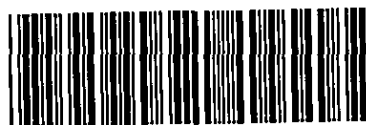


Dairy Crest Limited

Report and Financial Statements

31 March 2013

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Dairy Crest Limited

Registered No 2085882

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Directors' report

The Directors present their Directors' report and the audited financial statements for the year ended 31 March 2013

Results and dividends

The profit for the year is £81.6 million (2012 £22.7 million). During the year dividends of £50 million were paid (2012 £40 million) to Dairy Crest Group plc. An interim dividend of £20 million was declared and paid on 1 July 2013.

Principal activity and review of the business

The principal activity of Dairy Crest Limited (the 'Company') is the manufacture, processing and distribution of milk and dairy products.

Dairy Crest Limited has performed satisfactorily in the year ended 31 March 2013. Reported full year profit on operations before taxation and operating exceptional items of £153.9 million (2012 £77.1 million) benefitted from £117.0 million of dividends received from subsidiaries including £112.0 million which originated from the disposal of St Hubert in August 2012. Revenue amounted to £1,336.1 million (2012 £1,444.8 million) and reported profit before taxation was £82.8 million (2012 £22.3 million).

Strategy

Against the background of a trading environment which remained extremely challenging, this was a transformational year for Dairy Crest. The Board has overseen a rationalisation of our Dairies business, a reorganisation of our head office and support functions, and the introduction of a ground-breaking milk supply contract which initiated a new relationship between the business and its supplying dairy farmers.

At the same time, in line with our established long-term strategy, we have continued to support our key brands and drive costs out of the business.

We finish the year in a much improved financial position and with a clear plan for growth which will benefit everyone associated with the business.

Well-established Vision and Values

The Group's well-established Vision and Values continue to provide the Board with a framework in which to operate. They reflect the fact that consumers come first for Dairy Crest and that we are well aware of our links to rural Britain and the responsibility we have to our farmers, our employees, our franchisees and the communities in which we operate. Balancing these groups' different interests is never easy, especially at times when the need to make change is at its greatest, but the clarity provided by our Vision and Values helps us make the right decisions.

Corporate responsibility

Dairy Crest is a responsible business and has demonstrated its commitment to corporate responsibility by improving its Business in the Community rating from Gold to Platinum Big Tick in the year, the only food business to achieve this prestigious ranking. We are also delighted to have been shortlisted to be Business in the Community's Company of the Year 2013. During the year we have focused our corporate responsibility commitments on 40 pledges, making it easier to align our corporate responsibility and commercial strategies.

Directors' report (continued)

Market background

This has been an important year in the history of Dairy Crest. Taken together our four key brands have increased their value market share. This is a solid performance and reflects our consistent strategic focus on brand equity and innovation.

A sustainable supply of milk is of vital importance to Dairy Crest. In the face of some of the most challenging weather ever experienced by our farmers, and higher feed costs that have put pressure on their businesses, we were first to adopt a government-sponsored voluntary code of practice. In addition, we increased the milk prices we paid to farmers and introduced a ground-breaking contract which allowed them to opt for a formulaic milk price mechanism that provides greater transparency and reduces volatility.

Higher farmgate milk prices have put pressure on our Dairies business. Nevertheless we have made progress in rebuilding profitability. We have completed our three-year £75 million investment programme, closed two dairies, driven down costs, extended our major liquid milk contract with Sainsbury's through to 2017 and reduced our exposure to less profitable contracts.

Last year we set a medium-term target of a 3% return on sales for this business. Despite the additional support we provided to our farmers in the year, we have made some progress towards our target. Second half margins, which are usually higher than those in the first half, rose to 1.7%.

The year has seen generally lower food consumption reflecting fragile consumer confidence.

Changes elsewhere in the market place have left us as the largest UK-owned dairy foods company. We are proud to be in this position and recognise the onus it places on us to provide leadership to the UK dairy sector. We have fulfilled this role by being the first major milk buyer to fully implement the Government's voluntary code of practice for milk supply contracts and by introducing a formula based milk purchasing contract. We are also taking the lead in calling for clearer country of origin labelling for dairy products so that British consumers can support British farmers.

Looking forward we are hoping for a more benign climate for farming. However we expect consumers to remain cautious and demand to remain subdued.

Long-term strategy

We remain clear that our long-term strategy to grow branded and added value sales, become more efficient, reduce risk and improve the quality of our earnings and make value-enhancing acquisitions and disposals is the right one for the business. We have made good progress with the execution of this strategy during the last year.

The rationalisation of our Dairies business, which has involved a three year programme of investment in three key dairies and the closure of the Fenstanton and Aintree dairies as well as 28 distribution depots, demonstrates our determination to create a sustainable business. We retained our contract to supply liquid milk to Sainsbury's through to 2017 in the face of fierce competition and new processing capacity coming on stream elsewhere in the dairy sector. This was a good result and vindicates the difficult decisions we have made in this part of our business.

The work we have done over recent years to focus the business and remove complexity has allowed us to initiate a reorganisation into one management and operating structure. The new structure is focused on consumer-driven growth with an integrated supply chain and is consistent with our long-term strategy to build added value sales and drive efficiencies.

Cutting costs is an embedded part of our strategy and cost reductions have been important in achieving our targets this year. We maintained our record of implementing cost saving initiatives of at least £20 million per annum, achieving £23 million in the year. Our employees, including Board members and senior management, have contributed by accepting below-inflation pay increases.

In addition to the initiatives in our Dairies business and our reorganisation into one structure, we are also consolidating our two British spreads manufacturing facilities onto one site as we target a further £20 million of savings in the new financial year. These efficiency measures help us to support our key brands, meet profit expectations and pay our farmers more.

Directors' report (continued)

Trading performance and financial summary

A solid performance from our four key brands Cathedral City, Clover, Country Life and FRijj, particularly in the first half of the year, coupled with an accelerated programme of efficiency measures, resulted in a strong trading performance and we delivered results for the year in line with our expectations.

Total revenue from our four key brands is flat year on year with Cathedral City and FRijj growth being offset by lower Clover and Country Life sales. Retail sales of these brands as measured by Nielsen have grown in total by 3% and Cathedral City, Clover and Country Life have all grown market share. Although FRijj has lost market share in the face of strong competition from new brands introduced by competitors, its own growth reflects the expansion of the overall market.

We continue to invest behind our key brands and are committed to their ongoing success. Our market-leading cheddar brand, Cathedral City, goes from strength to strength and has become one of the UK's major food brands. In 2012 it was the only food brand voted into the top ten of YouGov's Brand Index, alongside BBC iPlayer, John Lewis and Amazon.

New products launched in the last few years such as FRijj The Incredible, Chedds and Cathedral City Selections contributed to this performance and we continue to focus on bringing new products to the market. This year around 5% of our total revenue and 9% of our key brand revenue has come from products introduced in the last three years. We have an ambitious target of 10% for such sales which we achieved last year but have missed this year as new products introduced three years ago dropped out of the calculation.

Future prospects

We believe that we can generate profit growth in all three of our product categories over the medium term. We believe we can continue to grow sales and profits in our cheese business, that the consolidation of our spreads manufacturing footprint onto one site will improve the profitability of that business, and that our Dairies business will continue to benefit from the work we are doing to move towards our medium-term target of 3% return on sales.

In addition, the post year-end debt restructure will result in lower interest charges in the future.

We are focused on generating cash from the business as well as growing profits, albeit we expect net debt to rise in the year ending 31 March 2014 as a result of our one off cash contribution to the pension fund and investment in our new Spreads manufacturing facility.

Once the Spreads project is completed we will have well-invested, modern facilities across our business and we would expect capital expenditure in the existing business to fall back towards the level of annual depreciation. We will also continue to sell properties we no longer require and, in the absence of acquisitions or internal investment in new growth opportunities, would expect net debt to fall after 2013/14.

Our strong financial position and our confidence that we can generate cash from our existing product categories means we have the capability to invest in attractive growth opportunities, either internally or through acquisition.

We are excited about an opportunity to increase profits from whey, a by-product of the cheese manufacturing process. At present we manufacture whey powder which is mainly sold to food manufacturers, but we believe there now may be an opportunity to add greater value to our high quality whey stream and enter other, more attractive markets. A project is underway to scope the opportunity.

Current Trading

The current financial year has started in line with our expectations. We have announced higher milk prices for our farmers but have demonstrated in the past that we can do this without damaging profitability. Key to achieving this is the ongoing implementation of our strategy to reduce controllable costs and we are again on track to meet our targeted £20 million saving during the year.

Directors' report (continued)

Spreads

Two of Dairy Crest's four key brands operate in the butter and spreads product category

Clover, our main spreads brand, saw a small increase in volume but a 5% reduction in value sales. It remains the UK's leading dairy spread. Previously introduced innovation such as Clover Lighter continues to boost the brand's performance. Towards the end of the year we introduced a brand new product, Clover Seedburst, into the market. This is a spread containing a blend of seven healthy seeds and whole grains and is targeted at more health-focused consumers. We have more innovation planned for the Clover brand.

Country Life is the leading British butter brand. Sales volumes remained broadly flat year on year, although a reduction in price reflecting lower input costs, primarily cream, resulted in sales values falling by 3%.

Our other spreads brands, Utterly Butterly, Vitalite and Willow, experienced small reductions in volume and value shares.

During the year we moved production of Clover from our factory in Crudgington, Shropshire to Kirkby, Merseyside and also commenced a project that will see Crudgington close completely in 2014 with all production being moved to Kirkby. This £38 million project has attracted a £5 million grant from the Regional Growth Fund.

Looking forward we expect the profits of this business to benefit from the cost savings that will arise from a more efficient supply chain.

Cheese

UK retail cheese market volumes fell by 2% in the year with values increasing by 2% to £2.6 billion. Cathedral City sales grew by 3%, with volumes up 1%. It has again increased its market share and remains by far the largest brand in the total everyday cheese sector, although its sales account for only 16% of this sector, reflecting the dominance of retailer own label.

Over recent years we have widened the appeal of Cathedral City and now have four taste variants (mild, mature, extra mature and vintage) as well as Lighter (reduced fat) Cathedral City, and Chedd's, a snack brand for children. Chedd's was launched in 2011 and has made a significant impact in the children's cheese market.

Innovative packaging continues to be important to the brand's growth and the launch of Cathedral City Selections, packs containing bite-sized pieces of cheese, has been extremely successful, bringing new consumers to the cheese market, boosting sales in its own right and giving consumers an opportunity to sample the range of taste variants.

The long-established mature variant accounted for 57% of total Cathedral City sales, down from 65% last year, reflecting the progress we have made in broadening the range.

We have continued to advertise and promote Cathedral City strongly and have worked with key retailers to increase the brand's in-store presence. For example, working with Tesco, we set up a trial in 36 of their stores. A whole bay of the cheese fixture was dedicated to Cathedral City, ensuring the full range was on offer to consumers and allowing increased in-store branding. The trial was successful and Cathedral City bays will be rolled out to more Tesco stores in the year ending 31 March 2014.

The strong performance of Cathedral City has been acknowledged externally. The Grocer has placed it as Britain's 15th biggest grocery brand (up from 21st last year) and in a recent YouGov poll Cathedral City was ranked as Britain's tenth most positively viewed brand and was the only food brand in the top ten.

In addition to the performance of Cathedral City we have made good progress with our premium Davidstow brand. We continue to widen distribution, replacing Davidstow products that have carried the name of specific retailers. This has encouraged us to increase the investment behind this brand and we expect to see further progress going forward.

We also continue to achieve increased efficiencies throughout the supply chain and have reduced packing costs during the year.

The growth in our cheese sales has encouraged us to expand Davidstow's production capacity in the year and we have further plans for expansion in the future.

Directors' report (continued)

Profits in this business have been supported by strong returns from whey – the by-product of cheese manufacture. The whey stream at Davidstow is particularly valuable because of its size and quality and because it contains no colouring. We are excited about an opportunity to increase whey profits by extending manufacturing into higher value products which are in demand world wide and have initiated a project to scope this opportunity.

The farmers supplying their milk to our cheese business have shared in its improved performance through higher milk prices. We are happy to continue to pay a premium for our milk at Davidstow to ensure we get a top-quality supply and since the year end have announced a further increase in the price we pay.

Looking forward we are well positioned to increase market share and profits from cheese sales. The opportunity to boost returns from whey only adds to the future prospects of this product category.

Dairies - A clear plan to restore profitability

2012/13 was another tough year for the Dairies business. Following the drop in profits in 2011/12 we have created and started to implement a plan to restore the returns from our Dairies business to an acceptable level. We believe this business can deliver a 3% return on sales and have set this as a medium-term target.

Returns in the second half of the year increased to 1.7% compared to 0.4% in the first half reflecting both the usual seasonal factors and initial results from the actions we have taken.

Profits will be increased by a combination of higher FRijj and other added-value sales, reduced costs and a greater willingness to only supply those customers who will pay a fair price.

We expect that our actions will lead to higher margins to offset cost inflation and lower residential sales that command an above average margin.

At the same time we will continue to pay a fair milk price to the farmers who supply their milk to us and provide high quality products and cost efficient services to our customers.

FRijj – one of the drivers behind the plan

FRijj operates in the flavoured milk product category. This comprises fresh flavoured milk and long-life flavoured milk. FRijj is predominately in the fresh category but we have developed a new long life product which will allow us to push the brand into convenience and other outlets where refrigerated storage is less available.

The flavoured milk category is growing strongly. Total sales are up 5% in volume and 10% in value. Fresh flavoured milk sales are up 8% in volume and 16% in value as new brands introduced by competitors have proved popular.

FRijj sales grew by 5% in value in the year, boosted by the innovative FRijj The Incredible premium range of flavours but declined 2% in volume.

We advertised FRijj on television with encouraging results, although we expect to continue to use social media and other alternative forms of marketing to support this brand going forward, reflecting the age of its target consumer.

We expect to see further material growth in this brand in the future and are continuing to invest at our Severnside production facility to ensure there is sufficient headroom to allow unfettered growth.

Efficiency improvements and cost reductions are also key

During the year we have completed the three year £75 million investment programme. As anticipated, the investment has allowed us to pack milk more efficiently and has provided an opportunity to focus polybottle production at three sites and glass bottling on one site. As a result we closed the Aintree and Fenstanton dairies during the year with the regrettable loss of 450 jobs. We expect the resultant full-year cost savings to contribute to future profit growth.

We have made further efficiencies including introducing a new design of polybottle in partnership with our supplier Nampak. This uses up to 15% less plastic – good for costs and good for the environment.

Directors' report (continued)

Our Dairies business also benefits from our ongoing company-wide cost saving projects. As the largest of our businesses it covers the highest proportion of central overheads and the decision to move to one business, which is anticipated to save over £5 million annually, will contribute to the restoration of profitability in this area.

Getting the right customer mix

During the year we retained our contract to supply liquid milk to Sainsbury's - one of our largest customers - and now have an agreement to supply them through to 2017. We also strengthened our offering to retailers by buying Proper Welsh Milk, a small dairy business that packs Welsh milk in Wales. Several key retailers are customers of this business which we will look to expand.

We had to negotiate higher milk prices with customers so that we could pay our farmers more and compensate them for the difficulties they faced from the poor weather and higher animal feed costs. We also need to make an acceptable return for ourselves. Many of our customers were willing to pay higher but fair prices. However we chose to stop supplying some smaller customers who were not prepared to do so. Going forward we will continue to review our customer mix, particularly in the middle ground.

Residential sales still important

Delivering milk to customers' doorsteps remains a key part of our business. We have 850,000 residential customers and have a network of 1,800 milkmen delivering to them. However sales in this area continue to fall as financial pressures lead to customers choosing to buy their milk from shops rather than have it delivered. The rate of decline was lower amongst customers who use our internet doorstep delivery proposition, milk&more, where we have maintained over 200,000 customers who use the service every week. However overall residential volume sales of milk fell 12% compared to last year. As a result we closed 28 local depots, finishing the year with 92. We also closed our residential delivery product distribution centre in Sunbury during the year, moving this operation to our National Distribution Centre in Nuneaton.

Profits from the sale of depots closed in earlier years as well as 2012/13 were £7.7 million. We anticipate that property profits from the sales of depots will continue into the future and contribute to our medium-term target of 3% margin.

Ingredients

Our ingredients operation continues to provide us with a valuable balancing solution for seasonal raw milk supplies and cream.

We aim to minimise throughput in this business to reduce our exposure as far as possible to dairy commodity markets. However our Dairies business generates more cream than that required by our Spreads business. Prices for dairy ingredients were low during the early months of the year then rose towards the middle of the range seen in recent years. Since the year end they have increased further.

Milk Procurement

Working with our farmers to deliver a sustainable supply of milk

79% of the milk that Dairy Crest sources, comes direct from farms located throughout England and South Wales. Milk from direct supply is a key part of our added value strategy and we are actively working to increase this proportion. We value the relationship we have with the 1,250 dairy farmers who supply their milk to us. It provides the opportunity to work together to generate greater efficiencies, by sharing information and knowledge, and delivers security for both our farmers and Dairy Crest.

Challenging year

2012 was a particularly challenging year for agriculture and dairy farming in particular. Adverse weather conditions have persisted throughout the year and will have a longer term impact on milk production than is normally seen.

The combined effect of the weather together with high input costs and milk price reductions in the spring put the dairy sector under the spotlight. Dairy farmers were clearly frustrated at the situation they found themselves in with their margins being squeezed. At the same time processors had to respond to falling market values, whilst acknowledging that consumers continued to look for value as household budgets tightened.

Relationships have been tested and as a result the industry questioned if the sector was operating effectively and what steps could be taken to improve the milk pricing process in order to build trust. One of the outcomes was the development of the Defra Voluntary Code for milk supply contracts.

Directors' report (continued)

Dairy Crest response

Dairy Crest's response to the challenges of the past year can be summarised with three distinct actions

First following the spring milk price reduction for Liquid contracts, the plans for further milk price reductions were set aside. A series of milk price increases then followed, starting in the Autumn. A Volume Incentive Scheme was also introduced for cheese contracts, similar to the initiative for Liquid contracts, to support farmers who were able to increase milk production.

Second following the establishment of the Defra Voluntary Code, Dairy Crest became the first milk processor to sign up to the key principles in advance of the Code being signed. In early summer we gave a commitment to our farmers that 30 days' notice would be provided for any price reduction and that farmers could give 3 months' notice to cease supplying their milk to us if they did not agree with a change to their milk price. Since then we have continued to fully support the Code and have committed to incorporate its terms within our farmer contracts.

Third together with DCD the independent organisation representing our farmers, we commissioned a renowned, independent consultant to develop a more transparent formula method of milk pricing. The result was that Dairy Crest became the first processor to develop a milk price formula for farmers on standard liquid contracts. Launched with effect from April 2013 this has been a great success with 175 of our farmers applying to place all or part of their milk supply on the new Formula Contract.

Looking forward we are determined to maintain our leading position and develop innovative ways of delivering a sustainable supply of milk.

Future supplies

National milk supply is below the level seen last year and supply is expected to take time to recover. Weather, with the consequent impact on grass growth, will play a key part in production levels. So too will the long term decline in dairy farmer numbers. It is recognised that the average farm size is likely to increase. We all therefore have a part to play in ensuring consumers are well informed about how the milk they buy is produced on modern dairy farms, and the important factors that affect the level of quality and animal welfare.

The market for milk supply is increasingly competitive as milk processors seek to attract new farmer suppliers. Milk contracts need to reflect the external environment and challenges. We believe the Dairy Crest package is very competitive offering a range of contract options to enable farmers to choose how they work with us. We continue to invest in our farmer base by offering additional benefits including the unique White Gold advisory service. This helps our farmers achieve the highest standards and comply with current dairy legislation in an efficient way. Our long standing reputation for this higher level of farmer support together with secure payment for milk is seen as a key benefit.

A particular area of focus is for our farmers to be able to access up to date information and news about Dairy Crest. This is important for the decision-making process on farm. Investment in a new farmer website Farm Connect, delivers this and has been welcomed by our farmers. The website and the upgrade of our systems to support this innovative interactive management tool is part of our continued drive to improve efficiency.

Summary

Our supplying farmers play a key role within of our business - as they do within their local communities. We are committed to doing the right thing and supporting them to produce high quality milk in a way that will support our respective businesses as well as enhancing the rural economy and British countryside.

Corporate Responsibility

Over the last three years we have doubled our efforts to make sure that sustainability is fully integrated into the way we do business and in 2012 we were confident enough to launch 40 public corporate responsible pledges which we could be measured and judged against. An update on progress against our 40 pledges can be found in our Online Corporate Responsibility report.

We were especially proud that this year Dairy Crest was one of only five companies shortlisted for the Business in the Community (BITC) Responsible Business of the Year Award 2013. The nomination has come on the back of attaining 98% and a Platinum Big Tick - the highest ranking possible - in their annual CR Index and demonstrates our commitment to put our words into action.

Of course we know that our journey towards being a sustainable business will not be easy. We know we will face difficult choices along the way. But we also know we are heading in the right direction and that our approach to corporate responsibility will ultimately benefit our business, the environment and society.

Directors' report (continued)

Environment

We know we have an important role to play when it comes to tackling climate change reducing waste and looking after Britain's natural resources

Reducing emissions

At Dairy Crest we are committed to reducing our carbon footprint by constantly looking at how we can make best use of the energy we use in our manufacturing storing and transporting processes and by taking advantage of more environmentally-friendly technology

Given this commitment we are pleased to report that we have continued to make good progress against our pledge of reducing our carbon emissions by 30% by 2020 against 2007 levels and by March 2013 we had achieved a carbon equivalent reduction of 22.4% with much of this coming from two biomass boilers at our Davidstow creamery. In 2012/13 Davidstow reduced its carbon emissions by 13,900 tonnes – in comparison to its emissions in 2007/8

As well as investing in new, greener vehicles and making use of telematics systems in all of our trucks we continue to operate a fleet of over 900 electric vehicles and we also train our drivers to be more energy efficient

Other factors that have helped reduce our on-site carbon footprint include changing the lighting used in many of our sites and warehouses to LED alternatives and ensuring we use chilling systems based on ammonia and glycol (which are more environmentally friendly) rather than HCFC's - we have plans in place to replace the few smaller remaining systems that run on HCFC's by 2015

Our award winning carbon toolkit created in partnership with our independent farmer representative body and fully accredited by Carbon Trust continues to help dairy farmers measure accurately and compare their greenhouse gas emissions against others. It shows them where they can reduce their energy consumption and it enables them to identify and prioritise the improvements they need to make to reduce their on farm emissions. Following its successful trial the toolkit has been adopted by three leading retailers

Reducing waste

Our aim is to adopt a comprehensive approach to waste to ensure the environmental impact we make through our manufacturing and distribution processes is kept to a minimum. We also know that we have a role to play in the homes of our consumers where there is a growing desire to reduce packing and food waste

Our overall aim is zero waste to landfill by 2015 (except where it is not environmentally beneficial to do so). Last year our manufacturing sites avoided sending 92% of waste to landfill up from 88% in 2011/12. This was achieved through working with our waste broker 707 and staff who identified alternative ways in which we can recycle waste

In 2012/13 we completed the introduction of new spreads tubs across all of our brands. The new tubs make more efficient use of materials and allow for more efficient transportation. This year we also put on-pack recycling information on our branded products. We have also continued to roll out an innovative new plastic milk bottle designed in partnership with Nampak. It uses about 15 per cent less plastic than its standard equivalent and is made with up to 15% recycled plastic

Our goal remains to increase the amount of recycled plastic used in our polybottles from the current 15% to 30% by 2015 and despite the current lack of recycled material available within the UK, we are working with WRAP to find a solution. Through our doorstep delivery service we continue to sell milk in glass bottles which are, on average, reused 20 times

Milk is valuable and precious – dairy farmers work extremely hard to produce it and although some milk loss is inevitable during processing we have continued to make good progress with a 7% reduction in losses in comparison to 2007

In early 2013 we publicly committed ourselves to the third phase of WRAP's Courtauld Commitment which includes a commitment to helping consumers reduce the amount of food they waste at home by extending where possible the shelf life of the products we make, offering them a greater range of portion sizes and giving them advice on what they can do with their left overs

Directors' report (continued)

Reducing water usage

Over the course of 2012/13 we have continued to focus on our levels of water efficiency at our manufacturing sites and are confident we will achieve our target of reducing water usage by 20% by 2015 against 2007 levels. At present we have reduced it by 15.7%.

With an increasing focus on water as a limited resource, in the autumn of 2011 we launched 'WaterWell' an innovative water auditing programme for farmers which enables them to share best practice and to benchmark their results against sector wide data.

Our farming suppliers also play a vital role in conserving the countryside and many of their activities have a positive impact on biodiversity. Getting the balance right between milk production and helping wildlife is a challenge. We have in place several initiatives with some of the UK's leading retailers. Working with Waitrose and AB Sustain Dairy Crest helped set up and fund an extensive biodiversity programme whereby dairy farmers are paid to leave at least 10% of their land free for wildlife to flourish. As of 2012 the average amount of land given over to wildlife is about 25% - the equivalent of 18 times London's Hyde Park. Farmers involved in the scheme leave hedgerows to grow blossom and fruit and maintain wide field margins where wild flowers provide food and egg-laying areas for butterflies. Other initiatives include the introduction of ponds, ditches, beetle banks, skylark scrapes, barn owl boxes, wetland and overwintered stubble. As a result of the programme it was found that wildlife has increased by 19% and sightings of birdlife considered to be in decline were up 47%.

Marketplace

Although dairy products are an excellent source of protein, vitamins and minerals, especially calcium which is essential for healthy bones and teeth, we also recognise that many consumers want to reduce the amount of saturated fat in their diet. To help them achieve this, and without compromising on taste, we have created lower fat variants of our main brands, namely Cathedral City, Clover, Country Life spreadable butter and in 2013 we launched Utterly Butterly Lightly to join the Utterly Butterly family. We also supply 1% fat milk to many of our customers.

The investments in our lighter range, through both advertising and promotions, have resulted in impressive growth rates. Today annual retail sales of these products total £68 million and have grown over the past year by over 10%. The two biggest drivers behind this are Cathedral City Lighter which now has a retail sales value of nearly £40 million and has grown by 21% since last year and Clover Lighter which is now worth over £18 million up 9% compared to 2011/12.

Coupled with the investment in our lower fat variants we have introduced Clover Seedburst, the UK's first spread with added seeds and whole grains. Blended with Clover Lighter, the product provides consumers with a natural source of vitamin E and beneficial oils.

Aware that portion control is a key way of helping consumers maintain or reduce their weight we launched Cathedral City Selections which are individually wrapped, calorie controlled portions of cheddar that make it easier for consumers to have a little of what they want when they want it. In just 33 weeks since launch, Cathedral City Selections have achieved over £2 million of sales. This range of adult snacking complements our children's cheese brand Chedds which is made from 100% pure mild cheddar cheese and is packed in child size portions.

Our overall commitment to leading the lower fat dairy agenda was highlighted in early 2013 when we became the first dairy company to sign up to the Department of Health's Responsibility Deal which includes a commitment on calorie reduction.

We recognise that food safety is non-negotiable and the quality of our products underpins our success. We have to ensure the food we produce is safe to eat and drink and we have well-proven quality management procedures in place to manage and control the safety and quality of our products throughout the supply chain - including the traceability of the ingredients we purchase. Over the course of the last year we are pleased to report that we have not had to make any product recalls.

Dairy Crest also works collaboratively with non-farming suppliers to ensure compliance with our supplier corporate responsibility policy. Introduced in 2011, the policy sets out the minimum standards expected from our suppliers and this year we enhanced it to cover a global zero tolerance on bribery and corruption.

Directors' report (continued)

Workplace

Safety at work

The safety and well-being of people connected with Dairy Crest could not be more important. We aim to have no accidents in the workplace and consider one accident to be one too many.

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

To achieve this objective we have in place a number of training, employee engagement and behavioural safety programmes all of which have helped further reduce the number of accidents across our sites and, although our target is always to have no accidents in the workplace, the number fell from 76 last year to 56 this year.

One of the highlights of the year was a children's poster competition themed around the subject 'My mummy/daddy works safely'. Although the poster competition was good fun and resulted in many entries from all areas of the business it had the important effect of increasing awareness of a very important issue, safety.

Understanding why accidents happen is vital to reducing them. To ensure we are well placed to do this we actively encourage staff to report near misses without fear of reprisal. This open and honest approach has resulted in 9,349 near misses being reported last year, an increase of 271 on the previous year.

As part of our drive to help staff live healthier lives we introduced free health checks which are carried out by our team of occupational health advisers. These checkups allow staff to get tailored advice on how they can improve their lifestyles and they include a cholesterol check, a BMI test and a blood pressure check. In addition to offering staff free health checks we also ran health awareness campaigns during the year that focused on key health issues. These have included diabetes, hypertension and alcohol misuse. Together this approach resulted in over 2,000 employees – about 40% of our staff having a health check. As well as health hubs at each of our manufacturing sites the occupational health team also run a bespoke health website that staff can access both at home and at work. These actions have helped us keep absence rates below 3%.

Community

We know that the actions we take can have a significant influence on the communities where we are based, and as the main employer in many areas we believe we have a unique opportunity to play a positive role in supporting projects at a local and national level.

To ensure the work we do in our local communities adds real value to society we focus on supporting issues and projects that make best use of our expertise and knowledge, provide a legacy and fit with our vision and business strategy. For this reason our community programme is based around supporting the countryside, the environment, education and health.

Countryside and environment

The rural economy is hugely important to the UK, turning over £300 billion and employing 5.5 million people. We want it to remain that way, so as well as supporting our dairy suppliers we also want to support struggling smaller farmers – some of whom may not be in the dairy sector.

To help us achieve this Mark Allen, our Chief Executive, is Chairman of the Prince's Rural Action Programme and is a Trustee of the Countryside Fund and Lyndsay Chapman, our Director of Agriculture and Farming Communications, is Chairman of the Prince's Dairy Initiative. We are also a major supporter of Pub in the Hub, a charity that helps isolated, rural pubs diversify to the benefit of the entire local community.

Directors' report (continued)

Healthy living

In tandem with our strategy of increasing sales of healthier variants of our products our aim is to use our community programme to encourage staff and consumers to live healthier lifestyles. To help achieve this we have been working in partnership with the British Heart Foundation, the UK's leading heart charity, to promote awareness of the charity's activities to our doorstep customers and staff. We have also made use of the British Heart Foundation's resources and experience to support our staff wellbeing campaign.

In 2012 Dairy Crest also became a key supporter of BBC2's Harry Bikers Meals on Wheels campaign with staff taking advantage of our volunteering policy to deliver healthy homemade meals to people who need them. Our aim for the coming years is to not just support more Meals on Wheels programmes but to also play our part in getting more people and companies to support the programme.

Education

In the UK food industry and dairy sector as a whole there is a severe shortage of food scientists, engineers and young people starting a career in agriculture. For these reasons education is an important part of our community programme.

Over the course of the last year we played a leading role in the IGDs 'Feeding Britain's Future' programme which saw Dairy Crest, alongside other retailers and food manufacturers open their doors to unemployed youngsters to help them get a job and to showcase the huge variety of roles in the food sector. Dairy Crest's focus was very much centred on helping rural communities and included a visit to the Duchy College Farm in Cornwall and days at our Davidstow creamery and Nuneaton distribution centre. We will again be playing a leading role in the initiative in 2013.

We also encourage young people to consider a career in food manufacturing and engineering through our sponsorship of the University Food Science Summer School courses at Nottingham and Reading Universities and events such as the Festival of Manufacturing and Engineering held in Stonehouse, Gloucestershire.

Engaging with local communities

Our local community committees make up the fourth strand of our community programme and, in keeping with the overall strategy, they support

- Local good causes that make a positive and direct contribution to the communities where our workplaces are based
- Good causes that improve health, education, the environment or countryside

Over the course of the year staff have supported over a hundred good causes through volunteering, donations of products and donations of money.

Directors' report (continued)**Principal risks and uncertainties**

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

Risk area and potential impact	Mitigating controls
<p>Commercial risks Reduced profitability We operate in extremely competitive markets. If we fail to compete effectively or are subject to higher input prices that cannot be recovered by raising selling prices without losing volumes we could lose sales and profits.</p>	<p>We set ourselves the target of continually reducing our cost base and are able to invest in our supply chain to help achieve this.</p> <p>No one customer accounts for more than 15% of total revenues and we continually strive to widen our customer base. Despite challenging trading conditions we have maintained investment in marketing our branded products. Our innovation programme continues to generate new products that reinforce our appeal to customers. We recognise the importance of strong customer relationships and the executive team play an active part in maintaining and developing these. They are also involved in major customer negotiations. We conduct customer surveys to benchmark our performance and we continuously monitor the service and quality levels provided to our customers and consumers, and have procedures in place to react quickly to any issues. Our commitment to corporate responsibility remains a key part of our business strategy, and it an important part of our overall proposition to some customers.</p>
<p>Reduced demand from customers Consumers could move away from dairy products for economic, health, ethical, or other reasons leading to lower sales and profits.</p>	<p>Consumers are at the heart of our business and we regularly monitor consumer trends. We continue to promote the health benefits provided by dairy products and develop healthier products. We also continue to maintain our focus on developing a compelling new product development pipeline enabling us to react to consumer trends, for example with more environmentally-friendly packaging and healthier variants of branded goods. We have increased our direct involvement with government to understand and influence future legislation that could affect future consumer demand.</p>
<p>Input cost volatility Volatile milk and non-milk costs (vegetable oils, diesel, electricity, gas and packaging) could reduce margins unless we can manage cost risk, find other cost efficiencies elsewhere or increase selling prices.</p>	<p>This area is closely reviewed by the Management Board which has established a risk committee to monitor and hedge forward non-milk commodity prices as appropriate. The risks associated with purchasing large volumes of milk have been reduced by establishing milk pools linked to major customers. We seek to absorb short term cost movements through supply chain efficiencies. Our purchasing and commercial teams have clear lines of communication between them to ensure customers are kept aware of changes to our cost base and requests for price increases can be fully justified.</p>

Directors' report (continued)

Risk area and potential impact	Mitigating controls
<p>Operational risks Inability to source milk Without milk we would not have a business. Restricted milk supply due to economic factors, weather, fuel availability or an epidemic which affects dairy cows could restrict milk supply. This in turn could lead to lower sales and profits. Consumer confidence in dairy products could also be adversely affected.</p>	<p>We invest significant resources in maintaining strong relationships with our milk suppliers by attending forums and discussing current issues and pressures that affect both the farms and our business. The majority of our milk comes directly from farm on contracts that include a notice period of at least one year. Our experienced milk procurement team understand milk production and are alert to changes in supply. We aim to pay a fair market related milk price and closely monitor the milk price we pay to suppliers in order to ensure we can purchase the right quantity of milk to meet demand forecasts and have established procedures for allocating milk between our businesses if a short-term shortfall in supply does arise. We have contingency plans established for major incidents and work closely with DEFRA and industry bodies to ensure these are appropriate. These plans are regularly tested and reviewed with the Management Board.</p>
<p>Failure of a key supplier We are dependent on key suppliers and could lose sales and face financial penalties from customers if suppliers' failure leaves us unable to supply. Failure of key information technology suppliers could adversely affect our financial systems.</p>	<p>Our purchasing team regularly monitors suppliers' ability to supply and puts in place alternative arrangements including dual purchasing if appropriate. We have taken specific actions to reduce our dependency on information technology suppliers.</p>
<p>Other operational risks An accident, product contamination, the failure of equipment or systems or deliberate act could disrupt production, affect food safety, cause injury, and/or cause reputational damage with adverse consequences. We are also reliant on information technology and exposed to losses in the event that systems fail.</p>	<p>Dairy Crest takes product quality very seriously and has rigorous quality controls in place to minimise potential risks. Plans are maintained to respond quickly to any product quality concerns and minimise any impact to the Group. Our business is also committed to the health and safety of all our employees and maintains systems aimed at ensuring everyone is able to complete their work safely. All of our manufacturing sites have a trained engineering resource, are supported by our major equipment suppliers and hold appropriate stocks of spare parts. They also all have fire protection systems and regular fire drills. Our information technology systems are regularly backed up and duplicated in the majority of areas. We have procedures in place to help us deal with major incidents and insurance cover for property damage and business interruption risks.</p>

Directors' report (continued)

Risk area and potential impact	Mitigating controls
People risks Disease epidemic A disease epidemic such as swine flu could adversely affect the health of our employees and prevent them working leaving us unable to service customers	Contingency plans which include working with industry bodies are in place for known epidemic risks
Recruitment and retention We need to retain high quality employees to provide customers and consumers with safe high quality products and services	We carry out rigorous selection procedures and benchmark pay and benefits to ensure we can attract and retain the best people. We have a wide bonus scheme and a range of other incentives to reward good performance. We have proposed changes to our long-term share option scheme to better align the interests of management to shareholders and improve its effectiveness in delivering retention. There is a performance review and talent management scheme to identify and develop our own people. We undertake regular surveys to monitor the relationship with our employees and their engagement.
Financial risks Pension scheme Despite the action we have taken to reduce the risks associated with our pension scheme, including closing the scheme to future accrual in 2010 and buying insurance to meet the liabilities associated with many of our retired members in 2008 and 2009 the deficit could continue to increase and we may then have to increase our contributions	We continue to work closely with the Trustee of the Pension Fund to improve the Fund's financial position at an acceptable cash cost to the business. Our recent one off cash contribution of £40 million to the Pension Fund reduces the risk of the deficit increasing.
Legal and compliance risks Our sector is subject to a number of complex statutory requirements. There is a risk of fines or lawsuits and reputational damage if we fail to comply	We have a strong in-house legal function supported by external advisors. We have undertaken group-wide training in respect of competition law and actively monitor and adjust to on-going legal and regulatory changes. We have a Business Conduct Policy, and a programme designed to ensure that all relevant employees understand what is and is not permissible under the UK Bribery Act.
Major project risk To remain competitive we periodically undertake major transformational projects following strategic reviews. Successful execution of these projects is often key to delivering strategic objectives. At the same time we have to ensure that major projects do not divert from the on-going day to day delivery of products and services to our customers	We have a good track record of managing projects and use experienced and appropriately skilled senior managers to lead these. Supervisory governance structures are also put in place to help successful delivery. We are aware that too much change concentrated in too short a timescale can be detrimental and manage this by ensuring key project resource is full time with appropriate backfilling and use of third parties.

Directors' report (continued)

Exceptional items

Pre-tax exceptional charges of £47.8 million have been recorded in the year (2012: £35.6 million)

In September 2012 we announced the potential closure of the Crudgington site with production moving to Kirkby. This project, now confirmed, will give significant savings in future years. Exceptional costs of £13.8 million have been recorded in the year, the majority of which are non-cash asset write-downs. Cash expenditure in the year was £2.6 million.

In April 2012 we also announced a major restructuring of Dairies manufacturing which ultimately led to closure of the Fenstanton and Aintree dairies. An exceptional cost of £21.3 million has been recorded against this project of which £9.0 million represents redundancy costs. Cash expenditure in the year was £17.8 million and the project is now complete.

During the year we completed the restructuring of depot administration activities in the Dairies division. This project has delivered more streamlined and centralised back-office support functions and generated significant cost savings. Exceptional costs in the period were £9.2 million (predominantly redundancy) with a cash expenditure in the year of £8.5 million.

In February 2013 the company announced a management restructure, leading to a unified business. Exceptional costs of £3.5 million have been charged in the year being accruals for redundancy costs. Some further exceptional costs will be incurred in 2013/14 as the reorganisation is completed.

Finance Income

Other finance income of £5.9 million (2012: £5.5 million) comprises the net expected return on pension scheme assets after deducting the interest cost on the defined benefit obligation. This is based on assumptions made at the start of the financial year. This amount can be highly volatile year on year as it comprises the net of expected returns and interest costs, both of which are dependent upon financial market conditions at 31 March each year.

Fixed Assets

The Directors have obtained an informal valuation of the Company's land and buildings and believe that the current market value in existing use of these properties slightly exceeds their book value.

Directors

The current Directors of the company are those listed on page 1.

The following changes in Directors have taken place:

T. A. Atherton was appointed as a Director on 23 May 2013.

R. T. A. Willock was appointed as a Director on 10 July 2013.

A. S. N. Murray resigned as a Director on 23 May 2013.

R. Tansey resigned as a Director on 31 July 2012.

Directors' and officers' indemnities and insurance

The Company maintains liability insurance for its Directors and Officers. The Directors, Secretary and other Officers of the Company are indemnified by the Company to the extent permitted by company law. That indemnity provision has been in place during the year and remains in force.

Employee involvement

The importance of good communication is recognised by the Company. There are also well-established consultation and negotiating arrangements with recognised trade unions.

Employment of disabled persons

The Company considers applicants for posts compatible with their disability. Staff who become disabled are retained wherever practicable.

Charitable and political donations

The Company made charitable donations of £0.1 million (2012: £0.1 million). Small contributions, mainly of product, were also made to local charities. No contributions were made to any political party.

Directors' report (continued)

Research and Development

The Company has adopted a target of delivering part of its annual turnover through new product development. Focus continues to be on offering consumers a wide product mix, and especially the development of lower fat variants of existing products. Dairy Crest remains at the forefront of dairy industry developments to reduce packaging waste through innovation such as our patented jug and milk bag.

Financial instruments policy

The financial risk management objectives and policies and risk exposures of the Company are described in detail in Note 26 to the accounts.

Pensions

During the year, the Company paid £20 million into the (closed) defined benefit scheme in line with the schedule of contributions agreed in June 2011. Contributions at this rate will continue until a new agreement is reached following the actuarial valuation due as of 31 March 2013.

The reported pension liability at 31 March 2013 was £67.2 million comprising a deficit of £56.3 million and a £10.9 million additional liability reflecting an unrecoverable notional surplus. The reported deficit at 31 March 2012 was £79.8 million. Asset returns were strong during the year; however bond yields declined again increasing the discounted level of pension liabilities.

Post Balance sheet event

The balance of the St Hubert proceeds were largely held on short term deposit by Dairy Crest Limited.

On 18 April 2013, the Parent Company Dairy Crest Group plc repaid €106.9 million (£92.7 million) and £7.2 million of 2007 notes at a premium of £8.7 million. These repayments were funded from Dairy Crest Limited short term deposits.

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

Following a comprehensive review of Dairy Crest Operations within Manchester and Liverpool, the Company announced the sale of seven depots in Manchester and Liverpool to Creamline dairies in July 2013.

Going concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

As the Company has net current liabilities a letter of support has been obtained by the Directors from Dairy Crest Group plc, the Company's ultimate parent undertaking.

Dairy Crest Group plc, the parent company has adopted the going concern basis in preparing the Dairy Crest Group plc consolidated accounts.

Forecasts and projections taking into account reasonable possible changes in trading performance show that Dairy Crest Limited and the Dairy Crest Group plc will be able to operate within the level of current banking facilities.

Future developments

The Company aims to continue with the manufacture, processing and distribution of milk and dairy products.

Dairy Crest Limited

Registered No 2085882

Directors' report (continued)

Auditors

So far as the Directors are aware there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In accordance with Section 486 of the Companies Act 2006 a resolution has been passed to dispense with the obligation to appoint auditors annually. Accordingly, Ernst & Young LLP shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to members.

By order of the board



R Miller
Company Secretary

2013

27th September

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report

to the members of Dairy Crest Limited

We have audited the financial statements of Dairy Crest Limited for the year ended 31 March 2013 which comprise the Profit and loss account the Statement of total recognised gains and losses, the Balance sheet and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of, whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view, of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

30 September 2013

Profit and loss account

for the year ended 31 March 2013

		2013 £m	2012 £m <i>Restated</i>
	<i>Notes</i>		
Turnover	2	1,336.1	1,444.8
Other income - dividends received	4	117.0	18.2
Other income - property	4	7.7	4.6
		<u>124.7</u>	<u>22.8</u>
Operating costs before exceptional items and intangible amortisation	3	(1,299.6)	(1,376.0)
Operating exceptional items	3	(47.8)	(35.6)
Goodwill amortisation	3, 4	(4.2)	(11.0)
Intangible amortisation	3, 4	(3.1)	(3.5)
Operating costs	3	<u>(1,354.7)</u>	<u>(1,426.1)</u>
Operating profit		<u>106.1</u>	<u>41.5</u>
Non - operating exceptional items	3	(5.9)	-
Net interest payable	5	(23.3)	(24.7)
Other finance income - pensions	6	5.9	5.5
Profit on ordinary activities before tax		<u>82.8</u>	<u>22.3</u>
Tax on profit on ordinary activities	7	(1.2)	0.4
Profit for the year		<u><u>81.6</u></u>	<u><u>22.7</u></u>

Profit for the year all relates to continuing operations

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

Statement of total recognised gains and losses

for the year ended 31 March 2013

		2013 £m	2012 £m
	<i>Notes</i>		
Profit for the year		81.6	22.7
Actuarial loss	18	(13.5)	(46.2)
Exchange losses on foreign currency net investment		-	(12.5)
Realised exchange gains on hedging currency loans and swaps		-	9.8
Tax on components of recognised gains and losses		7.8	11.2
Total recognised gain/(loss) for the year		<u><u>75.9</u></u>	<u><u>(15.0)</u></u>

Dairy Crest Limited

Registered No 2085882

Balance sheet

at 31 March 2013

		2013 £m	2012 £m
	Notes		
Fixed assets			
Tangible assets	10	269 0	271 0
Goodwill	11	-	4 2
Intangible assets	12	25 1	22 7
Investments	13	546 0	551 2
		<u>840 1</u>	<u>849 1</u>
Current assets			
Stocks	14	206 7	182 1
Debtors	15	384 6	234 6
Cash at bank and in hand		258 7	60 0
		<u>850 0</u>	<u>476 7</u>
Creditors amounts falling due within one year			
Borrowings	16	(2 4)	(12 7)
Other creditors	16	(1,438 0)	(1,074 9)
		<u>(1,440 4)</u>	<u>(1 087 6)</u>
Net current liabilities		<u>(590 4)</u>	<u>(610 9)</u>
Total assets less current liabilities		249 7	238 2
Creditors amounts falling due after more than one year			
Borrowings	17	(3 1)	(4 5)
Other creditors	17	(9 6)	(6 9)
Provisions for liabilities and charges	19	(4 9)	(8 1)
Defined benefit pension liabilities	18	(50 1)	(64 0)
		<u>182 0</u>	<u>154 7</u>
Net assets		182 0	154 7
Capital and reserves			
Called up equity share capital	20	150 0	150 0
Profit and loss account	21	32 0	4 7
		<u>182 0</u>	<u>154 7</u>
Shareholders' funds	22	182 0	154 7

The financial statements were approved by the Directors and signed on their behalf by



T A Atherton
Director

27th September 2013

Notes to the financial statements

at 31 March 2013

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards (United Kingdom Generally Accepted Accounting Practice)

The financial statements have been prepared on a consistent basis with prior account periods except for the adoption of the amendment to an existing accounting standard as issued by the Accounting Standards Board Amendment to FRS 29 (IFRS 7) Disclosures - Transfers of financial assets The adoption of this amendment does not have any impact on the financial position performance presentation of disclosures of the Company

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are (i) the measurement of the impairment of goodwill and intangible assets and (ii) the measurement of defined benefit pension scheme assets and obligations

(i) The Company determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which goodwill is allocated The assessment of value in use is compared to the carrying value of assets including intangible assets being principally brands This requires estimation of future cash flows and the selection of a suitable discount rate

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

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

As the Company has net current liabilities, a letter of support has been obtained by the Directors from Dairy Crest Group plc, the Company's ultimate parent undertaking

Dairy Crest Group plc the parent company has adopted the going concern basis in preparing the Dairy Crest Group plc consolidated accounts

Consolidated financial statements

These financial statements represent those of the Company Consolidated financial statements have not been prepared as the Company is a subsidiary of a UK parent undertaking which itself prepares consolidated financial statements (Section 400, Companies Act 2006)

Cash flow statement

As the Company is a wholly owned subsidiary of Dairy Crest Group plc in whose consolidated cash flow statement its results are included it is exempt under the terms of FRS 1 (Revised) from publishing a cash flow statement

Goodwill

Goodwill arising on acquisitions since 1 April 1998 comprising the difference between the cost of shares or businesses acquired and the fair value of the identifiable net assets at the date of acquisition, is capitalised as an intangible fixed asset and amortised through the profit and loss account over the estimated useful life of the asset, not exceeding 20 years Goodwill arising on acquisitions since 1 April 2002 will normally be amortised over 10 years The amortisation period of goodwill arising on the acquisitions since 1 April 1998 has been amended from 20 years to 10 years Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if event or changes in circumstances indicate that the carrying value may not be recoverable If a subsidiary or business is disposed of, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale

Intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised at fair value separately from goodwill if the fair value can be measured reliably on initial recognition and the future expected economic benefits flow to the Company Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses The useful lives of intangible assets are assessed to be either finite or indefinite Currently, all the Company's intangible assets have finite useful lives and are amortised over 3 to 7 years Intangibles with a finite life are amortised to the profit and loss account using a methodology that matches management's estimate of how the benefit of the assets will be recovered Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis

Notes to the financial statements

at 31 March 2013

1 Accounting policies (continued)

Intangible assets acquired separately from business combinations include software development expenditure. Software is carried at cost less accumulated amortisation. Software is amortised over 3 to 7 years. Intangible assets that are not yet available for use are tested for impairment annually either individually or at the cash generating unit level or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable.

Turnover

Turnover represents the amount invoiced net of VAT for goods and services supplied to customers, substantially all of which arises in the United Kingdom.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets, excluding freehold land, over their estimated useful lives in equal annual instalments over the following periods:

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

Government and other grants

Regional development and other grants received for the purchase of fixed assets are included in creditors and subsequently released to profit over the useful life of the asset by equal instalments.

Leased assets

Assets acquired under finance leases are included in the balance sheet at cost less depreciation. The net present value of future lease rentals is included as a liability on the balance sheet. The interest element of lease rentals is charged to the profit and loss account in the year.

Rentals payable under operating leases are charged to the profit and loss account on the straight line basis over the lease term.

Investments

The Company recognises its investments in subsidiaries at cost being the fair value of consideration paid. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of investment.

Stocks

Stocks are stated at the lower of cost (including attributable production overheads) and net realisable value. Consumable stores are valued at cost net of provisions where appropriate.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 31 March 2013

1 Accounting policies (continued)

Retirement benefit obligations

The liability in respect of defined benefit schemes is the present value of the relevant defined benefit obligation at the balance sheet date less the fair value of plan assets and an adjustment for past service costs not yet recognised. The independent actuaries complete a full actuarial valuation of the Dairy Crest Group pension fund plan triennially. The obligation is updated annually for financial reporting purposes by the actuary using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

Current service costs are recognised in operating costs in the profit and loss account. Past service costs are included in operating costs where the benefits have vested; otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and the difference between these amounts are included in other finance income or costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full and are charged or credited to the Statement of total recognised gains and losses in the period in which they arise.

Equity based performance payments

The Company has issued equity-settled share based payment schemes for which it receives services from employees in consideration for the equity instrument. Equity-settled share based payment schemes are measured at fair value at grant date by an external valuer using an appropriate pricing model.

In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of Dairy Crest Group plc (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

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

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

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

The Company also provides employees with the ability to purchase the Dairy Crest Group plc ordinary shares at 80% of the fair value at the grant date (Sharesave Scheme). The Company records an expense, based on the estimate of the 20% discount related to the shares expected to vest on a straight-line basis over the vesting period using a Black Scholes option pricing model.

Dividends

In accordance with FRS 21 "Events after the balance sheet date", the Company recognises dividends received and paid in the period in which they are declared.

The prior year profit and loss account has been restated to disclose dividends received within other income and not deducted from operating costs.

Foreign currencies

Forward foreign exchange contracts are accounted for as hedges when they relate to a foreign currency asset or liability that is probable and which involves the same currency as the hedging item. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date, or the forward rate where hedged.

Notes to the financial statements

at 31 March 2013

1 Accounting policies (continued)**Research and development**

Expenditure on research and development is written off as incurred

2 Segmental information

Analysis of turnover by business segment

	2013 £m	2012 £m
Spreads	195.0	211.6
Cheese	231.3	229.6
Dairies	905.6	998.8
Other	4.2	4.8
	<u>1,336.1</u>	<u>1,444.8</u>

3 Operating costs

	<i>Before operating exceptional items and goodwill</i> 2013 £m	<i>Operating exceptional items</i> 2013 £m	<i>Goodwill and intangible amortisation</i> 2013 £m	<i>Total</i> 2013 £m
Cost of sales	971.1	44.3	3.1	1,018.5
Distribution costs	228.4	-	-	228.4
Administrative expenses	100.1	3.5	4.2	107.8
	<u>1,299.6</u>	<u>47.8</u>	<u>7.3</u>	<u>1,354.7</u>

Notes to the financial statements

at 31 March 2013

3 Operating costs (continued)

	Before operating exceptional items and goodwill	Operating exceptional items	Goodwill and intangible amortisation	Total
	2012	2012	2012	2012
	£m	£m	£m	£m
	Restated			Restated
Cost of sales	1,042.2	13.6	3.1	1,058.9
Distribution costs	258.7	-	-	258.7
Administrative expenses	75.1	22.0	11.4	108.5
	<u>1,376.0</u>	<u>35.6</u>	<u>14.5</u>	<u>1,426.1</u>

Operating exceptional items

	2013	2012
	£m	£m
Depot administration restructuring costs (Dairies)	9.2	5.3
Impairment of goodwill, property, plant & equipment (Dairies)	-	23.4
Provision for bad debts (Dairies)	-	4.3
Restructuring costs (Spreads)	13.8	2.6
Costs associated with closure of Dairy processing sites	21.3	-
Business reorganisation	3.5	-
	<u>47.8</u>	<u>35.6</u>

2013

£9.2 million of costs associated with the rationalisation of administrative activities and other structural changes in the Dairies depot network. This restructuring results in centralisation of back office activities supporting the depot network. These costs relate to redundancies (£7.4 million), incremental operating costs associated with delivery of the project (£1.1 million) and write downs of property, plant and equipment (£0.7 million). The project has now completed.

During the year the Company has closed two processing sites at Aintree in Liverpool and Fenstanton in Cambridgeshire. The closure of the sites and resultant changes in the supply chain, volume requirements and customer channels has resulted in exceptional costs of £21.3 million. These costs relate to redundancies (£9.0 million), duplicate running costs (£6.2 million), asset write downs (£0.7 million) and other costs (£5.4 million) including stock write offs and duplicate running costs.

In September 2012 the Company announced that it was to consult with employees on plans to consolidate spreads production into a single UK location at its site in Kirkby, Liverpool. As a result of this consolidation the site at Crudgington, Shropshire will close in 2014. Following the transfer of Clover manufacture to Kirkby in the first half of 2012 the Crudgington cash generating unit ("CGU") does not generate material cash flows from the remaining site production. Subsequent to this decision, value in use calculations have been prepared to 2014 rather than in perpetuity using a discount rate of 8.7%. As a result we have impaired the carrying value of property, plant and equipment by £12.3 million. This impairment has resulted in a carrying value of nil for plant and equipment and £1.0 million for land and buildings. The relevant CGU for goodwill testing purposes is Spreads which encompasses both the Crudgington and Kirkby sites. This restructure will result in a more efficient Spreads supply chain and Spreads goodwill has not been impaired.

Notes to the financial statements

at 31 March 2013

3 Operating costs (continued)

- In addition to the impairment of property, plant and equipment £1.5 million of costs were incurred during the year both to complete the transfer of Clover manufacture from Crudginton to Kirkby and to commence the project that will result in the closure of the Crudginton site
- In February 2013 the Company announced plans to reorganise the business into a single management and operational structure from 1 April 2013. This is replacing the divisional structures that previously existed and will lead to a more efficient and simplified organisation. This reorganisation has resulted in exceptional costs in the year ended 31 March 2013 of £3.5 million comprising predominantly redundancy costs. Further costs will be incurred in 2013/14 as the project is completed.

2012

- £5.3 million of costs associated with the rationalisation of administrative activities and other structural changes in the Dairies depot network. This restructuring resulted in centralisation of back office activities supporting the depot network. The majority of costs related to redundancies (£2.2 million) and other incremental operating costs associated with delivery of the project (£3.1 million).
- Trading in the Dairies segment was adversely impacted in 2011/12 by increased costs of milk, the ongoing level of competition in the sector and in the second half by significant falls in the value of cream. Furthermore, volume declines in doorstep deliveries continued despite the growth of our milk&more business. A range of actions was taken in order to restore margins within Dairies to an acceptable level in the medium term and create a cost-efficient, sustainable dairies business. These included the expected closure of sites referred to below (subject to consultation). However, the outlook for Dairies was weaker and more uncertain than it was in 2011. This, combined with the volatility of assumptions in forecasting future cash flows due to the commoditised nature of the business and the competitive environment, led management to conclude that the total carrying amount of Dairies goodwill should be impaired as it could not be supported on a value in use basis. This impairment reduced the carrying value of goodwill in this segment to nil.
- Furthermore, the Company had announced a major restructuring of its Dairies operations with the expected closure of two processing sites at Aintree in Liverpool and Fenstanton in Cambridgeshire. These closures were expected to be completed in 2012/13. As a result of the anticipated closures, the carrying value of property, plant and equipment at these sites could no longer be supported by a value in use calculation based upon future cash flows generated by these assets. Consequently, the carrying value of property, plant and equipment was impaired by £9.8 million at 31 March 2012. In addition, an impairment of £0.4 million was recorded against intangible assets and £0.8 million of inventories of engineering spares and packaging were written off.
- On 13 February 2012, the Company announced that a customer, Quadra Foods Limited ("Quadra") had gone into administration. As a result, a bad debt provision of £4.3 million was charged representing the entire amount owing from this customer. Bad debt write-offs of this size are extremely rare and management considered this a one-off incident which, due to its material size, was classified as exceptional. The Company previously purchased fresh milk from Farmright Limited ("Farmright"), a member of the same group as Quadra, which also went into administration. In the opinion of management, set-off arrangements were agreed and in place between Dairy Crest Limited and Quadra / Farmright at the date of them going into administration, however this was being challenged in the administration process. A provision has been recorded against amounts due from Quadra; no exceptional gain was recognised in the year ended 31 March 2012 in relation to amounts owed to Farmright as the outcome was not yet virtually certain.
- On 17 May 2011, the Company announced that, subject to a consultation process, production of its leading dairy spread brand, Clover, would be consolidated into its site in Kirkby, Liverpool. The Clover manufacturing process was split between Kirkby, Liverpool and Crudginton, Shropshire. This consolidation would result in approximately 90 redundancies at Crudginton and the creation of approximately 45 jobs at Kirkby. The consolidation would be completed in 2012/13, however exceptional costs of £2.6 million were incurred in the year ending 31 March 2012. These predominantly comprise redundancy costs (£1.2 million) and the impairment of property, plant and equipment impacted by the restructured operations (£1.0 million). This impairment reduced the carrying value of equipment made redundant by this processing change to management's best estimate of its fair value less costs to sell. In addition, inventories of engineering spares of £0.2 million were written off and other project costs of £0.2 million were incurred. A further £2.5 million was expected to be incurred in the first half of 2012/13 in relation to this consolidation comprising further redundancies and duplicate running costs during the transfer of physical production.

Notes to the financial statements

at 31 March 2013

3 Operating costs (continued)

Non-operating exceptional items

2013

	2013 £m
Private placement loan notes fees	0.4
Fair value investments	5.5
	<u>5.9</u>

- £0.4m relate to the fees for restructuring private placement loan notes
- £5.5 relates to the impairment of investments in EBMC Limited and Wessex Dairy Products Limited following the hive down of their net assets to Dairy Crest Limited

4 Operating profit

	2013 £m	2012 £m <i>Restated</i>
Operating profit is stated after charging/(crediting)		
Dividends received	(117.0)	(18.2)
Profit on disposal of household depots	(7.7)	(4.6)
Depreciation	1.5	1.4
- assets held under finance leases		
- owned assets	27.1	28.3
Amortisation of goodwill	4.2	11.0
Amortisation of intangibles	3.1	3.5
Release of government and other grants	(0.9)	(0.5)
Unrealised exchange losses/ (gain)	25.4	(3.5)
Realised exchange (gain)/ loss	(2.9)	0.3
Operating lease rentals	3.3	3.6
- land and buildings		
- vehicles and plant and equipment	25.9	27.5
Research and development expenditure	3.3	2.8

Auditor remuneration

	2013 £m	2012 £m
Remuneration of the auditors is further analysed as follows		
Audit of the financial statements	<u>0.3</u>	<u>0.3</u>

Fees paid to the company's auditor for services other than the statutory audit of the company are not disclosed in Dairy Crest Limited accounts since the consolidated accounts of Dairy Crest Group Plc are required to disclose non audit fees on a consolidated basis

Dividends of £112 million were received from subsidiaries following the disposal of St Hubert in August 2012

The unrealised exchange loss is largely the result of adverse exchange rate movements on euro denominated balances with a subsidiary undertaking

The realised exchange gain is mainly the result of settlement of a euro denominated loan with a subsidiary undertaking as part of the disposal of St Hubert

5 Net interest payable

	2013 £m	2012 £m
Interest payable		
Bank borrowings	(3.1)	(3.8)
Loan from group undertakings	(21.4)	(20.9)
Interest receivable		
Bank deposits	1.2	-
	<u>(23.3)</u>	<u>(24.7)</u>

Notes to the financial statements

at 31 March 2013

6 Other finance income - pensions

	2013 £m	2012 £m
Expected return on defined benefit plan assets	47.4	49.0
Interest cost on defined benefit obligation	(41.5)	(43.5)
	<u>5.9</u>	<u>5.5</u>

Other finance income comprises the expected return on assets of funded defined benefit pension schemes less the interest cost on pension scheme liabilities (see Note 18)

7 Taxation

	2013 £m	2012 £m
The taxation charge/(credit) comprises		
Corporation tax at 24% (2012 - 26%)	-	-
Adjustments in respect of prior years		
Current tax	-	(1.1)
Transfer from/(to) deferred tax	(2.8)	(1.1)
	<u>(2.8)</u>	<u>(2.2)</u>
Deferred taxation		
Origination and reversal of timing differences	(0.3)	1.9
Adjustment in respect of prior years deferred tax	1.1	0.1
Transfer from/(to) current tax	2.8	1.1
Adjustment for reduction in UK corporation tax rate	0.4	(1.3)
	<u>1.2</u>	<u>(0.4)</u>

The tax credit in respect of operating exceptional items is £9.9 million (2012 - £13.2 million). There is no tax charge in relation to the profit on disposal of properties, due to the accumulated capital losses.

The tax credit in respect of goodwill amortisation is £1.0 million (2012 - £2.6 million).

The tax credit in respect of intangible amortisation is £0.8 million (2012 - £0.2 million).

The tax rate for the year is lower (2012 - lower) than the standard rate of corporation tax in the UK (24% 2012 - 26%). The differences are explained below.

	2013 £m	2012 £m
Profit on ordinary activities before tax	82.8	22.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% (2012 - 26%)	19.9	5.8
Effects of		
Adjustments to tax in respect of prior years		
Current Tax	-	(1.1)
Transfer from deferred tax	(2.8)	(1.1)
Chargeable gains offset by brought forward losses	(1.8)	(1.3)
Profits offset by group relief	3.5	-
Non taxable credits	(26.2)	(6.6)
Expenses not deductible for tax purposes	4.3	4.0
Deferred tax timing differences	0.3	(1.9)
	<u>(2.8)</u>	<u>(2.2)</u>

The UK corporation tax rate reduced to 23% from April 2013. A further 2% reduction was proposed in the December 2012 Autumn Statement, taking the rate to 21% by April 2014. An additional 1% reduction was then proposed in the March 2013 Budget, taking the rate to 20% by April 2015.

At the balance sheet date, only the 23% rate had been substantively enacted and therefore it is only the impact of this reduction that has been reflected in the Company's financial statements as at 31 March 2013. The effect on the Company of the further proposed reductions in the UK corporation tax rate will be reflected in the Company's financial statements in future years as appropriate, once the proposals have been substantively enacted.

Notes to the financial statements

at 31 March 2013

7 Taxation (continued)

Factors that may affect the future tax charge

Based on current capital investment plans the Company expects that future years' capital allowances will exceed depreciation

The Company has capital losses of £56.0 million (2012: £63.2m) that are available indefinitely for offset against future taxable gains. Deferred tax has not been recognised in respect of these losses as there is no foreseeable prospect of their being utilised. The Company has realised capital gains amounting to £36.9 million (2012: £39.7m) for which rollover relief claims have or are intended to be made. No deferred tax liability has been recognised in relation to these gains because there is no prospect of a chargeable gain arising on the disposal of the replacement assets.

8 Dividends

	2013 £m	2012 £m
Dividends paid to Dairy Crest Group plc	50.0	40.0

In February 2013 an interim dividend of £50 million was paid in respect of the year ending 31 March 2013.

On 1 July 2013 an interim dividend of £20 million was declared and paid.

9 Emoluments of directors and employees

Directors

	2013 £000	2012 £000
Aggregate emoluments in respect of qualifying services	2,943	3,109
Included in the above:		
Annual bonus accrual	781	843
Aggregate of company contributions in respect of money purchase schemes	96	113
Aggregate value of amounts awarded under long term incentive plans	1,488	1,205

	2013 Number	2012 Number
Number of directors who exercised share options	-	-
Number of directors accruing benefits under defined benefit schemes (at 31 March)	-	-
Number of directors accruing benefits under money purchase schemes (at 31 March)	5	6
Number of directors participating in long term incentive plans (at 31 March)	7	7

Notes to the financial statements

at 31 March 2013

9 Emoluments of directors and employees (continued)

In respect of the highest paid director

	2013 £000	2012 £000
Aggregate emoluments in respect of qualifying services	928	907
Of which annual bonus accrual	272	259
Aggregate value of amounts awarded under long term incentive plans	527	399
Accrued defined benefit pension at 31 March	37	36
Transfer value of accrued benefits at 31 March	1,202	1,278
Gain on exercise of options	5	-

The Dairy Crest Group defined benefit pension scheme closed to future service accrual on 1 April 2010. At 31 March 2012 Messrs Allen, Murray Reeves Barrington and Jones were members of the Company's Stakeholder Pension Scheme, a defined contribution arrangement.

Mr Wilks is not a member of any Company pension scheme.

	2013 Number	2012 Number
Employees		
Average number of employees during the year		
Production	1,979	2,221
Sales, distribution and administration	3,224	3,752
	5,203	5,973
	2013 £m	2012 £m
Remuneration of employees including directors		
Wages and salaries	172.1	184.9
Social security costs	17.0	18.8
Equity settled share based payment expense (Note 27)	1.4	1.7
Other pension costs	7.0	7.2
	197.5	212.6

Remuneration excludes redundancy costs included as operating exceptional items in note 3 – Operating costs

Notes to the financial statements

at 31 March 2013

10 Tangible assets

	<i>Land & buildings £m</i>	<i>Vehicles, plant & equipment £m</i>	<i>Assets in the course of construction £m</i>	<i>Total £m</i>
Cost				
At 1 April 2012	210.2	435.7	27.5	673.4
Additions	3.3	18.0	21.0	42.3
Disposals	(4.2)	(22.2)	(0.5)	(26.9)
Transfers and reclassifications	0.6	23.9	(24.5)	-
At 31 March 2013	209.9	455.4	23.5	688.8
Depreciation				
At 1 April 2012	87.1	315.3	-	402.4
Charge in the year	5.9	22.7	-	28.6
Impairment	1.4	12.3	-	13.7
Disposals	(2.4)	(22.5)	-	(24.9)
At 31 March 2013	92.0	327.8	-	419.8
Net book amount				
At 31 March 2013	117.9	127.6	23.5	269.0
At 31 March 2012	123.1	120.4	27.5	271.0

	<i>2013 £m</i>	<i>2012 £m</i>
Net book value of land and buildings comprises		
Freehold	105.7	115.6
Leasehold		
- over 50 years	3.6	2.0
- under 50 years	8.6	5.5
	117.9	123.1
Capitalised leases included in plant and equipment comprise		
Cost	32.1	32.2
Depreciation	(22.9)	(21.5)
Net book amount	9.2	10.7

11 Goodwill

	<i>£m</i>
Cost	
At 1 April 2012	138.2
At 31 March 2013	138.2
Amortisation	
At 1 April 2012	134.0
Amortisation charge	4.2
At 31 March 2013	138.2
Net book amount	
At 31 March 2013	-
At 31 March 2012	4.2

Goodwill arising on acquisitions is being amortised over its estimated economic life as set out in Note 1

Notes to the financial statements

at 31 March 2013

12 Intangible assets

	<i>Assets in the course of construction</i>	<i>Internally generated</i>	<i>Acquired intangibles</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost				
At 1 April 2012	9.6	24.9	1.2	35.7
Additions	5.7	-	-	5.7
Transfers and reclassifications	(7.0)	7.0	-	-
At 31 March 2013	8.3	31.9	1.2	41.4
Accumulated amortisation				
At 1 April 2012	-	11.8	1.2	13.0
Amortisation for the year	-	3.1	-	3.1
Impairment	-	0.2	-	0.2
At 31 March 2013	-	15.1	1.2	16.3
Net book amount at 31 March 2013	8.3	16.8	-	25.1
Net book amount at 31 March 2012	9.6	13.1	-	22.7

13 Investments

	<i>Trade Investments</i>	<i>Subsidiary undertakings</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost			
At 1 April 2012	0.1	551.1	551.2
Additions - Hieco Limited	0.3	-	0.3
Impairment	-	(5.5)	(5.5)
At 31 March 2013	0.4	545.6	546.0

Following the hive down of net assets of Wessex Dairy Products Limited and English Butter Marketing Company Limited to Dairy Crest Limited, the investment in these businesses has been impaired to fair value.

Hieco Limited is a trade investment in a Canadian research company.

The principal place of operation and country of incorporation of all subsidiary undertakings is England and Wales except for Wexford Creamery Limited which is in Ireland and St Hubert which is in France.

Notes to the financial statements

at 31 March 2013

13 Investments (continued)

At 31 March 2013 the principal subsidiary and associate undertakings were

<i>Subsidiary undertakings</i>	<i>Business</i>	<i>Percentage of ordinary share capital held</i>
Philpot Dairy Products Limited	Trading in dairy products	100%
Wexford Creamery Limited*	Manufacture of dairy products	30%
Fayrefield-Foodtec Limited	Manufacture and trading in dairy products and ingredients	100%
Morehands Limited	Manufacture of cooking oil	100%

* Investments are held by subsidiary undertakings

14 Stocks

	<i>2013 £m</i>	<i>2012 £m</i>
Raw materials and consumable stores	32.0	32.5
Finished goods	174.7	149.6
	<u>206.7</u>	<u>182.1</u>

During the year ended 31 March 2013 £1.2 million (2012 £1.0 million) of engineering and packaging inventories were written off to operating exceptional items comprising £1.0 million (2012 £0.8 million) of inventories in Dairies and £0.2 million (2012 £0.2 million) of inventories in Spreads. These write offs were necessitated by the closure of two Dairies sites and the consolidation of Clover manufacture into one site. In April 2013 the Company granted the Trustee of the Dairy Crest Group Pension Fund a floating charge over maturing cheese inventories with a maximum realisable value of £60 million.

15 Debtors

	<i>2013 £m</i>	<i>2012 £m</i>
Trade debtors	75.8	93.0
Amount owed by parent undertaking	122.4	58.9
Amounts owed by subsidiary undertakings	167.8	65.1
Corporation tax	2.9	0.7
Other debtors	11.0	11.8
Prepayments and accrued income	4.7	5.1
	<u>384.6</u>	<u>234.6</u>

Notes to the financial statements

at 31 March 2013

16 Creditors amounts falling due within one year

	2013 £m	2012 £m
Borrowings		
Bank loan	-	10.0
Obligations under finance leases	2.4	2.7
	<u>2.4</u>	<u>12.7</u>
Other creditors		
Trade creditors	105.7	129.8
Amounts payable to parent undertaking	277.1	264.8
Amounts payable to subsidiary undertakings	959.3	585.7
Other taxation and social security	4.8	5.9
Grants	1.6	0.5
Other creditors	13.5	10.5
Accruals	76.0	77.7
	<u>1,438.0</u>	<u>1,074.9</u>

17 Creditors amounts falling due after more than one year

	2013 £m	2012 £m
Borrowings		
Obligations under finance leases		
Between one and two years	3.1	3.2
Between two and five years	-	1.3
Over five years	-	-
	<u>3.1</u>	<u>4.5</u>
Other creditors		
Grants	9.6	6.9
	<u>9.6</u>	<u>6.9</u>

In 2010/11 two new biomass boilers were installed at the Davidstow cheese manufacturing site. Capital expenditure amounted to £3.9 million and we received cash grants of £0.8 million during the year ended 31 March 2011 and £0.2 million during the year ended 31 March 2012 from the South West of England Regional Development Agency. This grant is conditional upon certain conditions principally regarding continued use and ownership of the boilers until 29 November 2014. In the year ended 31 March 2013 £0.4 million of this grant was voluntarily repaid in order to receive annual renewable heat incentives. The conditions concerning the remaining outstanding grant are unchanged.

In 2012/13 the Company announced that it was consolidating its spreads manufacturing in a single site at Kirkby Liverpool. During the year the Company received a grant of £5.3 million under the Regional Growth Fund from the Department of Business Innovation and Skills in relation to this project. This grant is conditional upon certain conditions over a five year term principally the project being completed and creating or safeguarding the agreed number of jobs.

A grant of £0.3 million in relation to the Crudgington site was written off to exceptional items in the year ended 31 March 2013 following the write down of property, plant and equipment at that site following the announced closure plans. All conditions on this grant had been met and no repayment was required.

With the exception of the grants relating to the biomass boiler at Davidstow and the Kirkby job creation, the Company has met all applicable conditions attaching to grants at 31 March 2013 and all previously received grants were unconditional at that date.

Notes to the financial statements

at 31 March 2013

18 Retirement benefit obligations

The Company has one defined benefit pension scheme in the UK, which was closed to future service accrual from 1 April 2010. This pension scheme is a final salary scheme that had previously been closed to new employees joining after 30 June 2006. Employees joining after this date and those members of the defined benefit pension scheme on its closure to future service accrual were invited to join the Dairy Crest Group defined contribution plan.

The most recent full actuarial valuation of the Dairy Crest Group Pension Fund was carried out as at 31 March 2010 by the fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially. This valuation resulted in a deficit of £137 million compared to the FRS 17 deficit of £142.4 million reported at that date. The next full actuarial valuation will be carried out in 2013/14 on the 31 March 2013 position.

The following tables summarise the components of net benefit expense recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the defined benefit pension scheme.

	<i>Dairy Crest Pension Plan</i>	
	<i>2013</i>	<i>2012</i>
	<i>£m</i>	<i>£m</i>
Net benefit income recognised in the profit and loss account		
Current service cost	-	-
Gain on settlement	-	(0.3)
Interest cost on benefit obligation	41.5	43.5
Expected return on scheme assets	(47.4)	(49.0)
Net benefit income	(5.9)	(5.8)
Net actuarial loss recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	69.4	21.9
Experience (losses)/gains arising on scheme liabilities	0.8	(6.5)
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(72.8)	(61.6)
Net actuarial (loss)/gain	(2.6)	(46.2)
Recognition of liability for unrecoverable notional surplus	(10.9)	-
Recognised in other comprehensive income	(13.5)	(46.2)
Related tax	7.8	11.2
Net actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(5.7)	(35.0)

Actual returns on plan assets were £116.8 million (2012: £70.9 million)

	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>Dairy Crest Pension Plan</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>2010</i>	<i>2009</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Defined benefit obligation					
Fair value of plan assets					
- Equities	84.3	72.7	65.7	63.6	260.9
- Equity return swaps valuation	42.9	61.8	90.5	70.0	-
- Bonds	393.4	293.2	239.0	234.0	104.0
- Insured retirement obligations	286.3	279.6	268.1	261.1	114.0
- Property and other	62.5	58.8	55.3	51.4	26.3
	869.4	766.1	718.6	680.1	505.2
Defined benefit obligation	(925.7)	(845.9)	(778.7)	(822.5)	(565.2)
Recognition of liability for unrecoverable notional surplus	(10.9)	-	-	-	-
	(936.6)	(845.9)	(778.7)	(822.5)	(565.2)
Net liability recognised in the balance sheet	(67.2)	(79.8)	(60.1)	(142.4)	(60.0)
Related deferred tax asset	17.1	15.8	15.6	39.9	16.8
Net pension liability	(50.1)	(64.0)	(44.5)	(102.5)	(43.2)

Notes to the financial statements

at 31 March 2013

18 Retirement benefit obligations (continued)

From October 2009 the Company has been making additional funding contributions to the scheme of £20 million per annum. The level of cash contributions will continue at this level until March 2018 based on the latest schedule of contributions which was signed in June 2011. However a new schedule of contributions will be agreed with the Trustee following the next full actuarial review at 31 March 2013. The £20 million per annum amount includes £2.8 million per annum of rental payments for land and buildings that are subject to a sale and leaseback agreement between the Group and the scheme as part of the final schedule of contributions. The land and buildings included in these arrangements are subject to long term leases and the Company will continue to benefit from substantially all of the risks and rewards of ownership. On this basis these land and buildings continue to be recognised in property, plant and equipment and rental payments of £2.8 million per annum are treated as cash contributions reflecting the substance of the arrangements.

The Company is entitled to any surplus on winding up of the pension scheme albeit refunds are subject to tax deductions of 35% at source. Based on the present value of committed cash contributions at 31 March 2013 and the IAS 19 valuation at that date of £56.3 million, £10.9 million would be deducted from any notional surplus returned to the Company and this has been recognised as an additional liability in accordance with IFRIC 14. However, it should be noted that cash contributions are determined by reference to the triennial actuarial valuation, not the IAS 19 valuation. The actuarial deficit is greater than that recognised under IAS 19 since liabilities are discounted at gilt yields rather than high quality corporate bond yields.

In December 2008 certain obligations relating to retired members were hedged by the purchase of an insurance contract. A further insurance contract for retired members was purchased in June 2009 resulting in coverage for all members who retired up to August 2008. These contracts are included within scheme assets and their value will always be equal to the obligation as calculated under IAS 19 for those members covered.

The purchase of the second insurance contract in June 2009 was funded by the sale of equities. Subsequently, in order to re-establish an appropriate equity weighting of scheme assets, the Fund purchased equity total return swaps (synthetic equity). These instruments comprise an asset leg and a liability leg. The asset leg generates a return based on UK and overseas equity indices and the liability leg incurs a cost based on LIBOR plus margin. Credit risk is minimised since collateral is provided by the counterparties to the benefit of the Fund when the instruments are in the money. At 31 March 2013 the valuation of the above comprises a positive equity exposure of £276.8 million and a negative LIBOR exposure of £233.9 million (2012 equity exposure of £226.4 million and LIBOR exposure of £164.6 million).

An Enhanced Transfer Value ("ETV") exercise took place during the year ended 31 March 2012 which resulted in approximately 220 members transferring at a total of £14.3 million in ETVs out of the Fund. The net gain as a result of this settlement of £0.3 million represents the difference between the £14.3 million transferred out and the corresponding liabilities, measured on an IAS 19 basis, at the date that the settlement became binding.

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 IAS 19 valuation of obligations which they cover. The Group will adopt amendments to IAS 19R in the year ending March 2014. These amendments will result in the return on assets being calculated by reference to the discount rate assumption and not return assumptions for individual asset classes. Had IAS 19R been adopted in the year ended 31 March 2013 the expected return on scheme assets in the table above would have amounted to £38.0 million, resulting in an overall net cost of £3.5 million being charged to the consolidated income statement. Under the revised IAS 19 the net pension liability of £56.3 million would be unchanged. Furthermore under changes to IAS 19, future scheme administrative expenses will be charged as operating costs in the consolidated income statement. Had this been effective for the year ended 31 March 2013, the Group would have charged £0.7 million to operating costs.

The average duration of scheme liabilities is approximately 18 years (2012 19 years). Discount rate assumptions for each reporting period are based upon quoted AA-rated corporate bond indices, excluding collateralised bonds with maturities matching the scheme's expected benefit payments.

Notes to the financial statements

at 31 March 2013

18 Retirement benefit obligations (continued)

The RPI inflation assumptions are determined by adopting a yield curve approach based on the break-even rate of inflation implied by fixed interest gilt yields and index-linked yields. Applying this approach to the Scheme's projected benefit payments gives an average break-even inflation assumption of 3.5% (2012 3.4%). The CPI inflation assumption is determined by reference to adjusted RPI rather than by reference to CPI-linked investments where the market is small and illiquid. The principal differences between RPI and CPI are (i) the formula effect due to RPI using arithmetic means and CPI geometric means and (ii) the bundles of goods considered - CPI excludes mortgage payments and other housing costs. The assumption used at 31 March 2013 is that CPI inflation will track 1.0% points below RPI inflation in the long term (2012 1%) and is therefore set at 2.5% (2012 2.4%). Pension increase assumptions are based on RPI with an adjustment to reflect caps within the Scheme rules.

Mortality assumptions were updated in the year ended 31 March 2011 based on analysis of the membership data performed as part of the March 2010 full actuarial valuation. The result was an increase in life expectancy assumptions of approximately 1.7 years. Broadly the same mortality input assumptions have been used for March 2012 and 2013 with no material resultant change in life expectancies.

The scheme deficit is highly dependent upon these input assumptions which are set at the reporting period end dates. A 0.1% decrease in the discount rate assumption would increase the scheme obligation by approximately £19 million (2012 £17 million). A 0.1% increase in the inflation assumption would increase the scheme obligation by approximately £14 million (2012 £16 million). An increase in life expectancy across all members of one year would increase the scheme obligation by approximately £37 million (2012 £43 million).

	<i>Dairy Crest Pension Plan</i>	
	<i>2013</i>	<i>2012</i>
	<i>£m</i>	<i>£m</i>
Movements in the present value of the defined benefit obligation are as follows		
Opening defined benefit obligation	(845.9)	(778.7)
Settlement gain	-	0.3
Interest cost	(41.5)	(43.5)
Actuarial losses	(72.0)	(68.1)
Benefits paid	33.7	44.1
Closing defined benefit obligation	<u>(925.7)</u>	<u>(845.9)</u>
Movements in the fair value of plan assets are as follows		
Opening fair value of plan assets	766.1	718.6
Expected return	47.4	49.0
Actual less expected return	69.4	21.9
Contributions by employer	20.2	20.7
Benefits paid	<u>(33.7)</u>	<u>(44.1)</u>
Closing fair value of plan assets	<u>869.4</u>	<u>766.1</u>

Notes to the financial statements

at 31 March 2013

18 Retirement benefit obligations (continued)

The principal assumptions used in determining retirement benefit obligations for Dairy Crest Pension Fund are shown below

		<i>Dairy Crest Pension Plan</i>	
		<i>2013</i>	<i>2012</i>
		%	%
Key assumptions			
Price inflation (RPI)		3.5	3.4
Price Inflation (CPI)		2.5	2.4
Average expected remaining life of a 65 year old non-retired male (years)		22.6	22.5
Average expected remaining life of a 65 year old retired male (years)		21.7	21.6
Average expected remaining life of a 65 year old non-retired female (years)		25.3	25.2
Average expected remaining life of a 65 year old retired female (years)		24.1	24.0
Discount rate		4.6	5.0
Expected return	- Equities	8.0	8.0
	- Gilts and bonds	4.3	4.3
	- Synthetic equity exposure on equity swap contracts	8.0	8.0
	- LIBOR exposure on equity swap contracts	3.2	3.3
	- Property and other	7.0	7.0
	- Insured retirement obligations	4.6	5.0

History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between expected and actual return on assets					
- amount (£m)	69.4	21.9	22.5	132.4	(227.8)
- % of scheme assets	8%	3%	3%	19%	(45)%
Experience (losses)/gains arising on scheme liabilities					
- amount (£m)	0.8	(6.5)	16.4	7.4	6.8
- % of PV of scheme liabilities	0.1%	1%	2%	1%	1%
Total experience (loss)/gain					
- amount (£m)	(13.5)	(46.2)	60.6	(119.1)	(117.1)
- % of PV of scheme liabilities	1%	5%	8%	14%	21%

The Company has charged £7.1 million in respect of the Dairy Crest defined contribution scheme in the year ended 31 March 2013 (2012 £7.9 million)

Notes to the financial statements

at 31 March 2013

19 Provisions for liabilities and charges

	<i>Onerous contract</i>	<i>Deferred tax</i>	<i>Total</i>	<i>Memo item Deferred tax (asset)/liability (pension) (Note 18)</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
At 1 April 2012	2.3	5.8	8.1	(15.8)
Charge/(credit) to profit and loss account	-	(2.5)	(2.5)	6.5
Credit to equity	-	(0.1)	(0.1)	(7.8)
Discount unwind	0.2	-	0.2	-
Utilised	(0.8)	-	(0.8)	-
At 31 March 2013	1.7	3.2	4.9	(17.1)

Onerous contract

In June 2010 the Group disposed of 50% of the share capital of Wexford Creamery Limited ('WCL'). As part of the disposal, the Company entered into an agreement to purchase guaranteed minimum volumes of cheese from WCL for a period of five years from the date of disposal. The price paid by the Company for that cheese is determined by reference to cost plus margin. Realisations for commodity cheese fluctuate and at the date of disposal a provision of £3.6 million was charged in order to provide for the cost of the cheese purchase arrangements. At 31 March 2013 the provision amounted to £1.7 million (2012: £2.3 million).

The deferred tax asset (including pensions) comprises

	<i>2013 £m</i>	<i>2012 £m</i>
Capital allowances	18.6	19.4
Pensions	(17.1)	(15.8)
Other timing differences	(15.4)	(13.6)
	<u>(13.9)</u>	<u>(10.0)</u>

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at 31 March 2013

20 Share Capital

	<i>2013</i> <i>£m</i>	<i>2012</i> <i>£m</i>
<i>Authorised</i>		
250,200,000 ordinary shares of £1 each	<u>250.2</u>	<u>250.2</u>
<i>Allotted, and fully paid</i>		
150,000,000 ordinary shares of £1 each	<u>150.0</u>	<u>150.0</u>

21 Reserves

	<i>Profit and loss account £m</i>
At 1 April 2013	4.7
Profit for the year	81.6
Dividends declared and paid	(50.0)
Actuarial loss net of deferred tax charge of £7.8m	(5.7)
Share based payment	1.4
At 31 March 2013	<u>32.0</u>

22 Reconciliation of movements in shareholders' funds

	<i>2013</i> <i>£m</i>	<i>2012</i> <i>£m</i>
Profit for the year	81.6	22.7
Dividends declared and paid	<u>(50.0)</u>	<u>(40.0)</u>
Increase/(Decrease) in shareholders' funds	31.6	(17.3)
Opening shareholders' funds	154.7	208.0
Actuarial loss net of deferred tax	(5.7)	(35.0)
Share based payment	1.4	1.7
Exchange losses on foreign currency net investments	-	(12.5)
Realised exchange gains on hedging currency loans and swaps	-	9.8
Closing shareholders' funds	<u>182.0</u>	<u>154.7</u>

Notes to the financial statements

at 31 March 2013

23 Contingent liabilities**Trading guarantees**

The Company has provided guarantees to its banks of £Nil (2012 - £61.7 million) in relation to drawn borrowings by its parent company Dairy Crest Group plc

24 Capital commitments

	2013 £m	2012 £m
The following future capital expenditure had been contracted at 31 March	<u>21.3</u>	<u>12.3</u>

25 Operating lease rentals

	<i>Land and buildings</i> 2013 £m	2012 £m	<i>Other</i> 2013 £m	2012 £m
Rentals payable during following year which relate to commitments expiring				
Within one year	0.2	0.3	7.9	6.7
Between one and five years	0.5	0.6	15.9	13.6
After five years	2.4	2.9	2.1	1.8
	<u>3.1</u>	<u>3.8</u>	<u>25.9</u>	<u>22.1</u>

During the year ended 31 March 2012 certain assets at our Severnside facility were sold for cash consideration of £6.8 million. This equipment has been leased back under an operating lease with a six year term. The assets subject to the operating lease have an average useful economic life of approximately ten years. There are no purchase option clauses or any contingent lease rentals.

26 Financial risk management objectives and policies

The Company's principal financial instruments comprise bank loans and overdrafts, finance leases and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions principally cross currency swaps and forward currency contracts. The purpose is to manage the exchange rate and currency risks arising from the its operations and its sources of finance. It is and has been throughout the year under review the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are liquidity risk, interest rate risk, foreign currency risk, commodity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to the financial statements

at 31 March 2013

Liquidity risk

The Company's objective is to ensure that forecast net borrowings plus a reasonable operating headroom are covered by committed facilities which mature at least 12 months after the year end. At 31 March 2013 the Company's total credit facilities amounted to £296.8m (2012: £295m) excluding finance leases. The facilities consist of a £170m plus €150m five year multi-currency revolving credit facility repayable at maturity in October 2016. The Company has undrawn committed long-term borrowing facilities available at 31 March 2013 of £297m (2012: £223.8m).

Interest rate risk

The Company's exposure to the risk for changes in market interest rates relate primarily to the Company's long-term debt obligations with a floating interest rate.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-efficient manner, the Company and its parent enter into interest rate swaps in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge cash flows resulting from underlying debt obligations.

Foreign currency risk

The majority of the Company's transactions are carried out in sterling and so transaction exposures are limited. The policy requires foreign currency sales and purchases to be hedged by foreign exchange contracts once the transaction is committed so that the margin on the transaction can be fixed in sterling.

Currency exposures on other transactions, such as capital expenditure denominated in a foreign currency, are hedged following approval of the project using forward foreign exchange contracts.

Cross currency swaps with fellow subsidiary companies are entered in order to manage inter-company currency exposures and net investment exposures. Any gains or losses are recognised when realised.

Commodity risk

The Company is exposed to price risk related to certain commodities and their by-products used by the Company's businesses. The principal non-milk commodities that affect input prices are vegetable oils, gas, electricity, diesel and crude oil by-products (used in packaging). The Company monitors prices on an ongoing basis in order to assess the impact that movements have on profitability. In certain circumstances, forward contracts have been put in place with suppliers in order to fix future prices principally for gas and electricity. These contracts are only entered into with the approval of the Directors.

Credit risk

It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company only offers these terms to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Household business trades with individuals and receives cash payments on a weekly basis. Cash and debt management is a crucial part of this business and cash collection and balances due are closely monitored to ensure write-downs are minimised.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, trade and other debtors and certain derivative instruments, exposure to credit risk arises from default of the counterparty. The maximum exposure for the Company is equal to the carrying amount of these instruments. There are no significant concentrations of credit risk.

All borrowings are through banks with strong long-term credit ratings. Funds temporarily surplus to business requirements are invested overnight through deposit accounts with commercial banks with a credit rating of AA or better. The Company currently has no requirement to place deposits for a longer period, accordingly counterparty risk is considered to be low.

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27 Share based payment plans

The Company has three share option schemes in operation

The Dairy Crest Long Term Incentive Share Plan (LTISP)

This is a long-term incentive scheme under which awards are made to directors and senior managers consisting of the right to acquire shares for a nominal price subject to the achievement of financial targets based on (i) total shareholder return ('TSR') over a three year period versus comparator companies and (ii) growth in adjusted basic earnings per share. From 2009 the TSR element was increased from 50% to 60% of the awards granted. The vesting period for grants made under this scheme is 3 years with an exercise period of 7 years. In June and July 2013 701,194 options were granted under the LTISP scheme (July 2012 651,931). There are no cash settlement alternatives.

Dairy Crest Sharesave Scheme

All employees are eligible to join the Dairy Crest Sharesave Scheme which allows employees to use regular monthly savings to purchase shares. Options are granted at a discount of up to 20% of the market value of the shares. No financial performance criteria are attached to these options and they vest three years from the date of grant with an exercise period of six months. On 14 December 2012 2,377,648 options were granted under the Dairy Crest Sharesave Scheme at a grant price of 281 pence (December 2011 1,445,978 options at a grant price of 265 pence). There are no cash settlement alternatives.

Deferred bonus scheme

From 2005/06, bonuses earned that are in excess of 50% of basic salary are deferred in shares (and from 2011 in share options) with a vesting period of three years. The only vesting condition is continuing employment. The cost of these shares are charged over four years (being the year the bonus was earned and the three-year vesting period) and is based on the number of shares issued (or from 2011 over which nil cost options are granted) and the share price at the date of issue. No deferred shares were awarded or issued in relation to the year ended 31 March 2013 (2012: £nil).

The number of share options and weighted average exercise price for each of the principal schemes is set out as follows:

	LTISP *	Sharesave scheme	
	number	number	weighted average exercise price (pence)
Options outstanding at 1 April 2012	1,177,136	4,752,422	238.4
Options granted during the year	701,194	2,377,648	281.0
Reinvested dividends	94,893		
Options exercised during the year		(3,228,966)	227.2
Options forfeited during the year	(750,339)	(387,864)	259.3
Options outstanding at 31 March 2013	1,222,884	3,513,240	275.4
Exercisable at 31 March 2013	24,978	34,459	227.0
Options outstanding at 1 April 2011	1,228,802	3,839,794	237.8
Options granted during the year	651,931	1,445,978	265.0
Reinvested dividends	99,374		
Options exercised during the year	(3,252)	(45,195)	227.0
Options forfeited during the year	(799,719)	(488,155)	313.4
Options outstanding at 31 March 2012	1,177,136	4,752,422	238.4
Exercisable at 31 March 2012	25,563		-

*The weighted average exercise price for LTISP options is nil.

Sharesave scheme options are exercisable up to September 2016 at prices ranging from 227p to 281p (March 2012 exercisable up to September 2015 at prices ranging from 227p to 265p). LTISP options are exercisable at varying dates up to July 2022 (March 2012 July 2021).

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at 31 March 2013

27 Share based payment plans (continued)

The remaining weighted average contractual life of options outstanding at 31 March 2013 is 8.7 years for the LTISP and 3.1 years for the Sharesave Scheme (2012: 8.71 years and 1.67 years respectively). The weighted average share price is £3.53 on exercise of Sharesave options (2012: £3.47).

The fair value factor of the Sharesave Scheme options issued in December 2012 is 20.7% (December 2011: 22%) giving a fair value of £0.81 (December 2011: £0.58) per option granted. This has been computed using a Black-Scholes option pricing model. The key assumptions used in the valuation model for the December 2012 grant were: Expected share price volatility 22% (December 2011: 38%), risk free rate of interest 0.5% (December 2011: 0.5%) and dividend yield 5.22% (December 2011: 6.2%). The volatility assumption is based on the historical volatility of the Dairy Crest Group plc share price over a period commensurate with the expected option life, ending on the grant date of the option.

The LTISP has market and non market based performance conditions. The fair value of the market performance element of the LTISP awards is calculated using a Monte Carlo option pricing model. The fair value factor for the award made in July 2012 is 65% for the TSR element and 100% for the EPS element (July 2011: 65% TSR and 100% EPS) giving a fair value of £2.75 per option granted (2011: £2.91). The share price on granting 2012 awards was £3.34 (2011: £3.68). The non-market performance element of the LTISP is based on EPS and the charge for this is the value of shares expected to vest calculated by reference to the share price at the date of grant. Volatility assumptions are made for Dairy Crest Group plc and comparator companies based on historical volatility of share prices over a period commensurate with the option life.

The input assumptions for the LTISP grant in the year ended 31 March 2013 were as follows:

	2013	2012
Term	3 years	3 years
Volatility	23.0%	40.0%
Risk free rate	0.4%	1.3%
Average volatility of comparator TSR	36.0%	44.0%
TSR correlation (Dairy Crest vs comparators)	22.0%	22.0%

The expected life of the LTISP options is assumed to be equal to the vesting period, being three years.

The expense arising from share option plans for the year ended 31 March 2013 is £1.4m (2012: £1.7m).

28 Related party transactions

As the Company is a wholly owned subsidiary of Dairy Crest Group plc, it is exempt under the terms of FRS8 "Related Party Disclosures" from disclosing transactions with fellow subsidiary undertakings and joint ventures. There were no other related party transactions undertaken in the year ended 31 March 2013 (2012: nil).

29 Ultimate parent undertaking

The Company is a wholly owned subsidiary undertaking of Dairy Crest Group plc (the controlling party) which is incorporated in Great Britain. The largest and smallest group preparing consolidated accounts for the year ended 31 March 2013, which includes Dairy Crest Limited, is Dairy Crest Group plc. The principal place of business of Dairy Crest Group plc and address from which its financial statements can be obtained is Claygate House, Littleworth Road, Esher, Surrey KT10 9PN.

30 Post balance sheet event

On 18 April 2013, the parent company Dairy Crest Group plc repaid €106.9 million (£92.7 million) and £7.2 million of 2007 notes at a premium of £8.7 million. These repayments were funded from Dairy Crest Limited short term deposits.

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

Following a comprehensive review of Dairy Crest Operations within Manchester and Liverpool, the Company announced the sale of seven depots in Manchester and Liverpool to Creamline dairies in July 2013.