Registered No: 2085882

Dairy Crest Limited

Report and Financial Statements

31 March 2015

Registered No: 2085882

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Strategic report

The Directors present their Strategic report for the year ended 31 March 2015.

Principal activities

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

Business Review

The profit for the year is £41.9 million (2014: £47.2 million).

Operating profit before operating exceptional items was £94.7 million (2014: £85.6 million). Revenue amounted to £1,247.3 million (2014: £1,332.4 million) and reported profit before taxation was £46.3 million (2014: £58.8 million).

This has been another year of significant progress for the Company. We have grown combined Cheese and Spreads sales despite the deflationary market environment. We have also delivered an encouraging improvement in the combined margins of these businesses. Cathedral City has again outperformed and accounts for over 50% of retail sales of branded cheddar. Our focus on product development has underpinned these results and our investment in a new innovation centre will support this. We have again met our target to deliver annual cost savings of over £20 million. These include consolidating our butter and spreads production onto one site.

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

Market background

This year has been a difficult one for the major food retailers, our principal customers. They have faced falling sales due to food price deflation and greater competition.

It has also been a very difficult year for dairy farmers. Global dairy commodity prices have fallen steeply since the first quarter and ended the year close to half the peak they reached as recently as the autumn of 2013. The collapse in these markets and high milk production around the world and in the UK have led to a significant reduction in the price UK farmers have received for their milk. Our purchase prices for milk fell by around 25% across the year, reversing the increases we have paid in recent years.

The long-awaited abolition of European milk production quotas took effect from 1 April 2015. This has been widely expected to lead to an increase in milk production across Europe, although not in the UK where production has been unconstrained by quotas. It is too early to say how the reduction in global dairy commodity prices and the removal of quotas will affect milk production and imports of dairy products, particularly cheddar cheese, into the UK, although cheddar imports into the UK decreased 9% in the year ended 31 December 2014 (Source: DairyCo). While we monitor this situation closely we anticipate that our market leading Cathedral City branded cheddar will not be affected significantly by these changes and will continue to perform strongly.

Against this market background we continue to position ourselves to deliver sustainable and profitable growth.

Transformational sale of Dairies operations

In November 2014 we agreed to sell the assets of our Dairies operations to Müller for a cash consideration of £80 million.

The sale includes the FRijj brand and bulk butter manufacture and the Dairies supporting overhead structure. This includes the factories at Foston, Chadwell Heath and Severnside. It also includes the Hanworth glass bottling site, where the Company has consulted with employees on the site's future, and the depot distribution network. the Company will retain full ownership of the closed dairies at Totnes and Fenstanton, its Chard site and a number of previously closed depots and will sell these in the future.

Under the terms of the sale agreement the two companies will also enter into a supply agreement whereby Müller will sell bulk butter to the Company for five years. In addition the Company will provide certain transitional IT services to Müller.

The Company will continue to be responsible for the defined benefit pension obligations in relation to the closed Dairy Crest Group Pension Fund.

Strategic report (continued)

Any consideration payable by Müller is subject to upward or downward adjustments for variances from agreed levels of working capital, capital expenditure and the profitability of the Company's Dairies operations and will also be adjusted to reflect profits made on the sale of properties included in the transaction that are sold by the Company before completion. Müller may also not complete if any of our four dairies are inoperable when completion is due.

The sale constitutes a Class 1 transaction for the Company pursuant to the Listing Rules. Shareholder approval was received on 23 December 2014.
Following shareholder approval for the sale, we are separating our Dairies operations, including the relevant IT systems, from the rest of the business. This creation of a stand-alone Dairies operation is necessary for completion of the sale but also ensures that supporting overhead costs are fully transferred along with the underlying business. Furthermore, it results in both the retained business and the Dairies business staying focussed on delivering their plans until such time as the sale completes.

Cathedral City outperforms

In total, sales of our four key brands, Cathedral City, Clover, Country Life and FRijj were unchanged over the year. However Clover and Country Life sales both fell in a butter and spreads market that continues to decline. Despite this we saw a welcome increase in margins in our Spreads and butters business.

Cathedral City again outperformed the market and grew sales by 5%. Its annual growth over the last five years has averaged over 7%. Cathedral City is now Britain's 16th largest grocery brand (Source: The Grocer 21 March 2015) up from 18th last year. Cathedral City now accounts for over 50% of total branded retail cheddar sales. Sales of competing cheddar brands have continued to decline. Taken together retail sales of the next three largest cheddar brands were down over 20% in the year and were just half those of Cathedral City.

The UK butter and spreads market remains difficult. Total market sales fell by 4%. Consumption is falling as consumers continue to turn away from making sandwiches in the home. Butter, where market sales are unchanged compared to last year, continues to gain share from spreads where sales are down 8%. Against this background Clover and Country Life butter, our two key brands in this market, have delivered a satisfactory performance. Clover performed in line with the spreads market as a whole and was awarded Which magazine's 'Best Buy' in the spreads category (Source: Which February 2015). Country Life Spreadable, which accounts for nearly 60% of total Country Life butter and spreads sales outperformed the butter market and grew sales by 2%. We expect to use some of the savings we will achieve from the consolidation of our spreads and packet butter production to increase marketing expenditure in this high-margin category.

FRijj performed well. In a ready to drink flavoured milk market that is still growing, but at a much slower pace than last year, FRijj sales grew by 7%. Some of this growth came from sales to the food service and convenience sectors and is therefore not reflected in the IRI market data which just covers major multiples. The FRijj brand is included in the conditional sale of our Dairies operations to Müller.

Dairy is one of the UK's largest food retail categories and during the year the Company carried out a comprehensive category strategy project. 'Dairy for Life' is a framework to make people look differently at the dairy category. It forms the foundation for future innovation, marketing and category merchandising for our key brands. We will work with our major customers to implement the Dairy for Life findings and drive growth across the dairy category. Some ideas generated by Dairy for Life, such as cross-sector promotions and additional store positionings, have already been implemented.

Innovation remains key to the success of our brands. During the year we have launched several brand extensions including Cathedral City Spreadable, Clover Lighter than Light, and reduced sugar FRijj. Since the year end we have started to produce and sell Clover cooking oil which combines Frylight spray technology and the strength of the Clover brand.

In the year ended 31 March 2015 around 7% of our combined Cheese and whey and Spreads and butter revenue came from products introduced in the last 3 years. This compares to our ongoing ambitious target of 10% and last year's performance of 4% across the business as a whole and 7% for our branded business. To further increase our focus on innovation we have entered into a new partnership with Harper Adams University. Our innovation team has moved to Harper Adams and we are building a £4 million innovation centre on the university campus. We expect this to be fully operational by the end of 2015. The partnership will give us access to food and farming research that will help us continue to develop new products and ways of working.

Strategic report (continued)

Building from strength

We have continued to make good progress with projects that enhance the future prospects of our Cheese and Spreads operations, including consolidating butter and spreads production onto one site and investing in demineralised whey and galacto-oligosaccharide, a lactose based prebiotic.

We are nearing completion of the project to make demineralised whey powder and GOS at our Davidstow creamery in Cornwall. These products will give us access to new sales channels in growing global markets. Both products are used in the manufacture of infant formula for which there is growing demand across the world. We expect commercial manufacture of both products to start later this year. During the year we entered into a strategic partnership with Fonterra, the world's leading dairy exporter. Fonterra will market and sell our products on our behalf and is also providing valuable technical and engineering support.

Cost cutting

We have again achieved our target of making cost savings in excess of £20 million in the year.
The consolidation of our spreads and packet butter manufacturing into one site at Kirkby, Merseyside and the closure of Crudgington will give us a lower fixed cost base that will benefit future years.
We continue to work with non-milk suppliers to drive efficiencies and lower our purchase costs. During the year we have increased our use of lighter weight polybottles; reduced packaging costs and made our distribution network more efficient.

Cost reduction is essential in our residential milk delivery business, where sales fell by 11% compared to the year ended 31 March 2014. We have continued with our programme of depot closures.
In addition we announced that we would further rationalise our Dairies operations and consult with employees regarding the closure of our glass bottling dairy in Hanworth, West London and our specialist cream potting facility in Chard, Somerset. We anticipate that Chard will close later in 2015 and Hanworth in 2016.

Exceptional items

Pre-tax exceptional charges of £34.7 million have been recorded in the year (2014: £20.2 million).

Exceptional charges of £16.7 million were associated with the final consolidation of Spreads and butter production at Kirkby along with the installation of a bulk butter churn at Severnside and the creation of a new innovation centre at Harper Adams University. The Crudgington site was closed in December 2014 and any further exceptional costs associated with the completion of the Innovation Centre will be more than offset by future exceptional profit from the sale of the Crudgington production site.

Exceptional costs of £3.4 million relate to the investment in demineralised whey and galacto-oligosaccharide. These relate predominantly to incremental site costs incurred as a result of the significant works being undertaken, for example additional site shut downs. These projects remain on track for completion later in 2015.

In September 2014 we announced the future closures of our glass bottling site at Hanworth and our specialist cream potting facility at Chard. £11.8 million of exceptional charges have been made in respect of these closures of which £9.2 million are non-cash asset write downs and accelerated depreciation.

Further exceptional costs of £4.3 million have been charged in respect of the proposed sale of our Dairies operations. These include costs associated with the transaction, predominantly professional fees as well as costs relating to the separation of the Dairies business into a standalone entity.

Other finance income

Other finance income of £4.4 million (2014: Income of £12.6 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.

Strategic report (continued)

Pensions

The latest full actuarial valuation of the closed defined benefit pension scheme was performed at 31 March 2013 and resulted in an actuarial deficit of £105 million taking into account the one-off contribution of £40 million we made to the scheme in April 2013.

During the year ended 31 March 2015 the Company paid £13 million cash contributions into the scheme in line with the new schedule of contributions agreed with the Trustee in March 2014. This level of contributions will continue for the year ending 31 March 2016 before increasing to £16 million for the year ending 31 March 2017.

During the year the focus of the Trustee and the Company has been to reduce the scheme's exposure to equities in line with the derisking flight path agreed as part of the 2013 actuarial review. The proportion of assets (excluding insurance) held in higher risk/ higher return type assets has reduced from 75% at March 2014 to 61% at March 2015.

The reported deficit under FRS 17 at 31 March 2015 was £41.4 million a decrease of £16.3 million from March 2014. Asset returns have been strong during the year and have offset a further reduction in the discount rate used to measure liabilities. We continue to stick to a derisking programme that targets a selfsufficient scheme by 2019 requiring returns at that point of only 0.5% above gilt yields.

Key Performance Indicators

Key performance indicators for the business are:

Sales - Turnover for 2015 was £1,247.3m showing a decrease of 6.4% compared to 2014.

Gross margin was 23.9% compared to 25.7% in the previous year.

Net profit for the year is £41.9 million compared to a profit of £47.2 million in 2014.

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

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

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

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

Cheese & whey

The Company produces and markets Cathedral City, the UK's leading cheese brand, as well as the premium Davidstow cheddar brand. Milk from around 400 farmers in Cornwall and Devon is made into cheddar cheese at our Davidstow creamery in Cornwall. The cheese is then matured for an average of 11 months at our purpose built Nuneaton facility before being cut, packed and distributed to customers. We have two cheese packing operations: a highly automated facility at Nuneaton, Warwickshire, and a plant at Frome, Somerset capable of producing more complicated packs for innovative products such as Cathedral City Chedds and Selections.

Whey is produced as a by-product of cheese making. This is currently dried and sold to food manufacturers. However we are developing a new facility at Davidstow that will manufacture demineralised whey powder and galacto-oligosaccharide, a lactose based prebiotic.

As is usual in this business, falling milk prices have led to a short-term pressure on margins. The maturation process means that we sell cheese made with milk purchased around 11 months before the sale takes place. Falling sales realisations have now led to lower milk prices but there is a time lag before this is reflected in the costs of stock that is being sold. We expect this margin squeeze to reverse in the second half of the year ending 31 March 2016 as stock made with less expensive milk is sold.

Whey realisations have also fallen and this has contributed to lower reported margins in this business. In addition we have adjusted our aged accruals in line with the Grocery Supply Code of Practice.

Strategic report (continued)

Cathedral City continues to grow market share

Total retail cheese market sales were unchanged over the year although volumes fell by 3%. Cheddar accounts for more than half of all retail sales. Cathedral City continued to grow market share, recording flat volumes and 5% sales growth. According to IRI, retail sales of Cathedral City exceeded £280 million. Sales of competing cheddar brands have continued to decline. Taken together the next three largest cheddar brands totalled £141 million, down over 20%.

We continue to develop new products in the Cathedral City range. Products launched in earlier years such as Selections, Chedds, Spreadable Cathedral City and Baked Bites have all prospered. This year we have moved outside of cheddar for the first time and have selected Red Leicester and Double Gloucester for a new Selections variety pack. We have also extended the brand into flavoured cheeses.

In addition to bringing exciting new products to the market we have continued to support Cathedral City with television and other media advertising and with an appropriate promotional programme.

The Company's second cheese brand, Davidstow, has slightly strengthened its market share. We also continue to supply Marks & Spencer and Waitrose with premium own label cheddar.

During the year we have carried out a comprehensive category strategy project, 'Dairy for Life', which will form the foundation for future innovation, marketing and category merchandising for both of our cheese brands. On the back of this, in addition to the Cathedral City range developments referred to above, we have worked with customers to cross-promote Cathedral City and jacket potatoes and to create a video of 'how to make a great cheese sauce' with Cathedral City.

Growth based on top quality cheese from a highly efficient supply chain

The investment we have made in recent times in our cheese business has created a highly efficient supply chain that produces top quality products.

Making ingredients for infant formula will provide additional growth

We are investing a total of £65 million at our Davidstow creamery in Cornwall to make demineralised whey powder and galacto-oligosaccharide, a lactose based prebiotic. Both products are used in the manufacture of infant formula for which there is growing demand across the world. We expect commercial manufacture of both products to start later this year.

During the year we entered into a strategic partnership with Fonterra, the world's leading dairy exporter. Fonterra will market and sell our products on our behalf and is also providing valuable technical and engineering support.

A business with great potential

Our Cheese and whey business has well invested facilities, and strong brands with enviable market positions. It remains well placed to generate attractive growth.

Spreads & butters

We make butter at our Severnside dairy in Gloucestershire and pack butter and make spreads in Kirkby, Merseyside. We have two key brands, Clover (a dairy spread) and Country Life (spreadable and block butter).

Market decline slows – butter in growth

The butter and spreads market continued to decline during the year. However the pace of decline fell from that recorded in the year ended 31 March 2014. Across the category as a whole, both market volumes and values fell by 4%. Within the overall category, butter sales grew volume by 2% with unchanged values, driven by supermarket own label butter sales growth, whereas spreads volumes and values both fell by around 8%.

Clover performed in line with the spreads market and Country Life Spreadable, which now accounts for nearly 60% of total Country Life sales, grew sales by 2% and outperformed the butter market. However Country Life block butter sales fell as a result of lower promotional activity.

We continue to innovate and support our brands. Clover was awarded Which magazine's 'Best Buy' in the spreads category (Source: Which February 2015) and Clover Lighter than Light is firmly established as a lower fat alternative.

Strategic report (continued)

Our comprehensive category strategy project, 'Dairy for Life', will form the foundation for future innovation, marketing and category merchandising for both Clover and Country Life. On the back of this project we have worked with one customer to install freestanding refrigerators for butters and spreads next to their instore bakeries and with another on a 'cupcake challenge'.

Driving efficiency, generating cash

With all our packet butter and spreads manufacturing now on one site, we expect to be able to drive efficiencies in this business and lower our manufacturing costs further. We expect to use some of the manufacturing savings to increase our marketing expenditure to grow and protect our share of this high-margin category. We would also expect to see this business improve its cash generation in future years as capital expenditure falls back to more normal levels.

Dairies

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

We operate three modern dairies at Severnside, Chadwell Heath and Foston where we pack milk into polybottles. We also have a glass bottling dairy at Hanworth and a specialist cream potting facility at Chard. In addition we have around 64 operational depots from which we deliver milk to residential and certain middle ground customers. Finally we also run an ingredients operation that helps balance seasonal milk supplies by drying surplus milk and selling skimmed milk powder. We aim to minimize throughput in this business to lessen our exposure to commodity markets.

The raw milk that we purchase from farms contains more cream than the milk that we sell to customers. We use some of the surplus generated during the bottling process to make bulk butter which is transferred to our Spreads and butters business at market prices. The balance of surplus cream is sold by our ingredients operation either as bulk butter or cream.

A difficult year for the whole UK dairy sector

A global surplus of milk and high production in the UK has led to a steep fall in realisations of milk and other dairy commodities. Although we and others in the UK dairy sector have reduced the price we pay dairy farmers for their milk, the profitability of our Dairies operations has fallen significantly and excluding property profits we recorded a trading loss in the year.

Property profits remain strong

As residential and middle ground sales reduce we close and sell distribution depots. Property selling prices have remained high and profits from selling properties included in the Dairies product group were £17.6 million (2014: £18.2 million).

Growing FRijj sales

FRijj is the leading brand in the ready to drink flavoured milk market. This market grew by 4% in the year ended 31 March 2015 and, buoyed by growth from sales to the food service and convenience sectors, FRijj sales increased by 7%. During the year we redesigned the packaging and introduced a reduced sugar variant.

Strategic report (continued)

Continued cost savings

We have continued to reduce costs in this business. Key initiatives have been a wider use of lighter weight polybottles, distribution savings and an ongoing programme of depot closures to reflect declining residential demand. Overall residential sales fell by 11% compared to the year ended 31 March 2014.

In addition we announced that we would further rationalise our Dairies operations and consult with employees regarding the closure of our glass bottling dairy in Hanworth, West London and our specialist cream potting facility in Chard, Somerset. We anticipate that Chard will close later in 2015 and Hanworth in 2016.

Milk Procurement

The year ended 31 March 2015 was a year of two dramatically different periods. The first part of the year saw milk prices at record highs with intense competition amongst milk processors for milk supply. In the second half of the year, dairy markets collapsed as milk production soared on the back of higher prices and favourable weather conditions. This resulted in milk prices falling at an unprecedented scale and speed.

Milk supply

We have managed to achieve a balanced supply of milk, by carefully monitoring production levels and customer demand. Successful new farm recruitment activity during the year has been scaled back for the short term with our priority being to develop our existing milk.fields. The comprehensive service package we offer to our farmers has enabled us to maintain our focus on quality and efficiency at a time when milk prices have been under significant pressure. This partnership approach delivers key benefits to our business and our farmers, including the long term sustainability of our direct milk supply, which is fundamental to our business.

Standards and support

Our office based advisors within the Farm Business Centre together with our regional team of Farm Business Managers are the primary contacts for our farmers. During the year they have undertaken a number of practical farm training programmes to enable them to provide more comprehensive support and guidance.

Animal health and welfare remains a key priority as we work with our farmers to promote best practice and continually improve milk quality and production standards. Raising awareness of the challenges the dairy sector faces from animal disease and the eradication programmes that are in place, is one area of focus. We have worked closely with Dairy Crest Direct ('DCD'), the independent organisation representing our farmers, to engage veterinary support as part of our communication and training programmes.

Listening to our farmers

During the summer of 2014 we commissioned an independent research project 'The Voice of the Farmer'. The objective was to gain a greater understanding of how the Company and the services we offer are perceived by our farmers. This unique survey was well received with the results highlighting the opportunities for greater segmentation within our core communication activity – both for content and method of delivery. The feedback identified both what we do well as a business and where there is scope for us to improve. Our operational performance scored very highly with the consistent achievement of high service levels being recognised as a key benefit.

Electronic communication is a focus as we develop 'Farm Connect', our interactive farmer website. This provides our farmers with key management information about their milk supply together with news about the Company and the dairy sector.

Strategic report (continued)

The independent White Gold farm advisory service, which is fully funded by the Company, has been expanded to include a series of new initiatives to benefit our farmers. These include 'MilkWell' to improve herd health and welfare through better data recording, 'WaterWell' to analyse water consumption and 'Safe&Well' to provide guidance on health and safety for key farm tasks. The Safe&Well initiative encompasses routine health checks for our farmers and was launched during our summer agricultural shows programme, where we offered free 'on the spot' health assessments to our farmers.

Milk supply contracts

Our service package supports our core offer of a fair and competitive milk price and range of contract options. We continue to work closely with DCD to explore opportunities for new contract options that meet the requirements of both our farmers and our business. Our innovative formula pricing mechanism continues to be very popular with our farmers with over 20% opting to have a proportion of their milk priced in this way. At the start of the year we responded to farmer feedback for greater simplicity with the launch of a new 'Simplifed' Formula contract which proved very popular.

We continue to consider variations to our core contracts, looking at the compositional quality of milk for our cheese business and for larger supply volumes.

In addition, we are working with DCD to consider the opportunity for a contract based on the Dairy Futures market, with the aim of providing farmers with different options to help manage future market volatility.

Operational efficiency

Our contracted hauliers maintain their focus on improving efficiency within the milk collection operation whilst also delivering environmental improvement and meeting a range of service targets for our farmers.

The on-going vehicle fleet replacement programme will result in lighter vehicles with greater capacity. Exploratory work is also been done with new milk pumping equipment to reduce pollution and noise and to further develop automatic milk sampling equipment to reduce the opportunity for human error.

We continue to work closely with our haulage and milk testing partners to ensure that our milk sampling and testing procedures are effective and robust at every stage of the raw milk supply chain.

Looking ahead

We are committed to working in partnership with our farmers to ensure that together, we are best placed to take advantage of market opportunities. In our Davidstow milk field we are launching a new farm standards package to recognise the work our farmers in the South West are doing in preparation for the production of demineralised whey powder. In our milk fields serving the liquid market, we will further develop our portfolio of supply contracts to recognise the diverse range of business models so we can continue to offer flexibility and choice.

We will continue our support of the Government's Voluntary Code of Practice for milk supply contracts, having been the first milk processor to fully embrace this since the launch in 2012. We are supporting DCD's work to review structural changes to their organisation, including their application to achieve DPO (Dairy Producer Organisation) status. This followed a comprehensive evaluation of the constitutional implications for their members, carried out through funding they secured through the Defra 'Dairy Fund'.

Global volatility in dairy markets had a huge impact in 2014 and is expected to continue to be a critical factor going forward. We and our farmers also have to deal with any challenge brought about by the end of European milk quotas. By working together with DCD and our farmers, we can help ensure that our businesses are in the best place to meet the challenges we face and ensure we deliver a sustainable supply of top quality British milk for our customers.

Corporate Responsibility

We use Business in the Community's CR Index to integrate responsible business practice into our mainstream business operations. It provides a robust framework to systematically measure and manage our progress and allows us to compare the results we are achieving with those of other responsible businesses.

We are delighted that the Company has again come out top in the Business in the Community ('BITC') benchmark. In addition we are only one of a handful of participants to achieve a top rated 5 star score, up from 4½ last year. During the year we increased our focus on community initiatives such as engaging with young people as well as developing a programme to help improve safety on farm for our supplying farmers.

Strategic report (continued)

Environment

Climate change

The Company is committed to reducing and controlling greenhouse gas emissions associated with our direct operations and our wider supply chain.

All of our manufacturing sites use assessment and monitoring tools to identify energy reduction projects.In 2014/15, we delivered over 50 projects to reduce electricity and energy use, including installing digital controls on the boilers at Kirkby and investing in high quality and efficient compressed air at Severnside. These two projects will reduce CO2 emissions by over 800 tonnes per year.

Against our target of reducing carbon emissions from energy used in manufacturing by 30% by 2020 against 2007 levels we have achieved a 16% reduction.
To push ourselves further, this year we committed to increase the proportion of renewable energy used in manufacturing to more than 20% by 2020.

By looking at our transport network, we are on course to reduce its carbon intensity by 10% by 2020 vs 2013/14 levels. We have achieved approximately a 7% reduction since 2007. We have reduced the distance driven by our primary vehicles by approximately 150,000 miles, saving over 1,200 tonnes per year of CO2 emissions.

We work with our dairy farmers to assess their carbon footprint using a Carbon Trust certified emissions tool. During 2014/15, the proportion of milk supplied from farms using this tool increased to 27%. We want 50% of our farmers to have completed this by the end of 2016.

Each year we provide a voluntary report via CDP (formerly the Carbon Disclosure Project) describing our greenhouse gas emissions management and performance. In 2014 we achieved our highest ever score.

Waste

We aim to reduce waste at every point in our supply chain. Where waste is unavoidable, we always look for ways of diverting it from landfill for beneficial recovery or reuse.
Our aim is for zero waste to go to landfill by 2015. By the year end we diverted 92% of operational waste from landfill and we are focusing on key residual waste streams to achieve our target of 100%.

We also consider materials used in our packaging. This year we improved the design of our plastic milk bottles so they are now on average 13% lighter. In 2014/15 we reduced our total packaging footprint by 9% (a total reduction of 20% since 2010).
In 2014/15 we also helped lead the IGD's collaborative 'Working on Waste' household food waste campaign.

Water

Parts of the UK have less water available per person than some southern European countries. We therefore need to look to make best use of the water available to us as well as reducing the amount we use.
In 2014, we commenced a major project to reduce freshwater abstraction at Severnside, the largest user of water across our manufacturing network. Investment will enable recovery of over 500 million litres of processed water per year. We are employing similar technology at Davidstow.

The Company is on track to meet our target of reducing water usage by 20% against a 2007/8 baseline by the end of 2015. We have increased our target to a 30% reduction by 2020.
We are promoting water stewardship with our dairy farmer suppliers through 'WaterWell', our innovative on-farm water use auditing programme.

Marketplace

We are committed to creating healthy, tasty enjoyable products, making it easier for consumers to choose healthier foods.

Healthier choices

The Company is proud to make healthy and nutritious products. We have continued to invest in our healthier ranges, driving sales through promotions, advertising and innovation. Consumer IRI data shows that the lower fat and added value variants of our brands achieved a collective retail sales value of £58 million in 2014/15, a slight decline from £61.3 million in 2013/14.

Cathedral City Lighter, continues to lead the lower fat branded Cheddar market, recording a retail sales value of £32.1 million, bigger than the next three rival brands put together.

Our lower fat spreads – Clover Lighter, Clover Lighter than Light, Utterly Butterly Lightly, Country Life Lighter and our Clover Additions range – have a collective retail sales value of £25.6 million.

A real highlight, in February 2015 we launched a new range of FRijj milkshakes made with 40% less sugar. The range is available in two flavours, Choc-a- Chocolate and Seriously Strawberry, in 471ml bottles. Each bottle sports a distinctive, refreshed blue FRijj logo.
The launch demonstrates our commitment to the Department of Health's Responsibility Deal.

Strategic report (continued)

Milk Race

To highlight the health-giving properties of milk and strengthen the dairy sector's links with the sporting world, this year, through Dairy UK, we once again sponsored the Milk Race, held in Nottingham on 25th May 2014.

Innovation

Work started on our £4 million dedicated Food Innovation Centre on the Harper Adams University campus. The partnership with Harper Adams University provides a link into leading agriculture and food research and will help us to continue to develop healthy products.

Ethical supply

In 2013 we updated our comprehensive ethical supply policy. The policy (which can be found at www.dairycrest.co.uk) extends our vision and values across a diverse and extensive supplier base.

The Company aims to exceed best practice around quality, animal welfare, traceability, allergies and product recalls. Through our team of Direct Supply Managers and the White Gold accreditation service, we work with farmers to ensure animal welfare is of the highest standard possible and the milk we buy is of an exceptionally high quality.

We can trace milk and raw materials from farms and suppliers through to finished product and within our manufacturing plants we utilise tools such as Hazard Analysis Critical Control Points (HACCP), and Quality Monitoring Plans (QMP) to identify hazards and put systems and controls in place to ensure critical limits are not exceeded.

Our quality management systems are regularly reviewed and audited by our own technical teams and by third parties to ensure they comply with industry standards. In addition to an internally audited programme, each manufacturing site is accredited to the British Retail Consortium Standard and by an independent auditing body.

Workplace

Safety first

We believe such a strong, proactive commitment, which goes beyond legislative requirements, contributes to our business performance by reducing the risk of injuries and drives continuous improvement and engagement.

We have made excellent progress against our zero tolerance of unsafe working practices and by the end of March 2015 we had reduced our Accident Incident Rate, including Riddors and over three day lost time accidents, to 588 from the 1,027 base line set in 2013. This 43% reduction means we are well on the way to achieving our challenging target of a 50% reduction in Accident Incident Rate by 2018, against the 2013 baseline. Among the year's highlights include Chard who achieved more than 1,000 days without a lost time accident, and our Nuneaton Prepack operation achieved 987 days.

Challenging the behaviour of staff has been key to our success, with much focus being placed on encouraging staff to engage in near miss reporting and behavioural conversations so that we can continue to make workplaces safer. Against our target of having a 100:1 ratio of near miss and behavioural conversations versus all types of accidents by 2018, we achieved a ratio of 127:1 by the end of March 2015.

Some key activities have included a £250 prize draw we hold each quarter for drivers in our secondary and residential operations that have not had an 'at fault' collision. At all locations we promote our 'Stop, Think, Assess, Review' (STAR) principles to help our staff stay accident free. Finally, aware that driving in winter weather can potentially be more hazardous, this year we issued all of our professional drivers with a 'Winter Driving Guide'.

Wellbeing at work

The Company is proud to take a proactive approach to looking after employees' health, which we believe results in a happier, more engaged and productive workforce. Through our in-house occupational health team we provide all staff with the opportunity of having a free wellbeing check. Since introducing this free service, and including the mandatory health checks for staff performing specific roles, by the end of March 2015 we had carried out 6,422 health related checks across the business.

Strategic report (continued)

Farm Health & Safety programme

In 2014, we expanded this service to our dairy farmers. Our occupational health team provided a free health check to 219 farmers at local shows, including the Royal Cornwall Show, and our regular farmer meetings.

Wellbeing days

Since March 2014, we have been running special wellbeing days across all of our manufacturing sites and depots, addressing heart health, mental health, sleep and healthy eating. Significantly these four topics were chosen after our occupational health advisors analysed the results of the staff health screenings they conducted in 2013.

As a result of our proactive approach to employee wellbeing we were delighted to have been shortlisted for the 2014 Bupa Workwell Engagement and Wellbeing Award and were named as Waitrose's overall 'Treating People Fairly' supplier of the year.

Community

Looking after the countryside

In 2014 we were delighted to announce the Prince's Countryside Fund as our staff charity partner, building on the relationship the charity already has with our Country Life and Davidstow brands. The charity, set up by HRH The Prince of Wales in 2010, aspires to a healthy, economically vibrant countryside – an aspiration supported by the Company's vision and values.

In addition to contributing £100,000 to the Fund, staff raised money through activities including cycling and baking challenges. In March 2015 we co-sponsored a racing day at Ascot.

Through the Fund, we support the Prince's Dairy Initiative, offering tailored support to vulnerable small and medium sized dairy farms. As part of the programme non-aligned farmers participate in a series of practical workshops delivered locally by dairy sector experts. 216 farmers have enrolled on the programme since 2012 and all are still in business. An independently conducted evaluation showed that the majority feel more confident about their future in the dairy sector as a result of participating.

We are also long term supporters of 'Open Farm Sunday'. On 8 June 2014, over 300 farms opened their gates to the public to demonstrate food production methods.

Promoting healthy living

The Company always promotes healthy living. Through Meals on Wheels, staff voluntarily deliver healthy, fresh food to the most vulnerable in our communities.

During winter 2014, we also donated over 8,500 litres of milk and enough Frylight to make over 30,000 meals to Crisis, the homeless charity.

Supporting education and employability

We want to encourage young people into the food and manufacturing sector. Through the IGD's Feeding Britain's Future programme, employees have helped over 140 young people find employment since 2013. In 2014, we hosted local unemployed youngsters at Davidstow to help with CV-writing skills. For the first time, 6 youngsters then completed two weeks' work experience at the site. Every candidate had the opportunity to gain a professional food hygiene and preparation certificate.

We worked with M&S to deliver their youth unemployment programme, Movement to Work. The Company staff pledged to offer 80 young people 80 hours of work experience by June 2015. By April 2015 91 placements had been offered.

The Company supports community educational programmes, including food science placements at Reading and Nottingham Universities. We also support Festomane, a manufacturing and engineering festival in Gloucestershire. This year we ran a competition for schools to create a new flavour FRijj milkshake as well as a 'career day' at a local dairy farm.

Strategic report (continued)

This year staff helped at schools careers sessions through IGD's 'Feeding Britain's Future' programme. By the end of March 2015, we had visited a total of 8 schools and reached over 200 young people.

The Company has also signed up to the 'females in factories' ambassador campaign by appointing a female champion to visit secondary schools and talk about manufacturing as a career option.

Local community programme

This year staff have supported over 124 local causes through volunteering, product donations and financial donations.

Future prospects

The sale of our Dairies operations to Muller remains on track and subject to clearance by the Competition and Markets Authority ("CMA") is expected to complete during the year ending 31 March 2016.

Completion of the sale of our Dairies operations will result in the Company operating from five well-invested manufacturing sites and be a much simpler, more focused, predominantly branded business. It will also have exposure to the growing infant formula category and emerging markets.

Looking ahead,the Company is well positioned for sustainable, profitable growth. Over the coming year as a whole we expect results to benefit from the continued growth of Cathedral City, ongoing cost savings and the completion of our project at Davidstow where we will add value to our whey stream by producing ingredients for infant formula. This growth will be second half weighted.

We expect that our net debt, which at the year end remains within our target range, will fall once we have completed our major investment projects. The receipt of the proceeds from the sale of our Dairies operations will accelerate this reduction.

Strategic 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
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.	We set ourselves the target of continually reducing our cost base and are able to invest in our supply chain to help achieve this. No one customer accounts for more than 15% of total revenues and we continually strive to widen our customer base. Despite challenging trading conditions we have maintained investment in marketing our 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 is an important part of our overall proposition to some customers.
Reduced demand from customers Consumers could move away from dairy products for economic, health, ethical, or other reasons leading to lower sales and profits.	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 a direct involvement with government to understand and influence future legislation that could affect future consumer demand.
Input cost volatility Volatile milk and non-milk costs (vegetable oils, diesel, electricity, gas and packaging) could reduce margins unless we can make manage cost risk, find other cost efficiencies elsewhere or increase selling prices. Milk prices could remain volatile as European milk production quotas have been abolished from April 2015.	This area is closely reviewed by the Management Board which has established a risk committee to monitor and hedge forward non-milk commodity prices as appropriate. The risks associated with purchasing large volumes of milk have been reduced by establishing milk pools linked to major customers. We seek to absorb short term cost movements through supply chain efficiencies. Our purchasing and commercial teams have clear lines of communication between them to ensure customers are kept aware of changes to our cost base and requests for price increases can be fully justified. We have reviewed the effect that we believe the abolition of milk quotas will have on our business. We believe it is commodity cheese markets, in which we don't operate, that are most likely to be affected, but we will continue to monitor this closely.

Strategic report (continued)

Risk area and potential impact	Mitigating controls
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.	We invest significant resources in maintaining strong relationships with our milk suppliers by attending forums and discussing current issues and pressures that affect both the farms and our business. The majority of our milk comes directly from farms on contracts that include a notice period of between three months and one year. Our experienced milk procurement team understand milk production and are alert to changes in supply. We aim to pay a fair, market related milk price and closely monitor the milk price we pay to suppliers in order to ensure we can purchase the right quantity of milk to meet demand forecasts and have established procedures for allocating milk between our businesses if a short-term shortfall in supply does arise. We have contingency plans established for major incidents and work closely with DEFRA and industry bodies to ensure these are appropriate. These plans are regularly tested and reviewed with the Management Board.
Failure of a key supplier 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.	Our purchasing team regularly monitors suppliers' ability to supply and puts in place alternative arrangements, including dual purchasing, if appropriate. We have taken specific actions to reduce our dependency on information technology suppliers.
Other operational risks An accident, a fire, 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.	Plans are maintained to respond quickly to any product quality concerns and minimise any impact to the Company. 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.
Failure to maintain product quality could lead to reputational damage and loss of sales and profits. As we start to manufacture ingredients for infant formula this risk could increase.	We have well established supply chains and a close working relationship with our milk suppliers. We have an independent quality team, including experienced cheese graders. Customer and consumer complaints are monitored and acted upon. Our contractual relationship with Fonterra, who will sell the infant formula ingredients we will produce, allows us to utilise its experience in this field.

Strategic 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. Our Long Term Alignment Plan aligns the interest of management to shareholders and helps to retain key senior employees. There is a performance review and talent management scheme to identify and develop our own people.We undertake regular surveys to monitor the relationship with our employees and their engagement, communicate with them regularly and encourage them to ask questions.
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. We have recently reduced the scheme's exposure to equities and other higher risk asset classes and aim to further do so.
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 company-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.

By order of the board

R Miller
Company Secretary
17 September 2015

Registered No: 2085882

Directors' report

The Directors present their annual report for the year ended 31 March 2015.

Directors

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

The following changes in Directors have taken place:
M K Wilks resigned as a Director on 31 March 2015 .

Items disclosed in the Strategic Report

Future developments are disclosed on page 14.

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.

Dividends

An interim dividend of £3.5 million was declared on 20 March 2015. A further dividend of £25 million was declared on 18 May 2015 to Dairy Crest Group plc(2014: £20 million).

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 (2014 - £0.1 million). Small contributions, mainly of product, were also made to local charities. No contributions were made to any political party.

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 exceeds their book value.

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. The Company remains at the forefront of dairy industry developments to reduce packaging waste through innovations.

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.

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.

Directors' report (continued)

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.

Disclosure of information to 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.

Post Balance sheet event

On 6 November 2014 the Company announced that it had agreed to sell the assets of its Dairies operations to Müller UK & Ireland Group LLP ("Müller") for a cash consideration of £80 million. The sale has already received the approval of the Company's shareholders.

On 26 June 2015 the Competition and Markets Authority ("CMA") announced that there were reasonable grounds for believing that undertakings offered by Müller may address the CMA's competition concerns.

In a notice posted on its website dated 10 August 2015 the CMA has indicated that it proposes to accept Müller's undertakings and has invited comments from third parties on its proposal to accept.

The CMA has also announced an extension of its deadline for consideration of the undertakings by the statutory 40 working days from 21 August to 19 October although it has also said that it may reach a final decision before that date.

By order of the board

R Miller
Company Secretary
17 September 2015

Registered No: 2085882

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Strategic Report, 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 2015 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 20, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2015 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 Strategic Report and 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.

Ernst & Young LLP

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 September 2015

Registered No: 2085882

Profit and loss account

for the year ended 31 March 2015

	Notes	2015 £m	2014 £m
Turnover	2	1,247.3	1,332.4
Other income - dividends received	4	10.9	2.0
Other income - property	4	17.6	18.2
		28.5	20.2
Operating costs before exceptional items and intangible amortisation	3	(1,178.0)	(1,263.7)
Operating exceptional items	3	(32.2)	(20.2)
Intangible amortisation	3, 4	(3.1)	(3.3)
Operating costs	3	(1,213.3)	(1,287.2)
Operating profit		62.5	65.4
Non - Operating exceptional items	3	(2.5)	
Net interest payable	5	(18.1)	(19.2)
Other finance income - pensions	6	4.4	12.6
Profit on ordinary activities before tax		46.3	58.8
Tax on profit on ordinary activities	7	(4.4)	(11.6)
Profit for the year		41.9	47.2

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 2015

	Notes	2015 £m	2014 £m
Profit for the year		41.9	47.2
Remeasurement of defined benefit pension plans	18	(2.7)	(63.5)
Tax on components of recognised gains and losses		3.1	11.5
Total recognised gain/(loss) for the year		42.3	(4.8)

Registered No: 2085882

Balance sheet
at 31 March 2015

	Notes	*2015* *£m*	*2014* *£m*
Fixed assets			
Tangible assets	10	**327.2**	287.5
Goodwill	11	**-**	-
Intangible assets	12	**21.2**	23.0
Investments	13	**532.6**	534.7
		881.0	845.2
Current assets			
Stocks	14	**198.5**	217.9
Debtors	15	**553.6**	503.6
Cash at bank and in hand		**49.0**	65.1
		801.1	786.6
Creditors: amounts falling due within one year			
Borrowings	16	**-**	(1.8)
Other creditors	16	**(1,341.3)**	(1,383.8)
		(1,341.3)	(1,385.6)
Net current liabilities		**(540.2)**	(599.0)
Total assets less current liabilities		**340.8**	246.2
Creditors: amounts falling due after more than one year			
Borrowings	17	**(105.0)**	(36.0)
Other creditors	17	**(6.2)**	(7.8)
Provisions for liabilities and charges	19	**(6.5)**	(5.6)
Defined benefit pension liabilities	18	**(25.4)**	(39.8)
Net assets		**197.7**	157.0
Capital and reserves			
Called up equity share capital	20	**150.0**	150.0
Profit and loss account	21	**47.7**	7.0
Shareholders' funds	22	**197.7**	157.0

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

T A Atherton

T A Atherton
Director
17 September 2015

Notes to the financial statements
at 31 March 2015

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 Directors have assessed that the Company has only one reporting segment in accordance with SSAP 25. However, in order to assist the readers of the financial statements, the Directors consider it appropriate to provide voluntary disclosure on a basis consistent with historic reporting of segments.

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

(i) 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.

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

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 events 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. As at 31 March 2015 all goodwill is fully amortised.

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 2015

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.

In the year ended 31 March 2015, the Company tested the property, plant and equipment of the Dairies cash-generating unit for impairment due to indicators of impairment being present. Three key assumptions in performing the test included the projected value and timing of cash flows from property sales, the allocation of corporate costs following the restructure of the business to a single operating unit and the projected profit growth. The result of the test was that no impairment was required however the headroom was low and therefore sensitive to the above assumptions.

No depreciation is charged on assets not in use.

Turnover

Turnover on sale of food and dairy products is recognised on delivery. Turnover comprises the invoiced value for the sale of goods net of value added tax, rebates and discounts.

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

Other income

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

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

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

Notes to the financial statements

at 31 March 2015

1. Accounting policies (continued)

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.

Retirement benefit obligations

The Company operates two types of pension arrangements, a defined benefit scheme and a defined contribution scheme.

Defined contribution schemes

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

Defined benefit schemes

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 at September and March 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.

The Company has closed its defined benefit scheme and therefore no current service costs are required to be charged to operating costs. 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.

Notes to the financial statements
at 31 March 2015

1. Accounting policies (continued)

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.

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.

Research and development
Expenditure on research and development is written off as incurred.

2. Segmental information

The Company is exempt from producing segmental information in accordance with SSAP 25 as it is not a public limited company and its parent discloses segmental information. Management has judged that the Group comprises one operating segment under IFRS 8.

Analysis of turnover on basis of customer location	*2015* *£m*	*2014* *£m*
UK	1,233.7	1,318.3
Rest of the world	13.6	14.1
	1,247.3	1,332.4

3. Operating costs

	Before operating exceptional items and intangible amortisation *2015* *£m*	*Operating exceptional items* *2015* *£m*	*Intangible amortisation* *2015* *£m*	*Total* *2015* *£m*
Cost of sales	949.4	27.9	3.1	980.4
Distribution costs	183.3	-	-	183.3
Administrative expenses	45.3	4.3	-	49.6
	1,178.0	32.2	3.1	1,213.3

Notes to the financial statements
at 31 March 2015

3. Operating costs (continued)

	Before operating exceptional items and goodwill 2014 £m	*Operating exceptional items 2014 £m*	*Intangible amortisation 2014 £m*	*Total 2014 £m*
Cost of sales	991.6	4.5	3.3	999.4
Distribution costs	206.3	-	-	206.3
Administrative expenses	65.8	15.7	-	81.5
	1,263.7	20.2	3.3	1,287.2

Operating exceptional items

	2015 £m	*2014 £m*
Spreads Restructuring costs	**16.7**	3.8
Rationalisation of Operating Sites	**11.8**	0.7
Demineralised whey powder and GOS projects	**3.4**	-
Business reorganisation	**0.3**	4.4
Impairment in carrying value of investments	**-**	11.3
	32.2	20.2

2015

Operating exceptional items in the year ended 31 March 2015 comprise:

- ***Spreads restructuring costs***
  During the year, the Company completed the consolidation of its spreads production operations into one site in Kirkby, Liverpool. As a result of this consolidation, the site at Crudgington, Shropshire ceased production in December 2014. The exceptional costs incurred in the year were £16.7 million (2014: £3.8 million), including duplicate running, commissioning and redundancy costs. The tax credit on this exceptional charge for the year was £3.2 million (2014: £0.8 million).

- ***Rationalisation of operating sites***
  In September 2014, the Company announced it was starting consultation with employees and their representatives regarding the closure of its glass bottling dairy in Hanworth, West London and its specialist cream potting facility in Chard, Somerset. The Hanworth site is expected to remain operational until 2016. An exceptional charge of £2.5 million has been incurred in the period, primarily comprising accelerated depreciation of assets following an assessment of their useful economic lives as well as other associated closure costs. The Chard site is to be closed on economic grounds in the second half of 2015. As a result a £7.8 million impairment charge has been recognised to write the assets down to nil being their net realisable value after selling costs which is lower than their value in use and a charge of £1.5 million in relation to redundancy and closure costs has also been recognised. The tax credit on these exceptional costs in the year was £2.1 million.

- ***Demineralised whey powder and GOS projects***

  The Company has initiated projects to significantly invest in its cheese creamery at Davidstow, Cornwall to enable the Company to commence the manufacture of demineralised whey powder, a base ingredient of infant formula, and GOS, widely used in infant formula. The Company is investing £65 million on new manufacturing assets at Davidstow over financial years ending 31 March 2015 and 31 March 2016. During the year, £3.4 million of exceptional costs were incurred relating to project initiation and set up. The tax credit on this exceptional charge in the year was £0.7 million.

Notes to the financial statements

at 31 March 2015

3. Operating costs (continued)

- ***Business reorganisation***
  In February 2013 the Company announced plans to reorganise the business into a single management and operational structure from 1 April 2013. This reorganisation has resulted in exceptional redundancy costs in the year of £0.3 million. The tax credit in the year on this exceptional charge was £0.1 million.

2014

Exceptional items in the year ended 31 March 2014 comprise:

- 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 is expected to close in the coming financial year. The exceptional costs incurred in the period ended 31 March 2014 were £3.8 million, comprising plant and equipment write-down,termination costs and duplicate running costs. The tax effect of this exceptional charge in the year was £0.8 million.

- 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 2014 of £4.4 million comprising predominantly redundancy costs and the write-down of an intangible asset on the basis that there will be no future benefit from this asset following the reorganisation. The tax effect in the year of this exceptional charge in the year was £0.8 million. This project has now completed.

- In December 2013 the Company announced that it was starting consultation with employees regarding the closure of its Proper Welsh Milk dairy in Whitland, Carmarthenshire. The dairy was subsequently closed in January 2014 resulting in exceptional costs in the year of £0.6 million comprising plant and equipment write-down and redundancy costs and £0.1 million of other site restructuring costs.

- £11.3 relates to the impairment of investments in Foodtec UK Limited and Dairy Crest (Foston) Limited.

Non - operating exceptional items

	2015	*2014*
	£m	*£m*
Costs associated with the separation and proposed sale of the Dairies operations	4.3	-
Disposal of remaining interest in Wexford Creamery Ltd	(1.8)	-
	2.5	-

Non - operating exceptional items in the year ended 31 March 2015 comprise:

2015

- ***Costs associated with the separation and proposed sale of the Dairies operations***
  On 5 November 2014, the Company entered into an agreement to dispose of its Dairies operations to Müller which is subject to clearance from the relevant competition authorities. Following this announcement, the Company has started the process of separating its Dairies operations into a standalone operating unit to support the potential sale and increase focus in the challenging Dairies market. During the year, £2.7 million of costs were incurred in relation to the potential sale of the Dairies operation, which primarily comprised transaction related professional fees and £1.6 million in relation to the creation of a standalone Dairies operation including one-off business systems and other costs. The tax credit on this exceptional charge in the year was £0.5 million.

- ***Disposal of remaining interest in Wexford Creamery Ltd***

  On 16 May 2014 the Group completed the sale of the 30% shareholding in Wexford Creamery. As a consequence the onerous contract provision of £1.7 million was released to exceptional items together with cash proceeds of £0.1 million.

Notes to the financial statements

at 31 March 2015

4. Operating profit

		2015 £m	2014 £m
Operating profit is stated after charging/(crediting):			
Dividends received		(10.9)	(2.0)
Profit on disposal of household depots		(17.6)	(18.2)
Depreciation	- assets held under finance leases	1.5	1.5
	- owned assets	26.0	27.1
Amortisation of intangibles		3.1	3.3
Release of government and other grants		(1.7)	(1.7)
Unrealised exchange gain		(19.1)	(4.9)
Operating lease rentals	- land and buildings	2.9	2.8
	- vehicles and plant and equipment	23.5	24.1
Research and development expenditure		3.3	3.8

Auditor remuneration

Remuneration of the auditors is further analysed as follows:	2015 £m	2014 £m
Audit of the financial statements	0.3	0.3

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 consoldidated accounts of Dairy Crest Group Plc are required to disclose non-audit fees on a consolidated basis.

The unrealised exchange gains are largely the result of favourable exchange rate movements on euro denominated balances with subsidiary undertakings. These balances were converted to Sterling denominated loans in December 2014.

5. Net interest payable

	2015 £m	2014 £m
Interest payable:		
Bank borrowings	(3.4)	(2.8)
Loan from group undertakings	(17.3)	(18.1)
Interest receivable:		
Bank deposits	2.6	1.7
	(18.1)	(19.2)

6. Other finance income - pensions

	2015 *£m*	*2014* *£m*
Expected return on defined benefit plan assets	**47.1**	54.4
Interest cost on defined benefit obligation	**(42.7)**	(41.8)
	4.4	12.6

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

	2015 *£m*	*2014* *£m*
The taxation charge/(credit) comprises:		
Current tax	**-**	0.2
Adjustments in respect of prior years	**-**	-
	-	0.2
Deferred taxation		
Origination and reversal of timing differences	**5.5**	12.4
Adjustment in respect of prior years deferred tax	**(0.5)**	(2.8)
Adjustment for reduction in UK corporation tax rate	**(0.6)**	1.8
	4.4	11.6

The tax credits in respect of operating exceptional items is £6.1 million (2014 - £1.9 million) and in respect of non-operating exceptional items £0.4million (2014 - Nil). There is no tax charge in relation to the profit on disposal of properties, owing to the availability of rollover relief and accumulated capital losses.

The tax credit in respect of intangible amortisation is £0.7 million (2014: £0.8 million).

The current tax charge for the year is lower (2014 - lower) than profit before tax multiplied by the standard rate of corporation tax in the UK (21%; 2014 - 23%). The differences are explained below:

	2015 *£m*	*2014* *£m*
Profit on ordinary activities before tax	**46.3**	58.8
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2014 -23%)	**9.8**	13.5
Effects of:		
Adjustments to tax in respect of prior years		
Current Taxation	**-**	0.2
Chargeable gains offset by brought forward losses	**(3.6)**	(4.5)
Profits offset by group relief	**(1.0)**	(1.6)
Non taxable credits	**(2.9)**	(0.5)
Expenses not deductible for tax purposes	**3.2**	6.3
Deferred tax timing differences	**(5.5)**	(13.2)
	-	0.2

The effective tax rate continues to be below the headline rate of UK corporation tax because the tax charges on the property profit income stream are sheltered by brought forward capital losses or roll over relief.

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and a further reduction to 20% (effective from 1 April 2015) were substantively enacted on 3 July 2013. Deferred tax assets and liabilities on all timing differences have been calculated at 20% at the balance sheet date.

The Summer Budget, announced on 8 July 2015, included a decrease in the rate of corporation tax to 19% and 18%, effective from 1 April 2017 and 1 April 2020 respectively as part of the Summer Finance Bill 2015. These rates are expected to be substantively enacted in October 2015.

Notes to the financial statements
at 31 March 2015

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 £34.0 million (2014: £137.3m) 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 £39.2 million (2014: £27.6m) 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

	2015 *£m*	*2014* *£m*
Dividends paid to Dairy Crest Group plc	**3.5**	20.0

On 20 March 2015 an interim dividend of £3.5 million was declared in respect of year ending 31 March 2015.

On 18 May 2015 an interim dividend of £25 million was declared (not provided for in these accounts).

On 1 July 2013 an interim dividend of £20 million was declared in respect of the year ending 31 March 2014.

9. Emoluments of directors and employees

Directors

	2015 *£000*	*2014* *£000*
Aggregate emoluments in respect of qualifying services	**2,767**	3,870
Included in the above:		
Annual bonus accrual	**285**	1,205
Severance payments	**219**	557
Aggregate of company contributions in respect of money purchase schemes	**43**	111
Aggregate value of amounts awarded under long term incentive plans	**431**	560

	2015 *Number*	*2014* *Number*
Number of directors who exercised share options	**6**	-
Number of directors accruing benefits under defined benefit schemes (at 31 March)	**-**	-
Number of directors accruing benefits under money purchase schemes (at 31 March)	**3**	5
Number of directors participating in long term incentive plans (at 31 March)	**6**	7

The emoluments of Directors cover the period from the date of appointment as a Director or to the date of resignation as a Director within the financial year to 31 March 2015.

New appointments and resignations are set out in the Directors Report on page 18.

Notes to the financial statements

at 31 March 2015

9. Emoluments of directors and employees (continued)

In respect of the highest paid director:

	2015	*2014*
	£000	*£000*
Aggregate emoluments in respect of qualifying services	763	1,079
Of which annual bonus accrual	97	423
Aggregate value of amounts awarded under long term incentive plans	178	193
Employer payments to defined contribution pension scheme	-	9
Gain on exercise of share options	106	-

The Dairy Crest Group defined benefit pension scheme closed to future service accrual on 1 April 2010. At 31 March 2015, Messrs M Allen, T A Atherton, and R T A Willock were members of the Company's Stakeholder Pension Scheme, a defined contribution arrangement.

Mr M K Wilks, R S Jones, M J Sheldon and Mr M P Barrington were not members of any Company pension scheme in the year ending 31 March 2015 and received a salary supplement in lieu.

	2015	*2014*
Employees	*Number*	*Number*
Average number of employees during the year:		
Production	1,756	1,802
Sales, distribution and administration	2,376	2,666
	4,132	4,468

	2015	*2014*
	£m	*£m*
Remuneration of employees, including directors:		
Wages and salaries	144.3	159.0
Social security costs	14.1	15.0
Equity settled share based payment expense (Note 27)	1.2	1.2
Other pension costs	6.6	6.9
	166.2	177.6

Wages and salaries includes £1.4million of redundancy costs (2014: £4.5million).

Notes to the financial statements
at 31 March 2015

10. Tangible assets

	Land & buildings £m	*Vehicles, plant & equipment £m*	*Assets in the course of construction £m*	*Total £m*
Cost:				
At 1 April 2014	200.4	436.2	69.5	**706.1**
Additions	2.6	3.8	74.9	**81.3**
Disposals	(6.6)	(45.7)	-	**(52.3)**
Transfers and reclassifications	1.9	67.6	(69.5)	-
At 31 March 2015	198.3	461.9	74.9	**735.1**
Depreciation:				
At 1 April 2014	91.4	327.2	-	**418.6**
Charge in the year	5.2	22.3	-	**27.5**
Impairment	3.4	5.8	-	**9.2**
Disposals	(3.3)	(44.1)	-	**(47.4)**
At 31 March 2015	96.7	311.2	-	**407.9**
Net book amount:				
At 31 March 2015	101.6	150.7	74.9	**327.2**
At 31 March 2014	109.0	109.0	69.5	287.5

Assets in course of construction comprise capital projects targeted at areas of growth opportunity and cost efficiency. The main projects are;

- A new demineralised whey capability at Davidstow to take advantage of high global growth in added value whey protein products
- A new waste water recovery plant at Severnside.
- Increased FRijj capacity and capability at Severnside to drive the brand in a growing category
- During the year £9.2 million of assets were impaired. The Chard site is to be closed on economic grounds in the second half of 2015, a £7.8 million impairment charge has been recognised to write the assets down to nil being their net realisable value after selling costs which is lower than their value in use. In addition, £1.4 million of exceptional accelerated depreciation has been charged in relation to Hanworth.

		2015 £m	*2014 £m*
Net book value of land and buildings comprises:			
Freehold		**91.1**	97.4
Leasehold	- over 50 years	**2.4**	3.0
	- under 50 years	**8.1**	8.6
		101.6	109.0
Capitalised leases included in plant and equipment comprise:			
Cost		**29.0**	31.8
Depreciation		**(22.7)**	(24.0)
Net book amount		**6.3**	7.8

11. Goodwill

	£m
Cost:	
At 1 April 2014	**138.2**
At 31 March 2015	**138.2**
Amortisation	
At 1 April 2014	**138.2**
At 31 March 2015	**138.2**
Net book amount:	
At 31 March 2015	-
At 31 March 2014	-

Notes to the financial statements
at 31 March 2015

12. Intangible assets

	Assets in the course of construction £m	*Internally generated £m*	*Acquired intangibles £m*	***Total £m***
Cost:				
At 1 April 2014	6.6	34.8	1.2	**42.6**
Additions	1.3	-	-	**1.3**
Transfers and reclassifications	(6.5)	6.5	-	**-**
At 31 March 2015	**1.4**	**41.3**	**1.2**	**43.9**
Accumulated amortisation				
At 1 April 2014	-	18.4	1.2	**19.6**
Amortisation for the year	-	3.1	-	**3.1**
At 31 March 2015	**-**	**21.5**	**1.2**	**22.7**
Net book amount at 31 March 2015	**1.4**	**19.8**	**-**	**21.2**
Net book amount at 31 March 2014	6.6	16.4	-	**23.0**

Assets in the course of construction comprise enterprise resource planning costs and integrated business systems costs in respect of projects that are not completed as at 31 March 2015.

Internally generated intangible assets comprise software development and implementation costs across manufacturing sites, the milk&more business and Head Office.

13. Investments

	Trade Investments £m	***Subsidiary undertakings £m***	***Total £m***
Cost:			
At 1 April 2014	**0.4**	**534.3**	**534.7**
Additions	**0.1**	**-**	**0.1**
Dissolution of dormant companies	**-**	**(2.2)**	**(2.2)**
At 31 March 2015	**0.5**	**532.1**	**532.6**

During the year ended 31 March 2015, the Company acquired a further 3.5% of the share capital of HIECO Limited for a consideration of £89,870. At 31 March 2015, the Company held 10.5% of the share capital of HIECO Limited. In addition, the Company acquired 50% of the share capital of Promovita Ingredients Limited for a consideration of £50,000.

Notes to the financial statements
at 31 March 2015

13. Investments (continued)

At 31 March 2015 the principal subsidiary and associate undertakings were:

Subsidiary undertakings:	*Business*	*Percentage of ordinary share capital held*
Philpot Dairy Products Limited	Trading in dairy products	100%
Morehands Limited	Manufacture of cooking oil	100%
Dairy Crest France Holdings I Limited	Holding company	100%
Davidstow Cheese Limited	Non trading company	100%
Dairy Crest (Foston) Limited	Non trading company	100%
Coombe Farm Dairies Limited	Non trading company	100%
Wessex Dairy Products Limited	Non trading company	100%
Dairy Crest (Jersey) Limited	Holding company	100%
Dairy Crest Food Ingredients Limited	Non trading company	100%
Frylight Limited	Non trading company	100%
Fermanagh Creameries Limited	Non trading company	100%
Promovita Ingredients Limited	Joint venture	50%

The principal place of operation and country of incorporation of all subsidiary undertakings is England and Wales.

On 16 May 2014, the Company completed the sale of its 30% share in Wexford Creamery Limited.

In July 2014 the Company completed the sale of the business and assets of Foodtec UK Limited.

14. Stocks

	2015	*2014*
	£m	*£m*
Raw materials and consumable stores	**30.5**	32.3
Finished goods	**168.0**	185.6
	198.5	217.9

Cheese inventories at 31 March 2015 totalled £149.2 million (2014: £167.2 million).

During the year ended 31 March 2015, £0.4 million of engineering and packaging inventories were written off following the ongoing 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

	2015	*2014*
	£m	*£m*
Trade debtors	**68.6**	90.2
Amount owed by parent undertaking	**289.4**	226.3
Amounts owed by subsidiary undertakings	**174.5**	172.8
Corporation tax	**1.1**	0.4
Other debtors	**13.1**	8.8
Prepayments and accrued income	**6.9**	5.1
	553.6	503.6

The Other debtors mainly include amounts to be reclaimed in respect of VAT as at 31 March 2015 of £8.1m (2014: £6.1m).

Notes to the financial statements

at 31 March 2015

16. Creditors: amounts falling due within one year

	2015 £m	2014 £m
Borrowings:		
Obligations under finance leases	-	1.8
	-	1.8
Other creditors:		
Trade creditors	97.8	124.6
Amounts payable to parent undertaking	227.1	216.1
Amounts payable to subsidiary undertakings	951.0	959.3
Other taxation and social security	3.6	4.2
Grants	1.6	1.7
Other creditors	9.7	16.0
Accruals	50.5	61.9
	1,341.3	1,383.8

17. Creditors: amounts falling due after more than one year

	2015 £m	2014 £m
Borrowings:		
Bank loans	105.0	36.0
	105.0	36.0
Other creditors:		
Grants	6.2	7.8
	6.2	7.8

Bank loans represent a sterling floating facility with a maturity date of October 2016 and an effective interest rate at 31 March 2015 of LIBOR +115bps.

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 2012/2013 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.

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at 31 March 2015

18. Retirement benefit obligations

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

The Dairy Crest Group Pension Fund is administered by a corporate trustee which is legally separate from the Company. The Trustee's directors are comprised of representatives of both the employer and employees, plus a professional trustee. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy.with regard to the assets plus the day to day administration of the benefits.

The most recent full actuarial valuation of the Dairy Crest Group Pension Fund was carried out as at 31 March 2013 by the Fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially. This valuation resulted in a deficit of £145 million compared to the FRS 17 deficit of £56.3 million reported at that date. The next full actuarial valuation will be carried out in 2016/17 as at 31 March 2016.
The following tables summarise the components of net benefit income recognised in the profit and loss account and the funded status and amounts recognised in the balance sheet for the defined benefit pension scheme.

	Dairy Crest Pension Plan	
	2015	*2014*
	£m	*£m*
Net benefit income recognised in the profit and loss account		
Interest cost on benefit obligation	**42.7**	41.8
Expected return on scheme assets	**(47.1)**	(54.4)
Net benefit income	**(4.4)**	(12.6)
Net actuarial loss recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	**82.3**	12.9
Experience gains arising on scheme liabilities	**10.1**	4.5
Loss arising from changes in assumptions underlying the present value of scheme liabilities	**(88.3)**	(81.7)
Net actuarial (loss)/gain	**4.1**	(64.3)
Recognition of asset/(liability) for unrecoverable notional surplus	**(6.8)**	0.8
Recognised in Statement of total recognised gains and losses	**(2.7)**	(63.5)
Related tax	**3.1**	11.5
Net actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**0.4**	(52.0)

Actual returns on plan assets were £129.4 million (2014: £67.3 million).

				Dairy Crest Pension Plan	
	2015	*2014*	*2013*	*2012*	*2011*
	£m	*£m*	*£m*	*£m*	*£m*
Defined benefit obligation					
Fair value of plan assets:					
- Equities	**53.1**	45.5	84.3	72.7	65.7
- Equity return swaps valuation	**10.7**	3.3	42.9	61.8	90.5
- Bonds and cash	**592.6**	523.6	393.4	293.2	239.0
- Insured retirement obligations	**306.8**	299.4	286.3	279.6	268.1
- Property and other	**106.0**	92.3	62.5	58.8	55.3
	1,069.2	964.1	869.4	766.1	718.6
Defined benefit obligation	**(1,093.7)**	(1,011.7)	(925.7)	(845.9)	(778.7)
Recognition of liability for unrecoverable notional surplus	**(16.9)**	(10.1)	(10.9)	-	-
	(1,110.6)	(1,021.8)	(936.6)	(845.9)	(778.7)
Net liability recognised in the balance sheet	**(41.4)**	(57.7)	(67.2)	(79.8)	(60.1)
Related deferred tax asset	**16.0**	17.9	17.1	15.8	15.6
Net pension liability	**(25.4)**	(39.8)	(50.1)	(64.0)	(44.5)

Notes to the financial statements

at 31 March 2015

18. Retirement benefit obligations (continued)

UK legislation requires that pension schemes are funded prudently. In 2013/14 the Group paid £20.0 million into the fund in line with the agreed schedule of contributions plus an additional £40.0 million from the proceeds of the sale of St Hubert. In addition to this, the Company granted to the trustee of the pension scheme a floating charge over the maturing cheese inventories with a maximum realisable value of £60.0 million.

From October 2009, the Company has been making additional funding contributions to the scheme of £20.0 million per annum. Under the latest schedule of contributions agreed with Trustees (which was signed in March 2014), the contributions will be £13.0 million per annum for 2014/15 and 2015/16, increasing to £16.0 million per annum in 2016/17 reverting to £20.0 million per annum for 2017/18 through to 2019/20.

These annual contributions include £2.8 million per annum of rental payments for land and buildings that are subject to a sale and leaseback agreement between the Company and the Fund as part of the schedule of contributions. The land and buildings included in these arrangements are subject to long term leases and the Company will continue to benefit from substantially all of the risks and rewards of ownership. On this basis, under FRS, these land and buildings continue to be recognised in property, plant and equipment and rental payments of £2.8 million per annum are treated as cash contributions, reflecting the substance of the arrangements.

The Group is entitled to any surplus on winding up of the Fund albeit refunds are subject to tax deductions of 35% at source. Based on the present value of committed cash contributions at 31 March 2015 and the FRS 17 valuation at that date of £24.5 million, £16.9 million would be deducted from any notional surplus returned to the Group and this has been recognised as an additional liability in accordance with FRS 17. However, it should be noted that cash contributions are determined by reference to the triennial actuarial valuation, not the FRS 17 valuation. The actuarial deficit is greater than that recognised under FRS 17 since liabilities are discounted by reference to gilt yields rather than high quality corporate bond yields.

The principal risks associated with the Company's defined benefit pension arrangements are as follows:

Asset Volatility

The liabilities are calculated using the discount rate set with reference to corporate bond yields; if assets underperfom this yield, this will create a deficit. The Fund holds a significant proportion in a range of return-seeking assets which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short-term. The allocation to return-seeking assets is monitored to ensure it remains appropriate given the Fund's long terms objectives.

Changes in Bond Yields

A decrease in corporate bond yields will increase the value placed on the Fund's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the fund's bond holdings.

Inflation Risk

A significant portion of the Fund's benefit obligations are linked to inflation, and higher expected future inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in expected future inflation will also increase the deficit.

Longevity Risk

The majority of the Fund's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in liabilities.
A contingent liability exists in relation to the equalisation of GMP. The UK Government intends to implement legislation which could result in higher benefits for some members. This would increase the defined benefit obligation of the Fund. At this stage, it is not possible to quantify the impact of this change.

Notes to the financial statements

at 31 March 2015

18. Retirement benefit obligations (continued)

	Dairy Crest Pension Plan 2015 £m	2014 £m
Movements in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	**(1,011.7)**	(925.7)
Interest cost	**(42.7)**	(41.8)
Actuarial losses	**(78.2)**	(77.2)
Past service cost	**1.8**	-
Benefits paid	**37.1**	33.0
Closing defined benefit obligation	**(1,093.7)**	(1,011.7)
Movements in the fair value of plan assets are as follows:		
Opening fair value of plan assets	**964.1**	869.4
Expected return	**47.1**	54.4
Actuarial gain	**82.3**	12.9
Contributions by employer	**12.8**	60.2
Benefits paid	**(37.1)**	(32.8)
Closing fair value of plan assets	**1,069.2**	964.1

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

		Dairy Crest Pension Plan 2015 %	2014 %
Key assumptions:			
Price inflation (RPI)		**3.1**	3.6
Price Inflation (CPI)		**2.0**	2.6
Pension increases (Pre 1993 – RPI to 7%/annum)		**3.1**	3.6
Pension increases (1993 to 2006 – RPI to 5%/annum)		**3.0**	3.4
Pension increases (Post 2006 – RPI to 4%/annum)		**2.8**	3.1
Life expectancy at 65 for a male currently aged 50 (years)		**23.9**	23.8
Average expected remaining life of a 65 year old retired male (years)		**22.4**	22.3
Life expectancy at 65 for a female currently aged 50 (years)		**26.8**	26.7
Average expected remaining life of a 65 year old retired female (years)		**24.6**	24.5
Discount rate		**3.4**	4.3
Expected return	- Equities	**6.8**	7.6
	- Gilts and bonds	**2.8**	4.0
	- Synthetic equity exposure on equity swap contracts	**6.8**	7.6
	- LIBOR exposure on equity swap contracts	**2.3**	3.4
	- Property and other	**6.2**	6.9
	- Insured retirement obligations	**3.4**	4.3

History of experience gains and losses

	2015	2014	2013	2012	2011
Difference between expected and actual return on assets:					
- amount (£m)	**82.3**	12.9	69.4	21.9	22.5
- % of scheme assets	**8%**	1%	8%	3%	3%
Experience gains/(losses) arising on scheme liabilities:					
- amount (£m)	**10.1**	4.5	0.8	(6.5)	16.4
- % of PV of scheme liabilities	**1%**	0.4%	0.1%	1%	2%
Total experience (loss)/gain:					
- amount (£m)	**4.1**	(64.3)	(13.5)	(46.2)	60.6
- % of PV of scheme liabilities	**0.4%**	6%	1%	5%	8%

The Company has charged £6.6 million in respect of the Dairy Crest defined contribution scheme in the year ended 31 March 2014 (2014: £7.0 million).

Notes to the financial statements

at 31 March 2015

19. Provisions for liabilities and charges

	Onerous contract £m	*Site restructuring and rationalisation £m*	*Deferred tax £m*	***Total £m***	*Memo item: Deferred tax (asset)/liability (pension) (Note 18)*
At 1 April 2014	1.7	-	3.9	**3.9**	(17.9)
(Release)/Charge to profit and loss account	(1.7)	3.1	(0.5)	**2.6**	5.0
Credit to equity	-	-	-	-	(3.1)
At 31 March 2015	-	3.1	3.4	**6.5**	(16.0)

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. On 16 May 2014, following the sale of its remaining shareholding in WCL, the remaining onerous contract provision of £1.7 million was released.

The deferred tax asset (including in relation to net pension liability) comprises:

	2015 £m	*2014 £m*
Capital allowances	**20.2**	17.3
Pensions	**(16.0)**	(17.9)
Other timing differences	**(16.8)**	(13.4)
	(12.6)	(14.0)

Notes to the financial statements
at 31 March 2015

20. Share Capital

	2015	2014
	£m	£m
Authorised		
250,200,000 ordinary shares of £1 each	250.2	250.2
Allotted, and fully paid	£m	£m
150,000,000 ordinary shares of £1 each	150.0	150.0

21. Reserves

	Profit and loss account
	£m
At 1 April 2014	7.0
Profit for the year	41.9
Dividends declared and paid	(3.5)
Actuarial gain including deferred tax credit of £3.1m	0.4
Share based payment	1.2
Exercise of options	0.7
At 31 March 2015	47.7

22. Reconciliation of movements in shareholders' funds

	2015	2014
	£m	£m
Profit for the year	41.9	47.2
Dividends declared and paid	(3.5)	(20.0)
Increase/(Decrease) in shareholders' funds	38.4	27.2
Opening shareholders' funds	157.0	182.0
Actuarial gain including deferred tax credit of £3.1m	0.4	(52.0)
Share based payment	1.2	1.2
Exercised options recharged to Parent Company	0.7	(1.4)
Closing shareholders' funds	197.7	157.0

Notes to the financial statements

at 31 March 2015

23. Contingent liabilities

Trading guarantees

The Company has provided no guarantees to its banks. (2014 - £Nil) in relation to drawn borrowings by its parent company, Dairy Crest Group plc.

24. Capital commitments

	2015 *£m*	*2014* *£m*
The following future capital expenditure had been contracted at 31 March	**21.6**	70.9

25. Operating lease rentals

Future minimum rentals payable under non-cancellable operating leases as at 31 March are as follows.

	Land and buildings		*Other*	
	2015 ***£m***	*2014* *£m*	***2015*** ***£m***	*2014* *£m*
Rentals payable during following year which relate to commitments expiring:				
Within one year	**0.5**	0.5	**6.6**	4.0
Between one and five years	**1.2**	0.6	**9.2**	12.7
After five years	**1.5**	1.9	**0.3**	1.3
	3.2	3.0	**16.1**	18.0

During the year ended 31 March 2015, certain assets at the Severnside facility were sold for cash consideration of £1.4 million. This equipment has been leased back under an operating lease with a five year term. There are no purchase option clauses or any contingent lease rentals.

An operating lease for Nuneaton Prepack site was renegotiated as a finance lease after year end reducing the liability for the year ending 31 March 2016 from £2.4 million to £0.6m. This is not reflected in the above schedule.

26. Financial risk management objectives and policies

The Company's principal financial instruments comprise bank facilities 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 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.

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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 2015 the Company's total credit facilities amounted to £235.1m (2014: £244.4m) excluding finance leases. The facilities consist of a £170.0m plus €90.0m multi-currency revolving credit facility repayable at maturity in October 2016. The Company has undrawn committed long-term borrowing facilities available at 31 March 2015 of £130.1m (2014: £208.4m).

Interest rate risk

The Company's exposure to the risk of 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.

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.

Foreign currency exposure exists on balances denominated in foreign currency with other group undertakings. There is however no exposure to the wider Dairy Crest Group.

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 Secondary and Residential Operations 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.

Notes to the financial statements

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27. Share based payment plans

The Group has four share option schemes in operation.

The Dairy Crest Long Term Incentive Share Plan ('LTISP')

This is a long term incentive scheme under which awards are made to Directors and senior managers consisting of the right to acquire shares for a nominal price subject to the achievement of financial targets based on (i) total shareholder returns ('TSR') over a three year period versus comparator companies and (ii) growth in adjusted basic earnings per share. From 2009, the TSR element was increased from 50% to 60% of the awards granted. The vesting period for grants made under this scheme is 3 years with an exercise period of 7 years. There were no awards granted in the year ended 31 March 2015 (2014: nil). There are no cash settlement alternatives.

Dairy Crest Sharesave Scheme

All employees are eligible to join the Dairy Crest Sharesave Scheme, which allows employees to use regular monthly savings to purchase shares. Options are granted at a discount of up to 20% of the market value of the shares. No financial performance criteria are attached to these options and they vest three years from the date of grant with an exercise period of six months. In June 2014, 1,455,518 options were granted under the Dairy Crest Sharesave Scheme at a price of 376 pence (June 2013: nil). There are no cash settlement alternatives.

Deferred Bonus Scheme ('DBS')

From 2005/06, bonuses earned that are in excess of 50% of basic salary are deferred in shares (and from 2011 in share options) with a vesting period of three years. The only vesting condition is continuing employment. The cost of these shares is charged over four years (being the year the bonus was earned and the three-year vesting period) and is based on the number of shares issued (or from 2011 over which nil cost options are granted) and the share price at the date of issue. No deferred shares were awarded or issued in relation to the year ended 31 March 2015 (2014:£nil).

The Dairy Crest Long Term Alignment Plan ('LTAP')

The LTAP replaced the LTISP in the year ended 31 March 2014. This is a long-term incentive scheme under which awards are made to directors and senior managers consisting of the right to acquire shares for a nominal price. The vesting period for grants made under this scheme is 50% of the award after 4 years and 50% after 5 years. Pre-grant performance criteria determine the amount of any initial grant after which there are no significant performance conditions prior to vesting. As such, these options are fair valued at 100% of the price at the date of the grant.

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

	LTAP	LTISP *	Sharesave scheme	
	number	*number*	*number*	*weighted average exercise price (pence)*
Options outstanding at 1 April 2014	157,738	578,441	2,985,171	276.0
Options granted during the year	178,662	-	1,455,518	376.0
Reinvested dividends	9,550	35,732	-	-
Options exercised during the year	-	(92,615)	(866,309)	266.3
Options forfeited during the year	(21,326)	(398,176)	(476,509)	318.2
Options outstanding at 31 March 2015	**324,624**	**123,382**	**3,097,871**	**319.3**
Exercisable at 31 March 2015	**-**	**123,382**	**62,607**	**-**
Options outstanding at 1 April 2013	-	1,222,884	3,513,240	275.4
Options granted during the year	156,034	-	-	-
Reinvested dividends	1,704	60,248	-	-
Adjustment for change of director during the year	-	165,222	3,202	264.4
Options exercised during the year	-	(57,573)	(68,369)	264.4
Options forfeited during the year	-	(812,340)	(462,902)	273.1
Options outstanding at 31 March 2014	157,738	578,441	2,985,171	276.0
Exercisable at 31 March 2014	-	103,622	-	-

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

Sharesave scheme options are exercisable up to February 2018 at prices ranging from 265p to 376p (March 2014: exercisable up to September 2016 at prices ranging from 265p to 281p). LTISP options are exercisable at varying dates up to July 2022 (March 2014: July 2022). LTAP options are exercisable at varying dates up to December 2024 (March 2014: August 2023).

The remaining weighted average contractual life of options outstanding at March 2015 is 7.1 years for the LTISP, 9.1 years for the LTAP and 2.0 years for the Sharesave Scheme (2014: LTISP 8.1 years, LTAP 9.4 years and Sharesave Scheme 2.1 years). The weighted average share price on exercise of Sharesave options was £3.19 (2014: £2.76).

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27. Share based payment plans (continued)

The fair value factor of the Sharesave Scheme options issued in June 2014 was 17.9% giving a fair value of £0.83 per option granted. This has been computed using a Black-Scholes option pricing model. The key assumptions used in the valuation model were expected share price volatility 22%, risk free rate of interest 1.55% and dividend yield 4.40%. The volatility assumption is based on the historical volatility of the Dairy Crest Group plc share price over a period commensurate with the expected option life, ending on the grant date of option.

The expense arising from share option plans for the year ended 31 March 2015 is £1.2m (2014: £1.2m).

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 2015 (2014: 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 2015, 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 6 November 2014 the Company announced that it had agreed to sell the assets of its Dairies operations to Müller UK & Ireland Group LLP ("Müller") for a cash consideration of £80 million. The sale has already received the approval of the Company shareholders.

On 26 June 2015 the Competition and Markets Authority ("CMA") announced that there were reasonable grounds for believing that undertakings offered by Müller may address the CMA's competition concerns.

In a notice posted on its website dated 10 August 2015 the CMA has indicated that it proposes to accept Müller's undertakings and has invited comments from third parties on its proposal to accept.

The CMA has also announced an extension of its deadline for consideration of the undertakings by the statutory 40 working days from 21 August to 19 October although it has also said that it may reach a final decision before that date.