose of hedge accounting, hedges are classified as either:

- fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a firm commitment in relation to foreign exchange exposure.

Neither the Group nor the Company has entered into any fair value hedges during the year.

Cash flow hedges
In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in Other Comprehensive Income and the ineffective portion is recognised in the Consolidated Income Statement.

When the hedged firm commitment (in relation to foreign exchange exposure) or the highly probable forecast transactions results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in Other Comprehensive Income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in Other Comprehensive Income are transferred to the Consolidated Income Statement in the same year in which the hedged item affects the net profit and loss, for example when the future sale actually occurs, interest payments are made or when debt matures. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Consolidated Income Statement for the year.

Fair value measurement
The Group measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

1 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Company's Board members as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM uses product group profit, as reviewed at monthly business review meetings, as the key measure of the Group's results as it reflects the Group's underlying trading performance for the period under evaluation. Trading profit is defined as profit on operations before exceptional items and amortisation of acquired intangible assets but includes the Group share of post-tax profit of associate.

In April 2013, the Group reorganised from a divisional structure to a functional structure to become 'One Dairy Crest'. Prior to the reorganisation, the business was structured into divisions according to product types and this was used to identify and determine the Group's operating segments as 'Cheese', 'Spreads', 'MH Foods', 'Dairies', 'Share of Associate' and 'Other'. Certain of these operating segments were aggregated and the Group reported on five continuing segments within the business: 'Cheese', 'Spreads', 'Dairies', 'Share of Associate' and 'Other'.

Following the reorganisation, the CODM's primary focus for review and resource allocation is the Group as a whole and no longer any component part of the business. All revenue streams for the business are managed centrally by functional teams (Demand, Supply, Procurement and Finance) that have responsibility for the whole of the Group's product portfolio. Although some discrete financial information is available to provide insight to the management team of the key performance drivers, the product group profit is not part of the CODM's review.

Having considered these factors, management has judged that following the implementation of the new structure, the Group comprises one operating segment under IFRS 8. As such, disclosure required under IFRS 8 for the financial statements is shown on the face of the consolidated income statement and consolidated balance sheet.

Voluntary disclosure

To assist the readers of the financial statements, management considers it appropriate to provide voluntary disclosure on a basis consistent with historic reporting of the product groups. In disclosing the product group profit for the year, certain assumptions have been made when allocating resources which are now centralised at a group level.

Associate forms a separate product group whose results are reviewed on a post-tax basis.

The Other product group comprises revenue earned from distributing product for third parties and certain central costs net of recharges to the other product groups. Generally, central costs less external 'other' revenue are recharged back into the product groups such that their result reflects the total cost base of the Group. 'Other' operating profit therefore is nil.

The results under the historic segmentation basis for the year ended 31 March 2014 and for the year ended 31 March 2013 and the reconciliation of product group measures to the respective line items included in the financial information are as follows:

		Year ended 31 March	
	Note	**2014 £m**	Restated 2013 £m
External revenue			
Cheese		**264.6**	231.3
Spreads		**177.4**	194.5
Dairies		**944.8**	951.6
Other		**4.2**	4.2
Total product group external revenue		**1,391.0**	1,381.6
Product group profit*			
Cheese		**39.3**	33.1
Spreads		**16.8**	25.5
Dairies		**18.8**	9.8
Share of associate's net profit	14	**0.3**	–
Total product group profit		**75.2**	68.4
Finance costs	5	**(9.9)**	(18.7)
Adjusted profit before tax		**65.3**	49.7
Acquired intangible amortisation	2	**(0.4)**	(0.4)
Exceptional items	4	**(10.4)**	(56.5)
Other finance expense – pensions	20	**(0.3)**	(3.5)
Group profit/(loss) before tax		**54.2**	(10.7)

* Before exceptional items, amortisation of acquired intangibles and pension interest.

The prior year comparatives have been restated to reflect the amendment to IAS 19R: Employee Benefits (see Accounting policies and Note 20).

1 Segmental analysis continued

	Note	Year ended 31 March 2014 £m	2013 £m
Total assets			
Cheese		**266.2**	237.7
Spreads		**156.7**	138.0
Dairies		**268.5**	268.1
Investments and share of associate		**2.5**	2.2
Other		**37.4**	38.3
Total product group		**731.3**	684.3
Un-allocated assets		**74.7**	300.2
Total assets		**806.0**	984.5
Inter-product group revenue			
Cheese		**11.2**	11.3
Spreads		**3.1**	2.8
Elimination		**(14.3)**	(14.1)
Total		**–**	–
Product group depreciation and amortisation (excluding amortisation of acquired intangible assets)			
Cheese		**7.0**	6.7
Spreads		**2.5**	3.2
Dairies		**15.4**	17.2
Other		**7.0**	4.5
Continuing operations		**31.9**	31.6
Discontinued operations		**–**	0.8
Total		**31.9**	32.4
Product group additions to non-current assets			
Cheese		**12.4**	6.9
Spreads		**21.0**	12.5
Dairies		**25.9**	23.7
Other		**4.6**	4.8
		63.9	47.9
Discontinued operations		**–**	1.1
Total		**63.9**	49.0
Product group exceptional items			
Cheese		**–**	–
Spreads		**(3.8)**	(13.8)
Dairies		**(2.0)**	(30.5)
Unsegmented		**(4.4)**	(3.5)
Total exceptional operating costs	4	**(10.2)**	(47.8)

1 Segmental analysis continued

Interest income and expense are not included in the measure of product group profit. Group treasury has always been centrally managed and external interest income and expense are not allocated to product groups.

Further analysis of the Group interest expense is provided in Note 5.

Tax costs are not included in the measure of product group profit.

Product group assets comprise property, plant and equipment, goodwill, intangible assets, inventories, receivables, assets in disposal group held for sale and investments in associates using the equity method and deferred consideration but exclude cash and cash equivalents, derivative financial assets and deferred tax assets. Other product group assets comprise certain property, plant and equipment that is not reported in the principal groups.

Inter-product group revenue comprises the sale of finished Cheese and Spreads products to the Dairies product group on a cost plus basis and is included in the product group result. Other inter-product group transactions principally comprise the transfer of cream from the Dairies product group to the Spreads product group for the manufacture of butters. Cream transferred into Spreads is charged by reference to external commodity markets and is adjusted regularly so as to reflect the costs that the Spreads product group would incur if it was a stand alone entity. Revenue from inter-product group cream sales is not reported as revenue within the Dairies product group but as a reduction to the Dairies product group's input costs.

Product group depreciation and amortisation excludes amortisation of acquired intangible assets of £0.4 million (2013: £0.4 million) as these costs are not charged in the product group result.

Product group additions to non-current assets comprise additions to goodwill, intangible assets and property, plant and equipment through capital expenditure and acquisition of businesses.

Geographical information – continuing operations

	Year ended 31 March	
External revenue attributed on basis of customer location	**2014 £m**	2013 £m
UK	**1,330.9**	1,336.3
Rest of world	**60.1**	45.3
Total revenue (excluding joint ventures)	**1,391.0**	1,381.6
Non-current assets* based on location		
UK	**390.8**	375.1
Rest of world	**1.1**	0.8
Total	**391.9**	375.9

* Comprises property, plant and equipment, goodwill, intangible assets, investments and investment in associate.

The Group has two customers which individually represent more than 10% of revenue from continuing operations in the year ended 31 March 2014 (2013: two) with each customer accounting for £152.1 million and £174.8 million (2013: £151.8 million and £175.3 million) of revenue from continuing operations being 10.9% and 12.6% (2013: 11.0% and 12.7%).

The product group analysis provided above is based upon groupings of similar products, namely Cheese, Spreads and Dairies, and therefore the analysis of Group revenue by product and services is consistent with the revenue analysis presented above with the exception of non-milk product sales in the Dairies product group, which amounted to £66.3 million (2013: £81.3 million).

2 Operating costs – continuing operations

	Year ended 31 March 2014			Year ended 31 March 2013 – Restated		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Cost of sales	**1,040.4**	**5.8**	**1,046.2**	1,008.2	44.3	1,052.5
Distribution costs	**207.8**	**–**	**207.8**	229.1	–	229.1
Administrative expenses	**86.5**	**4.4**	**90.9**	84.0	3.5	87.5
	1,334.7	**10.2**	**1,344.9**	1,321.3	47.8	1,369.1

Profit on operations from continuing operations is stated after (charging)/crediting	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Release of grants	**1.7**	0.9
Depreciation	**(28.6)**	(28.2)
Amortisation of intangibles – acquired	**(0.4)**	(0.4)
Amortisation of intangibles – internally generated	**(3.3)**	(3.4)
Operating lease rentals	**(27.0)**	(29.2)
Research and development expenditure	**(3.8)**	(3.3)
Cost of inventories recognised as an expense	**(1,040.4)**	(1,008.2)
Including: Write-down of inventories recognised as an expense	**(0.6)**	(1.2)

Remuneration paid to auditors	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Fees payable to the Company's auditors – audit of Company's annual accounts*	**0.1**	0.1
Fees payable to the Company's auditors and its associates for other services:		
audit of the Company's subsidiaries pursuant to legislation	**0.3**	0.3
taxation services	**0.1**	0.1
corporate finance services	**–**	0.2
	0.5	0.7

* £10,000 (2013: £10,000) of this relates to the Company.

Corporate finance services in the year ended 31 March 2013 comprised reporting accountant work in relation to the disposal of St Hubert.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of the Company because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

Ernst & Young LLP are auditors of the Dairy Crest Group Pension Fund. Fees paid by the Fund for audit services are not included in the above table.

3 Other income – property

	Year ended 31 March 2014			Year ended 31 March 2013		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Profit on disposal of depots	**18.2**	**–**	**18.2**	7.7	–	7.7

The Group continues to rationalise its Dairies operations as a result of the ongoing decline in doorstep volumes. This rationalisation includes the closure of certain depots (the profit on which is shown above) and rationalisation of the ongoing Dairies operations. These activities represent a fundamental part of the ongoing ordinary activities of the Dairies operations.

4 Exceptional items

Exceptional items comprise those items that are material and one-off in nature that the Group believes should be separately disclosed to assist in the understanding of the underlying financial performance of the Group.

Operating costs	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Depot administration restructuring costs	**–**	(9.2)
Costs associated with closure of Dairy processing sites	**–**	(21.3)
Spreads restructuring costs	**(3.8)**	(13.8)
Business reorganisation	**(4.4)**	(3.5)
Rationalisation of operating sites	**(2.0)**	–
	(10.2)	(47.8)
Finance costs		
Repayment of loan notes and associated costs (Note 5)	**(0.2)**	(8.7)
	(10.4)	(56.5)
Tax relief on exceptional items	**2.1**	12.0
Deferred tax adjustment for change in UK corporation tax rate	**1.9**	–
	(6.4)	(44.5)
Discontinued operations – (Note 29)	**1.4**	47.7
	(5.0)	3.2

Exceptional items in the year ended 31 March 2014 comprise:

- In September 2012 the Group announced that it was to consult with employees on plans to consolidate spreads production into a single UK location at its site in Kirkby, Liverpool. As a result of this consolidation the site at Crudgington, Shropshire is expected to close in the coming financial year. The exceptional costs incurred in the period ended 31 March 2014 were £3.8 million (2013: £13.8 million), comprising plant and equipment write-down,termination costs and duplicate running costs. The tax effect of this exceptional charge in the year was £0.8 million (2013: £2.8 million).
- In February 2013 the Group announced plans to reorganise the business into a single management and operational structure from 1 April 2013. This is replacing the divisional structures that previously existed and will lead to a more efficient and simplified organisation. This reorganisation has resulted in exceptional costs in the year ended 31 March 2014 of £4.4 million (2013: £3.5 million) comprising predominantly redundancy costs and the write-down of an intangible asset on the basis that there will be no future benefit from this asset following the reorganisation. The tax effect in the year of this exceptional charge in the year was £0.8 million (2013: £0.8 million). This project has now completed.
- In December 2013 the Group announced that it was starting consultation with employees regarding the closure of its Proper Welsh Milk dairy in Whitland, Carmarthenshire. The dairy was subsequently closed in January 2014 resulting in exceptional costs in the year of £0.6 million comprising plant and equipment write-down and redundancy costs. In March 2014, the Group announced a strategic review of its FoodTec UK Ltd subsidiary and an exceptional cost of £1.4 million has been incurred in the period comprising the write-down of its working capital, plant and equipment. The tax effect of this exceptional charge in the year was £0.3 million.
- In March 2013 the Group gave notice to the holders of its 2007 private placement loan notes that it would repay £100 million of principal in April 2013. The costs of early repayment were accrued at 31 March 2013 as the Group was irrevocably committed to the repayment at that date. Costs of £8.7 million predominantly comprise make whole penalties which were calculated based on the discounted future coupons between repayment date and original note maturity. A further £0.2 million of costs have been incurred in the period ended 31 March 2014 comprising bank charges and professional fees relating to the transaction. The tax effect of this exceptional charge was nil (2013: £2.1 million).

4 Exceptional items continued

- In the year ended 31 March 2013, the Group closed two processing sites in Aintree and Fenstanton. Whilst these projects were largely completed within the year, £0.5 million of closure costs have been incurred in the year ended 31 March 2014 that have been offset by proceeds from the sale of property, plant and equipment of £0.5 million.
- With effect from 1 April 2015, the corporation tax rate which was enacted on 2 July 2013 has changed from 23% to 20%. The deferred tax calculations are now based on the lower rate resulting in a deferred tax benefit of £1.9 million in the year ended 31 March 2014. Due to the size and one-off nature of this significant amendment in the enacted rate, it has been classified as an exceptional deferred tax credit in the period.

Exceptional items in the year ended 31 March 2013 comprised:

- £9.2 million of costs associated with the rationalisation of administrative activities and other structural changes in the Dairies depot network. This restructuring resulted in centralisation of back office activities supporting the depot network. These costs related to redundancies (£7.4 million), incremental operating costs associated with delivery of the project (£1.1 million) and write downs of property, plant and equipment (£0.7 million). The tax effect of this exceptional charge was £2.2 million. The project has now completed.
- In the year ended 31 March 2013, the Group closed two processing sites at Aintree in Liverpool and Fenstanton in Cambridgeshire. The closure of the sites and resultant changes in the supply chain, volume requirements and customer channels resulted in exceptional costs of £21.3 million. These costs related to redundancies (£9.0 million), duplicate running costs (£6.2 million), asset write downs (£0.7 million) and other costs (£5.4 million) including stock write offs and duplicate running costs. The tax effect of this exceptional charge was £5.0m. This project has now completed.

5 Finance costs and other finance income

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Bank loans and overdrafts (at amortised cost)	**(9.7)**	(19.6)
Unwind of discount on provisions (Note 23)	**(0.2)**	(0.2)
Finance charges on finance leases	**(0.2)**	(0.3)
Pre-exceptional finance costs – continuing operations	**(10.1)**	(20.1)
Finance income on cash balances (financial assets not at fair value through profit and loss)	**0.2**	1.4
Pre-exceptional net finance costs – continuing operations	**(9.9)**	(18.7)
Exceptional cost of repayment of loan notes (Note 4)	**(0.2)**	(8.7)
Total net finance costs – continuing operations	**(10.1)**	(27.4)

Interest payable on bank loans and overdrafts is stated after capitalising £1.6 million (2013: £0.1 million) of interest on expenditure on capital projects at the Group's average cost of borrowing of 5.0%.

6 Tax expense

The major components of income tax expense for the years ended 31 March 2014 and 2013 are:

Consolidated income statement	**2014 £m**	2013 £m
Current income tax		
Adjustments in respect of previous years – current tax	**0.2**	–
– transfer from deferred tax	**–**	(2.8)
	0.2	(2.8)
Deferred income tax		
Relating to origination and reversal of temporary differences	**8.0**	(3.3)
Effect of change in tax rate	**(1.9)**	(0.9)
Adjustments in respect of previous years – deferred tax	**(0.9)**	1.4
– transfer to current tax	**–**	2.8
	5.4	(2.8)
Analysed: Before exceptional items	**9.4**	9.2
Exceptional items	**(4.0)**	(12.0)
	5.4	(2.8)

Reconciliation between tax charge/(credit) and the profit/(loss) before tax multiplied by the statutory rate of corporation tax in the UK:

	2014 £m	2013 £m
Profit/(loss) before tax	**54.2**	(10.7)
Tax at UK statutory corporation tax rate of 23% (2013: 24%)	**12.5**	(2.5)
Adjustments in respect of previous years	**(0.7)**	1.4
Adjustment in respect of associate's profits	**(0.1)**	–
Deferred tax adjustment for change in UK corporation tax rate (23% to 20%; 2013: 24% to 23%)*	**(1.9)**	(0.9)
Non-deductible expenses	**1.2**	1.5
Profits offset by available tax relief	**(5.6)**	(2.3)
	5.4	(2.8)

* Owing to the availability of brought forward trading tax losses, the Group does not expect any taxable profits to arise before 1 April 2015, accordingly deferred tax has been provided on all temporary differences at 20%.

The effective pre-exceptional rate of tax on Group profit before tax is 14.6% (2013: 20.1%). The effective tax rate continues to be below the headline rate of UK corporation tax due to the property profit income stream, on which the tax charges are sheltered by brought forward capital losses or roll over relief. The higher level of property profits this year have reduced the effective rate of tax but we expect the effective tax rate to increase next year to approximately 18%.

The UK corporation tax rate reduced to 23% from April 2013. A further 2% reduction has been enacted, taking the rate to 21% from April 2014, as has an additional 1% reduction, taking the rate to 20% from April 2015.

Consolidated other comprehensive income	**2014 £m**	2013 £m
Deferred income tax related to items charged to other comprehensive income		
Tax relief on actuarial losses	**(8.7)**	(5.4)
Valuation of financial instruments	**0.3**	0.2
Tax credit	**(8.4)**	(5.2)

There were no income tax or deferred tax amounts charged to changes in equity in the year ended 31 March 2014 (2013: nil).

6 Tax expense continued

Deferred income tax

Deferred income tax at 31 March 2014 and 2013 relates to the following:

Deferred tax liability	2014 £m	2013 £m
Accelerated depreciation for tax purposes	**(28.0)**	(31.7)
Financial instruments valuation	**(0.1)**	–
Goodwill and intangible assets	**(8.0)**	(9.2)
	(36.1)	(40.9)

Deferred tax asset	2014 £m	2013 £m
Government grants	**1.9**	3.0
Share based payments	**0.1**	0.1
Pensions	**17.9**	17.1
Financial instruments valuation	**–**	0.2
Other	**4.8**	5.9
	24.7	26.3
Net deferred tax liability	**(11.4)**	(14.6)

The Company has a deferred tax asset of £0.2 million at 31 March 2014 (2013: £0.4 million asset). This relates to temporary differences in respect of financial instruments valuations.

The movement on the net deferred tax balance is shown below:

	2014 £m	2013 £m
Opening net deferred tax liability	**(14.6)**	(69.4)
Charge to income statement	**(5.2)**	–
Credit to other comprehensive income	**8.4**	5.2
Disposal of businesses	**–**	47.3
Exchange impact	**–**	2.3
Closing net deferred tax liability	**(11.4)**	(14.6)

The movement on the deferred tax liability is shown below:

	Deferred tax asset/(liability)				
	Goodwill and intangible assets £m	Pensions £m	Accelerated tax depreciation £m	Other temporary differences £m	Total £m
Balances at 31 March 2013	(9.2)	17.1	(31.7)	9.2	(14.6)
(Charge)/credit to income statement: continuing operations	1.2	(7.9)	3.7	(2.2)	(5.2)
Credit/(charge) to other comprehensive income	–	8.7	–	(0.3)	8.4
Balances at 31 March 2014	**(8.0)**	**17.9**	**(28.0)**	**6.7**	**(11.4)**
Balances at 31 March 2012	(55.4)	15.2	(37.4)	7.6	(70.0)
(Charge)/credit to income statement: continuing operations	(0.9)	(4.1)	3.2	1.8	–
Credit/(charge) to other comprehensive income	–	6.0	–	(0.2)	5.8
Disposal of businesses	44.8	–	2.5	–	47.3
Exchange impact	2.3	–	–	–	2.3
Balances at 31 March 2013	(9.2)	17.1	(31.7)	9.2	(14.6)

The Group has capital losses which arose in the UK of £137.5 million (2013: £56.3 million) that are available indefinitely for offset against future taxable gains. Deferred tax has not been recognised in respect of these losses as there is no foreseeable prospect of their being utilised. The Group has realised capital gains amounting to £27.6 million (2013: £36.9 million) for which rollover relief claims have been or are intended to be made.

7 Dividends paid and proposed

Declared and paid during the year	**2014 £m**	2013 £m
Equity dividends on ordinary shares:		
Final dividend for 2013: 15.0 pence (2012: 14.7 pence)	**20.5**	19.6
Interim dividend for 2014: 5.9 pence (2013: 5.7 pence)	**8.0**	7.8
	28.5	27.4
Proposed for approval at AGM (not recognised as a liability at 31 March)		
Equity dividends on ordinary shares:		
Final dividend for 2014: 15.4 pence (2013: 15.0 pence)	**21.0**	20.5

8 Earnings per share

Basic earnings/losses per share ('EPS') on profit/(loss) for the year from continuing operations is calculated by dividing profit/(loss) from continuing operations by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit from continuing operations by the weighted average number of ordinary shares outstanding during the year plus the difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the year. Note that in the circumstances where there is a basic loss per share, share options are anti-dilutive and therefore are not included in the calculation of diluted losses per share.

The shares held by the Dairy Crest Employees' Share Ownership Plan Trust ('ESOP') are excluded from the weighted average number of shares in issue used in the calculation of earnings and diluted earnings per share.

To show earnings per share on a consistent basis, which in the Directors' opinion reflects the ongoing performance of the business more appropriately, adjusted earnings per share has been calculated. The computation for basic and diluted earnings per share (including adjusted earnings per share) is as follows:

	Year ended 31 March 2014			Year ended 31 March 2013 (Restated)		
	Earnings £m	**Weighted average no of shares million**	**Per share amount pence**	Earnings £m	Weighted average no of shares million	Per share amount pence
Basic EPS from continuing operations	**48.8**	**136.5**	**35.8**	(7.9)	134.7	(5.9)
Effect of dilutive securities:						
Share options	**–**	**1.6**	**(0.5)**	–	–	–
Diluted EPS from continuing operations	**48.8**	**138.1**	**35.3**	(7.9)	134.7	(5.9)
Adjusted EPS from continuing operations						
Profit/(loss) from continuing operations	**48.8**	**136.5**	**35.8**	(7.9)	134.7	(5.9)
Exceptional items net of tax	**6.4**	**–**	**4.7**	44.5	–	33.0
Amortisation of acquired intangible assets (net of tax)	**0.3**	**–**	**0.2**	0.3	–	0.2
Pension interest expense (net of tax)	**0.2**	**–**	**0.1**	2.7	–	2.1
Adjusted basic EPS from continuing operations	**55.7**	**136.5**	**40.8**	39.6	134.7	29.4
Effect of dilutive securities:						
Share options	**–**	**1.6**	**(0.5)**	–	–	–
Adjusted diluted EPS from continuing operations	**55.7**	**138.1**	**40.3**	39.6	134.7	29.4
Basic EPS from discontinued operations	**1.4**	**136.5**	**1.0**	54.5	134.7	40.5
Effect of dilutive securities:						
Share options	**–**	**1.6**	**–**	–	–	–
Diluted EPS from discontinued operations	**1.4**	**138.1**	**1.0**	54.5	134.7	40.5
Basic EPS on profit/(loss) for the year	**50.2**	**136.5**	**36.8**	46.6	134.7	34.6
Effect of dilutive securities:						
Share options	**–**	**1.6**	**(0.4)**	–	–	–
Diluted EPS on profit/(loss) for the year	**50.2**	**138.1**	**36.4**	46.6	134.7	34.6

8 Earnings per share continued

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of signing of these financial statements.

The prior period comparatives have been restated to reflect the amendment to IAS 19R: Employee Benefits (see Note 20). This resulted in a basic loss per share on continuing operations and therefore no dilution has been assumed across any EPS measures. This is in line with IAS 33 guidelines.

9 Remuneration of employees and key management personnel

Number of employees (continuing operations) – Group	**Year ended 31 March 2014 number**	Year ended 31 March 2013 number
Average number of employees:		
Production	**1,859**	2,036
Sales, distribution and administration	**2,686**	3,247
Total employees	**4,545**	5,283

Remuneration of employees, including key management personnel (continuing operations)	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Wages and salaries	**157.0**	176.5
Social security costs	**15.2**	17.2
Equity settled share based payments expense (Note 26)	**1.5**	1.9
Pension costs (Note 20)	**7.0**	7.1
	180.7	202.7

The above costs relate to continuing operations and include amounts paid to the Company's Executive and Non-executive Directors.

Further analysis is as follows:

Directors	**Year ended 31 March 2014 £000**	Year ended 31 March 2013 £000
Salaries and benefits	**1,374**	1,528
Bonuses	**833**	613
Fees to Non-Executive Directors	**327**	331
Emoluments	**2,534**	2,472
Severance payments	**577**	–
Employer payments to defined contribution pension scheme	**39**	31
Gain on exercise of sharesave options	**–**	15
Highest paid director		
Salary and benefits	**656**	656
Bonus	**423**	272
Emoluments	**1,079**	928
Employer payments to defined contribution pension scheme	**9**	9
Gain on exercise of sharesave options	**–**	5

Further information relating to directors' remuneration for the year ended 31 March 2014 is provided in the Directors' Remuneration Report on pages 45 to 62.

10 Property, plant and equipment

Consolidated 2014	Land and buildings £m	Vehicles, plant and equipment £m	Assets in the course of construction £m	Total £m
Cost				
At 1 April 2013	183.4	306.5	23.6	513.5
Additions	1.6	6.3	54.9	62.8
Disposals	(12.3)	(28.0)	(5.2)	(45.5)
Transfers and reclassifications	1.3	2.5	(3.8)	–
At 31 March 2014	**174.0**	**287.3**	**69.5**	**530.8**
Accumulated depreciation				
At 1 April 2013	64.4	178.8	–	243.2
Charge for the year	5.6	23.0	–	28.6
Asset impairments	0.1	1.7	–	1.8
Disposals	(6.4)	(25.0)	–	(31.4)
At 31 March 2014	**63.7**	**178.5**	**–**	**242.2**
Net book amount at 31 March 2014	**110.3**	**108.8**	**69.5**	**288.6**

Consolidated 2013				
Cost				
At 1 April 2012	192.6	303.0	29.0	524.6
Additions	3.5	18.0	21.3	42.8
Acquisition of businesses	–	0.5	–	0.5
Disposals	(4.2)	(22.8)	(0.5)	(27.5)
Disposal of St Hubert	(8.7)	(15.7)	(1.2)	(25.6)
Transfers and reclassifications	0.6	24.3	(24.9)	–
Exchange	(0.4)	(0.8)	(0.1)	(1.3)
At 31 March 2013	183.4	306.5	23.6	513.5
Accumulated depreciation				
At 1 April 2012	64.8	176.9	–	241.7
Charge for the year	5.9	23.1	–	29.0
Asset impairments	1.4	12.3	–	13.7
Disposals	(2.3)	(22.8)	–	(25.1)
Disposal of St Hubert	(5.2)	(10.1)	–	(15.3)
Exchange	(0.2)	(0.6)	–	(0.8)
At 31 March 2013	64.4	178.8	–	243.2
Net book amount at 31 March 2013	119.0	127.7	23.6	270.3

Depreciation of property, plant and equipment relating to the discontinued St Hubert business, included in the table above was nil in the year ended 31 March 2014 (2013: £0.8 million)

2013/14

The carrying value of property, plant and equipment within each cash generating unit ('CGU') is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. With regard to the Dairies CGU, goodwill was fully impaired in 2011/12 however given the low margins in this business and large movements in milk input costs during 2013/14, the carrying value of property, plant and equipment within this CGU has been reviewed along with its value in use. The impairment methodology and key inputs for all CGUs are as set out in Note 11. For the Dairies CGU, the discount rate applied to the value in use calculation was 9.3% (2013: 8.7%) and cashflows are forecast to year five with nil growth assumed thereafter. The key input assumptions in performing the impairment test were the profits expected from property sales, the allocation of corporate costs and the projected profit growth to 3%. The impairment review has not indicated any required write down of the carrying value of property, plant and equipment in the year ended 31 March 2014. However, the headroom was low and therefore sensitive to the discount rate used for each of the key input assumptions in deriving the projected cash flows.

In March 2014, the Group announced a strategic review of the FoodTec UK Ltd ingredients subsidiary. The carrying value of £1.1 million working capital and £0.3 million property, plant and equipment has been fully impaired in the year ended 31 March 2014 (see Note 4).

10 Property, plant and equipment continued

Following the closure of the Proper Welsh Milk dairy in January 2014, the carrying value of property, plant and equipment of £0.5 million has been written down in full (see Note 4).

As a result of plans to consolidate spreads production into a single UK location, the carrying value of some property, plant and equipment of £1.0 million has been written down in the year ended 31 March 2014 (see Note 4).

2012/13

Following the decision in 2011 to transfer all Clover manufacture from Crudgington, Shropshire to Kirkby, Liverpool, in September 2012 the Group announced plans to consolidate all spreads production into a single UK location at its site in Kirkby. Subject to consultation, this decision will result in the closure of the site at Crudgington in 2014. As a result of this decision £11.4 million of plant and equipment at the sites has been impaired to nil net book value (representing management's best estimate of resale value net of costs of sale). In addition, the land and buildings at Crudgington were impaired by £0.9 million (see Note 4).

The culmination of the centralisation of administrative activity in the Dairies depot network along with the closures of milk processing sites at Fenstanton, Cambridgeshire and Aintree, Liverpool resulted in impairments of £0.5 million to land and buildings and £0.9 million to plant and equipment (see Note 4).

Capitalised leases included in vehicles, plant and equipment comprise:	**2014 £m**	2013 £m
Cost	**31.7**	32.1
Accumulated depreciation	**(24.0)**	(22.9)
Net book amount	**7.7**	9.2

11 Goodwill

	£m
Cost	
At 31 March 2012	333.0
Disposal (Note 29)	(176.4)
Exchange	(9.3)
At 31 March 2013 and 31 March 2014	**147.3**
Accumulated impairment	
At 31 March 2012	(73.0)
At 31 March 2013	(73.0)
Impairments in the year ended 31 March 2014	–
At 31 March 2014	**(73.0)**
Net book amount at 31 March 2014	**74.3**
Net book amount at 31 March 2013	74.3

Impairment testing of goodwill

Acquired goodwill has been allocated for impairment testing purposes to four groups of cash generating units ('CGUs'): Dairies, Spreads, MH Foods and Cheese. At March 2012 goodwill in relation to the Dairies CGU was fully impaired and the carrying value of goodwill for this CGU at 31 March 2014 is nil.

All groups of CGUs with goodwill are tested for impairment annually by comparing the carrying amount of that CGU with its recoverable amount. Recoverable amount is determined based on a value-in-use calculation using cash flow projections based on financial budgets and strategic plans approved by senior management covering a three-year period and appropriate growth rates beyond that. The discount rate applied to the projections is 9.8% for Spreads and 9.4% for MH Foods and Cheese (2013: 8.7% for all CGUs).

Discount rates are pre-tax and calculated by reference to average industry gearing levels, the cost of debt and the cost of equity based on the capital asset pricing model and CGU-specific risk factors.

The growth rate used to extrapolate cash flows beyond the three-year period for MH Foods and Cheese is 2.0% per annum (being the estimated UK long-term growth rate adjusted for industry growth rates and extrapolation risks) (2013: 2.0% per annum beyond year three). The growth rate used to extrapolate cash flows beyond the three-year period for Spreads is nil reflecting the minimal growth rates in that market (2013: 2% per annum beyond year three).

11 Goodwill continued

The carrying amount of goodwill allocated to groups of CGUs at 31 March 2014 is:

Dairies	Nil	(2013: nil)
MH Foods	£6.7 million	(2013: £6.7 million)
Spreads	£65.5 million	(2013: £65.5 million)
Cheese	£2.1 million	(2013: £2.1 million)

Gross margin – budgeted gross margins are based initially on actual margins achieved in the preceding year further adjusted for projected input and output price changes, volume changes, initiatives implemented and associated efficiency improvements. The budgeted margins form the basis for strategic plans, which incorporate longer-term market trends.

Discount rates – reflect management's estimate of the risk-adjusted weighted average cost of capital for each CGU.

Raw materials prices – budgets are prepared using the most up to date price and forecast price data available. This is based on forward prices in the market place adjusted for any contracted prices at the time of forecast. The key resources are milk, vegetable oils, fuel oil, diesel, gas and electricity and packaging costs.

Growth rate estimates – for periods beyond the length of the strategic plans, growth estimates are based upon published industry research adjusted downwards to reflect the risk of extrapolating growth beyond a three year time frame. For the residential business, long-term rates of market decline as seen over recent years have been extrapolated forward offset by growth assumptions for milk&more, FRijj and the liquid milk business.

The Directors consider the assumptions used to be consistent with the historical performance of each CGU where appropriate and to be realistically achievable in the light of economic and industry measures and forecasts.

2013/14 and 2012/13

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Spreads, MH Foods and Cheese CGUs, management believes that no reasonably possible change in the above key assumptions would cause the carrying value of those units to exceed their recoverable amount.

12 Intangible assets

	Assets in the course of construction £m	Internally generated £m	Acquired intangibles £m	Total £m
Cost				
At 31 March 2012	9.8	26.7	191.2	227.7
Additions	5.7	–	–	5.7
Disposal	–	(7.2)	(173.5)	(180.7)
Transfers and reclassifications	(7.2)	7.2	–	–
Exchange	–	(0.4)	(9.0)	(9.4)
At 31 March 2013	8.3	26.3	8.7	43.3
Additions	1.1	–	–	1.1
Transfers and reclassifications	(2.9)	2.9	–	–
At 31 March 2014	**6.5**	**29.2**	**8.7**	**44.4**
Accumulated amortisation				
At 31 March 2012	–	13.4	43.8	57.2
Disposal	–	(6.8)	(42.4)	(49.2)
Amortisation for the year	–	3.4	3.4	6.8
Impairments	–	–	0.2	0.2
Exchange	–	(0.3)	(1.9)	(2.2)
At 31 March 2013	–	9.7	3.1	12.8
Amortisation for the year	–	3.3	0.4	3.7
At 31 March 2014	**–**	**13.0**	**3.5**	**16.5**
Net book amount at 31 March 2014	**6.5**	**16.2**	**5.2**	**27.9**
Net book amount at 31 March 2013	8.3	16.6	5.6	30.5

Amortisation of acquired intangible assets relating to the discontinued St Hubert business, included in the table above amounted to £3.0 million in the year ended 31 March 2013.

Assets in the course of construction comprise systems upgrade costs across all sites and implementation costs in relation to a supply chain demand forecasting model, that are yet to be completed as at 31 March 2014.

Internally generated intangible assets comprise software development and implementation costs across manufacturing sites, the milk&more business and Head Office.

Acquired intangibles comprise predominantly brands acquired with the acquisition of businesses. The largest component within acquired intangibles is the 'Frylight' brand acquired with the acquisition of Morehands Limited (MH Foods) in June 2011. A useful life of 15 years has been assumed for this brand.

The remaining useful lives at 31 March 2014 for significant intangible assets are as follows:

Acquired Frylight brand: 12 years

The carrying value of the Frylight brand at 31 March 2014 is £4.9 million (2013: £5.3 million).

2012/2013

Disposal in the year relates to the sale of St Hubert – see Note 29.

13 Investments

Group

During the year ended 31 March 2013, the Group acquired 7% of the share capital of HIECO Limited for a consideration of £0.3 million.

Company	Share grants awarded in subsidiaries £m	Shares in subsidiary undertakings £m	Total £m
Cost			
At 1 April 2012	11.4	468.1	479.5
Share based payment charge in subsidiary companies	1.4	–	1.4
At 31 March 2013	12.8	468.1	480.9
Share based payment charge in subsidiary companies	1.2	–	1.2
At 31 March 2014	**14.0**	**468.1**	**482.1**

Shares in subsidiary undertakings comprise an investment in Dairy Crest Limited of £239.2 million and an investment of £228.9 million in Dairy Crest UK Limited.

Share grants awarded in subsidiaries represent the cumulative cost of the Company's grant of equity instruments, under share based payment awards, to employees of subsidiary undertakings.

At 31 March 2014 the principal subsidiary undertakings and other associates were:

	Business	Percentage of ordinary share capital held
Subsidiary undertakings and associates:		
Dairy Crest Limited	Manufacture of dairy products	100%
Philpot Dairy Products Limited*	Trading in dairy products	100%
FoodTec UK Limited*	Manufacture and trading in dairy products and ingredients	100%
Morehands Limited*	Manufacture of cooking oils	100%
Wexford Creamery Limited	Manufacture of dairy products	30%

* Investments are held by Dairy Crest Limited

The principal place of operation and country of incorporation of all subsidiary undertakings and associates is England and Wales except for Wexford Creamery Limited which is in the Republic of Ireland.

14 Investment in associates

The investment in associates using the equity method at 31 March 2014 is represented by a 20% interest in Wexford Creamery Limited ('WCL') which is involved in the manufacture of cheese in the Republic of Ireland.

Following the sale of 50% of the ordinary shares of WCL in June 2010, the Group equity accounts for a 20% shareholding in that company. The Group holds a further 10% of the issued share capital of WCL however, due to the existence of fixed-price put and call options in relation to this additional holding, it is assumed that the economic benefit from this 10% has been transferred and therefore accounted for as a sale. The fixed price under the options of 1.8 million Euros is recorded at its discounted amount of deferred consideration of £1.4 million.

The share of the assets, liabilities, income and expenses of the associate at 31 March and for the years then ended, which are equity accounted for in the consolidated financial statements, are as follows:

	2014 £m	2013 £m
Current assets	**2.2**	1.7
Current liabilities	**(1.4)**	(1.2)
Share of net assets	**0.8**	0.5
Revenue	**13.5**	10.3
Operating costs	**(13.2)**	(10.3)
Result before tax	**0.3**	–
Tax expense	**–**	–
Share of net result	**0.3**	–

15 Inventories

	Consolidated	
	2014 £m	2013 £m
Raw materials and consumables	**33.4**	33.2
Finished goods	**186.2**	175.0
	219.6	208.2

Cheese inventories at 31 March 2014 totalled £167.2 million (2013: £155.5 million).

During the year ended 31 March 2014, £0.1 million of engineering and packaging inventories were written off following the on-going consolidation of Clover manufacture into one site and following a strategic review of FoodTec UK Limited, the Group's dairy products and ingredients subsidiary, £0.5 million of inventories were written-off. See also Note 4.

In April 2013 the Group granted the Trustee of the Dairy Crest Group Pension Fund a floating charge over maturing cheese inventories with a maximum realisable value of £60 million.

16 Trade and other receivables

	Consolidated		Parent Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade receivables	**104.8**	83.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**9.9**	169.3
Other receivables	**8.4**	10.6	**0.6**	1.4
Prepayments and accrued income	**5.2**	4.9	**–**	–
	118.4	98.8	**10.5**	170.7

All amounts above, with the exception of prepayments and accrued income, are financial assets.

16 Trade and other receivables continued

Trade receivables are denominated in the following currencies:

	Consolidated 2014 £m	2013 £m
Sterling	**96.5**	79.9
Euro	**2.0**	0.6
US Dollar	**6.2**	2.8
Swiss Franc	**0.1**	–
	104.8	83.3

There are no material concentrations of credit risk.

Trade receivables are non interest bearing and are generally on 30-90 days' terms and are shown net of a provision for impairment. As at 31 March 2014, trade receivables at nominal value of £7.7 million (2013: £7.0 million) were impaired and provided for. Movements in the provision for impairment of receivables were as follows:

	Consolidated 2014 £m	2013 £m
At 1 April	**7.0**	8.3
Net charge for the year – operating	**0.8**	0.9
Amounts written off	**(0.1)**	(2.2)
At 31 March	**7.7**	7.0

Bad debt provisions are principally in the Dairies' residential and mid sized commercial channels on debt over 90 days. These businesses sell product on the doorstep and to middle ground and foodservice customers. The Group has no history of bad debt with regard to sales to large multiple retailers. There were no impairment provisions on any other class of receivables at 31 March 2014 or 2013.

At 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due, not impaired		
	Total £m	Neither past due nor impaired £m	30 – 60 days £m	60 – 90 days £m	> 90 days £m
31 March 2014	**104.8**	**89.5**	**12.3**	**2.6**	**0.4**
31 March 2013	83.3	72.1	6.7	3.0	1.5

The credit quality of trade receivables is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

17 Financial assets

Derivative financial instruments

Consolidated	Note	2014 £m	2013 £m
Current			
Cross currency swaps (cash flow hedges)		**–**	9.6
Forward currency contracts (cash flow hedges)	31	**0.4**	–
		0.4	9.6
Non-current			
Option to sell 20% holding in Wexford Creamery Limited	31	**1.6**	1.6
Cross currency swaps (cash flow hedges)	31	**5.4**	12.9
		7.0	14.5

Company		2014 £m	2013 £m
Current			
Cross currency swaps (cash flow hedges)	31	**–**	9.6
Non-current			
Cross currency swaps (cash flow hedges)	31	**5.4**	12.9

All derivative financial instruments are fair valued at each balance sheet date and all, with the exception of the option to sell a 20% holding in Wexford Creamery Limited ('WCL'), comprise Level 2 valuations under IFRS 7: Financial Instruments – Disclosures, namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

The WCL options comprise call and put options over 20% of the company for a price of €3.6 million adjusted for 20% of WCLs post-tax profits/losses from June 2010 until the date of exercise. This comprises a Level 3 valuation, namely that it is not based on inputs observable directly or indirectly. Management has valued this option by comparing the current equity accounted carrying value of the 20% holding with the estimated present value of consideration received from the exercise of the option. The difference between these amounts comprises the option value of £1.6 million at 31 March 2014. The principal input assumptions in valuing these options are (i) estimated future profits of WCL which have been based upon best available budgets and forecasts (ii) an appropriate post-tax discount rate of 6% and (iii) an option exercise date of 2018. Over the period until exercise of these options, any movement in the fair value of these instruments is charged/credited to the income statement.

There has been no material movement in the fair value of the WCL options between recognition in June 2010 and 31 March 2014.

18 Cash and short-term deposits

	Consolidated		Parent Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash and short-term deposits	**67.3**	276.1	**–**	14.8

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Following the sale of St Hubert, significant amounts of cash were placed on deposit resulting in concentrations of credit until the repayment of loan notes and the one-off contribution to the pension scheme in April 2013. Counterparty risk and the Group's policy for managing deposits are described in Note 30.

19 Financial liabilities

Group	Note	2014 £m	2013 £m
Current			
Obligations under finance leases	31	**1.8**	2.4
Loan notes (at amortised cost)	31	**25.3**	165.7
Debt issuance costs		**(0.6)**	(0.6)
Financial liabilities – Borrowings		**26.5**	167.5
Cross currency swaps (cash flow hedges)		**2.0**	2.2
Forward currency contracts (at fair value: cash flow hedge)	31	**–**	0.1
Financial liabilities – Derivative financial instruments		**2.0**	2.3
Current financial liabilities		**28.5**	169.8
Non-current			
Obligations under finance leases	31	**–**	3.1
Loan notes (at amortised cost)	31	**144.2**	182.4
Bank loans (at amortised cost)	31	**36.0**	–
Debt issuance costs		**(0.5)**	(1.2)
Financial liabilities – Borrowings		**179.7**	184.3
Cross currency swaps (cash flow hedges)		**6.2**	3.9
Financial liabilities – Derivative financial instruments		**6.2**	3.9
Non-current financial liabilities		**185.9**	188.2

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 7: Financial Instruments – Disclosures, namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

19 Financial liabilities continued

Interest bearing loans and borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

		Maturity	2014 £m	Effective Interest rate at March 2014	2013 £m	Effective Interest rate at March 2013
Current						
Loan notes:	US$ swapped into £	April 2013	–	–	68.7	5.32%
	Euro	April 2014	–	–	21.0	4.74%
	Euro	April 2017	–	–	23.2	4.85%
	Euro swapped into £	April 2014	25.3	4.97%	45.6	5.04%
	Sterling	April 2017	–	–	7.2	5.84%
Finance leases			1.8	5.18%	2.4	5.18%
Debt issuance costs			(0.6)		(0.6)	
			26.5		167.5	
Non-current						
Multi-currency revolving credit facilities:						
	Sterling floating	October 2016	36.0	LIBOR +115bps	–	–
Loan notes:	US$ swapped into £	April 2016	73.8	5.31%	81.0	5.31%
	Sterling	April 2016	10.0	5.27%	10.0	5.27%
	Euro swapped into £	April 2017	8.8	5.53%	9.0	4.85%
	Sterling	April 2017	2.8	5.84%	2.8	5.84%
	US$ swapped into £	November 2018	15.0	3.87%	16.5	3.87%
	US$ swapped into £	November 2021	33.8	4.52%	37.1	4.52%
	Euro	April 2014	–	–	8.2	4.74%
	Euro swapped into £	April 2014	–	–	17.8	5.04%
Finance Leases			–	5.18%	3.1	5.18%
Debt issuance costs			(0.5)		(1.2)	
			179.7		184.3	

On 18 April 2013 the Group repaid €106.9 million (£92.7 million) and £7.2 million of 2007 notes at a combined premium of £8.7 million. £69.2 million of these notes were due for repayment in April 2014 and £30.7 million were due for repayment in April 2017. In addition there was a natural maturity of £59.5 million ($104.3 million) of loan notes and a €60.0 million (£51.0 million) reduction in the revolving credit facility.

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify a maximum net debt to EBITDA ratio of 3.5 times, and minimum interest cover ratio of 3.0 times. No covenants were contravened in the year ended 31 March 2014 (2013: None). Key covenants under the 2011 revolving credit facility and debt private placement were unchanged from existing covenants.

Details of the Group's interest rate management strategy and interest rate swaps are included in notes 30 and 31.

19 Financial liabilities continued

Company	2014 £m	2013 £m
Current		
Loan notes (at amortised cost)	**25.3**	165.7
Financial liabilities – Borrowings	**25.3**	165.7
Cross currency swaps (cash flow hedges)	**2.0**	2.2
Financial liabilities – Derivative financial instruments	**2.0**	2.2
Current financial liabilities	**27.3**	167.9
Non-current		
Loan notes (at amortised cost)	**144.2**	182.4
Bank loans (at amortised cost)	**–**	–
Financial liabilities – Borrowings	**144.2**	182.4
Cross currency swaps (cash flow hedges)	**6.2**	3.9
Financial liabilities – Derivative financial instruments	**6.2**	3.9
Non-current financial liabilities	**150.4**	186.3

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 7: Financial Instruments – Disclosures, namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

Interest bearing loans and borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows.

		Maturity	2014 £m	Effective Interest rate at March 2014	2013 £m	Effective Interest rate at March 2013
Current						
Loan notes:	US$ swapped into £	April 2013	**–**	**–**	68.7	5.32%
	Euro	April 2014	**–**	**–**	21.0	4.74%
	Euro	April 2017	**–**	**–**	23.2	4.85%
	Euro swapped into £	April 2014	**25.3**	**4.97%**	45.6	5.04%
	Sterling	April 2017	**–**	**–**	7.2	5.84%
			25.3		165.7	
Non-current						
Loan notes:	US$ swapped into £	April 2016	**73.8**	**5.31%**	81.0	5.31%
	Sterling	April 2016	**10.0**	**5.27%**	10.0	5.27%
	Euro swapped into £	April 2017	**8.8**	**5.53%**	9.0	4.85%
	Sterling	April 2017	**2.8**	**5.84%**	2.8	5.84%
	US$ swapped into £	November 2018	**15.0**	**3.87%**	16.5	3.87%
	US$ swapped into £	November 2021	**33.8**	**4.52%**	37.1	4.52%
	Euro	April 2014	**–**	**–**	8.2	4.74%
	Euro swapped into £	April 2014	**–**	**–**	17.8	5.04%
			144.2		182.4	

The numbers

20 Retirement benefit obligations

The Group has one defined benefit pension scheme (Dairy Crest Group Pension Fund) in the UK which was closed to future service accrual from 1 April 2010. This pension scheme is a final salary scheme that had previously been closed to new employees joining after 30 June 2006. Employees joining after this date and those members of the defined benefit pension scheme on its closure to future service accrual were invited to join the Dairy Crest Group defined contribution plan.

The Dairy Crest Group Pension Fund is administered by a corporate trustee which is legally separate from the Company. The Trustee's directors are comprised of representatives of both the employer and employees, plus a professional trustee. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

The most recent full actuarial valuation of the Dairy Crest Group Pension Fund was carried out as at 31 March 2013 by the Fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially. This valuation resulted in a deficit of £145.0 million compared to the IAS 19 deficit of £56.3 million reported at that date. The next full actuarial valuation will be carried out in 2016/17 on the 31 March 2016 position.

The Company adopted IAS19R (revised 2011) for 2013/14. As a result the interest cost and expected returns on plan assets of defined benefit plans recognised in the profit and loss have been replaced by the net interest on the defined benefit liability, calculated using the discount rate used to measure the net pension obligation. Administration expenses are now charged as operating costs in the income statement rather than as finance expenses.

The following tables summarise the components recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the defined benefit pension scheme. 2013 comparators have been restated to reflect IAS19R.

	Dairy Crest Group Pension Fund	
Amounts recognised in consolidated income statement	**2014 £m**	2013 £m
Administration expenses	**(1.0)**	(0.9)
Other finance income/(costs) – pensions	**(0.3)**	(3.5)
Profit/(loss) before tax	**(1.3)**	(4.4)
Deferred tax	**0.3**	1.0
Profit/(loss) for the period	**(1.0)**	(3.4)
Amounts recognised in other comprehensive income		
Return on plan assets (excluding amounts included in net interest)	**26.8**	79.7
Experience gains arising on scheme liabilities	**4.3**	0.8
Actuarial losses due to changes in the demographic assumptions	**(18.0)**	–
Actuarial losses due to changes in the financial assumptions	**(63.5)**	(72.8)
Net actuarial (loss)/gain	**(50.4)**	7.7
Recognition of liability for unrecoverable notional surplus	**0.8**	(10.9)
Recognised in other comprehensive income	**(49.6)**	(3.2)
Related tax	**8.7**	5.4
Net actuarial loss recognised in other comprehensive income	**(40.9)**	2.2

Actual returns on plan assets were £68.3 million (2013: £117.7 million).

20 Retirement benefit obligations continued

Defined benefit obligation		Dairy Crest Group Pension Fund 2014 £m	Restated 2013 £m
Fair value of scheme assets:	– Equities	**45.5**	84.3
	– Bonds and cash	**523.6**	393.4
	– Equity return swaps valuation	**3.3**	42.9
	– Property and other	**92.3**	62.5
	– Insured retirement obligations	**299.4**	286.3
		964.1	869.4
Defined benefit obligation:	– Uninsured retirement obligations	**(714.3)**	(639.4)
	– Insured retirement obligations	**(297.4)**	(286.3)
Total defined benefit obligation		**(1,011.7)**	(925.7)
Recognition of liability for unrecoverable notional surplus		**(10.1)**	(10.9)
		(1,021.8)	(936.6)
Net liability recognised in the balance sheet		**(57.7)**	(67.2)
Related deferred tax asset		**17.9**	17.1
Net pension liability		**(39.8)**	(50.1)

UK legislation requires that pension schemes are funded prudently. In 2013/14 the Group paid £20.0 million into the fund in line with the agreed schedule of contributions plus an additional £40.0 million from the proceeds of the sale of St Hubert. In addition to this, the Company granted the trustee of the Group's pension scheme to a floating charge over the maturing cheese inventories with a maximum realisable value of £60.0 million.

From October 2009, the Group has been making additional funding contributions to the scheme of £20.0 million per annum. Under the latest schedule of contributions agreed with Trustees (which was signed in March 2014), the contributions will be £13.0 million per annum for 2014/15 and 2015/16, increasing to £16.0 million per annum in 2016/17 reverting to £20.0 million per annum for 2017/18 through to 2019/20.

These annual contributions include £2.8 million per annum of rental payments for land and buildings that are subject to a sale and leaseback agreement between the Group and the Fund as part of the schedule of contributions. The land and buildings included in these arrangements are subject to long term leases and the Group will continue to benefit from substantially all of the risks and rewards of ownership. On this basis, under IFRS, these land and buildings continue to be recognised in property, plant and equipment and rental payments of £2.8 million per annum are treated as cash contributions, reflecting the substance of the arrangements.

The Group is entitled to any surplus on winding up of the Fund albeit refunds are subject to tax deductions of 35% at source. Based on the present value of committed cash contributions at 31 March 2014 and the IAS 19 valuation at that date of £47.6 million, £10.1 million would be deducted from any notional surplus returned to the Group and this has been recognised as an additional liability in accordance with IFRIC 14. However, it should be noted that cash contributions are determined by reference to the triennial actuarial valuation, not the IAS 19 valuation. The actuarial deficit is greater than that recognised under IAS 19 since liabilities are discounted by reference to gilt yields rather than high quality corporate bond yields.

In December 2008, certain obligations relating to retired members were hedged by the purchase of an insurance contract. A further insurance contract for retired members was purchased in June 2009 resulting in coverage for all members who retired up to August 2008. These contracts are included within scheme assets and their value will always be equal to the obligation as calculated under IAS 19 for those members covered.

The purchase of the second insurance contract in June 2009 was funded by the sale of equities. Subsequently, in order to re-establish an appropriate equity weighting of scheme assets, the Fund purchased equity total return swaps (synthetic equity). These instruments comprise an asset leg and a liability leg. The asset leg generates a return based on UK and overseas equity indices and the liability leg incurs a cost based on LIBOR plus margin. Credit risk is minimised since collateral is provided by the counterparties to the benefit of the Fund when the instruments are in the money. At 31 March 2014, the valuation of the above comprises a positive equity exposure of £155.7 million and a negative LIBOR exposure of £152.4 million (2013: equity exposure of £276.8 million and LIBOR exposure of £233.9 million).

The 2013/14 results have been produced under IAS 19R (revised 2011).

Administration expenses are now recognised in the income statement rather than as part of the actuarial gains and losses.

20 Retirement benefit obligations continued

The effects of the adoption of IAS19R on previously reported results are summarised as follows:

Consolidated Income Statement	Originally Reported 31 Mar 13 £m	Amended IAS 19R 31 Mar 13 £m	Movement 31 Mar 13 £m
Operating costs	(1,368.2)	(1,369.1)	(0.9)
Other finance income/(costs) – pensions	5.9	(3.5)	(9.4)
Profit before tax	(0.4)	(10.7)	(10.3)
Tax	0.4	2.8	2.4
Profit for the period	54.5	46.6	(7.9)
Consolidated Statement of Comprehensive Income			
Profit for the period	54.5	46.6	(7.9)
Actuarial gains/(losses)	(13.5)	(3.2)	10.3
Tax	7.6	5.2	(2.4)
Consolidated Balance Sheet			
Deferred tax liability	–	–	–
Shareholders' funds	–	–	–
Decrease in reported earnings per share:			
Basic earnings per share on profit for the year (pence)	40.5	34.6	(5.9)
Diluted earnings per share on profit for the year (pence)	39.9	34.6	(5.3)
Basic earnings/(loss) per share from continuing operations (pence)	–	(5.9)	(5.9)
Diluted earnings/(loss) per share from continuing operations (pence)	–	(5.9)	(5.9)
Adjusted basic earnings per share from continuing operations (pence)	29.9	29.4	(0.5)
Adjusted diluted earnings per share from continuing operations (pence)	29.5	29.4	(0.1)
Basic earnings per share from discontinued operations (pence)	40.5	40.5	–
Diluted earnings per share from discontinued operations (pence)	39.9	40.5	0.6

The average duration of Fund liabilities is approximately 17 years (2013: 18 years). Discount rate assumptions for each reporting period are based upon quoted AA-rated corporate bond indices with maturities matching the Fund's expected benefit payments. The Fund duration is an indicator of the weighted-average time until benefit payments are made. For the Fund as a whole, the duration is around 18 years reflecting the approximate split of the defined benefit obligation (including insured pensioners) between deferred members (duration of 24 years), current non-insured pensioners (duration of 15 years) and insured pensioners (duration of 11 years).

The following table provides an analysis of the defined benefit obligation by membership category:

	2014 £m	2013 £m
Deferred members	**498.6**	442.5
Non-insured pensioner members	**215.7**	196.9
Insured pensioner members	**297.4**	286.3
Total defined benefit obligation	**1,011.7**	925.7

The RPI inflation assumptions are determined by adopting a yield curve approach, based on the break-even rate of inflation implied by fixed interest gilt yields and index-linked yields. Applying this approach to the Fund's projected benefit payments gives an average break-even inflation assumption of 3.6% (2013: 3.5%). The CPI inflation assumption is determined by reference to adjusted RPI rather than by reference to CPI-linked investments where the market is small and illiquid. The principal differences between RPI and CPI are (i) the formula effect due to RPI using arithmetic means and CPI geometric means, and (ii) the bundles of goods considered – CPI excludes mortgage payments and other housing costs. The assumption used at 31 March 2014 is that CPI inflation will track 1.0% points below RPI inflation in the long term (2013: 1.0%) and is therefore set at 2.6% (2013: 2.5%). Pension increase assumptions are based on RPI with an adjustment to reflect caps within the Fund rules.

20 Retirement benefit obligations continued

The annuity contracts purchased in 2008 and 2009 provide increases on post-88 GMP in line with RPI inflation up to 3% per annum. However, since 2011 the post-88 GMP paid to members only need to increase with CPI inflation up to 3% per annum which is expected to be less than RPI. It is therefore expected that the annuity contracts are expected to pay out slightly more than will be paid out to members so the asset valuation for the annuity contracts are £2.0 million higher than the corresponding liabilities.

Mortality assumptions were updated in the year ended 31 March 2014 based on analysis of the membership data performed as part of the March 2013 full actuarial valuation. The result was an increase in life expectancy assumptions of approximately 0.9 years. Details of the changes to mortality assumptions are detailed later in this note.

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

	Expected Expense for 14/15			
	Service Cost	Net Interest	Total P&L Charge	March 2014 Deficit
Current Figures	1.0	1.8	2.8	(47.6)
Effect of a 0.1% decrease in the discount rate	–	0.6	0.6	(15.4)
Recalculated value	1.0	2.4	3.4	(63.0)
Effect of a 0.1% increase in the inflation assumption	–	0.4	0.4	(10.0)
Recalculated value	1.0	2.2	3.2	(57.6)
Effect of a 1 year increase in life expectancy	–	1.1	1.1	(25.4)
Recalculated value	1.0	2.9	3.9	(73.0)

The above sensitivities assume that the Fund's assets remain unchanged but in practice changes in interest and inflation rates will also affect the value of the Fund's assets. The Company and Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset/liability matching policy which aims to reduce the volatility of the funding level of the Fund by investing in assets which perform in line with the liabilities of the Fund. In December 2008 and June 2009, certain obligations relating to retired members were fully hedged by the purchase of annuity contracts. The Fund's other investments include matching assets which protect against changes in bond yields and against inflation risk: the respective interest rate and inflation hedge ratios for these assets as at 31 March 2014 were 25.8% and 23.3% of those obligations not covered by annuity contracts.

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create an increased deficit. The Fund holds a significant proportion in a range of return-seeking assets which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to return-seeking assets is monitored to ensure it remains appropriate given the Fund's long term objectives.

A decrease in corporate bond yields will increase the value placed on the Fund's liabilities for accounting purposes, although this will be partially offset by an expected increase in the value of the Fund's bond holdings.

A significant proportion of the Fund's benefit obligations are linked to inflation, and higher expected future inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in expected future inflation will also increase the deficit.

The majority of the Fund's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension ('GMP'). The UK Government intends to implement legislation which could result in higher benefits for some members. This would increase the defined benefit obligation of the Fund. At this stage, it is not possible to quantify the impact of this change.

20 Retirement benefit obligations continued

	Dairy Crest Group Pension Fund	
Movement in the present value of the defined benefit obligations are as follows:	**2014 £m**	2013 £m
Opening defined benefit obligation	**(925.7)**	(845.9)
Interest cost	**(41.8)**	(41.5)
Actuarial losses	**(77.2)**	(72.0)
Benefits paid	**33.0**	33.7
Closing defined benefit obligation	**(1,011.7)**	(925.7)

Movement in the fair value of plan assets are as follows:		
Opening fair value of scheme assets	**869.4**	766.1
Interest income on fund assets	**41.5**	38.0
Remeasurement gains on fund assets	**26.8**	79.7
Contributions by employer	**60.4**	20.2
Administration costs incurred	**(1.0)**	(0.9)
Benefits paid out	**(33.0)**	(33.7)
Closing fair value of plan assets	**964.1**	869.4

The principal assumptions used in determining retirement benefit obligations for the Dairy Crest Group Pension Fund are shown below:

	2014 %	2013 %	2012 %
Key assumptions:			
Price inflation (RPI)	**3.6**	3.5	3.4
Price inflation (CPI)	**2.6**	2.5	2.4
Pension increases (Pre 1993 – RPI to 7%/annum)	**3.6**	3.5	3.4
Pension increases (1993 to 2006 – RPI to 5%/annum)	**3.4**	3.3	3.2
Pension increases (Post 2006 – RPI to 4% pa)	**3.1**	3.0	3.0
Life expectancy at 65 for a male currently aged 50 (years)	**23.8**	22.6	22.5
Average expected remaining life of a 65 year old retired male (years)	**22.3**	21.7	21.6
Life expectancy at 65 for a female currently aged 50 (years)	**26.7**	25.3	25.2
Average expected remaining life of a 65 year old retired female (years)	**24.5**	24.1	24.0
Discount rate	**4.3**	4.6	5.0

The financial assumptions reflect the nature and term of the Fund's liabilities.

The mortality assumptions are based on analysis of the Fund members, and allow for expected future improvements in mortality rates.

It has been assumed that members exchange 25% of their pension for a cash lump sum at retirement.

The results of the latest funding valuation at 31 March 2013 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2013, changes in market conditions and differences in the financial and demographic assumptions. The present value of the defined obligation and the related current service cost were measured using the Projected Unit Credit Method.

20 Retirement benefit obligations continued

The Fund's assets are invested in the following asset classes (all assets have a quoted market value in an active market with the exception of property, annuity policy and cash).

Assets	2014 £m	2013 £m	2012 £m
Equities:			
United Kingdom	**50.6**	137.3	115.9
North America	**62.8**	89.3	69.0
Europe (ex UK)	**29.1**	35.8	27.7
Japan	**15.8**	34.4	29.8
Asia (ex Japan)	**8.2**	16.0	12.6
Emerging Markets	**21.0**	37.8	34.4
Global Small Cap	**13.7**	12.2	9.7
Cash/LIBOR Synthetic Equity	**(152.4)**	(235.5)	(164.8)
Emerging Market Debt [i]	**61.2**	38.4	33.8
High Yield Bonds	**–**	22.7	20.0
Multi Asset Credit [ii]	**60.0**	–	–
Insurance Linked Securities [iii]	**24.7**	–	–
Absolute Return Bonds [iv]	**30.4**	–	–
Bonds:			
Government Index Linked Gilts	**–**	111.4	59.4
Network Rail Index Linked Gilts	**–**	60.5	55.0
Corporate Bonds	**98.0**	131.8	117.1
Liability Driven Investments [v]	**170.0**	–	–
Annuity Policy	**299.4**	286.3	279.6
Property	**67.6**	62.5	58.8
Cash	**104.0**	28.5	8.1
Total	**964.1**	869.4	766.1

31/3/2014 equities are a combination of physical equities of £45.5 million, a positive synthetic equity exposure of £155.7 million and a negative LIBOR exposure of £152.4 million. The Group does not use any of the pension fund assets.

i This is debt issued by emerging market countries denominated in the emerging market's domestic currency. The debt is almost entirely issued by governments and not by corporations. Investors benefit from higher yields on the bonds due to the additional risks of investing in emerging market countries, compared to developed countries and it is also expected that the emerging market currencies will appreciate over time relative to developed countries.

ii Multi Asset Credit strategies invest globally in a wide range of credit-based asset classes which include bank loans, high yield bonds, securitised debt, emerging market debt and distressed debt of non-investment grade. The investment strategies will also allocate amounts in investment grade credit, sovereign bonds and cash for defensive reasons. The strategies are opportunistic and allocate dynamically to the best opportunities within the credit market from an asset allocation and individual security selection perspective.

iii Insurance linked securities are event-linked investments which allow investors outside the insurance industry to access insurance premiums for assuming various forms and degrees of insurance risk. The underlying risk premium is a type of invent risk where the event is linked to natural or man-made catastrophes. The premium paid to the investor represents compensation for the "expected loss" due to the uncertainty around the size and timing of the insured event.

iv Absolute Return Bond strategies are designed to deliver a positive return in all market environments and will take advantage of numerous alpha opportunities within the fixed income universe. The objective of the strategy is to capture returns from active management in a number of areas within fixed income including interest rates, currencies, asset allocation and security selection. The strategy will have long and short positions and employ a degree of leverage. The strategies tend to have low sensitivity to the direction of interest rates and credit.

v Insight have been appointed to manage the Liability Driven Investment ('LDI') portfolio for the Fund. The objective is to hedge a proportion of the Fund's liabilities against changes in interest rates and inflation expectations by investing in assets that are similarly sensitive to changes in interest rates and inflation expectations. The current hedging target for the LDI portfolio is to hedge approximately 36% of the fixed and inflation linked liabilities of the Fund. Currently the LDI portfolio hedges c20.7% and c23.3% of the fixed and inflation linked liabilities respectively. Insight will seek to add interest and inflation exposure to the LDI portfolio over time in line with parameters that have been set by the Trustee. Insight are permitted to use a range of swaps and gilt based derivative instruments as well as physical bonds to structure the liability hedge for the Fund. In addition, Insight are responsible for monitoring market yields against a number of pre-set yield triggers and will increase the level of hedging as and when the triggers are met.

20 Retirement benefit obligations continued

History of experience gains and losses:	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Fair value of Fund assets	680.1	718.6	766.1	869.4	**964.1**
Present value of defined benefit obligation	(822.5)	(778.7)	(845.9)	(936.6)	**(1,021.8)**
Net deficit	(142.4)	(60.1)	(79.8)	(67.2)	**(57.7)**
Experience adjustments arising on Fund liabilities*	7.4	16.4	(6.5)	0.8	**4.3**
Adjustments arising from changes in underlying assumptions	(258.9)	21.7	(61.6)	(72.8)	**(81.5)**
Experience adjustments arising on Fund assets	143.1	31.5	32.9	79.7	**26.8**
Recognition of liability for unrecoverable notional surplus	–	–	–	(10.9)	**0.8**
Net actuarial (loss)/gain	(108.4)	69.6	(35.2)	(3.2)	**(49.6)**

* This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

These figures have been restated as if the accounts had been prepared under IAS 19R.

The Company recognises no liabilities on its balance sheet, or charges or credits in its income statement or statement of recognised income and expense in relation to the Group pension plans. The legal sponsor of the Dairy Crest Group Pension Fund is Dairy Crest Limited.

The Group has charged £7.0 million in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2014 (2013: £7.1 million). The Company has made no charge in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2014 (2013: nil).

21 Trade and other payables

	Consolidated		**Parent Company**	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trade payables*	**131.2**	109.9	**–**	–
Other tax and social security	**4.2**	4.7	**–**	–
Other creditors*	**15.8**	13.6	**–**	–
Accruals*	**67.1**	93.6	**3.8**	16.9
	218.3	221.8	**3.8**	16.9

* Financial liabilities at amortised cost.

22 Deferred income

Current	**2014 £m**	2013 £m
Grants	**1.7**	1.6

Non-current		
Grants	**7.8**	9.6

In 2010/11 two new biomass boilers were installed at the Davidstow cheese manufacturing site. Capital expenditure amounted to £3.9 million and we received cash grants of £0.8 million during the year ended 31 March 2011 and £0.2 million during the year ended 31 March 2012 from the South West of England Regional Development Agency. This grant is conditional upon certain conditions principally regarding continued use and ownership of the boilers until 29 November 2014. In the year ended 31 March 2013, £0.4 million of this grant was voluntarily repaid in order to receive annual renewable heat incentives. The conditions concerning the remaining outstanding grant are unchanged.

In 2012/13 the Group announced that it was consolidating its spreads manufacturing in a single site at Kirkby, Liverpool. During the year the Group received a grant of £5.3 million under the Regional Growth Fund from the Department of Business, Innovation and Skills in relation to this project. This grant is conditional upon certain conditions over a five year term, principally the project being completed and creating or safeguarding the agreed number of jobs.

A grant of £0.3 million in relation to the Crudgington site was written off to exceptional items in the year ended 31 March 2013 following the write down of property, plant and equipment at that site following the announced closure plans. All conditions on this grant had been met and no repayment was required.

With the exception of the grants relating to the biomass boiler at Davidstow and the Kirkby job creation, the Group has met all applicable conditions attaching to grants at 31 March 2014 and all previously received grants were unconditional at that date.

23 Provisions

	Onerous contracts £m
At 31 March 2012 – current	2.3
Utilised	(0.8)
Discount unwind	0.2
At 31 March 2013 – current	1.7
Utilised	(0.2)
Discount unwind	0.2
At 31 March 2014 – current	**1.7**

Onerous contract

In June 2010, the Group disposed of 50% of the share capital of Wexford Creamery Limited ('WCL'). As part of the disposal, the Group entered into an agreement to purchase guaranteed minimum volumes of cheese from WCL for a period of five years from the date of disposal. The price paid by the Group for that cheese is determined by reference to cost plus margin. Realisations for commodity cheese fluctuate and at the date of disposal a provision of £3.6 million was charged in order to provide for the cost of the cheese purchase arrangements. At 31 March 2014 the provision amounted to £1.7 million (2013: £1.7 million).

24 Share capital

Authorised	**2014 Thousands**	2013 Thousands
Ordinary shares of 25 pence each	**240,000**	240,000

Issued and fully paid	**Thousands**	**£m**
At 31 March 2012	133,351	33.3
Issued for cash on exercise of share options	3,245	0.8
At 31 March 2013	136,596	34.1
Issued for cash on exercise of share options	113	0.1
At 31 March 2014	**136,709**	**34.2**

During the year ended 31 March 2014 113,558 shares were issued at a premium of £0.1 million for an aggregate consideration of £0.2 million (2013: 3,244,954 shares at a premium of £6.6 million for an aggregate consideration of £7.4 million). Exercises of LTISP options and vesting of deferred bonus shares are fulfilled by the issue of existing shares from the Dairy Crest Employees' Share Ownership Plan ('ESOP') - see Note 25.

25 Notes to statement of changes in equity

Consolidated

The shares held by the ESOP are available to satisfy awards under LTISP (see Note 26)

At 31 March 2014 the ESOP held 129,024 shares (2013: 127,939 shares) in the Company at a cost of £0.6 million (2013: £0.6 million). The ESOP was established in August 1996 to purchase shares in the Company in order to hedge certain future obligations of the Group including shares awarded under the LTISP, ESOS and the deferred bonus plan. During the year the Trustee of the ESOP issued 1,085 (2013: nil) shares following exercises of LTISP options and deferred bonuses.

The market value of the shares held by the ESOP, which are listed on the London Stock Exchange was £0.6 million at 31 March 2014 (2013: £0.5 million).

Other reserves – Consolidated	Merger reserve £m	Hedging reserve £m	Translation reserve £m	**Other reserves £m**
At 31 March 2013	55.9	(3.0)	(1.5)	51.4
Total recognised in other comprehensive income	–	0.9	–	0.9
At 31 March 2014	**55.9**	**(2.1)**	**(1.5)**	**52.3**
At 31 March 2012	55.9	(3.3)	(3.6)	49.0
Total recognised in other comprehensive income	–	0.3	2.1	2.4
At 31 March 2013	55.9	(3.0)	(1.5)	51.4

The merger reserve includes the premium on shares issued to satisfy the purchase of Dairy Crest Limited in 1996. The cumulative amount of goodwill charged against the merger reserve is £86.8 million (2013: £86.8 million). The reserve is not distributable.

The hedging reserve records the gains and losses on hedging instruments, to the extent that they are effective cash flow hedges. Any gains and losses previously recorded in the hedging reserve are reclassified in profit and loss when the underlying hedged item affects profit and loss.

The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives designated to hedge the net investment in foreign subsidiaries.

Parent Company

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The profit for the year dealt with in the accounts of the Company is £24.7 million (2013: £44.4 million) including dividends received from subsidiary companies of £25.3 million (2013: £51.5 million). Dividends paid amounted to £28.5 million (2013: £27.4 million) which, along with a credit for share based payments of £0.3 million (2013: £0.5 million) resulted in a £3.5 million decrease in retained earnings (2013: £17.5 million increase).

In 1996 the Company acquired the entire issued share capital of Dairy Crest Limited. Consideration was in the form of cash and the issue of 109.8 million ordinary shares of 25 pence each. The fair value of the shares issued was estimated as £170.2 million. The capital reserve of £142.7 million, shown in the statement of changes in equity, represents the difference between the fair value of shares issued and their nominal value of £27.5 million.

26 Share based payment plans

Group

The Group has four share option schemes in operation.

The Dairy Crest Long Term Incentive Share Plan ('LTISP')

This is a long-term incentive scheme under which awards are made to directors and senior managers consisting of the right to acquire shares for a nominal price subject to the achievement of financial targets based on (i) total shareholder returns ('TSR') over a three year period versus comparator companies and (ii) growth in adjusted basic earnings per share. From 2009, the TSR element was increased from 50% to 60% of the awards granted. The vesting period for grants made under this scheme is 3 years with an exercise period of 7 years. In July 2013, a total of nil options was granted under the LTISP scheme (July 2012: 1,094,734). There are no cash settlement alternatives.

Dairy Crest Sharesave Scheme

All employees are eligible to join the Dairy Crest Sharesave Scheme, which allows employees to use regular monthly savings to purchase shares. Options are granted at a discount of up to 20% of the market value of the shares. No financial performance criteria are attached to these options and they vest three years from the date of grant with an exercise period of six months. In December 2013, nil options were granted under the Dairy Crest Sharesave Scheme (December 2012: 2,390,456 options at a grant price of 281 pence). There are no cash settlement alternatives.

Deferred Bonus Scheme ('DBS')

From 2005/06, bonuses earned that are in excess of 50% of basic salary are deferred in shares (and from 2011 in share options) with a vesting period of three years. The only vesting condition is continuing employment. The cost of these shares is charged over four years (being the year the bonus was earned and the three-year vesting period) and is based on the number of shares issued (or from 2011 over which nil cost options are granted) and the share price at the date of issue. No deferred shares were awarded or issued in relation to the year ended 31 March 2014 (2013:£nil).

The Dairy Crest Long Term Alignment Plan ('LTAP')

The LTAP replaced the LTISP in the year ended 31 March 2014. This is a long-term incentive scheme under which awards are made to directors and senior managers consisting of the right to acquire shares for a nominal price. The vesting period for grants made under this scheme is 50% of the award after 4 years and 50% after 5 years. Pre-grant performance criteria determine the amount of any initial grant after which there are no significant performance conditions prior to vesting. As such, these options are fair valued at 100% of the price at the date of the grant.

The number of share options and weighted average exercise price for each of the principal schemes is set out as follows:

	LTAP	LTISP*	Sharesave Scheme	
	number	number	number	weighted average exercise price (pence)
Options outstanding at 1 April 2013	–	2,000,800	3,526,048	275.4
Options granted during the year	333,953	–	–	–
Reinvested dividends	3,642	94,469	–	–
Options exercised during the year	–	(57,573)	(68,369)	264.4
Options forfeited during the year	–	(1,052,498)	(462,902)	273.1
Options outstanding at 31 March 2014	**337,595**	**985,198**	**2,994,777**	**276.0**
Exercisable at 31 March 2014	**–**	**177,231**	**–**	**–**
Options outstanding at 1 April 2012	–	1,860,408	4,768,410	238.4
Options granted during the year	–	1,094,734	2,390,456	281.0
Reinvested dividends	–	154,244	–	–
Options exercised during the year	–	–	(3,244,954)	227.2
Options forfeited during the year	–	(1,108,586)	(387,864)	259.3
Options outstanding at 31 March 2013	–	2,000,800	3,526,048	275.4
Exercisable at 31 March 2013	–	24,978	34,459	227.0

* The weighted average exercise price for LTISP options is nil.

Sharesave scheme options are exercisable up to September 2016 at prices ranging from 265p to 281p (March 2013: exercisable up to September 2016 at prices ranging from 227p to 281p). LTISP options are exercisable at varying dates up to July 2022 (March 2013: July 2022). LTAP options are exercisable at varying dates up to August 2023.

The remaining weighted average contractual life of options outstanding at March 2014 is 8.1 years for the LTISP, 9.4 years for the LTAP and 2.1 years for the Sharesave Scheme (2013: 8.7 years for the LTISP and 3.1 years for the Sharesave Scheme). The weighted average share price on exercise of Sharesave options was £2.76 (2013: £3.53).

26 Share based payment plans continued

The fair value factor of the Sharesave Scheme options issued in December 2012 was 20.7% giving a fair value of £0.81 per option granted. This has been computed using a Black-Scholes option pricing model. The key assumptions used in the valuation model for the December 2012 grant were: Expected share price volatility 22% risk free rate of interest 0.5% and dividend yield 5.22%. The volatility assumption is based on the historical volatility of the Dairy Crest Group plc share price over a period commensurate with the expected option life, ending on the grant date of option.

The LTISP has market and non-market based performance conditions. The fair value of the market performance element of the LTISP awards is calculated using a Monte Carlo option pricing model. The fair value factor for the award in July 2012 was 65% for the TSR element and 100% for the EPS element giving a fair value of £2.75 per option granted. The share price on granting 2012 awards was £3.34. The non-market performance element of the LTISP is based on EPS and the charge for this is the value of shares expected to vest calculated by reference to the share price at the date of grant. Volatility assumptions are made for Dairy Crest Group plc and comparator companies based on historical volatility of share prices over a period commensurate with the option life.

The input assumptions for the LTISP grant in the year ended 31 March 2013 were as follows:

Term	3 years
Volatility	23%
Risk free rate	0.4%
Average volatility of comparator TSR	36%
TSR correlation (Dairy Crest vs comparators)	22%

The expected life of the LTISP options is assumed to be equal to the vesting period, being three years.

The Group expense arising from share option plans for the year ended 31 March 2014 is £1.5 million (2013: £1.9 million) (see Note 9).

Company

The number of share options and weighted average exercise price for each of the schemes for employees of the Company is set out as follows:

	LTAP	LTISP	Sharesave Scheme	
	number	number	number	weighted average exercise price (pence)
Options outstanding at 1 April 2013	–	777,916	12,808	281.0
Options granted during the year	177,919	–	–	–
Reinvested dividends	1,938	34,221	–	–
Adjustment for change of director during the year	–	(165,222)	(3,202)	–
Options exercised during the year	–	–	–	–
Options forfeited during the year	–	(240,158)	–	–
Options outstanding at 31 March 2014	**179,857**	**406,757**	**9,606**	**281.0**
Exercisable at 31 March 2014	**–**	**73,609**	**–**	**–**
Options outstanding at 1 April 2012	–	683,272	15,988	227.0
Options granted during the year	–	393,540	12,808	281.0
Reinvested dividends	–	59,351	–	–
Options exercised during the year	–	–	(15,988)	227.0
Options forfeited during the year	–	(358,247)	–	–
Options outstanding at 31 March 2013	–	777,916	12,808	281.0
Exercisable at 31 March 2013	–	–	–	–

Sharesave Scheme options are exercisable up to September 2016 at a price of 281p (March 2013: up to September 2016 at a price of 281p). LTISP options are exercisable at varying dates up to July 2022 (2013: July 2022). The remaining average weighted average contractual life of options outstanding at 31 March 2014 is 8.1 years for the LTISP, 9.4 years for the LTAP and 2.4 years for the Sharesave Scheme (2013: LTISP 8.8 years and Sharesave Scheme 3.4 years). There were no exercises of LTISP options in the year ended 31 March 2014 (2013: nil).

The Company expense arising from share option plans for the year ended 31 March 2014 was £0.3 million (2013: £0.5 million).

27 Commitments and contingencies

The Group has entered into commercial leases on certain land and buildings, vehicles and equipment. There are no material renewal options, escalation clauses or purchase options included in the lease contracts. There are no contingent rentals or operating leases or material sub-leases. There are no significant restrictions placed upon the lessee by entering into these leases. Excluding land and buildings, these leases have an average life of between three and seven years.

During the year ended 31 March 2014, certain assets at the Severnside facility were sold for cash consideration of £7.4 million. This equipment has been leased back under an operating lease with a six year term. There are no purchase option clauses or any contingent lease rentals.

Future minimum rentals payable under non-cancellable operating leases as at 31 March are as follows:

	2014 £m	2013 £m
Within one year	**21.0**	23.6
After one year but not more than five years	**33.0**	43.8
More than five years	**13.9**	14.5

Finance leases

The Group finance leases principally comprise certain items of plant and equipment at the Davidstow site. The initial lease term is for 10 years with a further renewal term of 7 years. There are no purchase options and escalation clauses and there is no sub-leasing of the assets or contingent rentals. Future minimum payments under finance leases together with the present value of the net minimum lease payments are as follows:

		2014		2013
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**1.9**	**1.8**	2.5	2.4
After one year but not more than two years	**–**	**–**	3.2	3.1
After two years but not more than five years	**–**	**–**	–	–
After more than five years	**–**	**–**	–	–
Total minimum lease payments	**1.9**	**1.8**	5.7	5.5
Less: amounts representing finance charges	**(0.1)**	**–**	(0.2)	–
Present value of minimum lease payments	**1.8**	**1.8**	5.5	5.5

Trading guarantees

The Group has provided guarantees and counter-indemnities which totalled £4.0 million at 31 March 2014 (2013: £4.1 million). These guarantees are made principally by Philpot Dairy Products Limited, a subsidiary company, to customers as performance bonds and to the Rural Payment Agency in relation to EU subsidies claimed.

28 Related party transactions

In June 2010, the Group disposed of its controlling interest in Wexford Creamery Limited ('WCL'). WCL has been treated as an equity accounted associate from June 2010 to 31 March 2014. On disposal, the Group contracted to purchase guaranteed minimum volumes of cheese from WCL for a period of five years from the date of disposal. In the year ended 31 March 2014 the cost of cheese purchased was £6.4 million (2013: £7.5 million).

Compensation of key management personnel of the Group and Company	**2014 £m**	2013 £m
Short-term employee benefits	**3.4**	2.8
Share-based payments	**0.3**	0.5
Total compensation paid to key management personnel*	**3.7**	3.3

Key management personnel comprise Executive and Non-executive Board members of Dairy Crest Group plc. The senior management team is small and all key decisions are made by either the three Executive directors in the Executive Management Committee or by the Group Board which meets regularly.

Further details relating to compensation of key management personnel are set out in the Directors' Remuneration Report. This includes a description of pension arrangements and any cash supplements paid.

Dairy Crest Limited, a subsidiary company, incurred costs of £3.4 million (2013: £2.8 million) from the Company for the provision of management and administrative services carried out on its behalf. Dairy Crest Limited received £3.2 million (2013: £2.1 million) for the remuneration of the Company's employees which had been paid by Dairy Crest Limited.

Interest charges of £2.9 million (2013: £0.2 million) were incurred by the Company from Dairy Crest Limited loans reflecting an interest rate of LIBOR+100 basis points. Interest income of £11.3 million (2013: £12.1 million) was received by the Company from Dairy Crest Limited on loans reflecting an interest rate of 5.3% (2013: 5.3%) and a further £0.3 million was received by the Company from Dairy Crest Limited on floating rate loans paying LIBOR plus margin (2013: £0.3 million). The Company paid no interest (2013: £0 million) to Dairy Crest Limited on cross-currency swaps paying LIBOR and receiving EURIBOR.

29 Business combinations and disposals

Year ended 31 March 2014

Disposal of Northern Depots

As part of the ongoing rationalisation of the depot network, on 27 July 2013, the Group completed the disposal of seven depots located in the north-west of England for a cash consideration of £1.2 million. The carrying value of assets sold was £0.8 million including net working capital and fees of £0.1 million resulting in a profit on disposal of £0.3 million. The gain on disposal of these depots has been included in other income – property in the consolidated income statement.

Disposal of Discontinued Operation

£1.4 million of the original tax provision resulting from the trading of St Hubert SAS ('St Hubert') up to its disposal in August 2012 has now been released back to the income statement as discontinued operations. The provision for taxes crystallising as a result of the disposal are unchanged – see below.

Year ended 31 March 2013

Disposal of Discontinued Operation

Following a strategic review of the Group's overseas operations in the light of the inability to undertake synergistic acquisitions, on 28 August 2012 the Group completed the disposal of St Hubert SAS ('St Hubert') for a cash consideration of £341.1 million (€430.5 million). St Hubert formed part of the Spreads reportable segment. Cash held in the disposed business at that date amounted to £4.1 million, resulting in a net cash inflow to the Group of £337.0 million. This amount has been reduced by fees of £6.2 million. The disposal resulted in a post-tax profit of £47.7 million which can be analysed as follows:

29 Business combinations and disposals continued

	£m	£m
Sales proceeds – cash consideration		341.1
Book value of assets disposed of:		
Property, plant and equipment	10.3	
Goodwill	176.4	
Intangible assets	131.5	
Inventories	3.3	
Trade and other receivables	14.9	
Cash and short-term deposits	4.1	
Trade and other payables	(18.4)	
Current tax	(5.5)	
Deferred tax	(44.5)	(272.1)
Gain on disposal before fees and recycling of exchange differences		69.0
Fees		(6.2)
Amounts reclassified to profit and loss		(11.4)
Pre-tax gain on disposal		51.4
Expected tax charge		(3.7)
Post-tax gain on disposal of Discontinued Operation		47.7

The expected tax charge principally comprises capital gains taxes resulting from the disposal as well as expected taxation on €74 million of dividends paid in the period up to the date of disposal. These taxes were crystallised as a result of the divestment and as a consequence the breaking of the St Hubert tax group. An estimate has been made of the likely tax costs resulting from these transactions however the final assessment has yet to be agreed with the French tax authorities which may result in a change to the level of tax provisioning.

As a result of the disposal the St Hubert business has been classified as discontinued operations. The post-tax profit of discontinued operations can be analysed as follows:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Revenue	**–**	41.7
Operating costs before amortisation of acquired intangibles	**–**	(27.5)
Trading profit	**–**	14.2
Amortisation of acquired intangibles	**–**	(3.0)
Profit on operations	**–**	11.2
Finance income	**–**	0.1
Profit before tax	**–**	11.3
Tax credit/(expense)	**1.4**	(4.5)
Profit for the year from Discontinued Operation	**1.4**	6.8

The cash flows of the St Hubert business in the period to the date of disposal can be analysed as follows:

Cash flow from operating activities	**–**	0.3
Cash used in investing activities	**–**	(0.6)
Cash generated from financing activities	**–**	0.1
Net movement in cash and cash equivalents	**–**	(0.2)

Acquisitions

On 1 March 2013, the Group acquired the business and certain assets of Proper Welsh Milk Company Limited from the administrators BDO LLP for £0.3 million. The fair value of the net assets acquired was £0.3 million, comprising property, plant and equipment of £0.5 million less statutory and other liabilities taken over of £0.2 million, resulting in goodwill on acquisition of nil.

During the year ended 31 March 2013, the Group acquired 7% of the share capital of HIECO Limited for a consideration of £0.3 million.

30 Financial risk management objectives and policies

The objective of the treasury function, which is accountable to the Board, is to manage the Group's and Company's financial risk, secure cost-effective funding for the Group's operations and to minimise the effects of fluctuations in interest rates and exchange rates on the value of the Group's and Company's financial assets and liabilities, on reported profitability and on cash flows.

The Group's principal financial instruments comprise bank loans and overdrafts, loan notes, finance leases and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions; principally cross currency swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout 2013 and 2014, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign currency risk, price risk and credit risk. Information on how these risks arise is set out below, as are the objectives, policies and processes agreed by the Board for their management and the methods used to measure each risk. Derivative instruments are used to change the economic characteristics of financial instruments in accordance with the Group's treasury policies. The Group's accounting policies in relation to derivatives are set out in the Accounting Policies note.

Liquidity risk

The Group's objectives are:

- to ensure that forecast peak net borrowings, plus a prudent operating headroom are covered by committed facilities which mature after at least 12 months;
- to ensure that prudent headroom versus bank and loan note covenant ratios are forecast for the next three years;
- to maintain flexibility of funding by employing diverse sources of funds (eg: use of non-bank markets such as private placements); and
- to avoid a concentration of facility maturities in any particular year.

The maturity analysis of Group borrowings is set out in Note 19. At 31 March 2014 the Group's total credit facilities amounted to £414.0 million (2013: £627.3 million) excluding finance leases of £1.8 million (2013: £5.5 million) and the impact of cross-currency swaps on US Dollar and Euro loan notes of £2.1 million (2013: £17.8 million). The facilities at 31 March 2014 and 2013 consisted of:

March 2014

- £170 million plus €90 million multi-currency revolving credit facility repayable at maturity in October 2016; and
- loan notes totalling £169.5 million repayable between April 2014 and November 2021.

March 2013

- £170 million plus €150 million multi-currency revolving credit facility repayable at maturity in October 2016; and
- loan notes totalling £330.4 million repayable between April 2013 and November 2021.

Undrawn revolving credit facilities at 31 March 2014 amounted to £208 million (2013: £297 million). Effective headroom including cash and short term deposits amounted to £275.7 million (2013: £573.1 million).

The Group aims to mitigate liquidity risk by closely managing cash generation by its operating businesses and by monitoring performance to budgets and forecasts. Capital investment is carefully controlled, with detailed authorisation limits in place up to Executive level and cash payback criteria considered as part of the investment appraisal process. Short-term and long-term cash and debt forecasts are constantly reviewed and there are regular treasury updates to the Executive highlighting facility headroom and net debt performance.

Day-to-day cash management utilises undrawn revolving credit facilities, overdraft facilities and occasionally short-term money market deposits if there is excess cash.

Interest rate risk

The Group's exposure to the risk for changes in market interest rates relate primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's long-term strategy is to keep between one third and three quarters of its borrowings at fixed rates of interest in the medium term. To manage this mix in a cost-efficient manner, the Group has issued fixed coupon loan notes and also enters into interest rate swaps from time to time on a portion of its floating bank borrowings, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt interest cash flow obligations. In the short-term the proportion of fixed and floating rate borrowings can go outside the long-term range.

At 31 March 2014, 83% of the Group's borrowings were at a fixed rate of interest (2013: 100%). Following the maturity and repayment of loan notes in April 2013 the amounts drawn under revolving credit facilities have increased in 2013/14 and the fixed rate percentage of borrowings has fallen. In the medium term we expect the fixed proportion of borrowings to be in the target range.

The Group's borrowing facilities require minimum interest cover of 3.0 times.

The Group's exposure to interest rate risk is shown (by way of a sensitivity analysis) in Note 31.

30 Financial risk management objectives and policies continued

Foreign currency risk

Following the sale of St Hubert SAS, the Group has no significant operations outside the UK. However it buys and sells a small amount of goods in currencies other than Sterling. As a result the value of the Group's non-Sterling revenues, purchases, assets, liabilities and cash flows can be affected by movements in exchange rates – predominantly Euro/Sterling.

The majority of the Group's transactions are carried out in the relevant entity's functional currency and therefore transaction exposures are limited. It can be seen in Note 16 that the only significant non-Sterling debtors are in Dollars. The Group trades skimmed milk products and bulk butter mainly to customers in Europe and Central and South America. The Group also exports its own skimmed milk products, bulk butter and other branded products. The Group's policy requires foreign currency sales and purchases through Philpot Dairy Products Limited, a subsidiary company, to be hedged by foreign exchange contracts once the transaction is committed so that the margin on the transaction can be fixed.

Currency exposures on other transactions, such as certain capital expenditure denominated in a foreign currency, are hedged following approval of the project using forward foreign exchange contracts.

In 2006 , 2007 and 2011 the Group issued loan notes denominated either in $US, € or £. Cross-currency swaps were implemented as required to hedge the interest and principal repayment cash flows. These have the effect of fixing the liability and coupon in Sterling. The principal amount and interest and principal payment dates on these swaps match those on the loan notes exactly and all swaps are with counterparties with strong credit ratings. There is no profit and loss exposure in relation to $US or € note debts as any retranslation impact on the profit and loss account is offset by reclassification of amounts from other comprehensive income into profit and loss.

Price risk

The Group is exposed to price risk related to certain commodities and their by-products used by the Group's businesses. The principal non-milk commodities that affect input prices for the Group are vegetable oils, gas, electricity, diesel, heavy fuel oil and crude oil by-products (used in packaging).

The Group monitors prices on an ongoing basis in order to assess the impact that movements have on profitability and to assess whether the amount of forward cover is appropriate. This includes vegetable oil contracts and energy, which is generally contracted one season in advance for both Summer and Winter energy but with some requirement contracted at more regular intervals.

The Group regularly reviews relevant commodity markets and levels of future cover. Fixed price contracts are only entered into with the approval of the Commodity Risk Committee comprising senior operational and finance management and external advisers.

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group only offers these terms to recognised, creditworthy third parties. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's history of bad debt losses is not significant.

The Dairies' doorstep business trades with individuals and receives cash payments on a weekly basis. Cash and debt management is a crucial part of this business and cash collection and balances due are closely monitored to ensure write-downs are minimised.

Debtor days outstanding are closely monitored throughout the year and action is taken promptly when payment terms are breached.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, trade and other debtors (excludes prepayments) and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The maximum exposure for the Group is equal to the carrying amount of these financial assets of £189.3 million (2013: £395.5 million). Following the sale of St Hubert the Group had significant cash deposits and until those funds were utilised to repay loan notes and provide one-off funding to the pension scheme in April 2013, no one financial institution had deposits in excess of £60 million and all institutions holding deposits were required to be rated A or above.

All revolving credit facility borrowings are through banks with long-term credit ratings of A or above. Funds temporarily surplus to business requirements are invested overnight through deposit accounts with mainstream UK commercial banks with a credit rating of A or better. The Group currently has no requirement to place deposits for a longer period, accordingly counterparty risk is considered to be acceptable. Derivative financial instruments are contracted with a range of banks with long-term credit ratings of A or above to avoid excessive concentration of financial instruments with one counterparty.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains an appropriate level of gearing in order to support its business and maximise shareholder value. In addition, the Group monitors its forecast net debt to EBITDA ratios in order that they are comfortably within its banking covenant requirements. The maximum net debt to EBITDA ratio for the purposes of bank covenants is 3.5 times. At 31 March 2014 the ratio of net debt to EBITDA was 1.3 times (March 2013: 0.6 times).

The Group monitors its capital structure and makes adjustments to it in the light of changes in economic conditions or changes in Group structure. Possible mechanisms for changing capital structure include adjusting the level of dividends, issuance of new shares or returning capital to shareholders. No significant changes in capital structure have been implemented in the year ended 31 March 2014 or 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by shareholders' funds. The analysis of net debt is included in Note 33. The gearing ratio at March 2014 and 2013 can be analysed as follows:

30 Financial risk management objectives and policies continued

	2014 £m	2013 £m
Net debt	**142.2**	59.7
Shareholders' funds	**289.4**	307.4
Gearing ratio	**49%**	19%

Dividends

Details of dividends paid and proposed during the year are given in Note 7. The dividend policy following the sale of St Hubert is to maintain a progressive dividend whilst seeking to maintain a level of dividend cover between 1.5 and 2.5 times. The final proposed dividend for 2013/14 is 15.4 pence up 0.4 pence from last year (2013: 15.0 pence). Total dividends paid and proposed in respect of the year ended 31 March 2014 amount to 21.3 pence (2013: 20.7 pence).

31 Financial instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies in Note 30.

Consolidated

Interest rate maturity profile of financial assets and liabilities

The following table sets out the carrying amount, by maturity of the Group's financial assets and liabilities that are exposed to interest rate risk. No other financial assets and liabilities, other than those shown below, are exposed directly to interest rate risk.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	Total £m
At 31 March 2014							
Fixed rate							
Loan notes*	(25.3)	–	(83.8)	(11.6)	(15.0)	(33.8)	**(169.5)**
Finance leases	(1.8)	–	–	–	–	–	**(1.8)**
Forward currency contracts	0.4	–	–	–	–	–	**0.4**
Deferred consideration	–	1.4	–	–	–	–	**1.4**
Cross currency swaps	(2.0)	–	5.4	(0.3)	(1.4)	(4.5)	**(2.8)**
Floating rate							
Bank loans	–	–	(36.0)	–	–	–	**(36.0)**
Option to sell 20% holding in WCL	–	–	–	–	1.6	–	**1.6**
Cash at bank and in hand	67.3	–	–	–	–	–	**67.3**
At 31 March 2013							
Fixed rate							
Loan notes*	(165.7)	(26.0)	–	(91.0)	(11.8)	(53.6)	(348.1)
Finance leases	(2.4)	(3.1)	–	–	–	–	(5.5)
Forward currency contracts	(0.1)	–	–	–	–	–	(0.1)
Deferred consideration	–	–	1.4	–	–	–	1.4
Cross currency swaps	7.4	–	–	12.9	–	(3.9)	16.4
Floating rate							
Option to sell 20% holding in WCL	–	–	–	–	–	1.6	1.6
Cash at bank and in hand	276.1	–	–	–	–	–	276.1

* Classified as fixed rate after taking into account the effect of interest rate swaps.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings. There is no material impact on the Group's equity resulting from movements in interest rates other than in relation to the $US/GBP and EUR/GBP cross-currency swaps used as a cash flow hedge on $US and EUR loan notes. The impact on equity is nil over the life of the instruments as these swaps comprise an effective hedge. At 31 March 2014 83% of Group borrowings were at fixed rates of interest (2013: 100%) (see Note 30).

31 Financial instruments continued

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes non-derivative floating rate financial instruments except those where interest rate swaps have been used as cash flow hedges. This is due to the fact that gains and losses on the hedging instrument offset losses and gains on the non-derivative floating rate financial instrument which are subject to the hedge and are matched in both profit and loss and cash terms. No non-derivative fixed rate financial instruments have profit and loss exposure due to floating rates as a result of interest rate swaps.

The 2014 analysis below reflects lower reasonably possible changes in interest rates to 2013 – upside LIBOR expectations assumed last year were not realised and the assumption is that base rates will increase less than anticipated at March 2013.

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2014			
Sterling	+ 100	0.4	–
Sterling	- 50	(0.2)	–
2013			
Sterling	+ 50	–	–
Dollar	+ 50	–	–
Sterling	- 50	–	–
Dollar	- 50	–	–

Equity price risk

The Group holds no listed equity investments and is not subject to equity price risk other than through the pension scheme (Note 20).

Credit risk

There are no significant concentrations of credit risk within the Group unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date (see Note 30).

Liquidity risk

The Group's policy on managing its liquidity risk is set out in Note 30. The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2014 and 2013 based on contractual undiscounted payments of interest and principal.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	**Total £m**
At 31 March 2014							
Loan Notes	(32.6)	(7.3)	(86.2)	(13.4)	(16.7)	(37.3)	**(193.5)**
Cross-currency swaps (on loan notes):							
payment leg	(33.3)	(6.5)	(73.0)	(11.4)	(18.1)	(40.4)	**(182.7)**
receipt leg	31.9	6.6	76.1	10.6	16.7	37.3	**179.2**
Bank loans	–	–	(36.0)	–	–	–	**(36.0)**
Finance leases	(1.8)	–	–	–	–	–	**(1.8)**
At 31 March 2013							
Loan Notes	(174.7)	(33.8)	(7.9)	(93.6)	(13.8)	(59.4)	(383.2)
Cross-currency swaps (on loan notes):							–
payment leg	(106.6)	(33.3)	(6.0)	(72.6)	(2.3)	(60.5)	(281.3)
receipt leg	114.2	32.7	6.7	83.0	2.0	59.4	298.0
Finance leases	(2.5)	(3.2)	–	–	–	–	(5.7)

Forward currency contracts, and short-term payables all mature within one year.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

31 Financial instruments continued

Fair values

	Carrying amount		Fair value	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Financial assets				
Current				
Cash and cash equivalents (Note 18)	**67.3**	276.1	**67.3**	276.1
Forward currency contracts (Note 17)	**0.4**	–	**0.4**	–
Cross currency swaps (Note 17)	**–**	9.6	**–**	9.6
Non-current				
Deferred consideration	**1.4**	1.4	**1.4**	1.4
Wexford Creamery Limited option (Note 17)	**1.6**	1.6	**1.6**	1.6
Cross currency swaps (Note 17)	**5.4**	12.9	**5.4**	12.9
Financial liabilities				
Current				
Current obligations under finance leases (Note 19)	**(1.8)**	(2.4)	**(1.8)**	(2.4)
Loan notes (Note 19)	**(25.3)**	(165.7)	**(25.3)**	(165.7)
Forward currency contracts (Note 19)	**–**	(0.1)	**–**	(0.1)
Cross currency swaps (Note 19)	**(2.0)**	(2.2)	**(2.0)**	(2.2)
Non-current				
Non-current obligations under finance leases (Note 19)	**–**	(3.1)	**–**	(3.1)
Non-current instalments due on bank loans (Note 19)	**(36.0)**	–	**(36.0)**	–
Loan notes (Note 19)	**(144.2)**	(182.4)	**(142.9)**	(189.5)
Cross currency swaps (Note 19)	**(6.2)**	(3.9)	**(6.2)**	(3.9)

The above table excludes trade and other receivables and payables as their fair value approximates carrying value. The fair value of interest rate swaps and forward currency contracts has been determined by the third party financial institution with whom the Group holds the instrument, in line with the market value of similar instruments. The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Cross currency swaps

The notional principal amount of the outstanding USD/GBP cross currency swap contracts at 31 March 2014 was $204.4 million (£122.4 million) (2013: $308.7 million, £181.9 million). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2014 the fixed interest rates varied from 3.863% to 5.305% (2013: 3.863% to 5.315%). Any gains/losses arising from fair value adjustments deferred in equity will reverse in the income statement (finance costs) during the next one to eight years (being the life of the swaps).

The notional principal amount of the outstanding EUR/GBP cross currency swap contracts at 31 March 2014 was €41.3 million (£36.5 million) (2013: €75.0 million; £67.0 million). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2014 the fixed interest rates varied from 4.955% to 5.600% (2013: 4.955% to 5.180%). The loss deferred in equity will reverse in the income statement (finance costs) during the next year (being the life of the swaps).

Forward currency contracts

The Group has entered into certain forward currency contracts in order to hedge the Sterling cost of currency-denominated future purchases and receipts. These forward currency purchases have been designated cash flow hedges and meet the criteria for hedge accounting. They all have a duration of less than one year and any gains or losses deferred will then be reclassified to the income statement (operating costs).

Borrowing facilities

The Group has undrawn committed long-term borrowing facilities available at 31 March 2014 of £208 million (2013: £297 million) in respect of which all conditions precedent had been met at that date. In April 2013, £51 million of the facilities were cancelled. Undrawn facilities expire in October 2016.

31 Financial instruments continued

Company

Interest rate maturity profile of financial assets and liabilities

The following table sets out the carrying amount, by maturity of the Company's financial assets and liabilities that are exposed to interest rate risk. No other financial assets and liabilities, other than those shown below, are exposed directly to interest rate risk.

At 31 March 2014	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	**Total £m**
Fixed rate							
Loan notes*	(25.3)	–	(83.8)	(11.6)	(15.0)	(33.8)	**(169.5)**
Intercompany receivables	168.8	–	–	–	–	–	**168.8**
Cross currency swaps	(2.0)	–	5.4	(0.3)	(1.4)	(4.5)	**(2.8)**
Floating rate							
Intercompany payables	(159.0)	–	–	–	–	–	**(159.0)**
At 31 March 2013							
Fixed rate							
Loan notes*	(165.7)	(26.0)	–	(91.0)	(11.8)	(53.6)	(348.1)
Intercompany receivables	218.7	–	–	–	–	–	218.7
Cross currency swaps	7.4	–	–	12.9	–	(3.9)	16.4
Floating rate							
Cash at bank and in hand	14.8	–	–	–	–	–	14.8
Intercompany payables	(49.4)	–	–	–	–	–	(49.4)

* These have been classified as fixed rate after taking into account the effect of interest rate swaps.

31 Financial instruments continued

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax through the impact on floating rate borrowings. There is no impact on the Company's equity resulting from movements in interest rates other than in relation to the $US/GBP and EUR/GBP cross-currency swaps used as a cash flow hedge on $US and EUR loan notes. The impact on equity is nil over the life of the instruments as these swaps comprise an effective hedge.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes non-derivative floating rate financial instruments except those where interest rate swaps have been used as cash flow hedges. This is due to the fact that gains and losses on the hedging instrument offset losses and gains on the non-derivative floating rate financial instrument which are subject to the hedge are matched in both profit and loss and cash terms. No non-derivative fixed rate financial instruments have profit and loss exposure due to floating rates as a result of interest rate swaps.

The 2014 analysis below reflects lower reasonably possible changes in interest rates to 2013 – upside LIBOR expectations assumed last year were not realised and the assumption is that base rates will increase less than anticipated at March 2013.

	Increases/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2014			
Sterling	+ 100	–	–
Sterling	- 50	–	–
2013			
Sterling	+ 50	–	–
Dollar	+ 50	–	–
Sterling	- 50	–	–
Dollar	- 50	–	–

Equity price risk

The Company holds no listed equity investments and is not subject to equity price risk.

Credit risk

The maximum exposure to credit risk is the carrying amount of financial assets.

Liquidity risk

The Company's policy on managing its liquidity risk is set out in Note 30. The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2014 and 2013 based on contractual undiscounted payments of interest and principal.

At 31 March 2014	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	**Total £m**
Loan Notes	(32.6)	(7.3)	(86.2)	(13.4)	(16.7)	(37.3)	**(193.5)**
Cross-currency swaps (on loan notes):							
payment leg	(33.3)	(6.5)	(73.0)	(11.4)	(18.1)	(40.4)	**(182.7)**
receipt leg	31.9	6.6	76.1	10.6	16.7	37.3	**179.2**
At 31 March 2013							
Loan Notes	(174.7)	(33.8)	(7.9)	(93.6)	(13.8)	(59.4)	(383.2)
Cross-currency swaps (on loan notes):							
payment leg	(106.6)	(33.3)	(6.0)	(72.6)	(2.3)	(60.5)	(281.3)
receipt leg	114.2	32.7	6.7	83.0	2.0	59.4	298.0

Forward currency contracts, and short-term payables and accruals all mature within one year.

31 Financial instruments continued

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Financial assets				
Current				
Cash and cash equivalents (Note 18)	**–**	14.8	**–**	14.8
Other receivables (Note 16)	**9.9**	169.3	**9.9**	169.3
External cross currency swaps (Note 17)	**–**	9.6	**–**	9.6
Non-current				
External cross currency swaps (Note 17)	**5.4**	12.9	**5.4**	12.9
Financial liabilities				
Current				
Loan notes (Note 19)	**(25.3)**	(165.7)	**(25.3)**	(165.7)
External cross currency swaps (Note 19)	**(2.0)**	(2.2)	**(2.0)**	(2.2)
Non-current				
Loan notes (Note 19)	**(144.2)**	(182.4)	**(142.0)**	(189.5)
External cross currency swaps (Note 19)	**(6.2)**	(3.9)	**(6.2)**	(3.9)

No other financial assets and liabilities are exposed directly to interest rate risk.

Other receivables comprise the net of all intercompany balances with Dairy Crest Limited. All intercompany balances are repayable on demand and are subject to interest based on LIBOR plus a margin with the exception of one intercompany receivable from Dairy Crest Limited of £171.7 million (2013: £277.1 million) on which interest is receivable at 5.0% % (2013: 5.0%).

Cross currency swaps

External

The notional principal amount of the outstanding USD/GBP cross currency swap contracts at 31 March 2014 was $204.4 million (£122.4 million) (2013: $308.7 million, £181.9 million). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2014 the fixed interest rates varied from 3.863% to 5.305% (2013: 3.863% to 5.315%). Any gains/losses arising from fair value adjustments deferred in equity will reverse in the income statement (finance costs) during the next one to eight years (being the life of the swaps).

The notional principal amount of the outstanding EUR/GBP cross currency swap contracts at 31 March 2014 was €41.3 million (£36.5 million) (2013: €75.0 million; £67.0 million). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2014 the fixed interest rate varied from 4.955% to 5.600% (2013:4.955% to 5.180%). The loss deferred in equity will reverse in the income statement (finance costs) during the next year (being the life of the swaps).

Borrowing facilities

The Company has undrawn committed long-term borrowing facilities available at 31 March 2014 of £208 million (2013: £297 million) in respect of which all conditions precedent had been met at that date. These undrawn facilities expire in October 2016.

32 Cash flow from operating activities

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Profit/(loss) before taxation – continuing operations	**54.2**	(10.7)
Profit before taxation – discontinued operations	**–**	62.7
Remove pre-tax profit on disposal of business	**–**	(51.4)
Finance costs and other finance income – continuing operations	**10.4**	30.9
Finance costs and other finance income – discontinued operations	**–**	(0.1)
Share of associate's net profit	**(0.3)**	–
Profit on operations	**64.3**	31.4
Depreciation	**28.6**	29.0
Amortisation of internally generated intangible assets	**3.3**	3.4
Amortisation of acquired intangible assets	**0.4**	3.4
Exceptional items	**(10.6)**	17.9
Release of grants	**(1.7)**	(0.9)
Share based payments	**1.5**	1.9
Profit on disposal of depots	**(18.2)**	(7.7)
Difference between pension contributions paid and amounts recognised in the income statement	**(59.4)**	(19.3)
R&D tax credits	**(0.2)**	–
Realised exchange loss on early loan note repayment	**0.8**	–
Increase in inventories	**(12.0)**	(25.0)
(Increase)/decrease in receivables	**(20.8)**	18.7
Increase/(decrease) in payables	**10.2**	(33.7)
Cash (used in)/generated from operations	**(13.8)**	19.1

No cash was generated from operations for the Company in the year ended 31 March 2014 (2013: nil)

33 Analysis of net debt

Group

	At 1 April 2013 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	**At 31 March 2014 £m**
Cash and cash equivalents	276.1	(208.8)	–	–	**67.3**
Borrowings (current)	(165.7)	159.4	(25.3)	6.3	**(25.3)**
Borrowings (non-current)	(182.4)	(36.0)	25.3	12.9	**(180.2)**
Finance leases	(5.5)	3.7	–	–	**(1.8)**
Debt issuance costs	1.8	–	(0.7)	–	**1.1**
	(75.7)	(81.7)	(0.7)	19.2	**(138.9)**
Debt issuance costs excluded	(1.8)	–	0.7	–	**(1.1)**
Impact of cross-currency swaps*	17.8	–	–	(20.0)	**(2.2)**
Net debt	(59.7)	(81.7)	–	(0.8)	**(142.2)**

	At 1 April 2012 £m	Cash flow £m	Non–cash movement £m	Exchange movement £m	At 31 March 2013 £m
Cash and cash equivalents	79.4	192.8	–	3.9	276.1
Borrowings (current)	–	–	(165.7)	–	(165.7)
Borrowings (non-current)	(417.2)	76.2	165.7	(7.1)	(182.4)
Finance leases	(7.2)	1.7	–	–	(5.5)
Debt issuance costs	2.7	–	(0.9)	–	1.8
	(342.3)	270.7	(0.9)	(3.2)	(75.7)
Debt issuance costs excluded	(2.7)	–	0.9	–	(1.8)
Impact of cross-currency swaps*	8.6	–	–	9.2	17.8
Net debt	(336.4)	270.7	–	6.0	(59.7)

* The Group has $204.4 million and €41.3 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (March 2013: $308.7 million and €75.0 million). Under IFRS, currency borrowings are retranslated into Sterling at year end exchange rates. The cross-currency swaps are recorded at fair value and incorporate movements in both market exchange rates and interest rates. The Group defines net debt so as to include the effective Sterling liability where cross-currency swaps have been used to convert foreign currency borrowings into Sterling. The £2.2 million adjustment included in the above (March 2013: £17.8 million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£156.8 million (March 2013: £266.7 million) to the fixed Sterling liability of £158.9 million (March 2013: £248.9 million)).

On 18 April 2013 the Group repaid €106.9 million (£92.7 million) and £7.2 million of 2007 notes at a combined premium of £8.7 million. £69.2 million of these notes were due for repayment in April 2014 and £30.7 million were due for repayment in April 2017. In addition there was a natural maturity of £59.5 million ($104.3 million) of loan notes and a €60.0 million (£51.0 million) reduction in the revolving credit facility.

Company	At 1 April 2013 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	**At 1 March 2014 £m**
Cash and cash equivalents	14.8	(14.8)	–	–	**–**
Borrowings (current)	(165.7)	159.4	(25.3)	6.3	**(25.3)**
Borrowings (non-current)	(182.4)	–	25.3	12.9	**(144.2)**
	(333.3)	144.6	–	19.2	**(169.5)**
Borrowings (non-current) – impact of cross-currency swaps	17.8	–	–	(20.0)	**(2.2)**
Net debt	(315.5)	144.6	–	(0.8)	**(171.7)**

	At 1 April 2012 £m	Cash flow £m	Non–cash movement £m	Exchange movement £m	At 1 March 2013 £m
Cash and cash equivalents	–	13.7	–	1.1	14.8
Borrowings (current)	–	(165.7)	–	–	(165.7)
Borrowings (non-current)	(407.2)	229.1	–	(4.3)	(182.4)
	(407.2)	77.1	–	(3.2)	(333.3)
Borrowings (non-current) – impact of cross-currency swaps	8.6	–	–	9.2	17.8
Net debt	(398.6)	77.1	–	6.0	(315.5)

34 Post balance sheet events

On 14 April 2014 the Group completed the sale of a depot in Surbiton, Surrey for proceeds of £5.4 million resulting in a profit on disposal of £4.9 million.

On 16 May 2014 the Group completed the sale of its 30% shareholding in Wexford Creamery Limited for 3.4 million Euros (£2.8 million). At 31 March 2014 the net carrying value totalled £2.1 million comprising share of associates, deferred consideration and valuation of options net of contract provisions.

35 Corporate information

The consolidated accounts of Dairy Crest Group plc for the year ended 31 March 2014 were authorised for issue in accordance with a resolution of the Directors on 21 May 2014 and the consolidated and Company balance sheets were signed on the Board's behalf by Mr M Allen and Mr T Atherton. Dairy Crest Group plc is a limited company incorporated in England and Wales and domiciled in the United Kingdom whose shares are publicly traded on the London Stock Exchange.

GROUP FINANCIAL HISTORY

Consolidated income statement summary – continuing operations	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Product group revenue					
Cheese	260.0	223.1	229.6	231.3	**264.6**
Spreads	178.6	183.2	211.3	194.5	**177.4**
Dairies	1,081.2	1,089.8	1,069.0	951.6	**944.8**
Other	10.8	6.1	4.8	4.2	**4.2**
Group	1,530.6	1,502.2	1,514.7	1,381.6	**1,391.0**
Product group profit					
Cheese	16.9	28.0	35.5	33.1	**39.3**
Spreads	19.5	18.6	23.2	25.5	**16.8**
Dairies	34.9	27.1	10.2	9.8	**18.8**
Associates & joint ventures	0.1	(0.2)	(0.3)	–	**0.3**
Group including share of joint ventures	71.4	73.5	68.6	68.4	**75.2**
Less: share of associates & joint ventures	(0.1)	0.2	0.3	–	**(0.3)**
Group	71.3	73.7	68.9	68.4	**74.9**
Amortisation of acquired intangibles	(0.8)	(0.3)	(0.8)	(0.4)	**(0.4)**
Exceptional items	2.0	(1.1)	(93.9)	(56.5)	**(10.4)**
Profit on disposal of joint venture	2.0	–	–	–	**–**
Finance costs	(22.4)	(20.6)	(21.1)	(18.7)	**(9.9)**
Other finance income/(charges) – pensions	(0.5)	–	5.5	(3.5)	**(0.3)**
Share of associate net profit/(loss)	0.1	(0.2)	(0.3)	–	**0.3**
Profit/(loss) before tax	51.7	51.5	(41.7)	(10.7)	**54.2**
Adjusted profit before tax	49.0	52.9	47.5	49.7	**65.3**

Balance sheet summary	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Property, plant & equipment, goodwill and intangibles, investments	794.4	800.6	713.9	375.9	**391.9**
Inventories, receivables, payables, deferred income and provisions	43.7	21.9	45.8	74.1	**109.6**
Total operating assets	838.1	822.5	759.7	450.0	**501.5**
Financial instruments excluding amounts included in net debt	0.9	5.0	0.9	1.5	**2.8**
Tax	(70.3)	(90.3)	(70.1)	(17.2)	**(15.0)**
Retirement obligations	(142.4)	(60.1)	(79.8)	(67.2)	**(57.7)**
Disposal group held for sale (excluding cash)	3.7	–	–	–	**–**
Net debt	(337.2)	(311.6)	(336.4)	(59.7)	**(142.2)**
Net assets	292.8	365.5	274.3	307.4	**289.4**
Non-controlling interests	(3.0)	–	–	–	**–**
Shareholders' equity	289.8	365.5	274.3	307.4	**289.4**

Cash flow summary	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Generated from operating activities	145.9	128.1	84.5	19.1	**(13.8)**
Dividends from associate	0.1	–	–	–	**–**
Fixed asset investments (net of grants)	(26.9)	(48.5)	(53.1)	(46.0)	**(58.8)**
	119.1	79.6	31.4	(26.9)	**(72.6)**
Interest paid	(22.1)	(19.8)	(23.6)	(18.0)	**(14.0)**
Taxation (paid)/repaid	(10.5)	(16.1)	(14.1)	(4.7)	**2.1**
Dividends paid	(24.3)	(25.4)	(26.5)	(27.4)	**(28.5)**
Purchase of businesses	(1.9)	(0.1)	(12.3)	(0.6)	**–**
Other items (principally asset disposals)	18.3	7.4	20.3	354.3	**30.5**
Movement in net debt	78.6	25.6	(24.8)	276.7	**(82.5)**
Basic earnings/(loss) per share from continuing operations (pence)	27.7	30.1	(29.1)	(5.9)	**35.8**
Adjusted basic earnings per share from continuing operations (pence)*	27.4	29.9	28.9	29.4	**40.8**

* Adjusted basic earnings per share excludes exceptional items, amortisation of acquired intangibles and pension interest

SHAREHOLDERS' INFORMATION

Company Registrar and Shareholder Enquiries

If you have administrative enquiries concerning your shareholdings in the Company, such as the loss of share certificates, change of address, dividend payment arrangements or amalgamation of accounts, please contact the Company's registrar by writing to, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by telephone on (UK) 0871 664 9266.

(Calls cost 10p per minute plus network extras.) Lines are open 9.00am to 5.30pm Monday to Friday. From overseas please call +44 800 181 4706.

Capita also provides online facilities for shareholders to check their holdings and update their details. Registering is easy, and there is no fee involved, simply access www.dairycrestshares.com

Payment of dividends

Shareholders may arrange to have their dividends paid directly into a bank or building society account using the Bankers Automated Clearing System (BACS). Bank mandate forms are available from Capita whose details appear above or you can register your mandate details online at www.dairycrestshares.com

Low cost share dealing service

If you do not have share dealing arrangements in place, Dairy Crest has a low cost share dealing service arranged by Capita Share Dealing Services. Shareholders wishing to use the service should either visit the Capita Share Dealing website at www.capitadeal.com or call 0871 664 0445. (Calls cost 10p per minute plus network extras.) From overseas please call +44 203 367 2686. Lines are open 8.00am to 4.30pm Monday to Friday.

Gifting shares to charity

Shareholders who have a small holding of shares on the register whereby their value makes them uneconomic to sell, may donate these shares to charity under the Sharegift Scheme – administered by the Orr Mackintosh Foundation – a registered charity. Information can be found at www.sharegift.org Telephone: 020 7930 3737.

Analysis of ordinary shareholders at 20 May 2014	Holders Number	%	Shares	%
Category				
Individuals and other holders	17,642	87.73	29,429,023	21.52
Insurance companies, pension funds, banks, nominees and limited companies	2,468	12.27	107,293,728	78.48
	20,110	100.00	136,722,751	100.00
Size of holdings				
Up to 5,000 shares	18,559	92.29	25,025,931	18.30
5,001 – 20,000 shares	1,312	6.52	9,814,565	7.18
20,001 – 100,000 shares	138	0.69	5,679,060	4.15
Over 100,000 shares	101	0.50	96,203,195	70.37
	20,110	100.00	136,722,751	100.00

General information

General information about Dairy Crest can be found on our corporate website, www.dairycrest.co.uk
Investors who have questions relating to the Group's business activities should contact:
Investor Relations, Dairy Crest Group plc, Claygate House, Littleworth Road, Esher, Surrey KT10 9PN.
Telephone: 01372 472200
e-mail: investorrelations@dairycrest.co.uk

Financial calendar

Dividends	Final
Ex-dividend	Wednesday 2 July 2014
Record date	Friday 4 July 2014
Payment date	Thursday 7 August 2014

Group results (Anticipated)	
Half Year (Interims)	November 2014
Preliminary Announcement of 2014/15 results	May 2015
2014/15 Report and Accounts circulation	June 2015

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Dairy Crest Group plc
Claygate House
Littleworth Road
Esher
Surrey KT10 9PN
Company No: 3162897

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