



19 May 2009

## Dairy Crest Group plc ("Dairy Crest") Preliminary Results Announcement

Dairy Crest today announces its audited results for the year ended 31 March 2009.

### Financial Highlights:

	2008/09	2007/08	Change
Revenue	<b>£1,648m</b>	£1,570m	+5%
Profit before tax	<b>£103.2m</b>	£66.0m	+56%
Adjusted profit before tax *	<b>£79.5m</b>	£86.0m	-8%
Earnings per share	<b>56.8p</b>	40.2p	+41%
Adjusted earnings per share *	<b>45.0p</b>	51.7p	-13%
Year-end net debt	<b>£415.8m</b>	£474.8m	-12%
Total dividend for the year	<b>20.1p</b>	24.4p	-18%

\* Before exceptional items, amortisation of acquired intangibles and pension interest credit.  
All amounts are from continuing operations.

### Business Highlights and Recent Developments:

- Dairy Crest has made significant progress in a number of areas this year:
  - Maintained strong brand growth
  - Reduced net debt by £59 million
  - Heightened focus on cost control
- Greater emphasis on advertising and promoting key brands to underpin brand growth
- Innovation delivering results:
  - 'Lighter' brand extensions have grown sales
  - New cheese packing facility will provide a great platform for cheese innovation
  - Full roll out of 'milk&more' planned for Summer 2009
- Head office restructure, investment in RDCs, dairy closure and depot closures drive down costs
- Increased focus following disposal of Stilton and speciality cheese business and 49% stake in Yoplait Dairy Crest
- Pension Fund deficit payments to resume from October 2009 at £20 million per annum
- Dividend rebased: final dividend 13.0 pence per share

### Mark Allen, Chief Executive, Dairy Crest Group plc said:

*"Dairy Crest has made significant progress in a number of areas this year. We have delivered good growth in brands, achieved a material reduction in net debt, reduced costs and improved our operating efficiencies. We have continued our transition from commodity processor to added value food manufacturer by selling our Stilton and speciality cheese business and our 49% stake in Yoplait Dairy Crest.*

*However, in light of additional cash contributions to the pension fund and the dilutive effect of the Yoplait Dairy Crest disposal on 2009/10 earnings the Board has reviewed the Group's dividend policy. The Board has concluded that it is sensible to conserve cash and ensure that the business is well funded to protect investment in its brands and into efficiency-driven capital projects. Accordingly, it has decided to rebase this and future dividends by 25%.*

*Dairy Crest is a broadly based dairy business. The benefits of this will be demonstrated in 2009/10 as stock profits in our cheese business unwind and those in our Dairies division increase to compensate.*

*Our plans for 2009/10 are to maintain our focus on cash management and to continue the development of our key brands. Trading at the start of the year is in line with expectations and we believe that our business is in good shape to deliver in the year ahead. In addition we are well placed to benefit when the external environment improves.”*

For further information:

**Dairy Crest**

Arthur Reeves 01372 472236

**Brunswick**

Simon Sporborg

Jayne Rosefield 020 704 5959

## Chairman's Statement

### A Sound Financial Performance

This year has been an important one for Dairy Crest in our journey from commodity processor to added value food manufacturer. We have shown ourselves capable of developing our business in a difficult economic environment by growing brands and improving operational efficiency.

In these circumstances I am able to report a sound financial performance. Our Foods division benefited from brand growth and delivered strong margins. Our Dairies division faced a more challenging environment and its profits were adversely affected by high milk purchase prices and weak dairy commodity markets. Overall Group profit before taxation increased 56% to £103.2 million and earnings per share increased 41% to 56.8 pence. However Group adjusted profit before taxation \* fell 8% to £79.5 million and adjusted basic earnings per share\* fell 13% to 45.0 pence.

We made good progress on a number of fronts. In addition to the ongoing growth we have seen in all our key brands, we continue to reduce our costs and become more efficient. Structurally, we made two disposals and we continue to invest to improve our asset base. Importantly in the current market we renewed our main bank facility for five years and now have no debt facilities maturing before November 2011.

The Board remains confident that the business is well positioned to deliver in the year ahead and, following the disposal of its stake in Yoplait Dairy Crest, the Group's net debt position has improved considerably and the Group is operating comfortably within its banking covenants. However, in light of additional cash contributions to the pension fund and the dilutive effect of the Yoplait Dairy Crest disposal on 2009/10 earnings the Board has reviewed the Group's dividend policy. The Board has concluded that it is sensible to conserve cash and ensure that the business is well funded to invest in its brands and into efficiency-driven capital projects. Accordingly, it has decided to rebase this and future dividends by 25% and is recommending a final dividend of 13.0 pence per share. As a result, the total dividend for the 2008/9 financial year will be 20.1 pence. Looking forward, the Board will seek to resume its progressive dividend policy from the rebased level whilst seeking to maintain dividend cover of 2.0 to 2.5 times.

The strong performance by our brands this year was very encouraging. Clover has recovered from its product recall in May 2007 and both Country Life and Friij have responded to increased marketing activity. Cathedral City goes from strength to strength and is a key element of the improvement we have made to our cheese business over the past ten years. We now have a very well invested cheese supply chain, which has been completed this year with our new packing facility at Nuneaton. There is still a significant opportunity to develop branded cheese sales further and we are well placed to lead this. Our French spreads acquisition has lived up to the high expectations we had when we purchased this business in 2007 and provides a valuable platform into Continental markets which over time will enable us to develop our overseas business further.

Our Dairies division has made real improvements in its manufacturing and distribution cost base. Coupled with savings from restructuring our Head Office we have improved our competitive position.

During the year we chose to sell our Stilton and speciality cheese business and the 49% share in Yoplait Dairy Crest. Looking forward this will allow us to increase the Group's focus on brands which we own outright.

There has been one change to the Board this year; the departure of Martin Oakes from his position of Executive Managing Director, Dairies Division. We chose not to replace Martin on the Board. Mike Sheldon and Toby Brinsmead, who are the Managing Directors of our Household and Liquids businesses respectively, now report directly to Mark Allen. This structure is working well. Since the end of the year David Richardson has announced that he will leave the Board when a suitable replacement has been found. That process is underway. We thank Martin and David for their contributions.

I continue to value the relationship we have with our dairy farmers who have supplied us with milk during the year. They play a key role in our business. It is important that we continue to take their views into account as we move forward and I believe we have the right structure in place to do this.

The improvements we have made this year would not have been possible without the hard work of all our employees. We have a strong workforce, led by an experienced and well-motivated leadership team. In the tough trading environment we failed to achieve the demanding targets we had set ourselves and as a result our employees have not received discretionary bonuses this year. However we value the work they have done and I would like to thank all employees for their contribution to the success of the Group.

Overall I am pleased by the progress the Group has made and that our business is becoming increasingly robust. We remain a broadly based dairy business and I am happy that this model offers a strong base from which we can continue to grow.

Simon Oliver, Chairman  
18 May 2009

*\* Excludes exceptional items, amortisation of acquired intangibles and the interest credit in respect of defined benefit pension schemes.*

## Chief Executive's Review

### Making Progress in Difficult Times

#### Overview

Dairy Crest has made significant progress in a number of areas during the year. Our brands have again delivered good growth and we have continued to reduce costs and improve efficiencies. We have made progress on our plans to move from commodity processor to added value food manufacturer by disposing of our Stilton and speciality cheese business and the sale of our 49% stake in Yoplait Dairy Crest Limited allows us to focus more strongly on core brands we own outright.

However, we have also had to meet the challenge of a global recession and the most difficult dairy commodity markets that many in the industry have ever witnessed. Against this backdrop our financial performance in the year has been sound.

This year we have made a material reduction in our net debt, our brands are in good shape and our profits are in line with our November 2008 forecast.

#### Market Environment

Consumers are at the heart of our business and we have worked with our major retail customers to offset the difficulties consumers have faced from the recession. By advertising, and importantly, promoting our brands more in both the UK and on the Continent we have delivered good brand growth in the year. We will continue with this strategy into 2009/10. We are convinced that this investment is in the best interest of shareholders in the medium and longer term.

Our doorstep business, which had consistently improved decline rates over a number of years, was adversely impacted by the recession and by the need to pass on higher raw milk prices in the early part of the year. This has been addressed; milk prices have fallen by around 10% since February 2009 and the decline rate has started to improve.

It is not just consumer markets that became tougher during the year. World dairy commodity prices fell dramatically as increased production outpaced demand. Inevitably this had an adverse effect on the profitability of our Ingredients business. Dairy commodity returns remain low as we enter 2009/10 and we have taken steps to reduce the amount of milk balanced into skimmed milk powder as well as reducing our milk purchase prices.

#### Financial Results

The Group's turnover increased to £1,648 million (2008: £1,570 million). This 5% increase reflects good volume growth across our key brands and higher prices achieved across the range of our products.

Group profit before tax was up 56% at £103.2 million (2008: £66.0 million). After adjusting for £26.4 million of exceptional profit (2008: £21.1 million cost), £6.9 million pension interest credit (2008: £10.1 million) and £9.6 million of acquired intangible amortisation costs (2008: £9.0 million) adjusted profit before tax was down 8% at £79.5 million (2008: £86.0 million). Basic earnings per share were 56.8 pence (2008:40.2 pence). Adjusted basic earnings per share decreased by 13% to 45.0 pence (2008: 51.7 pence).

Group net debt at 31 March 2009 was £415.8 million, £59 million lower than at 31 March 2008 when the debt was £474.8 million. This reflects the proceeds from the sale of the 49% stake in Yoplait Dairy Crest, which was sold during the year. Although our Euro denominated debt increased as sterling weakened in the middle of the year we offset this by increased focus on cash management. As an example we reduced our year end debtors by £48 million this year. During December 2008 and January 2009 we swapped €225 million of Euro denominated debt into sterling to reduce the effect of future currency movements on the Group's net debt and banking covenants.

## **Growing Brands**

Our brands have made good progress this year. We felt it essential to continue to promote our brands in order to provide hard-pressed consumers with the value they were looking for and to reassure them, through advertising, of the quality our brands deliver. This strategy created strong growth in the year and leaves our brands well placed to continue to deliver during the downturn.

Cathedral City remains by far the UK's most popular cheddar brand and is now the 21<sup>st</sup> largest UK food and drink brand as measured by the Grocer trade magazine. It has annual retail sales in excess of £190 million. The brand has grown market share and remains larger than the next three cheddar brands combined. We are particularly proud of the progress we have made with Cathedral City since we bought the brand in 1995 when annual sales were less than £20 million. By investing in product quality, television advertising and innovative packaging we have grown sales to their current level.

Our two key UK spreads brands; Clover and Country Life have also grown strongly over the year. Clover is up 29% by volume and 33% by value and Country Life is up 29% by volume and 24% by value. Both have benefited from increased expenditure on television advertising. A particular highlight has been the success of the Country Life "Great British Butter" advertising campaign, featuring John Lydon.

In France, our Spreads business, St Hubert, has delivered in line with expectations and has made a significant contribution to the profitability of the Group as a whole.

This year St Hubert has strengthened its leading market positions in France and Italy. In France, St Hubert Omega 3 is the leading 'health' spread and has increased its market share to 21%, an all time high. In Italy, St Hubert's subsidiary, Valle' Italia, remains the clear market leader with a market share of 55%.

## **Innovating now and for the future**

A key element of our strategy is innovation to ensure that we can continue to meet ever-changing consumers' needs. Innovation is not restricted to developing new products, where we have been successful; it is also about finding new ways of carrying out business that can reduce costs and increase efficiencies and capacities.

Our 'lighter' brand extensions have seen strong sales growth during the year. As well as promoting the good things in dairy products we also recognise that we need to offer our consumers choice. We are really pleased with the progress we have made in developing lower fat alternatives that do not compromise on taste. Our reduced fat cheese, Cathedral City Mature Lighter, has 30% less fat than standard cheddar and now accounts for over 10% of total Cathedral City sales. Together our three "lighter" brands had combined retail sales of more than £40 million in the year, over double those of 2008.

Product innovation has not been solely focussed on our brands. We have worked with Sainsbury's and Morrisons to develop and supply milk with only 1% fat. The development of new products for our retail customers is a key part of our strategy going forward.

Our investment in a new cheese packing facility at Nuneaton is progressing well. This gives us the opportunity to develop new and innovative packaging formats as it becomes operational this year.

We are accelerating our investment in our new doorstep internet proposition, milk&more. This will increase sales of products to doorstep customers. It offers them an innovative solution, allowing them to order and pay on-line. Having extensively trialled this service this year and invested in a new website, we will roll milk&more out across around 120 depots this summer.

We have completed our investment in two new Regional Distribution Centres for our Dairies division, this will reduce costs and free up valuable capacity in our dairies.

## **Cutting Costs**

In times of recession controlling costs and improving operational efficiencies are even more important. Early in the year we identified the need to improve our value offer to consumers. One of the ways to do this was to make sure our cost base was minimised.

We carried out a review of our central and support functions and as a result implemented a head office restructure in September 2008. This reduced headcount by around 100 people and positioned us better for the rapidly changing market.

Controlling our Dairies division's costs is vitally important. We have made particularly encouraging progress in this respect, especially in the reduction of waste in our dairies. Following on from the closure of Totnes in September 2007 we shut the Nottingham dairy in February 2009. We have also closed 15 household depots over the year. These reductions enable us to deliver competitive prices for our customers and consumers without compromising on service or quality. They also mean that over time we can improve the returns for our shareholders.

### **Focussing the business**

Our long-term plan remains to reduce exposure to commodity markets and focus on brands which we own outright. The decisions to make two significant disposals are in line with this. In August 2008 we sold our Stilton and speciality cheese business and in March 2009 we sold our 49% stake in Yoplait Dairy Crest. These sales allow greater focus on the ongoing parts of our business and reduce our exposure to external influences.

### **Looking after our people and the community as we grow**

Dairy Crest is a responsible business. In 2009 we have continued with our plans to reduce our impact on the environment. In particular we have developed innovative new packaging, which gives consumers the ability to buy their milk in bags rather than plastic bottles. This reduces material usage and makes recycling easier. Our factories have cut down on water usage; for example at Davidstow the water used to clean the factory is condensed as part of the whey handling process. In conjunction with our dairy farmer suppliers we have developed an on-farm environmental scorecard. This project will help to reduce the carbon footprint of the milk we buy.

We continue to train and empower our people so that every employee can maximise their individual potential and take responsibility for their actions. We have repeated our staff survey, first carried out in 2007. Results are encouraging with the overall engagement score improving by 6%. We have also implemented a comprehensive new induction programme for new employees and introduced a value-based leadership training programme.

We continue to work with our customers and suppliers to build responsible supply chains. All four of our major liquid milk customers have established milk groups, linking them with dairy farmers. These groups benefit customer and supplier and help give the industry much needed stability.

### **Outlook**

The market downturn is well documented. Against this difficult background we have delivered a sound performance and taken a number of actions to position the business now and for the future. Our plans for 2009/10 are to maintain our focus on cash management and to continue the development of our key brands.

We are a broadly based dairy business. The benefits of this will be demonstrated during 2009/2010 as stock profits in our cheese business unwind and those in our Dairies division increase to compensate.

Trading at the start of the year is in line with expectations and we believe that our business is in good shape to deliver in the year ahead. In addition we are well placed to benefit when the external environment improves.

Mark Allen, Chief Executive  
18 May 2009

## **Operating Review**

### **Foods Division**

The Foods Division comprises the UK cheese and butters and spreads businesses along with St. Hubert, our French and Italian spreads business and, up until its disposal in March 2009, our share of the Yoplait Dairy Crest joint venture. The Division has had a very successful year, with revenue up 7% and profit on operations\* up 25% to £101.1 million. Operating margins\* of 17% were the highest ever.

The division's strategy is to focus on brands and this has improved profits over recent years. This year nearly 80% of the sales of the Foods division are branded. To generate more momentum we have further concentrated our marketing expenditure behind our core brands, Cathedral City, Clover, Country Life and St Hubert and spent over 40% more on these brands in the year. As a result, all these brands are in strong share growth and well placed for the future.

Investment in innovation has enabled us to give consumers the choice of buying healthier products without having to compromise on taste or quality. We built upon our previous success with Country Life Lighter and Cathedral City Lighter and have now launched Clover Lighter in the UK and St Hubert Leger in France.

In Foods we will focus on brands and businesses where we can add value and where we own the brands outright. Accordingly, in July 2008 we sold our Stilton and speciality cheese business, based at Hartington, to Long Clawson. In March 2009 we sold our 49% share of the UK chilled yoghurts and desserts joint venture with Yoplait S.A.

Following these sales we have fewer manufacturing sites to invest in. We continue to concentrate on the elimination of waste and inefficiency in order to keep our costs in line with affordability.

### **UK Spreads and St. Hubert**

#### **UK Spreads**

Our UK butters and spreads are manufactured in two factories at Kirkby in Liverpool and Crudgington in Shropshire, and distributed via our national distribution centre in Nuneaton to UK retailers.

The UK market for butter and spreads grew by 12% in the year to March 2009, reaching £1.1 billion. This was primarily as a result of price increases to offset input cost inflation, and volumes were down slightly overall (-0.6%). The largest growth came in the dairy spreads and well-being segments.

The second half of the year was characterised by a significant rise in promotional sales across the market as consumers became increasingly hard-pressed. This has lowered total margins without increasing overall consumption.

Dairy Crest recognised the need to provide value to our consumers and accordingly we chose to promote our brands more. This, along with our focus on advertising, contributed to their increased market share and enabled us to far exceed the market growth rate. Together our brands achieved 23% value growth and we were the only major manufacturer in volume growth at +12%. We now enjoy a 20% share of the total butters and spreads market.

All of our dairy spreads brands have performed well in the year, with strong growth on both Clover and Utterly Butterly. Clover, now fully recovered from the previous year's operational issues, grew by 33% in value and 29% in volume. Utterly Butterly grew by 19% in value and 1% in volume. The launch of Clover Lighter has been a big success, and now accounts for over 15% by value of the brand. In terms of trial and repeat purchase levels it has been the most successful launch in the butters and spreads category in the past five years.

Our butter brand, Country Life, has also continued to grow strongly, out-performing the butter and spreadables segments, with sales up 24% in value and 29% in volume. The brand was relaunched with a

very strong television advertising campaign, which emphasised the provenance of Country Life as the only major British butter, featuring ex-Sex Pistol John Lydon as a tongue-in-cheek spokesperson. This, plus a highly effective promotional campaign, and continued strong growth for the lighter variant, has propelled the brand to £60 million at retail value. Within the Dairies Division the re-branding of Dairy Crest milk to Country Life is further expanding the brand footprint.

With Clover Lighter, Country Life Spreadable Lighter, Utterly Butterly with Omega 3, and Vitalite we are proud of the choice we offer today's health-conscious consumer.

### **St Hubert**

St Hubert was acquired in January 2007 from Uniq, and has now become an integral part of the Dairy Crest Group. We manufacture at our Ludres factory in Eastern France, for distribution across France and to Italy. The business continues to strengthen its leading market positions in France and Italy and, despite difficult market conditions, its performance since acquisition has beaten our expectations.

The total non-butter French spreads market has remained flat by value at €387 million, with the "health" segment continuing to grow by 2%. Within this market our leading brand, St Hubert Omega 3, has strengthened its market leadership, with value growth of 10% (volume +5%) to achieve an all time high value share of 21% of the French spreads market. Overall St Hubert has held market share.

In a difficult economic context, French consumers have increased their purchases in hard discounters, who now represent almost 15% of retail sales. In September 2008 we successfully entered this channel with the St Hubert brand.

St Hubert's subsidiary, Valle' Italia, remains the undisputed leader of the Italian spreads market. With renewed media support, Valle' has grown by 8% in value, achieving a market share of 55%.

As in the UK, we are broadening the choice offered to health-conscious consumers. In France, St Hubert Omega 3 introduced a Lighter variant to the range, and in Italy we launched Valle' + Leggera, whose performance is encouraging.

### **Cheese**

The UK cheese retail market continues to grow, and is now worth nearly £2.3 billion. The market grew by 13% in value and 0.6% in volume in the 52 weeks to March 2009. The cheddar category grew by 17% in value (1.5% in volume). Within this branded cheddar continued to outperform and increased its market share, growing by 9% in volume and 21% in value to £503 million.

Our flagship brand, Cathedral City, is the leading cheese brand in the UK. It is made at our well-invested creamery in Davidstow, Cornwall and delivered to retailers from our national distribution centre in Nuneaton. In addition some of the cheddar made at Davidstow is sold under the Davidstow label as a retailer brand. We also have a cheddar factory in Wexford, Eire, producing both branded and unbranded cheese.

Cathedral City has again outperformed the category, with volume sales up 9% and value up 22%. The brand now sells £192 million at retail prices, has a 15% share of total cheddar (38% of branded), and is ranked 21<sup>st</sup> in Nielsen's top 100 UK grocery brands. This performance reflects our brand-building investment, as well as a successful promotional program.

We continue to prove that we can add real consumer value to everyday cheese. Sales of Cathedral City Lighter, our reduced-fat cheese, have increased by 91% by value in the year. In September 2008 we launched Cathedral City Vintage 20, and at the Nantwich international cheese show a Davidstow recipe won Supreme Champion – for the second year in a row.

The Davidstow named creamery brand has performed less well as increased Cathedral City sales allowed us to reduce the high levels of Davidstow brand promotions from the previous year. Overall sales were down 21% by volume and 3% by value.

During the first half of the year the cheese business benefited from selling cheese made with lower milk prices in the previous year, but by the second half that situation had reversed. With a strong increase in Irish cheddar imports, promotional pressure increased significantly. We responded by increasing marketing and promotional expenditure to ensure the continued strong performance of Cathedral City.

In the last quarter of the year we started to commission our new, highly automated, cheese cutting and packing facility at our national distribution centre and maturation store in Nuneaton. We remain on track for full-scale production by mid 2009. This completes our plans to achieve a world-class supply chain for cheese linked to our state-of-the-art creamery at Davidstow, served by a dedicated pool of local dairy farmers.

As with our butters and spreads range, we have been successful in launching alternative cheese recipes to suit health-conscious consumers. The Cathedral City Lighter variant has been extremely successful and enjoys around 90% of the branded lower-fat segment. The launch of a lighter variant of the Davidstow brand will further enhance our range in the coming year.

### **Dairies Division**

The Dairies division comprises Dairy Crest's Liquid Products and Ingredients and Household activities. Revenue in the year increased by 4%, reflecting higher milk prices. However profit on operations\* fell to £7.9 million in difficult trading conditions. A number of actions have been taken to address this, including reducing the price we pay for milk.

### **Liquid Products and Ingredients**

Dairy Crest's Liquid Products business processes and delivers fresh conventional, organic and flavoured milk to major UK retailers. It also manufactures, markets and sells Friij, the leading fresh flavoured milk brand as well as potted creams including speciality and seasonal offerings and milk powders.

The business has four milk packing dairies located at Severnside in Gloucestershire, Chadwell Heath in London, Fenstanton in Cambridgeshire and Foston in Derbyshire. A large proportion of our potted cream and all our speciality seasonal creams, as well as our retail milk powders are made at Chard in Somerset. Friij is made at our Severnside dairy.

Our Ingredients operation, which is also based at Severnside, provides the Dairies Division with a flexible balancing solution and deals with the Group's by-products. Surplus milk in the spring and milk arising from short term supply and demand differences is processed into a range of food industry products, primarily skimmed milk powder and bulk butter. These products, along with whey powder produced by our Foods Division, are sold both domestically to major food companies and exported by a specialist team. The Ingredients business also operates in added value ingredients through our Wessex Dairy Products business and our Joint Venture interest in Fayrefield Foodtec.

Consumption of fresh conventional milk has remained steady year on year in terms of volume. However, there has been a 13% growth in value as prices rose, reflecting input cost inflation. Sales of higher fat milk have declined as consumers continue to switch to healthier, lower-fat products.

Organic milk accounts for around 5% of total milk sales. The growth in consumption of organic milk seen over recent years has stalled as consumers have reacted to the economic downturn. There is also some evidence that consumers have become more interested in locally sourced produce and provenance, rather than organic.

The market for fresh flavoured milk grew both in terms of volume and value, (14% and 15% respectively), with branded growth taking the lead. Strong growth in the consumption of healthier cream options such as Crème Fraiche, have led to the total cream market showing growth of 9% in value.

Our Liquid Products business increased its share of supplies to the retail liquid milk market by delivering both volume and value growth ahead of the market. Dairy Crest supplies major retailers, including sole supply for Waitrose and Marks & Spencer and 50% share of supply to Sainsbury and Morrisons. During the year our sales grew by 17% in value and 4% in volume.

Our sales of organic milk to the major retailers remained steady during the year. Distribution of our Country Life organic milk brand was extended towards the end of the year and this will deliver growth in 2009/10.

Frijj, our leading flavoured milk brand, grew by 23% in value terms and 17% in volume. This growth means Frijj annual retail sales have exceeded £40 million for the first time. The brand has a 50% share of the fresh milkshake category and continues to attract new consumers. Supported by our innovative and successful "Four Ridges" media campaign and by the ongoing introduction of Limited Editions, there were one million more Frijj drinkers this year compared to last.

The business continues to focus on driving efficiency to improve its costs of production and the quality and service provided to its customers.

To support our ongoing commitment to cost reduction and to maintain the long-term sustainability of the business we continued to invest in its infrastructure. Our Foston Dairy, which was acquired in 2005 from Starcross Foods Limited, has been the focus of significant capital investment over the last two years. For a total investment of £34 million we have developed this site into an efficient facility with current capacity of around 250 million litres and the potential to expand beyond this. During the autumn of 2008 the business commissioned a new Regional Distribution Centre in Aldridge in the West Midlands. This facility, together with our existing RDC in Collumpton, compliments the distribution operations run from our dairies and means the business has considerably increased its geographical reach and improved its supply chain efficiency.

Health and the environment have been key areas of focus for our innovation team over the last year. We launched 1% fat milk for Sainsbury and Morrison in the year and sales are growing strongly. We also rolled out our milk pouch and Jugit packaging solution in Sainsbury and Waitrose. The pouch uses 75% less packaging than a standard polybottle. In 2009/10 we will continue to drive listings of pouch and launch it through our doorstep business.

Our Ingredients operation had a difficult year. The markets for dairy commodities such as skimmed milk powder and bulk butter have been depressed over the last year. Peaking in the autumn of 2007, the market went into steep decline over the winter and into the spring of 2008. The difference between the realisations from these markets and the price we paid our suppliers for their milk widened considerably to unprecedented levels. As market prices fell, trading activity also slowed and as a consequence, stocks grew.

By focussing on raw milk utilisation we were able to reduce the amount of milk put through our Ingredients business in the second half of the year and minimise the impact of the market slowdown. By the year-end, we had managed commodity stocks back down to below £5 million, in line with previous years.

Since February 2009 milk purchase prices have started to fall, partially reflecting the ongoing low returns from dairy commodity markets. We have reviewed our milk purchasing requirements to minimise the amount of milk we process through our Ingredients business.

Our Liquids business has continue to progress since the year end and has recently secured additional business with the Co-operative Group. The focus remains on increasing efficiency and improving the quality and service offered to customers.

### **Household**

Dairy Crest's Household business delivers fresh milk and a wide range of other products. We have over 1.3 million doorstep customers, over 20,000 'middle ground' customers ranging from coffee shops to hospitals, and we also supply milk to around 1,000 independent dairymen, most of who have their own doorstep customers.

The business has an extensive distribution network across England and Wales, with over 3,800 employees and another 1,500 franchised milkmen, 150 depots and 3,500 vehicles. Milk is bottled at dairies located at Aintree in Liverpool, Hanworth in London, and Fenstanton in Cambridgeshire.

Although sales to doorstep customers have fallen over the years as more consumers purchase their milk from the big supermarkets, we are working hard to reverse this trend. We have carried out detailed analysis of our customer base and have found that they value the convenience of having their milk and other essentials delivered, provided we can get the right products and service levels. Customers appreciate the familiar face of their milkman, especially when he delivers against all odds during the sort of snowfalls we saw in February 2009.

Against this background we have invested in our new internet-based, doorstep delivery service, 'milk&more', which now has 67,000 registered customers. This will give our doorstep customers a contemporary shopping experience delivered by the traditional milkman. It will allow consumers to order over 100 products through the internet for their next doorstep delivery and will let us compete with convenience stores for top-up purchases. Over the past year we have extended trials of milk&more from 5 depots to 30 depots. We have built a new website, enhancing users' experience and we have confirmed that we will roll milk&more out nationally to around 120 depots over the summer of 2009. Our trials have shown that milk&more users spend more with us and it also helps with cash collection.

During the year turnover in the Household business rose slightly on the back of higher prices. However the increasingly tough consumer environment and the need to recover higher milk prices at the start of the year adversely affected profits. These factors increased the underlying net annual decline rate to over 10%, although it has since fallen back below this level.

To differentiate our milk we have rebranded it using our Country Life brand and we have also increased the amount of organic milk we sell to doorstep consumers.

Our doorstep delivery service is recognised as being environmentally friendly. We use electrically powered milk floats where possible and over 80% of the milk we supply to our doorstep customers is in returnable glass bottles, which are used nearly 20 times each.

The business has been proactive in controlling its costs. In February 2009 we completed the closure of a bottling dairy in Nottingham and we also shut 15 depots during the year. We continue to work with the suppliers of the products we sell through our business to control costs and to ensure we are able to give our customers the best possible range and value.

Looking forward, falling milk costs will benefit this business and we will continue to drive out other costs to ensure we can offer our consumers the best possible value without compromising service levels. We are excited about this year's full launch of milk&more.

*\* Excluding amortisation of acquired intangibles and before exceptional items.*

## Financial Review

### Overview

Despite a challenging economic environment, especially in the second half of the year, the Group has delivered strong cash flow, maintained investment in its brands and delivered profit in line with expectations.

2008/09 saw unprecedented volatility in financial markets and commodity prices. Key cost inputs (namely milk, energy, diesel, vegetable oil) were all increasing at the start of the year but fell sharply during the second half. Furthermore, realisations from milk by-products (cream, skimmed milk powders) decreased significantly during the year dramatically increasing the cost to the Group of balancing surplus milk by processing into ingredients. Additionally, Sterling depreciated against the Euro in the second half and the UK property market weakened which has limited our ability to sell surplus depots at acceptable prices.

The economic downturn and reduced levels of credit availability have decreased consumer confidence. Against this backdrop, promotional activity has increased markedly in the Food sector as retailers focus on value propositions. Our brands have performed well but the increased level of promotional activity inevitably impacts margins.

In this environment, the Group priorities are:

- to deliver strong net cash flows in the short term further reducing gearing levels;
- to invest in brand strength to ensure that our brands are well placed as consumer confidence recovers in the future; and
- to deliver improved earnings per share and return on capital employed.

### Revenue

Reported Group revenue from continuing activities increased by 5% to £1,647.6 million, principally reflecting the impact of price increases in the prior year, increased volumes across our key brands and the translation impact of Sterling weakness on St Hubert revenues. Group revenue, including our share of joint ventures, increased by 5% to £1,717.9 million.

### Profit on operations

In this review, except where otherwise indicated, profit on operations is from continuing operations, includes our share of joint ventures' pre-exceptional post-tax profit and is stated before exceptional items and amortisation of acquired intangibles. On this basis, Group profit on operations decreased by 2.9% to £109.0 million, generating an operating margin of 6.3%. Reported profit on operations from continuing operations after exceptional items was £68.1 million (2008: £74.4 million) a decrease of 8.5%.

The Foods division's profit on operations increased by 25.4% to £101.1 million reflecting a strong Spreads performance compared to last year when results were adversely affected by the Clover recall in May 2007. Furthermore, Sterling weakness in 2008/09 has improved reported St Hubert profits when translated into Sterling. Operating margins in the Foods division increased from 14.2% to 16.6%.

The Dairies division has been impacted by losses in our Ingredients operations due to sharp falls in realisations in the second half. Additionally, the doorstep decline rate increased in the Autumn although this has since improved. Finally, property profits of £4.3 million are £2.3 million lower than last year reflecting the weak UK property market. Profit on operations fell to £7.9 million as a result of these factors however the closure of the Nottingham dairy further improved the liquids operational cost efficiencies and fresh milk volumes have increased in the year. Dairies margins decreased from 3.0% to 0.7%.

### Exceptional items

Exceptional gains of £26.4 million represent the profit on disposal of our share in Yoplait Dairy Crest Limited ('YDC'), the loss on disposal of our Stilton and speciality cheese business, the closure of the Nottingham dairy (and associated distribution changes), the extra costs of dual running our new cheese cutting and packing facility at Nuneaton with the existing packing agreement, a non-cash asset impairment in relation to our business in Wexford and final amounts in relation to exceptional costs charged in 2007/8, namely the onerous contract provision and the closure of a dairy in Totnes, Devon.

On 26 March 2009 we sold our 49% investment in YDC to Yoplait SAS for gross consideration of £63.5 million resulting in a Group profit on disposal of £50.4 million.

On 23 August 2008 we sold the property, plant and equipment and inventories of our Stilton and speciality cheese business based in Hartington, Derbyshire to Long Clawson Dairy Limited for gross consideration of £3.8 million resulting in a Group loss on disposal of £4.5 million.

During the second half of the year, we closed our dairy processing plant in Nottingham and reconfigured our milk distribution arrangements by moving to regional distribution centres ('RDCs'). As previously announced, this restructuring cost has been treated as exceptional and amounted to £7.2 million, of which £2.1 million related to asset impairments and £5.1 million were cash costs being principally costs of redundancy.

Since the sale of our commodity cheese business in October 2006 to First Milk Limited, the purchaser has been cutting and packing our product under a transitional agreement. During the year to 31 March 2009 we have completed the building of a new cheese cutting and packing facility at our National Distribution Centre at Nuneaton. This will reduce the physical movement of cheese between sites in the future and allow us to exit the transitional arrangements with First Milk Limited. The plant and equipment was commissioned in early-2009 and volumes have been increasing since that time. We expect to reach the required volumes by July 2009. During this period of volume transferral from First Milk to Nuneaton there are cost inefficiencies at both sites leading to dual running costs until full exit from First Milk is completed. In the year to 31 March 2009 these amounted to £3.7 million and a further £1.0 million is expected to be incurred during the first half of 2009/10.

Weakening realisations from commodity cheese have adversely impacted the performance of our business in Wexford, Ireland. As a result, an impairment of £5.6 million has been charged against the carrying value of plant and equipment in the year ended 31 March 2009.

The unprecedented increase in milk costs in 2007/08 resulted in a long-term supply contract with a middle ground customer becoming onerous in that year. A provision of £4.4 million was charged last year which represented the present value of future cash outflows estimated to result from this contract. The negotiation to exit this contract took more time than anticipated last year however resolution is now expected in the first half of 2009/10 and the contract should cease to be onerous from that time. A final exceptional amount of £1.0 million has been charged in the year to March 2009 reflecting additional cash outflows under this contract versus those anticipated last year and some minor asset impairments.

In September 2007, we closed our Totnes site and an exceptional cost of £4.8 million was charged last year. Delays in the planning process and the very weak UK property market has caused significant delays to the final sale of the Totnes site and in the light of this a further £2.0 million has been charged as exceptional in the year ended 31 March 2009 in order for the carrying value of the property to reflect our revised best estimate of fair value less costs to sell.

### **Interest**

Finance charges have increased by 12.6% to £29.5 million principally as a result of the translation effect on Euro-denominated interest costs. The decision to reduce Euro-denominated debt in the second half will reduce the exposure of interest costs to exchange movements in the future. Currently, approximately 70% of Group debt is at fixed rates of interest through fixed coupon loan note issues or interest rate swaps.

Other finance income comprises the net expected return on pension scheme assets after deducting the interest cost of the defined benefit obligation. This resulted in a credit of £6.9 million in the year ended 31 March 2009, a decrease of £3.2 million compared to the previous year. This amount can be highly volatile year on year as it is dependent upon financial market conditions on a specific day, namely 31 March. This volatility and the fact that the amount bears no relation to the underlying operational performance of the business have led us to exclude this item from 'adjusted profit before tax – see below.

Interest cover excluding the pension interest credit, calculated on adjusted profit from operations, remains comfortable, at 3.7 times (2008: 4.3 times).

### Adjusted profit before tax

The Group's adjusted profit before tax on a historic basis (calculated on continuing operations, before exceptional items and amortisation of acquired intangibles) was £86.4 million (2008: £96.1 million). This definition has been revised to exclude other finance income relating to pensions. Under this measure, the Group's adjusted profit before tax was £79.5 million (2008: £86.0 million). The reconciliation to reported profit before tax is as follows:

	2009			2008		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit from continuing operations before tax	76.8	26.4	103.2	87.1	(21.1)	66.0
Amortisation of acquired intangibles	9.6	-	9.6	9.0	-	9.0
Adjusted Group profit before tax	86.4	26.4	112.8	96.1	(21.1)	75.0
Pension interest credit	(6.9)	-	(6.9)	(10.1)	-	(10.1)
<b>Revised adjusted Group profit before tax</b>	<b>79.5</b>	<b>26.4</b>	<b>105.9</b>	<b>86.0</b>	<b>(21.1)</b>	<b>64.9</b>

Profit before tax from continuing operations after exceptional items, reported under IFRS, was £103.2 million (2008: £66.0 million).

### Taxation

The Group's effective tax rate on profits excluding exceptional items and including joint ventures' tax was 26.8% (2008: 23.2%). The effective tax rate is below the mixed UK / France statutory rate of corporation tax due to:

- the profit on depot disposals (£4.3 million) being sheltered by rollover relief and brought forward capital losses; and
- the benefit of certain tax efficient financing structures that were implemented on the acquisition of St Hubert.

The increase in effective rate of tax compared to last year is due to lower property profits (which are tax free), a higher proportion of St Hubert profits and tax due to Sterling weakness (French profits are taxed at higher rate), the lost benefit from the St Hubert financing structures following the March 2008 budget and the extra benefit in 2007/08 of deferred tax balances being reduced as the UK rate of corporation tax reduced from 30% to 28%. The effective rate of tax is expected to increase next year to approximately 28%.

Furthermore, the first half of 2008/09 saw the enactment of the cessation of industrial buildings' allowances. Under IFRS the Group must recognise a non-cash deferred tax liability which will unwind over 25 years. This deferred tax liability was charged as exceptional tax in the first half and amounted to £14.3 million.

The reported Group effective tax rate from continuing operations is 28.0% (2008: 18.9%)

### Group profit for the year

Reported Group profit for the year after discontinued operations increased by 35.8% to £74.3 million (2008: £54.7 million).

### Earnings per share

The Group's adjusted basic earnings per share from continuing operations decreased by 13.0% to 45.0 pence per share (2008: 51.7 pence per share). This measure has been amended to exclude the pension interest credit consistent with our adjusted profit before tax measure going forward. Under the old

measure, adjusted earnings per share decreased by 14.5% to 48.8 pence per share (2008: 57.1 pence per share). In the year to 31 March 2009, Yoplait Dairy Crest contributed £7.1 million of profit after tax and 5.4 pence per share.

Basic earnings per share from continuing operations which includes the impact of exceptional items, pension interest income and the amortisation of acquired intangibles, increased by 41.3% to 56.8 pence per share (2008: 40.2 pence per share). This reflects the exceptional profit on disposal of YDC in the year ended 31 March 2009.

A diluted earnings per share calculation, which reflects the impact of potential ordinary shares from unvested share option schemes, is presented for both the basic and adjusted earnings per share amounts.

### **Dividends**

The proposed final dividend of 13.0 pence per share gives a total dividend of 20.1 pence per share for the full year. The proposed final dividend represents a 25% rebasing compared to last year. The final dividend will be paid on 6 August 2009 to shareholders on the register on 26 June 2009. The interim dividend paid on 29 January 2009, was 7.1 pence per share. If this had been subject to the rebasing noted above the payment would have been 5.3 pence per share.

### **Pensions**

The total pension deficit at 31 March 2009 was £63.3 million compared to a £31.6 million surplus at 31 March 2008. The position worsened due to the unprecedented weak performance of equity and bond markets during the year partly mitigated by increased AA corporate bond yields, which under IAS 19 are used to discount pension liabilities. The Group paid an additional £12 million into the main UK scheme during the year. Looking ahead, the Group will resume deficit funding contributions at a rate of £20 million per annum from October 2009.

The reported pension deficit is extremely sensitive to changes in underlying assumptions and will, inevitably, be volatile from year to year. The actuarial loss reported in equity for the year is £118.1 million (2008: £10.7 million gain).

During the year, the Trustee of the pension fund agreed a £150 million transaction with Legal & General to insure around half of the fund's liability for pensions in payment. This structure provides flexibility for Dairy Crest and the Trustee to explore further similar arrangements in the future. For the liabilities insured, the deal provides protection against both financial and demographic pension risks, in particular members living longer than expected. The Fund will continue to pay pensions and members will not be impacted directly as the policy is an investment of the Fund. Dairy Crest remains committed to working together with the Trustee to meet its pension obligations, through a combination of cash funding and strategic investment of the Fund's assets.

### **Cash flow**

Cash generated from operations was £129.1 million in the year (2008: £108.4 million). This includes a working capital inflow of £19.1 million (2008: £7.4 million outflow). The increased working capital inflow in 2008/09 was achieved despite an outflow in relation to stocks of £38.3 million.

The stock increase principally relates to cheese stock inflation due to milk cost increases during 2007/08. In the first half of the year, the remaining lower cost cheese was sold through. Stocks of ingredients peaked at the half year, however the volume of milk processed into ingredients was substantially reduced in the second half and ingredients stock levels of below £5 million at 31 March 2009 are back at normal levels.

There has been substantial progress this year in reducing debtors in our Household business, where the level of trade debtors is approximately £20 million less than at 31 March 2008. A further benefit was the timing of receipt of large customer payments around the year end. Several customers pay monthly around the calendar month end and we benefited in March 2009 from certain customer receipts falling before the year end cut-off. This beneficial timing difference will not necessarily repeat in future periods.

Capital expenditure of £49.3 million (net of grants), was £15.3 million higher than last year (2008: £34.0 million). Significant investment was undertaken at our National Distribution Centre in Nuneaton during the year in order to build and commission a new cheese cutting and packing facility. The spend during the year was £17.2 million and the facility commenced operating in the last quarter with target capacity utilisation expected by July 2009. Cash receipts from the disposal of fixed assets amounted to £22.4 million (2008: £13.2 million) and include £15.5 million from sale of certain plant and equipment at Nuneaton which has been leased back under an operating lease.

Cash interest and tax payments amounted to £30.3 million and £9.2 million respectively (2008: £22.9 million and £6.7 million). Interest payments are £7.4 million higher than last year consistent with the higher interest cost in the profit and loss account. Tax payments remain low in the UK due to additional pension deficit contributions of £12 million on which we receive a tax deduction.

Cash inflows from the sale of businesses of £63.1 million comprise £59.9 million from the sale of our 49% share of Yoplait Dairy Crest in March 2009 and £3.2 million from the sale of our Stilton and speciality cheese business in August 2008. There was minimal expenditure of £0.3 million on infill acquisitions in the Household business during the year.

The Group received £2.9 million in dividends from YDC in the year (2008: £7.3 million) and paid dividends to shareholders of £32.3 million (2008: £30.8 million).

### **Net debt**

Net debt decreased by £59.0 million to £415.8 million at the end of the year as strong operating cash flows and receipts from the sale of businesses more than offset the £36.1 million increase in reported net debt due to the translation effect of weaker Sterling. Net debt is defined such that, where cross currency swaps are used as cash flow hedges to fix the interest and principal payments on currency debt, the swapped Sterling liability is included rather than the retranslated foreign currency debt.

In July 2008 the Group successfully agreed a new 5-year revolving credit facility of £85 million and €175 million which replaced the 2004 facility that was due to expire in June 2009. Despite difficult credit markets the Group succeeded in agreeing unchanged financial covenants in the new facility and had good support from the existing syndicate of banks. The Group remains comfortably within its covenants with the net debt to EBITDA ratio (for covenant purposes) at 31 March 2009 just below 3.0 times.

During the year, the Group reduced its net debt / EBITDA exposure to fluctuations in the Sterling / Euro exchange rate by reducing Euro-denominated borrowings by €225 million. This limits the impact on our banking covenant should Sterling depreciate further in the future.

At 31 March 2009, gearing (being the ratio of net debt to shareholders' funds) was 116% (2008: 122%).

### **Borrowing Facilities**

Group borrowing facilities comprise £321.5 million of loan notes maturing between April 2013 and April 2017, a £100 million multi-currency revolving credit facility expiring in November 2011 and a £85 million plus €175 million multi-currency revolving credit facility expiring in July 2013. At 31 March 2009 there was £234.5 million effective headroom against committed facilities (2008: £191 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.

### **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 uses derivatives only 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.

**Net Assets**

The Group's balance sheet remains robust with net assets of £357.0 million (2008: £387.7 million). Goodwill, intangible assets and property, plant and equipment total £834.2 million (2008: £812.5 million). Inventories of £197.8 million are £38.3 million higher than prior year reflecting the increased cheese stocks referred to above.

**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 and available facilities and have made such other enquiries as they considered appropriate.

Alastair Murray, Finance Director  
18 May 2009

**Consolidated income statement**  
Year ended 31 March 2009

		2009			2008		
	Note	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
<b>Group revenue from continuing operations</b>	2	<b>1,647.6</b>	-	<b>1,647.6</b>	1,569.7	-	1,569.7
Operating costs	3	<b>(1,559.8)</b>	<b>(24.0)</b>	<b>(1,583.8)</b>	(1,480.8)	(27.8)	(1,508.6)
Other income	4	<b>4.3</b>	-	<b>4.3</b>	6.6	6.7	13.3
<b>Profit on operations from continuing operations</b>	2	<b>92.1</b>	<b>(24.0)</b>	<b>68.1</b>	95.5	(21.1)	74.4
Finance costs	6	<b>(29.5)</b>	-	<b>(29.5)</b>	(26.2)	-	(26.2)
Other finance income – pensions	6	<b>6.9</b>	-	<b>6.9</b>	10.1	-	10.1
Share of joint ventures' net profit		<b>7.3</b>	-	<b>7.3</b>	7.7	-	7.7
Profit on disposal of joint venture	5	-	<b>50.4</b>	<b>50.4</b>	-	-	-
<b>Profit from continuing operations before tax</b>		<b>76.8</b>	<b>26.4</b>	<b>103.2</b>	87.1	(21.1)	66.0
Tax expense	7	<b>(18.5)</b>	<b>(10.4)</b>	<b>(28.9)</b>	(17.7)	5.2	(12.5)
<b>Group profit for the year from continuing operations</b>		<b>58.3</b>	<b>16.0</b>	<b>74.3</b>	69.4	(15.9)	53.5
Profit for the year from discontinued operations		-	-	-	-	1.2	1.2
<b>Group profit for the year</b>		<b>58.3</b>	<b>16.0</b>	<b>74.3</b>	69.4	(14.7)	54.7
Profit attributable to equity shareholders		<b>58.3</b>	<b>17.1</b>	<b>75.4</b>	69.1	(14.7)	54.4
Profit attributable to minority interests		-	<b>(1.1)</b>	<b>(1.1)</b>	0.3	-	0.3
<b>Group profit for the year</b>		<b>58.3</b>	<b>16.0</b>	<b>74.3</b>	69.4	(14.7)	54.7

		2009	2008 (Restated)*
<b>Earnings per share – continuing operations</b>			
Basic earnings per share from continuing operations (p)	9	<b>56.8</b>	40.2
Diluted earnings per share from continuing operations (p)	9	<b>56.3</b>	39.9
Adjusted basic earnings per share from continuing operations (p) *	9	<b>45.0</b>	51.7
Adjusted diluted earnings per share from continuing operations (p) *	9	<b>44.6</b>	51.3
<b>Earnings per share</b>			
Basic earnings per share on profit for the year (p)	9	<b>56.8</b>	41.1
Diluted earnings per share on profit for the year (p)	9	<b>56.3</b>	40.8

		2009	2008
<b>Dividends</b>			
Proposed final dividend (£m)	8	<b>17.3</b>	22.9
Interim dividend paid (£m)	8	<b>9.4</b>	9.4
Proposed final dividend (pence)	8	<b>13.0</b>	17.3
Interim dividend paid (pence)	8	<b>7.1</b>	7.1

\* Adjusted earnings per share calculations are based on continuing operations and exclude exceptional items, amortisation of acquired intangibles and the pension interest in relation to the defined benefit pension schemes. Previously, adjusted earnings per share calculations did not exclude pension interest, however this number is dependent upon the pension valuation at 31 March each year and assumptions based on financial market conditions on that date and therefore excluding it gives a better indication of the underlying operational performance of the Group. Comparative numbers have been restated accordingly (see Note 9).

**Consolidated balance sheet**  
As at 31 March 2009

	Note	2009 £m	2008 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		292.1	327.3
Goodwill	10	342.7	313.8
Intangible assets	11	199.4	171.4
Investment in joint ventures using equity method		2.9	5.3
Retirement benefit surplus	12	-	33.6
Deferred tax asset		0.4	0.2
Financial assets – Derivative financial instruments		39.5	-
		<b>877.0</b>	<b>851.6</b>
<b>Current assets</b>			
Inventories		197.8	159.5
Trade and other receivables		137.8	186.1
Financial assets – Derivative financial instruments		1.3	1.1
Cash and short-term deposits		107.5	40.3
		<b>444.4</b>	<b>387.0</b>
<b>Total assets</b>		<b>1,321.4</b>	<b>1,238.6</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities			
- Long-term borrowings		(553.4)	(470.4)
- Derivative financial instruments		(4.1)	(4.0)
Retirement benefit obligations	12	(63.3)	(2.0)
Deferred tax liability		(91.2)	(96.3)
Deferred income		(8.6)	(9.3)
		<b>(720.6)</b>	<b>(582.0)</b>
<b>Current liabilities</b>			
Trade and other payables		(229.4)	(224.8)
Financial liabilities			
- Short-term borrowings		(2.0)	(28.9)
- Derivative financial instruments		(0.4)	(0.4)
Current tax liability		(1.2)	(1.5)
Deferred income		(0.7)	(0.7)
Provisions	13	(10.1)	(12.6)
		<b>(243.8)</b>	<b>(268.9)</b>
<b>Total liabilities</b>		<b>(964.4)</b>	<b>(850.9)</b>
<b>Shareholders' equity</b>			
Ordinary shares	14	(33.3)	(33.3)
Share premium	14	(70.7)	(70.2)
Interest in ESOP	14	1.9	3.7
Other reserves	14	(77.4)	(67.0)
Retained earnings	14	(172.8)	(215.8)
<b>Total shareholders' equity</b>		<b>(352.3)</b>	<b>(382.6)</b>
<b>Minority interests</b>	14	<b>(4.7)</b>	<b>(5.1)</b>
<b>Total equity</b>		<b>(357.0)</b>	<b>(387.7)</b>
<b>Total equity and liabilities</b>		<b>(1,321.4)</b>	<b>(1,238.6)</b>

**Consolidated statement of recognised income and expense**  
Year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Income and expense recognised directly in equity</b>			
Net investment hedges:			
Exchange differences on foreign currency net investments		53.1	49.2
Exchange differences on foreign currency borrowings designated as net investment hedge		(36.8)	(47.1)
Loss on financial instruments designated as net investment hedges		-	(7.8)
Tax on portion of losses designated as post-tax net investment hedges	7	-	7.8
		<b>16.3</b>	2.1
Actuarial (losses)/gains	12	(118.1)	10.7
Cash flow hedges – transferred to income statement		(48.6)	1.5
Cash flow hedges – gains deferred in equity		40.3	4.5
Share of joint ventures' income recognised in equity		1.7	2.7
Tax on items taken directly to equity	7	34.9	(4.5)
<b>Net income recognised directly in equity</b>		<b>(73.5)</b>	17.0
Profit for the year		74.3	54.7
<b>Total recognised income and expense for the year</b>	14	<b>0.8</b>	71.7
Attributable to equity shareholders	14	1.2	70.6
Attributable to minority interests	14	(0.4)	1.1

**Consolidated cash flow statement**  
Year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Cash generated from operations</b>			
Dividends received from joint ventures	16	2.9	7.3
Interest paid		(30.3)	(22.9)
Taxation paid		(9.2)	(6.7)
<b>Net cash flow from operating activities</b>		<b>92.5</b>	86.1
<b>Cash flow from investing activities</b>			
Capital expenditure		(49.3)	(34.5)
Grants received		-	0.5
Proceeds from disposal of property, plant and equipment		22.4	13.2
Purchase of businesses (net of cash and debt acquired)		(1.3)	(5.7)
Purchase of investment in joint venture		-	(2.1)
Sale of investment in joint venture		59.9	3.0
Sale of businesses		3.2	-
<b>Net cash used in investing activities</b>		<b>34.9</b>	(25.6)
<b>Cash flow from financing activities</b>			
Repayment and cancellation of term loans and facilities		(146.3)	(120.1)
New facilities advanced		132.9	111.9
Net repayment under revolving credit facilities		(11.3)	(0.1)
Payment on termination of currency swap		-	(7.8)
Dividends paid	8	(32.3)	(30.8)
Redemption of preference shares		-	(0.2)
Proceeds from issue of shares (net of issue costs)	14	-	0.5
Finance lease repayments		(2.5)	(0.8)
<b>Net cash used in financing activities</b>		<b>(59.5)</b>	(47.4)
<b>Net increase in cash and cash equivalents</b>		<b>67.9</b>	13.1
Cash and cash equivalents at beginning of year	17	38.9	24.9
Exchange impact on cash and cash equivalents	17	0.7	0.9
<b>Cash and cash equivalents at end of year</b>	17	<b>107.5</b>	38.9
<b>Memo: Net debt at end of year</b>	17	<b>(415.8)</b>	(474.8)

## Notes to the financial statements

The preliminary Report for the year ended 31 March 2009 was approved by the Directors on 18 May 2009.

### 1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards ("IFRS") and International Financial reporting Interpretation Committee ("IFRIC") interpretations as endorsed by the European Union, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The accounting policies applied are consistent with those described in the Annual Report and Financial Statements 2008.

The financial information set out in this document does not constitute the statutory accounts of the group for the years ended 31 March 2009 or 31 March 2008 but is derived from the 2009 Annual Report and Financial Statements. The Group Annual Report and Financial Statements for 2009 will be delivered to the Registrar of Companies in due course. The auditors have reported on those accounts and have given an unqualified report which does not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

### 2 Segmental information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced. The Group is segmented into two divisions, Foods and Dairies according to the nature of the products sold and the markets serviced. The Foods segment comprises predominantly branded cheese and spreads sold via the multiples. It includes both the UK Spreads business and the St Hubert business acquired in January 2007 since both supply similar product to similar markets using the same production and distribution methods. The Dairies segment comprises predominantly liquid milk sales via the multiples, middle ground or doorstep. The Household business is included within the Dairies segment as its operations are mutually interdependent with the liquid milk business. All revenue is derived from the sale of goods. Inter-segment sales of cream from Dairies to Foods amounted to £41.0 million in the year ended 31 March 2009 (2008: £42.6 million). Transfer prices are based on delivered cost to the Group.

The Group's geographical segments are based on the location of the Group's assets. The Group has two geographical segments being 'UK and Ireland' and 'Rest of World'. The Wexford business, based in Ireland, generates the majority of its revenue from sales into the UK and operated under similar economic and political conditions to the UK. As a result, the UK and Ireland businesses have been combined into one geographical segment. Sales to 'Rest of World' disclosed in geographical segments are based on the geographical location of customers. The Rest of World category comprises the St Hubert business and ingredients and finished goods exports from the UK.

#### Primary segment analysis: Business

	2009			2008		
	Foods £m	Dairies £m	Total £m	Foods £m	Dairies £m	Total £m
<b>Revenue and results</b>						
<b>Segmental revenue</b>	<b>537.3</b>	<b>1,110.3</b>	<b>1,647.6</b>	-	499.6	1,070.1
Segmental results (before exceptional items)	85.3	6.8	92.1	-	64.8	30.7
Exceptional items	(13.8)	(10.2)	(24.0)	-	(3.6)	(17.5)
<b>Segmental results</b>	<b>71.5</b>	<b>(3.4)</b>	<b>68.1</b>	-	61.2	13.2
Finance costs			(29.5)			(26.2)
Other finance income – pensions			6.9			10.1
Share of joint ventures' net profit (Foods)			7.3			7.7
Profit on YDC disposal (Foods)			50.4			-
<b>Profit before tax</b>			<b>103.2</b>			<b>66.0</b>
Tax (expense)/relief			(28.9)			(12.5)
<b>Profit for the year</b>			<b>74.3</b>			<b>53.5</b>
<b>Assets and liabilities</b>						
Segment assets	800.2	369.6	1,169.8	739.6	418.5	1,158.1
Investment in joint ventures	2.9	-	2.9	5.3	-	5.3
	803.1	369.6	1,172.7	744.9	418.5	1,163.4
Unallocated assets			148.7			75.2
<b>Total assets</b>			<b>1,321.4</b>			<b>1,238.6</b>
Segment liabilities	(110.4)	(138.4)	(248.8)	(103.2)	(144.2)	(247.4)
Unallocated liabilities			(715.6)			(603.5)
<b>Total liabilities</b>			<b>(964.4)</b>			<b>(850.9)</b>

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, investments in joint ventures, inventories and receivables. They exclude deferred taxation, cash and cash equivalents, derivatives held as hedges of borrowings and retirement benefit assets.

Segment liabilities comprise operating liabilities. They exclude taxation, retirement benefit obligations, borrowings and related hedges.

	2009			2008		
	Foods £m	Dairies £m	Total £m	Foods £m	Dairies £m	Total £m
<b>Other segment information</b>						
Capital expenditure:						
Property, plant and equipment	24.9	12.6	37.5	18.7	18.1	36.8
Intangible assets	3.8	4.9	8.7	0.3	0.9	1.2
Acquisition of property, plant and equipment	-	-	-	-	0.4	0.4
Acquisition of intangible assets	-	-	-	0.6	2.0	2.6
Depreciation	15.0	25.0	40.0	13.9	25.6	39.5
Total amortisation of intangible assets	9.2	1.7	10.9	8.4	1.1	9.5
Impairment of property, plant and equipment	5.6	3.4	9.0	-	1.7	1.7
Impairment of intangible assets	0.4	0.4	0.8	-	-	-

Additional analysis	2009			2008		
	Foods £m	Dairies £m	Total £m	Foods £m	Dairies £m	Total £m
<b>Adjusted revenue*</b>						
Group	537.3	1,110.3	1,647.6	499.6	1,070.1	1,569.7
Share of joint ventures	70.3	-	70.3	66.9	-	66.9
Including share of joint ventures	607.6	1,110.3	1,717.9	566.5	1,070.1	1,636.6
<b>Adjusted profit on operations*</b>						
Profit on operations (before exceptional items)	85.3	6.8	92.1	64.8	30.7	95.5
Share of joint ventures (before exceptional items and after tax)	7.3	-	7.3	7.7	-	7.7
Acquired intangible amortisation	8.5	1.1	9.6	8.1	0.9	9.0
Including share of joint ventures	101.1	7.9	109.0	80.6	31.6	112.2

\* From continuing operations, including share of joint ventures and before exceptional items and amortisation of acquired intangibles.

### Secondary segment analysis: Geographical

(i) Analysis of Group revenue from continuing operations by destination.

	2009 £m	2008 £m
UK and Ireland	1,498.2	1,434.7
Rest of world	149.4	135.0
Group revenue	1,647.6	1,569.7

(ii) Analysis of assets and capital expenditure

	2009 £m	2008 £m
Segment assets (based on location of assets)		
UK and Ireland	751.3	794.7
Rest of world	418.5	363.4
	1,169.8	1,158.1
Investment in joint ventures	2.9	5.3
Unallocated assets	148.7	75.2
	1,321.4	1,238.6
Segment capital expenditure (based on location of assets)		
Property, plant and equipment		
UK and Ireland	36.0	34.8
Rest of world	1.5	2.0
	37.5	36.8
Intangibles		
UK and Ireland	7.5	0.9
Rest of world	1.2	0.3
	8.7	1.2

### 3 Operating costs

	Year ended 31 March 2009			Year ended 31 March 2008		
	Before Exceptional Items £m	Exceptional Items £m	Total £m	Before Exceptional Items £m	Exceptional Items £m	Total £m
Cost of sales	1,182.2	19.5	1,201.7	1,113.6	17.8	1,131.4
Distribution costs	301.3	-	301.3	288.1	-	288.1
Administrative expenses	76.3	-	76.3	79.1	10.0	89.1
	1,559.8	19.5	1,579.3	1,480.8	27.8	1,508.6
Loss on disposal of business (Note 5)	-	4.5	4.5	-	-	-
	1,559.8	24.0	1,583.8	1,480.8	27.8	1,508.6

#### 4 Other income and expenses

	Year ended 31 March 2009			Year ended 31 March 2008		
	Before Exceptional Items	Exceptional Items	Total	Before Exceptional Items	Exceptional Items	Total
	£m	£m	£m	£m	£m	£m
Profit on disposal of household depots	4.3	-	4.3	6.6	-	6.6
Profit on disposal of closed sites (Note 5)	-	-	-	-	6.7	6.7
	4.3	-	4.3	6.6	6.7	13.3

The Group continues to rationalise its household 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), acquisition of small infill dairy businesses and rationalisation of the ongoing household operations. These activities represent a fundamental part of the ongoing ordinary activities of household operations.

#### 5 Exceptional items

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

#### 2009

Exceptional items in 2008/09 comprise:

##### Dairies

- Restructuring costs in relation to a wide-ranging efficiency improvement project within Dairies manufacturing and distribution (£9.2 million). These costs comprise the closure of the Nottingham dairy processing plant and associated distribution network restructuring costs. Cash costs comprise £5.1 million and relate principally to redundancy and related expenditure. Furthermore there was a non-cash asset impairment of £1.7 million for plant and equipment and £0.4 million for intangible assets.

In the year ended 31 March 2008, the Group closed its dairy at Totnes. This resulted in exceptional costs of £4.8 million including impairment of property, plant and equipment. Since that time the land and buildings at Totnes have been held at fair value less costs to sell. In the year ended 31 March 2009, there have been significant delays in the planning process for the sale of this land at Totnes and any sale is now likely to take several years. Additionally, during this time the property market has weakened substantially. These factors have led to a further impairment of £1.5 million against the carrying value of Totnes assets to a level that reflects managements' best estimate of the revised fair value less costs to sell and a further £0.5 million cash costs relating to the site that will not now be recovered through disposal proceeds.

- In the year ended 31 March 2008, the Group provided £4.4million for an onerous long-term milk supply contract. The contract had become onerous as a result of unprecedented increases in milk prices during 2007/08. A combination of higher milk costs in the first half of 2008/09 and a negotiation with the customer that was longer than expected have resulted in a further charge of £1.0 million being required in the year ended 31 March 2009. This comprises £0.9 million for onerous cash outflows to the expected renegotiation date (of which £0.4 million was utilised in the year ended 31 March 2009) and a further £0.1 million for impairment of plant and equipment that is expected to form part of the negotiated settlement with the customer (this is a non-cash charge). From the first half of 2009/10, this contract is no longer expected to be onerous to the Group. See Note 13.

##### Foods

- In October 2006 the Group sold its retailer brand cheese business to First Milk Limited. This included the cheese cutting and packing facility at Maelor. First Milk Limited have continued to cut and pack cheese since that time under a three year transitional service agreement. Significant capital investment was undertaken during 2008 to build a modern, efficient cheese cutting and packing facility at our national distribution centre at Nuneaton. In the period from January 2009 to July 2009 volumes are being transferred from Maelor to Nuneaton as the latter gradually increases processing volumes. During this ramp up phase, there are duplicate running costs resulting from cutting and packing at two separate sites and inefficiencies at Nuneaton due to low initial volumes. These duplicate running costs amounted to £3.7 million in the year to 31 March 2009, of which £3.6 million were cash. A further £1.0 million is expected to be incurred in the first half of 2009/10.

- On 23 August 2008, the Group disposed of the property, plant and equipment and the inventories of its Stilton and speciality cheese business based in Hartington, Derbyshire to Long Clawson Dairy Limited. The results of this business have not been classified as discontinued operations since it is not considered a major line of business in the context of Group revenue and profit.

## 5 Exceptional items (continued)

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

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

- An impairment of £5.6 million has been charged against the carrying value of plant and equipment at our cheese manufacturing plant in Wexford, Ireland. The profitability and cash generation of this business was adversely impacted in the year ended 31 March 2009 as realisations for commodity cheese declined. Following a review for possible impairment, these assets have been written down to their fair value less costs to sell based on managements' best view as to their current market value.

- On 26 March 2009, the Group sold its 49% share in Yoplait Dairy Crest Limited ('YDC') to Yoplait SAS, the majority owner, for cash consideration of £63.5 million. The YDC joint venture had been accounted for using the equity method up to the date of its disposal. The results of this business have not been classified as discounted operations since it was not considered a major line of business or geographical area of operations. The profit on disposal amounted to £50.4 million and can be analysed as follows:

	£m
Sale proceeds – cash consideration	63.5
Group share of YDC net assets at date of disposal	(8.6)
Provision for cost of insuring YDC defined benefit pension scheme liabilities (see Note 13)	(3.5)
Other fees and costs	(1.0)
Gain on disposal	50.4

### Tax

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

### 2008

Exceptional items in 2007/08 comprise:

- £4.8 million charge in relation to the closure of a Dairy at Totnes. This charge includes cash costs of £3.1 million principally in respect of redundancies (£2.0 million) and a non-cash asset impairment of £1.7 million for plant and equipment.
- £8.6 million cash charge of restructuring expenditure with respect to the rationalisation of the Express Dairies depot operations and the Liverpool and Nottingham dairies of Arla Foods UK Limited, which were acquired on 19 August 2006. These restructuring costs comprised £3.1 million of redundancy costs, £3.5 million of duplicate running costs and £2.0 million of other rationalisation costs.
- £10.0 million charge for penalties and associated legal fees in relation to settlement of the OFT investigation into 'milk price initiatives'. On 20 September 2007 the Office of Fair Trading ('OFT') issued a detailed Statement of Objections to certain retailers and dairy processors in its investigation into pricing in the dairy produce sector. On 7 December the Group announced that it had reached an early resolution agreement with the OFT concerning this investigation. Under this agreement the Group expects to pay a significantly reduced fine of £9.4 million. In addition, legal fees of £0.6 million have been charged in relation to the investigation. The exceptional cost has been allocated £3.6 million Foods and £6.4 million Dairies. Cash costs incurred in the year ended 31 March 2008 amounted to £0.4 million of legal fees.
- £4.4 million provision for an onerous long-term milk supply contract. This contract became onerous during the year ended 31 March 2008 as a result of unprecedented increases in milk costs combined with weaker cream prices in the second half. The provision comprises the present value of estimated cash outflows under this contract through to its term as estimated in March 2008. Cash utilisation of this provision in the year to 31 March 2008 was £1.5 million. See Note 13.
- £6.7 million profit on a site in west London originally sold in October 2002. The site was sold with a potential future overage receipt from the purchasers should certain planning permissions be obtained. A cash amount of £6.7 million was received in the period in full and final settlement of this overage clause.
- £1.2 million final tax adjustment on the disposal of the majority of our retailer branded cheese business to First Milk in October 2006.

## 6 Finance costs and other finance income

### Finance costs

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Bank loans and overdrafts (at amortised cost)	(29.1)	(25.6)
Interest expense on financial liabilities not at fair value through profit and loss	(29.1)	(25.6)
Unwind of discount for provisions (Note 13)	(0.2)	(0.1)
Finance charges on finance leases	(0.8)	(0.9)
Total finance costs	(30.1)	(26.6)
Finance income on cash balances (financial assets not at fair value through profit and loss)	0.6	0.4
Total net finance costs	(29.5)	(26.2)

### Other finance income - pensions

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Expected return on plan assets	49.0	48.0
Interest cost on defined benefit obligation	(42.1)	(37.9)
	6.9	10.1

Other finance income comprises the expected return on assets of funded defined benefit pension schemes less the interest cost on defined benefit pension scheme liabilities (see Note 12).

## 7 Tax expense

The major components of income tax expense for the years ended 31 March 2009 and 2008 are:

	2009 £m	2008 £m
<b>Consolidated income statement</b>		
Current income tax		
Current income tax charge at 28% (2008: 30%)	8.5	13.0
Adjustment in respect of previous years	-	(0.4)
- current tax	-	(0.6)
- transfer to deferred tax	-	-
	<b>8.5</b>	<b>12.0</b>
Deferred income tax		
Relating to origination and reversal of temporary differences	20.7	1.1
Transfer from current tax	-	0.6
Adjustment in respect of prior year	(0.3)	-
Adjustment for reduction in UK corporation tax rate	-	(2.4)
	<b>28.9</b>	<b>11.3</b>
<b>Analysed</b>		
From continuing operations:		
Before exceptional items	18.5	17.7
Exceptional items	10.4	(5.2)
	<b>28.9</b>	<b>12.5</b>
From discontinued operations:		
Before exceptional items	-	-
Exceptional items	-	(1.2)
	<b>-</b>	<b>(1.2)</b>
	<b>28.9</b>	<b>11.3</b>
Reconciliation between tax expense and the profit before tax multiplied by the standard rate of corporation tax in the UK:		
	2009 £m	2008 £m
Profit before tax (including discontinued operations)	103.2	66.0
Tax at UK statutory income tax rate of 28% (2008: 30%)	28.9	19.8
Adjustments in respect of previous years	(0.3)	(0.4)
Adjustment for overseas profits taxed at different rates	0.6	0.7
Adjustment in respect of joint ventures' profits	(2.0)	(2.3)
Deferred tax adjustment for abolition of industrial buildings' allowances	14.3	-
Deferred tax adjustment for reduction in UK corporation tax rate	-	(2.4)
Non-deductible expenses	4.3	3.9
Profits offset by available tax relief	(16.9)	(8.0)
At the effective rate of 28.0% (2008: 17.1%)	<b>28.9</b>	<b>11.3</b>
The effective pre-exceptional rate of tax on Group profit before tax after adjusting for joint ventures' tax is 26.8% (2008: 23.2%)		
<b>Consolidated statement of changes in equity</b>		
Deferred income tax related to items charged / (credited) directly to equity		
Share based payments	0.5	0.4
Tax on actuarial (losses)/gains	(32.9)	3.0
Valuation of financial instruments	(2.4)	1.5
Income tax reported in equity		
Share based payments	(0.1)	(0.4)
Tax on exchange losses designated as net investment hedges post-tax	-	(7.8)
	<b>(34.9)</b>	<b>(3.3)</b>

## 7 Tax expense (continued)

### Deferred income tax

Deferred income tax at 31 March 2009 and 2008 relates to the following:

	2009 £m	2008 £m
<b>Deferred tax liability</b>		
Accelerated depreciation for tax purposes	(44.0)	(26.9)
Goodwill and intangible assets	(69.1)	(61.8)
Pensions	-	(8.7)
Financial instrument valuation	(1.2)	(3.5)
	<b>(114.3)</b>	<b>(100.9)</b>
<b>Deferred tax asset</b>		
Government grants	2.4	2.6
Share based payments	0.2	1.2
Pensions	17.2	-
Other	3.7	1.0
	<b>23.5</b>	<b>4.8</b>
<b>Net deferred tax liability</b>	<b>(90.8)</b>	<b>(96.1)</b>
Analysed:		
Net deferred tax assets (2009: Ireland; 2008: Ireland)	0.4	0.2
Net deferred tax liabilities (2009: UK and France; 2008: UK and France)	(91.2)	(96.3)

## 8 Dividends paid and proposed

	2009 £m	2008 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2008: 17.3 pence (2007: 16.2 pence)	22.9	21.4
Interim dividend for 2009: 7.1 pence (2008: 7.1 pence)	9.4	9.4
	<b>32.3</b>	<b>30.8</b>
<b>Proposed for approval at AGM (not recognised as a liability at 31 March)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2009: 13.0 pence (2008: 17.3 pence)	17.3	22.9

## 9 Earnings per share

Basic earnings per share ('EPS') on profit for the year is calculated by dividing profit attributable to equity shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Basic EPS on continuing operations is calculated on the basis of Group profit for the year from continuing operations less profit attributable to minority interests divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to equity shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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 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 have been calculated. The computation for basic and diluted earnings per share (including adjusted earnings per share) are as follows:

	Year ended 31 March 2009			Year ended 31 March 2008		
	Earnings £m	Weighted Average no of shares million	Per share amount pence	Earnings £m	Weighted Average no of shares million	Per share amount pence
<b>Basic EPS on profit for the year</b>						
Net profit attributable to equity shareholders	75.4	132.8	56.8	54.4	132.3	41.1
Effect of dilutive securities:						
Share options	-	1.2	(0.5)	-	1.0	(0.3)
<b>Diluted EPS on profit for the year</b>	<b>75.4</b>	<b>134.0</b>	<b>56.3</b>	<b>54.4</b>	<b>133.3</b>	<b>40.8</b>
<b>Basic EPS from continuing operations</b>						
Profit from continuing operations attributable to equity shareholders	75.4	132.8	56.8	53.2	132.3	40.2
Effect of dilutive securities:						
Share options	-	1.2	(0.5)	-	1.0	(0.3)
<b>Dilutive EPS from continuing operations</b>	<b>75.4</b>	<b>134.0</b>	<b>56.3</b>	<b>53.2</b>	<b>133.3</b>	<b>39.9</b>
<b>Adjusted EPS from continuing operations</b>						
Basic EPS from continuing operations	75.4	132.8	56.8	53.2	132.3	40.2
Exceptional items excluding minority interest (net of tax)	33.3	-	25.1	15.9	-	12.0
Amortisation of acquired intangible assets (net of tax)	6.4	-	4.8	6.5	-	4.9
Pension interest credit (net of tax)	(5.0)	-	(3.7)	(7.1)	-	(5.4)
Joint ventures' exceptional items (net of tax)	(50.4)	-	(38.0)	-	-	-
<b>Adjusted basic EPS from continuing operations</b>	<b>59.7</b>	<b>132.8</b>	<b>45.0</b>	<b>68.5</b>	<b>132.3</b>	<b>51.7</b>
Effect of dilutive securities:						
Share options	-	1.2	(0.4)	-	1.0	(0.4)
<b>Adjusted diluted EPS from continuing operations</b>	<b>59.7</b>	<b>134.0</b>	<b>44.6</b>	<b>68.5</b>	<b>133.3</b>	<b>51.3</b>

The adjusted earnings per share calculation for the year ended 31 March 2009 has been changed to exclude pension interest in relation to defined benefit pension schemes. The 2008 calculations have been restated accordingly. Under the previous basis basic adjusted earnings per share from continuing operations for the year ended 31 March 2009 were 48.8 pence (2008: 57.1 pence).

Basic and diluted earnings per share from discontinued operations amount to nil pence per share (2008: 0.9 pence per share).

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 10 Goodwill

	£m
<b>Cost</b>	
At 31 March 2007	285.5
Additions	4.8
Exchange	25.8
At 31 March 2008	316.1
Additions	0.3
Exchange	28.6
<b>At 31 March 2009</b>	<b>345.0</b>
<b>Accumulated impairment</b>	
<b>At 31 March 2007, 2008 and 2009</b>	<b>(2.3)</b>
<b>Net book amount at 31 March 2009</b>	<b>342.7</b>
Net book amount at 31 March 2008	313.8

## 11 Intangible assets

	Assets in the course of construction £m	Internally generated £m	Acquired intangibles £m	Total £m
<b>Cost</b>				
At 31 March 2007	-	2.1	153.7	155.8
Additions	-	1.2	-	1.2
Acquisitions	-	-	2.6	2.6
Exchange	-	-	26.7	26.7
At 31 March 2008	-	3.3	183.0	186.3
Classification adjustment*	4.9	-	-	4.9
Additions	7.5	1.2	-	8.7
Transfers and reclassifications	(5.6)	5.6	-	-
Exchange	-	-	29.2	29.2
<b>At 31 March 2009</b>	<b>6.8</b>	<b>10.1</b>	<b>212.2</b>	<b>229.1</b>
<b>Accumulated amortisation</b>				
At 31 March 2007	-	0.6	3.7	4.3
Amortisation for the year	-	0.5	9.0	9.5
Exchange	-	-	1.1	1.1
At 31 March 2008	-	1.1	13.8	14.9
Amortisation for the year	-	1.3	9.6	10.9
Asset impairments and write-downs	-	0.8	-	0.8
Exchange	-	-	3.1	3.1
<b>At 31 March 2009</b>	<b>-</b>	<b>3.2</b>	<b>26.5</b>	<b>29.7</b>
<b>Net book amount at 31 March 2009</b>	<b>6.8</b>	<b>6.9</b>	<b>185.7</b>	<b>199.4</b>
Net book amount at 31 March 2008	-	2.2	169.2	171.4

The remaining useful lives at 31 March 2009 for significant intangible assets are as follows:

Acquired St Hubert brand	23 years
Acquired Le Fleurier brand	13 years
Acquired Valle brand	13 years

### 2009

- Additions in the year relate to software development for manufacturing sites and head office in both the UK and France. These costs will be amortised over seven years.

\* Certain internally generated intangible assets that were in the course of construction at 31 March 2008 were included within plant and equipment for that year. The classification of those assets into intangibles has been reflected in the year ended 31 March 2009 and not as a prior year adjustment as the amount is immaterial in the context of the overall carrying value of property, plant, equipment and intangible assets.

### 2008

- On 17 February 2008 the Group acquired certain assets from the East of England Co-operative Society. This included two customer contracts that have been recognised as intangible assets (£2.0 million). These contracts will be amortised over four years.

- During the year certain adjustments were made to the fair value of intangible assets acquired with St Hubert SAS in January 2007. These totalled £0.6 million.

## 12 Retirement benefit obligations

The Group has two defined benefit pension plans, Dairy Crest in the UK and Wexford in Ireland, both of which require contributions to be made to separately administered funds. The Dairy Crest Group pension fund is a final salary scheme that was closed to new employees joining after 30 June 2006. Employees joining after this date are invited to join a Dairy Crest Group defined contribution plan. The most recent full actuarial valuation of the Dairy Crest Group pension fund was carried out as at 31 March 2007 by the fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the defined benefit plans. These plans are wholly funded.

	<b>Dairy Crest Group pension plans</b>	
	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
<b>Net benefit expense recognised in the consolidated income statement</b>		
Current service cost	12.8	17.2
Curtailement gains (sale of Stilton and speciality cheese business – see Note 5)	(0.5)	-
Interest cost on benefit obligation	42.1	37.9
Expected return on plan assets	(49.0)	(48.0)
Net benefit expense	5.4	7.1
<b>Net actuarial (loss) / gain recognised in the statement of recognised income and expense</b>		
Actual return less expected return on pension scheme assets	(231.1)	(68.3)
Experience gains arising on scheme liabilities	6.8	1.9
Gain arising from changes in assumptions underlying the present value of scheme liabilities	106.2	77.1
Net actuarial (loss) / gain	(118.1)	10.7
Related tax	32.9	(3.0)
Net actuarial (loss) / gain recognised in the statement of recognised income and expense	(85.2)	7.7
Actual negative returns on plan assets were £182.0 million (2008: £20.3 million).		
<b>Defined benefit (obligation)/surplus</b>		
Fair value of plan assets:	<b>£m</b>	<b>£m</b>
- Equities	264.9	389.6
- Bonds and cash	106.9	266.3
- Property and other	27.2	28.9
- Insured retirement obligations	114.0	-
	<b>513.0</b>	<b>684.8</b>
Defined benefit obligation:	<b>£m</b>	<b>£m</b>
- Uninsured retirement obligations	(462.3)	(653.2)
- Insured retirement obligations	(114.0)	-
Total defined benefit obligation	<b>(576.3)</b>	<b>(653.2)</b>
Net (liability)/asset recognised in the balance sheet	<b>(63.3)</b>	<b>31.6</b>
Analysed:	<b>£m</b>	<b>£m</b>
- Dairy Crest scheme	(60.0)	33.6
- Wexford scheme	(3.3)	(2.0)
	<b>(63.3)</b>	<b>31.6</b>
Related deferred tax asset/(liability)	17.2	(8.7)
Net pension (liability)/asset	<b>(46.1)</b>	<b>22.9</b>

In December 2008, certain obligations relating to retired members were hedged by the purchase of an insurance contract. This contract is included within scheme assets and its value will always be equal to the obligation as calculated under IAS 19 for those members covered. This will reduce the volatility of the reported defined benefit obligations in future periods.

At 31 March 2008, recognition of the net defined benefit surplus was not restricted by the implementation of IFRIC 14.

Scheme assets are stated at their market values at the respective balance sheet dates with the exception of the insured retirement obligations which equal the valuation of obligations which it covers. The expected rate of return on equities of 8.25% (2008: 8%) reflects historic UK equity returns with an assumption for 2009 that unprecedented equity market falls in 2008/09 will give rise to marginally higher market returns in the medium term. They represent a reasonable risk premium over gilts. It is within the range of assumptions typically used by companies of a similar size. The expected rate of return on bonds of 7.1% (2008: 6.1%) is based upon the gross redemption yield available on a similar profile of gilts and corporate bonds.

The average duration of scheme liabilities is approximately 19 years. Discount rate assumptions for each reporting period are based upon quoted AA-rated corporate bond indexes, excluding collateralised bonds, with maturities matching the schemes expected benefit payments. Inflation assumptions are based upon the difference between long-term fixed income and index linked gilt yields. The scheme deficit is highly dependent upon these input assumptions which are struck at 31 March each year. A 0.1% decrease in the discount rate assumption would increase the scheme obligation by approximately £12 million.

Included in the above analysis is the Wexford Creamery pension fund. The net benefit expense in the year ended 31 March 2009 amounted to £0.5 million (2008: £0.4 million). The fair value of plan assets at 31 March 2009 was £7.8 million (2008: £8.6 million) and the defined benefit obligation was £11.1 million (2008: £10.6 million) resulting in a scheme deficit of £3.3 million (2008: £2.0 million).

12 Retirement benefit obligations (continued)

	Dairy Crest Group pension plans	
	2009	2008
	£m	£m
<b>Movement in the present value of the defined benefit obligations are as follows:</b>		
Opening defined benefit obligation	(653.2)	(692.2)
Current service cost	(12.8)	(17.2)
Curtailement gains	0.5	-
Interest cost	(42.1)	(37.9)
Contributions by plan participants	(6.7)	(7.4)
Actuarial gains	113.0	79.0
Exchange impact	(1.8)	(1.8)
Benefits paid	26.8	24.3
Closing defined benefit obligation	(576.3)	(653.2)
<b>Movement in the fair value of plan assets are as follows:</b>		
Opening fair value of plan assets	684.8	691.8
Expected return	49.0	48.0
Actual less expected return	(231.1)	(68.3)
Contributions by employer	28.8	28.7
Contributions by employees	6.7	7.4
Exchange impact	1.6	1.5
Benefits paid	(26.8)	(24.3)
Closing fair value of plan assets	513.0	684.8

The principal assumptions used in determining retirement benefit obligations for Dairy Crest Group's pension fund are shown below:

	2009	2008
	%	%
<b>Key assumptions:</b>		
Rate of increase salaries	4.4	4.8
Rate of increase in pensions in payment and deferred pensions (and price inflation)	2.9	3.3
Average expected remaining life of a 65 year old non-retired male (years)	20.9	20.9
Average expected remaining life of a 65 year old retired male (years)	19.8	19.8
Average expected remaining life of a 65 year old non-retired female (years)	23.2	23.2
Average expected remaining life of a 65 year old retired female (years)	22.1	22.1
Discount rate	7.0	6.5
Expected return:	8.25	8.0
- Equities	7.1	6.1
- Bonds and cash	7.0	7.0
- Property and other	7.0	n/a
- Insured retirement obligations	7.0	n/a

## 13 Provisions

	YDC pension liabilities £m	OFT provision (including legal fees) £m	Onerous contract £m	Total £m
At 1 April 2007	-	-	-	-
Charged in the year as exceptional (see Note 5)	-	10.0	4.4	14.4
Utilised	-	(0.4)	(1.5)	(1.9)
Discount unwind	-	-	0.1	0.1
At 31 March 2008 - Current	-	9.6	3.0	12.6
Charged in year as exceptional (see Note 5)	3.5	-	0.9	4.4
Utilised	(3.5)	-	(3.6)	(7.1)
Discount unwind	-	-	0.2	0.2
<b>At 31 March 2009 - Current</b>	<b>-</b>	<b>9.6</b>	<b>0.5</b>	<b>10.1</b>

### Office of Fair Trading ('OFT')

An exceptional provision has been charged in relation to the settlement of the OFT investigation into milk price initiatives (including legal costs). The amount of the fine provided is £9.4 million and reflects the early resolution agreement that was reached with the OFT in December 2007. This fine represents a significant reduction to the amount that could have been imposed by the OFT and is dependent upon the Group's continued full co-operation with the OFT until the conclusion of its investigation. The possibility of the imposition of a higher fine by the OFT is considered remote given the Group's continuing co-operation in this matter. Settlement is expected to be reached in the year ending 31 March 2010 and the related provision has been classified as current.

### Onerous contract

The Group has one milk supply contract with a middle ground customer which, due to recent unprecedented increases in milk costs in 2007/08 and a subsequent weakening of cream prices has become onerous. An exceptional provision of £4.4 million was charged in the year ended 31 March 2008 being the best estimate at the time of the present value of future cash outflows resulting from the contractual obligations in the contract (see Note 5). In that year £1.5 million was charged against this provision. In the year ending 31 March 2009, there were further milk cost increases and contract negotiations took longer than anticipated. This onerous contract is now expected to be renegotiated in the first half of 2009/10 and a further provision of £0.9 million has been charged for expected cash outflows under this contract until its expected renegotiation date. In calculating the amount of cash outflows to the end of this contract, estimates have been made regarding future pricing and volumes.

### YDC pension liabilities

As part of the disposal of YDC, future service accruals immediately ceased in the YDC defined benefit scheme and the Group contracted to extinguish any remaining funding liability by purchasing an insurance buy-out. On completion of the disposal, £3.5 million was charged as a provision for the cost of the insurance and funds were deposited in escrow for the benefit of the YDC scheme trustee. This amount was the best estimate at the date of disposal of the cost of buying out the scheme liabilities. This has been accounted for as a provision under IAS 37 and not under IAS 19 as there ceased to be a defined benefit scheme on completion of the disposal.

Inevitably, the final cost of insurance is dependent upon bond yields and other factors. Management's best view, based on current financial market conditions, is that the final cost will be below £3.5 million and that the Group will recover some of the funds placed into escrow. This contingent asset has not been recognised since receipt is not virtually certain and therefore does not meet the recognition criteria under IAS 37.

## 14 Reconciliation of movements in equity

Consolidated	Attributable to equity shareholders of the parent						Minority Interests £m	Total Equity £m
	Ordinary Shares £m	Share Premium £m	Interest In ESOP £m	Other Reserves £m	Retained Earnings £m	Total £m		
At 31 March 2008	33.3	70.2	(3.7)	67.0	215.8	382.6	5.1	387.7
Total recognised income and expense in the year	-	-	-	10.4	(9.2)	1.2	(0.4)	0.8
Issue of share capital	-	0.5	(0.5)	-	-	-	-	-
Exercise of options	-	-	2.3	-	(2.3)	-	-	-
Share based payments	-	-	-	-	0.8	0.8	-	0.8
Equity dividends (Note 8)	-	-	-	-	(32.3)	(32.3)	-	(32.3)
<b>At 31 March 2009</b>	<b>33.3</b>	<b>70.7</b>	<b>(1.9)</b>	<b>77.4</b>	<b>172.8</b>	<b>352.3</b>	<b>4.7</b>	<b>357.0</b>
At 31 March 2007	33.1	66.7	(1.2)	60.4	180.1	339.1	4.0	343.1
Total recognised income and expense in the year	-	-	-	6.6	64.0	70.6	1.1	71.7
Issue of share capital	0.2	3.5	(3.2)	-	-	0.5	-	0.5
Exercise of options	-	-	0.7	-	(0.7)	-	-	-
Share based payments	-	-	-	-	3.2	3.2	-	3.2
Equity dividends (Note 8)	-	-	-	-	(30.8)	(30.8)	-	(30.8)
At 31 March 2008	33.3	70.2	(3.7)	67.0	215.8	382.6	5.1	387.7

The shares held by Dairy Crest Employees' Share Ownership Plan Trust ('ESOP') are available to satisfy awards under LTISP and ESOS.

## 15 Business combinations

### 2009

During the year, the Group acquired the goodwill of a number of bottled milk buyers for cash consideration of £0.3 million resulting in goodwill of £0.3 million.

In April 2008, final consideration was paid for the assets and goodwill of the dairy business of the East of England Co-operative Society amounting to £1.0 million.

In August 2008, the Group completed the sale of its Stilton and speciality cheese business to Long Clawson Dairy Limited. The loss on disposal is analysed in Note 5.

On 26 March 2009, the Group completed the sale of its 49% share in Yoplait Dairy Crest Limited to Yoplait SAS. The profit on disposal is analysed in Note 5.

## 16 Cash flow from operating activities

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Profit from continuing operations before taxation	103.2	66.0
Finance costs and other finance income	22.6	16.1
Share of joint ventures' net profit	(7.3)	(7.7)
Profit on disposal of joint venture	(50.4)	-
Profit from continuing operations before net finance costs and taxation	68.1	74.4
Depreciation	40.0	39.5
Amortisation of intangible assets	10.9	9.5
Impairment of investment in joint venture	-	0.6
Exceptional items	11.2	7.5
Release of grants	(0.7)	(0.8)
Share based payments	0.8	3.2
Profit on disposal of household depots	(4.3)	(6.6)
Difference between pension contributions paid and amounts recognised in the income statement	(16.0)	(11.5)
Increase in inventories	(38.3)	(9.3)
Decrease / (increase) in receivables	49.3	(27.4)
Increase in payables	8.1	29.3
<b>Cash generated from operations</b>	<b>129.1</b>	<b>108.4</b>

## 17 Analysis of net debt

	At 1 April 2008 £m	Cash flow £m	Exchange movement £m	At 31 March 2009 £m
Cash at bank and in hand	40.3	66.5	0.7	107.5
Overdrafts	(1.4)	1.4	-	-
Cash and cash equivalents	38.9	67.9	0.7	107.5
Borrowings (current)	(25.0)	25.0	-	-
Borrowings (non-current)	(456.6)	(0.3)	(84.7)	(541.6)
Finance leases	(16.3)	2.5	-	(13.8)
	(459.0)	95.1	(84.0)	(447.9)
Borrowings (non-current)	(15.8)	-	47.9	32.1
Impact of cross-currency swaps*	(15.8)	-	47.9	32.1
	(474.8)	95.1	(36.1)	(415.8)

	At 1 April 2007 £m	Cash flow £m	Exchange movement £m	At 31 March 2008 £m
Cash at bank and in hand	24.9	14.5	0.9	40.3
Overdrafts	-	(1.4)	-	(1.4)
Cash and cash equivalents	24.9	13.1	0.9	38.9
Borrowings (current)	(120.1)	95.1	-	(25.0)
Borrowings (non-current)	(324.4)	(86.6)	(45.6)	(456.6)
Finance leases	(17.1)	0.8	-	(16.3)
	(436.7)	22.4	(44.7)	(459.0)
Borrowings (non-current)	(14.3)	-	(1.5)	(15.8)
Impact of cross-currency swaps*	(14.3)	-	(1.5)	(15.8)
	(451.0)	22.4	(46.2)	(474.8)

\* The Group and Company have \$233 million and €75 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (2008: \$233 million only). 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 £32.1 million adjustment included above (2008: £(15.8) million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£232.1 million (2008: £117.2 million)) to the fixed Sterling liability (£200.0 million (2008: £133.0 million)). This amount forms part of the overall swap fair value of £39.5 million (2008: £(3.9) million).