CORPORATE GOVERNANCE

Chairman's introduction

As Chairman my role is to lead the Board and ensure it delivers against its responsibilities. A strong governance framework enables the Board to do so, helping to ensure it has clarity of purpose and a common understanding of the responsibilities and accountabilities which it must keep in mind when going about its business. The Board has two key responsibilities. It must provide entrepreneurial leadership to the business while at the same time exerting appropriate control. Our governance framework helps the Board to focus on the detailed activities which sit within those two broad responsibilities. As a Board we are committed to delivering the best possible outcomes and we are conscious of the need to take account of and balance the interests of all of our stakeholders.

Over the last twelve months we have undergone a period of change as a Board as Anthony Fry, our previous Chairman, was taken ill in the spring 2014. Anthony's illness coincided with a critical time in Dairy Crest's development. We were able as a Board to cope during that challenging period because we had in place an effective governance framework and a Board comprising Directors equipped with resilience and the breadth and depth of experience to cope with unexpected challenges and therefore able to continue to focus on delivering our strategy. I am grateful to Richard Macdonald for his leadership as Acting Chairman during 2014 and for his continued support as Senior Independent Director. Under Richard's guidance the Board was equipped to manage an unexpected succession from one Chairman to another and to ensure that process did not disrupt the Board's work and the execution of the Company's strategy.

The smooth succession from one Chairman to another, albeit in unexpected circumstances which none of us would have wanted to have arisen, clearly demonstrates the importance of good governance. Our focus within our governance framework on strategy, leadership and succession planning, amongst other matters, shows, I believe, the benefits of good corporate governance and is a clear example of the effectiveness of the governance framework we have in place. As a Board, we recognise that appropriate planning and procedures are required not only for the efficient operation of the Board but for the business as a whole.

In my introduction to this, our Corporate Governance report, I have sought to demonstrate how we have brought to life the principles of good governance. Good governance is however, broader than good succession planning and having the right mix of skills and experience required to deal with unexpected events. Amongst other matters it includes ensuring that the right tone is set at the top of our organisation in order to guide its behaviour and to ensure that our organisation lives by and demonstrates the right values. Those values must 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 Report we demonstrate how we have addressed those broader principles of good governance through, amongst other things, ensuring that we have in place an effective internal framework of systems and controls which clearly define authority and accountability while at the same time enabling 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 we have complied with all relevant provisions of the Code during the 2013/14 year, although as a result of the changes which the Board has undergone we have had to delay slightly our Board evaluation process. The evaluation of our Board is ongoing and we cover it in more detail later in this Corporate Governance report.

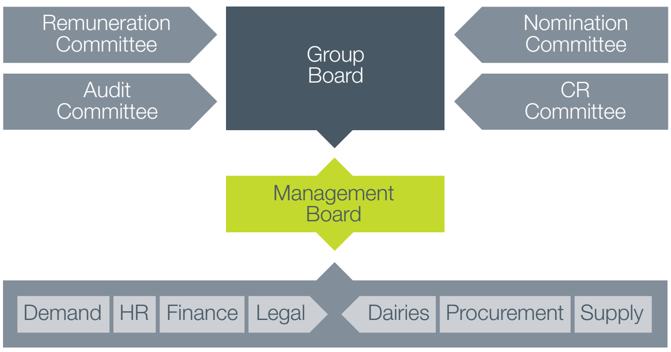
The Board recognises its collective responsibility for the governance of the Company. Its strong governance framework (as illustrated below) is supported by a combination of clear values, which are discussed elsewhere in this Report (see pages 6 to 7), appropriate policy, and an environment of transparency 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.

My key objective for the coming year is to maintain focus on ensuring that we have the right people and processes in place to manage the transformation which Dairy Crest is undergoing within an appropriate risk framework.

Stephen Alexander Chairman
20 May 2015

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. In order to prepare ourselves for the sale of the Dairies business we have refocused our commercial structures into Dairies, Cheese and Spreads and butters. The HR, Finance and Legal teams remain in place alongside the Dairies and Cheese, Butter, Oils & Spreads businesses.



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;

- Audit Committee
- Nomination Committee
- Management Board
- 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 40 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 six Directors (two Executive, a Non-executive Chairman (who was independent on appointment) and three independent Non-executive Directors). Directors' biographical details, experience, responsibilities and other commitments are set out at pages 32 to 33.

Balance and Independence: With three 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 page 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: Following Stephen Alexander's appointment as Chairman, Richard Macdonald has reverted to his role as Senior Independent Director, in which he 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 33). 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 recommending Directors for appointment 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. During the year the Board held a number of meetings associated with the sale of the Dairies business in addition to those scheduled in its annual work plan. It is inherent in the nature of large corporate transactions that the Board is called upon to meet more frequently than normal, often at short or relatively short notice, as it is required to deal with fast developing issues. Accordingly, although all of the Directors made every effort to attend meetings which were required in addition to those scheduled in the Board's annual work plan, it was not always possible for them all to accommodate all of those additional meetings. Where they were unable to attend, they ensured that their input was given to the Chairman in advance. Details of the Board and Committee meetings held during the 2014/15 year and Directors' attendance at those meetings is set out in the table below.

Board and main Committee meetings

The Directors named in the table below 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 2014/15.

	Board (scheduled in annual work plan)	Board (additional to those schedule in annual work plan)	Audit	Remuneration	Nomination	Corporate Responsibility	Management Board
Mr M Allen	8(8)	2(2)	–	–	–	3(3)	31(40)
Mr T Atherton i	8(8)	2(2)	–	–	–	3(3)	34(40)
Mr A Fry ii	0(4)	0(1)	–	–	0(1)	–	–
Mr M Wilks iii	7(8)	2(2)	–	–	–	2(3)	37(40)
Mr S Alexander iv	8(8)	2(2)	4(4)	3(3)	1(1)	–	–
Mr A Carr-Locke	7(8)	1(2)	4(4)	9(9)	1(1)	–	–
Ms S Farr v	8(8)	1(2)	–	8(9)	–	3(3)	–
Mr R Macdonald vi	8(8)	2(2)	4(4)	6(6)	1(1)	3(3)	–

i Tom Atherton was appointed to the Corporate Responsibility Committee on 6 March 2015

ii Anthony Fry stepped down from the Board on 17 September 2014

iii Martyn Wilks stepped down from the Board and its Committees on which he served on 31 March 2015

iv Stephen Alexander stepped down from the Remuneration Committee on 17 September 2014 and from the Audit Committee on 6 March 2015 following his appointment as Chairman of the Board and was appointed Chairman of the Nomination Committee on 6 March 2015

v Sue Farr was appointed Chairman of the Corporate Responsibility Committee on 3 November 2014 and as a member of the Audit and Nomination Committees on 6 March 2015

vi Richard Macdonald was appointed Chairman of the Remuneration Committee on 3 November 2014

In the last Annual Report we reported on the decision taken to adopt a hybrid approach to the Board effectiveness review in 2012/13 following the externally facilitated process undertaken in 2011/12 with Rathmullan. In 2012/13 we used a combination of an initially internal process using questionnaires which was then followed up with individual interviews with the Directors and the Company Secretary conducted by IDDAS, a specialist mentoring, coaching and effectiveness consultancy. IDDAS focused on continuing with the themes of the previous effectiveness review, in particular ensuring that adequate progress had been made with the conclusions drawn from the first externally facilitated review. IDDAS' 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. The Board visited the Group's sites at Frome, Somerset (September 2013) and Chadwell Heath, London (January 2014). Building on the benefits of greater visibility for the Board within the business, the Board held its meetings in September 2014 and January 2015 at the Group's Davidstow site where we are building our new demineralised whey and GOS plants. The 2012/13 review also 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 decided to postpone the annual appraisal of its performance pending Anthony's return to his duties as Chairman. Unfortunately Anthony was unable to return to those duties and in light of that and in order to enable Stephen Alexander time to establish himself in the role of Chairman, it was decided that the next review of the Board's effectiveness should be conducted later in 2015.

The decision has been taken to use an external facilitator to help the Board and Stephen, as the new Chairman, to conduct its next review. The Chairman and the Company Secretary are conducting a selection exercise to identify a range of possible organisations and approaches for the effectiveness review. Following a shortlisting process the Board will appoint an appropriate external facilitator. We will report on the outcome of the review in full in the next Annual Report and will post a summary report on the Company's website in the interim.

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 Group Finance Director. The outcome of reviews of performance of both 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 areas of focus.

Conflicts of interest: The Companies Act 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 where those appointments might affect the time they are able to devote to their role. 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. From 2014 onwards we adopted a more formalised process where at the Board's April meeting, as part of the year-end sign off process when Directors approve their emoluments statements, they confirm in writing that they had no present or anticipated conflicts of interest. That process was most recently repeated at the Board's April 2015 meeting. 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 2015 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 2015 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 Investor Relations team. Amongst other matters, they organise presentations for analysts and institutional investors and hold 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. During the year the Chairman and the Remuneration Committee Chairman held meetings with key investors to discuss, amongst other matters, the Transformational Share Award for the Chief Executive which was approved by shareholders in General Meeting in December 2014.

The notice of each AGM together with other related papers is dispatched to shareholders at least 20 working days before the meeting. Ordinarily 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 operation 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 requires the Directors to present a fair, balanced and understandable assessment of the Company's position and prospects. When the provision was first introduced to the Code, the Audit Committee adopted a detailed process to enable the Board to report against this principle of the Code. The resultant more structured approach (see table below) to the preparation of the Report and Accounts has been repeated in the production of this Report and Accounts which the Board formally signed off at its meeting in May 2015.

January/February/March		April	May
Initial content production Prepare content not dependent on year end results, e.g.: business model, strategy, corporate governance sections. Project Manager ('PM') considers whether content collated is itself and collectively fair balanced and understandable ('FBU'): review and amend. Identify material events/ performance issues that will need to be reported	**Agree key messages** Start completing and collating performance related content, e.g. remuneration report. Consider new regulations and consistency with key messages and KPIs. PM considers whether content collated is itself and collectively FBU: review and amend	**Review and sign off** Confirmation from contributors as to completeness of input. Appropriate review of full content, for consistency, completeness and messaging: review and amend. 'Sign-off' by section owners. • Bring together all section owners to agree that whole Annual Report and Accounts ('ARA') is FBU. • Consider formal sign off from section owners to the Board.	**Formal sign off** Consider level of assurance obtained over non-financial information in the ARA. Where applicable Audit Committee to formally report to the Board on how it has satisfied itself that ARA is FBU. Board to minute consideration of FBU with Board paper showing the process and results.

The Board's assessment of the fair, balanced and understandable nature of the Annual Report and Accounts is further assisted by, amongst other matters, the following:

The Annual Report and Accounts is drafted by senior management with overall coordination by the Company Secretary & General Counsel.

An internal verification process is undertaken by the Internal Auditors to ensure factual accuracy.

Comprehensive reviews of the draft Annual Report and Accounts are undertaken by Management Board members, and in relation to certain sections by the Company's external lawyers, by the External Auditor and other advisors.

The drafts of each relevant section are reviewed as they are prepared through an iterative drafting process by the Chairmen of appropriate Committees of the Board and the final draft is reviewed by those Committees prior to consideration by the Board.

At its May 2015 meeting, the Board reviewed and was satisfied that the Annual Report and Accounts for financial year 2014/15, 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 and Group's performance, business model and strategy.

Audit Committee report

Being entirely independent of management and enjoying a free ranging remit on behalf of the Board, the Audit Committee plays a crucial role in the governance of Dairy Crest. It provides oversight of the essential checks, balances and controls which are relied upon by our shareholders in order to have confidence that their interests are appropriately safeguarded. The Committee provides assurance over the integrity of the Group's financial reporting, including the interim and full year accounts; it enables shareholders and other stakeholders to have confidence that appropriate scrutiny has been applied to the Company's and the Group's accounting policies and that key accounting issues have been approached in an appropriate manner and a proper assessment of the Company as a going concern has been undertaken by management and the Board. The Committee scrutinises management's approach to judgmental issues and challenges management to ensure that judgements are approached in an unbiased manner with proper consideration of relevant facts. The Committee's work combined with assurance derived from internal and external auditors helps the Group to operate within a framework of suitable controls enabling the risks necessary for the Group's growth and for the enhancement of shareholder value to be properly controlled and mitigated. The Board is ultimately responsible for the identification, assessment and management of risk and the Committee assists it in the oversight of risk in addition to its core duties related to financial oversight and reporting.

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. Details of the Committee's work programme undertaken during the year are set out in the Report below. 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. Following the period of significant change and major internal restructuring undertaken in 2013/14, the Committee continued to focus on the integrity of financial reporting following the changes undergone by the Group's finance team and the appointment of Tom Atherton as Group Finance Director in 2013/14. Change has been a consistent theme during the year with significant focus on the delivery of the Group's strategy to build market leading positions in branded and added value markets, part of the implementation of which is the sale of the Group's Dairies business which is subject to competition clearance and its development of its demineralised whey and GOS plants. During the year, the Committee has focused on ensuring the continued integrity of the Group's financial management and reporting systems, its policies and its internal controls against this backdrop of change in order to ensure maintenance of the control environment.

Significant matters relating to the 2015 Group financial statements:

The Committee discussed with management the key judgements applied in the Group's financial statements and the impact of significant accounting items arising in the year. The main items discussed were:

- **Going Concern Review:** the Committee received management's report on; procedures undertaken to support the going concern statement; the level of the Group's borrowing facilities and forthcoming deadlines for repayment or renegotiation of those facilities; the amount of headroom over borrowing facilities and the adequacy of committed facilities to meet cash requirements in the 2015/16 financial year; budgeted net debt and EBITDA and headroom related to banking covenants. The Committee was satisfied that the proposed going concern statement to be made in the 2015 Annual Report and accounts is appropriate.
- **Accounting treatment for the Dairies operations:** for both the interim financial statements and the full year Group financial statements, the Committee reviewed with management and EY the accounting treatment to be adopted for the Dairies operations at both 30 September 2014 and 31 March 2015 in light of the conditional sale of the Dairies operations to Müller. In considering whether the Dairies business should be accounted for as held for sale under the requirements of IFRS 5 'Non Current assets held for sale and discontinued operations', the Committee considered whether the transaction was highly probable given the status of the regulatory approval process and ongoing advice obtained by the Board from legal advisers. The Committee confirmed that the accounting conclusion that Dairies should not be presented as held for sale in the 2015 Group financial statement should be disclosed as a key area of judgement.
- **Annual impairment review:** the Committee reviewed a management report supporting the conclusion that no impairment of goodwill or property, plant and equipment should be recognised at 31 March 2015 albeit a reasonably possible change in assumptions might lead to an impairment in the Dairies cash generating unit ('CGU'). Due to the low margins and challenging market conditions associated with the Dairies business, the carrying value of property plant and equipment in the Dairies CGU was reviewed for impairment. The Committee reviewed with management and EY key assumptions used including, but not limited to, discount rates, cash inflows from forecast property disposals, profit margins, the potential timing and amount of disposable proceeds and the allocation of corporate costs. In light of the conditional sale of the Dairies operations, the methodology applied in calculating an appropriate value in use for the Dairies CGU was reviewed and the Committee agreed that this should be disclosed as a key area of judgement applied in the 2015 Group financial statements.
- **Revenue recognition and promotional activity:** given the judgemental nature of certain promotional accruals, the Committee routinely reviews the level of promotional accruals at the half year and the full year. It considers the results of the interim review and the audit conducted by EY which assessed the effectiveness of redemption rates used and the effectiveness of controls. In light of current regulatory focus on promotional activity, the Committee recommended to the Board that it conduct a review of the Group's commercial arrangements with key retail customers. The Board's review concluded there were no changes required to the accounting approach used and that appropriate controls were in place.
- **Exceptional items:** the Committee challenged the appropriateness of the classification of items as exceptional and compliance with the Group's accounting policies when dealing with exceptional items. The Committee was satisfied that exceptional items had been appropriately classified, treated consistently and discussions were transparent.
- **Capitalisation of assets:** given the scale of the investment in the new demineralised whey and GOS facilities at Davidstow, the Committee considered Internal Audit's findings from their review performed in November 2014 of financial controls for actual

expenditure against approved capital expenditure, including compliance with the Group's purchasing policies and procedures.

- **Fair balanced and understandable:** at its meeting on 11 May 2015, the Committee reviewed the process which had been followed for the preparation of the Annual Report and Accounts (see page 39) together with the content of the draft Annual Report and Accounts and considered whether the Code requirements for the presentation of a fair balanced and understandable Annual Report and Accounts had been met. The Committee challenged management over the appropriateness of the degree of confidence with which completion of the sale of the Dairies business was presented in the Strategic report section of the Annual Report considering the accounting treatment applied to the sale, which is conditional on competition clearance, in the draft Accounts. The Committee provided comment for consideration by the Board, subject to which, it considered the Annual Report and Accounts to be fair, balanced and understandable.

In light of the considerable focus which is rightly placed on the objectivity and independence of the external auditor, we shall report more fully later in this Report on the Committee's approach to external audit tendering. Finally, as Stephen Alexander replaced Anthony Fry during the year as Chairman of the Board, in order to ensure continued compliance with the Code, Stephen stood down from the Committee. In turn, Sue Farr joined the Committee and I would like to take this opportunity formally to welcome her to the Committee.

Andrew Carr-Locke Chairman of the Audit Committee
20 May 2015

Membership: details of the members of the Committee at the date of this Report together with details of attendance at meetings are set out at page 37. Changes to membership of the committee during the year are set out in the footnotes to the table on 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, the Chief Executive and the Group Finance Director to attend the Committee's meetings. The Group Reporting Controller, Group Financial Controller, Head of Group Internal Audit and representatives of EY attend all 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 last reviewed at the Committee's meeting in March 2015. Its terms of reference comply 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: the Committee's core work is driven by a structured programme of activity settled at the start of the year between the Committee Chairman, management and EY. As well as its core work, the Committee undertakes additional work in response to the evolving audit landscape. The following non-exhaustive list provides highlights of the Committee's core and additional work undertaken during the year:

12 May 2014	• Received and considered EY's 2014 Audit Results Report
	• Received management's review of changes to relevant accounting standards and policies affecting the draft Report and Accounts for the year ending 31 March 2014 (including the legislative requirements for the inclusion in the Report and Accounts of a strategic report and the Group's approach to the preparation of the strategic report as well as the fair balanced and understandable requirement under the Code)
	• 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 September 2014	• Received Group Internal Audit's report on financial and operational controls audits, pre-existing whistleblowing notifications and any new notifications
	• Considered EY's 2014/15 Audit Planning Report
	• Received a report on the impact of changes to UK GAAP and the introduction of new financial reporting standards on the Company
	• Received an update on and reviewed the Group's IT security and cyber risks together with appropriate controls and recommended changes to policy
	• Reviewed the outcome of the Financial Reporting Council's Audit Quality Inspections, including in particular, the outcome of the Audit Quality Inspection of EY
3 November 2014	• Received Group Internal Audit's report on financial and operational controls audits, pre-existing whistleblowing notifications and any new notifications
	• Received management's analytical review of the results for the period ended 30 September 2014 and reviewed and approved for recommendation to the Board draft Interim Accounts for that period
	• Received and considered EY's Interim Review Report for the period ended 30 September 2014
6 March 2015	• Received a report on and reviewed the Group's accounting for its Dairies business at 31 March 2015
	• Received and considered a report on the conduct of the annual impairment review of the Group's operations, including, in particular, impairment testing of the Dairies assets
	• Received and considered EY's Audit Update Report
	• 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

6 March 2015 continued	• Received and considered an update on the regulatory environment surrounding audit tenders and changes to that environment and considered a proposed approach for adoption by the Group to tendering the external audit engagement
	• Received an update on and reviewed the Group's IT security and cyber risk
	• 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 and that it had satisfied its remit under its terms of reference, which it also reviewed and decided that no changes were required to them

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. There are no contractual restrictions on the Company with regard to the external auditor's appointment. Audit engagement partner rotation requirements have been routinely observed. The audit engagement partner provided her annual representation to the Committee as to the external auditor's independence and confirmed that EY's reward and remuneration structure includes no incentives for her to cross sell non-audit services to audit clients.

The Committee's assessment of EY's independence is underpinned by the Group's policy on the use of EY for the provision of non-audit services. The policy contains a presumption against the use of the external auditor for non-audit services. EY 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:

	2014/15 £m	2013/14 £m
Total audit fees	0.4	0.4
Non-audit fees		
Taxation services	0.1	0.1
Other non-audit services	0.5	–
Total non-audit fees	0.6	0.1
Total Fees	1.0	0.5

Details of the non-audit work undertaken by EY during the year, which included acting as reporting accountant as part of the Dairies sale transaction and research and development related tax work, are set out at Note 2 to the Accounts at page 86. 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 has been the Company and Group's external auditor since the Company floated in 1996. The external audit appointment has not been tendered competitively since EY's appointment. During the prior year and the year covered by this Annual Report, the Committee has closely monitored regulatory developments concerning external audit tendering and has assessed the implications of the transitional arrangements for the Competition and Markets Authority's order concerning audit contract tender ('Order') and the EU audit regulation ('Regulation'), which comes into force in June 2016.

In light of EY's long association with the Company, EY and the Committee have agreed that EY will not participate in the next tender exercise for the Company's external audit engagement. During the 2013/14 financial year, the Company introduced a policy requiring that the external audit engagement is tendered each 10 years, the first of which tendering exercises must be undertaken not later than the end of 2019. In so doing, the Committee believes it will comply with the provisions of the Order, the Regulation and the Code.

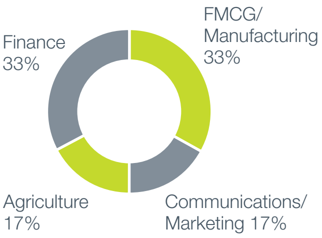
During the year the Committee decided that it would plan to undertake a tender process timed to enable the appointment of a new external auditor in readiness for the start of the 2017/18 financial year on 1 April 2017. The Committee is keeping its approach to the external auditor appointment and continued regulatory changes under review. It currently expects to make a final decision on an audit tender by the end of 2015, by which time the Department for Business Innovation and Skills will have published the conclusion of its consultation on the effects of the Regulation.

The Committee monitors the performance of the external auditor throughout the year and formally concludes the assessment of its performance every May and makes a corresponding recommendation on the appointment of EY for the forthcoming financial year to the Board. Shareholders formally appoint the external auditor at the AGM in July. In light of the assessments and review undertaken last May, the Board endorsed the Committee's recommendation which was approved by shareholders in July 2014. At its meeting in May 2015, the Audit Committee considered the appropriateness of the re-appointment of EY as the Group's external auditor for the 2015/16 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.

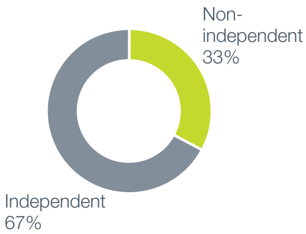
Nomination Committee report

I present to shareholders the report on the work of the Nomination Committee during the 2014/15 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. For the majority of the year, in Anthony Fry's absence, I chaired the Committee. Stephen Alexander was appointed as Chairman of the Committee in March 2015. As I chaired the Committee during most of the year on which we are reporting, I am reporting on the Committee's work rather than Stephen.

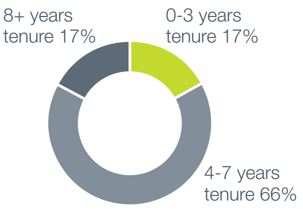
Sector experience



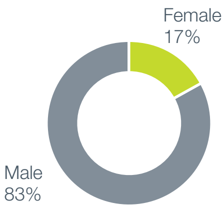
Independence



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 listed company and to retain any fees received. Non-executive Directors may serve as directors, executive or otherwise, on the boards of other companies or appropriate organisations. Non-executive Directors' letters of appointment require them to seek prior approval from the Board before accepting any additional commitment that might affect the time that they are able to devote to their role as a Non-executive Director of the Company. The Board has the opportunity to satisfy itself that Non-executive Directors' other commitments allow them 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. In August 2015 he will have served six years on the Board.

During the year the Committee's main focus was on the potential need for succession to the position of Chairman of the Board, should, as unfortunately proved to be the case, Anthony be unable to return to the role. The Committee also focused on any other additional consequential changes required to be made to the membership of the Board and its Committees. In recruiting Stephen Alexander to the Board in 2010/11 careful consideration had been given to future succession planning for the Chairman's role. Keeping in mind the critical juncture in the development of the Group's business at which we found ourselves, it was clearly appropriate given Stephen's experience and suitability for the role that the Committee recommended to the Board his appointment as Chairman.

In order to ensure continued compliance with the Code and that the Board's Committees could continue to function properly, a number of changes were also required to the Board's Committees. During the year following his appointment as Chairman of the Board, Stephen stood down from the Audit Committee and as Chairman of the Remuneration Committee. I was appointed Chairman of the Remuneration Committee and Sue Farr joined the Audit Committee and Nomination Committees and was appointed Chairman of the Corporate Responsibility Committee from which role I stood down, although I remain a member of that Committee. Finally, the Committee recommended to the Board that Stephen Alexander become Chairman of the Nomination Committee, which recommendation was endorsed by the Board – although in the event that the Nomination Committee is in the future required to deal with the appointment of Stephen's successor, in compliance with the Code, I would lead that process as Senior Independent Director. The Committee and the Board have considered whether, in light of Martyn Wilks departure from the Board, an additional Executive Director is required to be appointed to the Board. The Committee's recommendation, accepted and endorsed by the Board, was that for the time being, given the changes which the Company is undergoing, no additional appointment should be made although it will be keeping that recommendation under review.

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 Senior Independent Director
20 May 2015

Report of the Corporate Responsibility Committee

I am delighted to present to shareholders my first report as Chairman of the Corporate Responsibility Committee which can be found on pages 23 to 27. As referred to in the report of the Nomination Committee, Richard Macdonald chaired the Committee during the year until November. I thank Richard for his leadership of the Committee during which time the Company's corporate responsibility programme has gone from strength to strength as demonstrated by the Group's continued success in the reduction of accidents in the workplace, its reduced water usage and the launch of healthier innovative products. It was with great pride that we reported last year that the Group had achieved four and a half stars in the 2014 BITC corporate responsibility audit, the highest rating of any participating member company, which built on the achievement of a BITC Platinum Big Tick in 2013. It is with equal pride that I am able to report to you that in the 2015 BITC corporate responsibility audit we have achieved the highest possible rating of five stars. I was also delighted that in 2014 Dairy Crest was the recipient of the prestigious IGD President's Cup, an award that recognises, in part, the work that the Company has made to helping the organisation achieve its societal objectives.

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. In addition to me as Chairman, the Committee comprises Richard Macdonald, Mark Allen, Tom Atherton, Robin Miller, Robert Willock and Adam Braithwaite.

During the year the Group continued to benefit from working in collaboration with other businesses to deliver larger scale benefits to society. Examples have included our continued support of the IGD's Feeding Britain's Future initiative through which employees have helped over 140 young people find employment since 2013. Through our community partnership with Marks & Spencer we have also been able to offer over 80 young people 80 hours of work experience. Aware that without dairy farmers we would not have a business we are also proud of the work we have done through the Prince's Countryside Fund and more specifically, the Prince's Dairy Initiative, a programme that helps the most vulnerable dairy farms become more economically and environmentally sustainable.

Overall the Committee views corporate responsibility as an opportunity to improve and add further value to 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 and will lead to greater success.

Sue Farr Chairman of the Corporate Responsibility Committee
20 May 2015

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
20 May 2015