

OUR STRATEGY

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.

Our key performance indicators 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 16 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 54 and 55

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 2014/15

1 To generate growth by building strong positions in branded and added value markets

Cathedral City had another good year, growing sales ahead of the retail cheese market. It has grown to be Britain's 16th largest grocery brand (Source: The Grocer, 21 March 2015), up from 18th in March 2014.

Both Country Life (butter) and Clover (spread) saw their sales value fall in a declining butter and spreads market although sales of Country Life Spreadable grew in the year.

FRijj sales grew by 7%.

Frylight one calorie cooking spray continued to grow sales and market share. The brand has responded well to the increased investment behind it and has the potential to grow further.

During the year we have carried out a comprehensive category strategy project 'Dairy for Life' which forms the foundation for future innovation, marketing and category merchandising for our key brands.

We are investing £65 million at our Davidstow creamery to manufacture demineralised whey and galacto-oligosaccharide ('GOS') and expect commercial production of these products to start later in 2015.

Following the closure of our Crudgington site, we are building a new £4 million innovation centre at Harper Adams University in Shropshire, where our innovation team is now based.

2 To simplify, make sustainable and reduce costs

Cost reduction remains a key part of our strategy and we have again achieved our target of making cost savings in excess of £20 million in the year.

Prior to the announcement of the conditional sale of our Dairies operations we announced our plans to close our specialised cream potting facility at Chard, Somerset in 2015 and our glass bottling dairy at Hanworth, West London in 2016. Both these projects are on track.

3 To generate cash and reduce risk

We have agreed to sell our Dairies operations. The conditional sale is a positive development for Dairy Crest and the wider UK dairy sector. Shareholders have approved the sale and the process to obtain regulatory approval is on track. Completion of the sale will result in Dairy Crest operating from five well invested manufacturing sites. It will be a much simpler, more focused, predominantly branded business.

We continue to reduce risk in our closed defined-benefit pension scheme. During the year we have reduced the scheme's exposure to equities and other higher-risk asset classes.

4 To make acquisitions where they will generate value

Our focus in the year ended 31 March 2015 has been on organic growth, typified by our investment in demineralised whey and GOS.

We have not made any acquisitions during the year ended 31 March 2015.

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

Future priorities

Our focus will remain on our key brands, Cathedral City, Country Life, Clover, FRijj and, from 2015/16, Frylight.

We will continue to invest in marketing these brands – including advertising, promotions and innovative range extensions.

We will work with key customers to build on Dairy for Life and grow the categories in which we operate.

Working with Fonterra, our selected sales agent, we will aim to maximise the long term return from our investment in demineralised whey and GOS at Davidstow.

We will continue to seek cost reductions and efficiency improvements across our business. The sale of our Dairies operations will significantly reduce the complexity of the business and will allow us to streamline our future overhead structure and systems.

Our investment in whey and GOS is nearing completion and we expect capital expenditure to fall below depreciation.

We will continue to reduce pension scheme risk, initially by further reducing the proportion of higher risk/higher return assets in the scheme.

Completion of the sale of Dairies will much reduce our exposure to commodity risk. We will continue to work with commodity suppliers and customers to share risk as appropriate.

We have the opportunity to make acquisitions that will contribute to growth and strengthen the business.

Any acquisitions we do make will have to meet strict criteria.

Key performance indicators and performance in the year ended 31 March 2015

Deliver progressive dividends with cover between 1.5 and 2.5 times.
In the year ended 31 March 2015 the Board is recommending a total dividend up 1.9%. This is covered 1.8 times.

Grow earnings before interest, tax and depreciation (adjusted EBITDA*) and adjusted profit before tax (adjusted PBT*).

In the year ended 31 March 2015 adjusted EBITDA* fell by 7% and adjusted PBT* also fell by 7%. However adjusted EBITDA* and adjusted PBT* for the combined Cheese and whey and Spreads and butters product groups – which will be the heart of the business after a sale of our Dairies operations – grew by 15% and 19% respectively year on year.

Deliver an acceptable return on capital employed (ROCE).
ROCE for the year ended 31 March 2015 was 11.5%, compared to the long term target of 12% (31 March 2014: 13.8%).

Maintain net debt/EBITDA within the range 1 – 2 times.
At 31 March 2015 net debt/EBITDA was 1.97 times (31 March 2014: 1.3 times).

Grow our four key brands ahead of the market.
In the year ended 31 March 2015 three of our four key brands grew ahead of the market taking into account all sales channels (31 March 2014: one key brand grew ahead of the market). In addition Frylight has grown ahead of the market for both years.

Deliver cost savings initiatives.
Cost reduction projects initiated in the year ended 31 March 2015 have again delivered annual benefits ahead of our £20 million annual target.

Achieve revenue targets for products developed in the last 3 years.
In the year ended 31 March 2015 around 6% of our total revenue and 7% of our key brand revenue came from such sales against an ambitious target of 10% (31 March 2014: 4% of total revenue; 7% of key brand revenue).

Improve corporate responsibility measures.
In the year ended 31 March 2015 we achieved a score of 5 stars from Business in the Community (31 March 2014: 4.5 stars).

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

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