



18 May 2010

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

Dairy Crest today announces its audited results for the year ended 31 March 2010.

**Financial Highlights:**

	<b>2009/10</b>	2008/09	<b>Change</b>
Revenue	<b>£1,629.7m</b>	£1,647.6m	-1%
Adjusted profit before tax*	<b>£83.5m</b>	£79.5m	+5%
Profit before tax	<b>£77.8m</b>	£103.2m	-25%
Adjusted basic earnings per share*	<b>44.5p</b>	45.0p	-1%
Basic earnings per share	<b>40.6p</b>	56.8p	-29%
Operating cashflow**	<b>£119.0m</b>	£79.8m	+49%
Year-end net debt	<b>£337.2m</b>	£415.8m	-19%
Proposed final dividend	<b>13.6p</b>	13.0p	+5%

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

\*\* Cash flow from operations less capital expenditure

**Business Highlights and Recent Developments:**

- Dairy Crest has made significant progress this year:
  - 5% increase in adjusted profit before tax
  - 19% reduction in year end net debt
  - Sales of key brands up 9%
  - Sales of milk to major retailers up 8%
  - New initiatives to generate £20 million annualised cost reductions
  - Defined benefit pension scheme closed to future accrual
  - 5% increase in final dividend
- The Group has also invested for the future:
  - Increased marketing investment has strengthened key brands for further growth
  - New capital investment programme to improve liquid milk dairies
- Trading at start of the new year is in line with our expectations

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

*“This has been an exciting year for Dairy Crest. We have consistently delivered on our strategy of brand investment, cost reduction and cash generation, and have strengthened the business for the future.*

*During the year, we have increased operating profits and significantly cut our borrowings, and at the same time we have continued to develop our key brands and other added value sales.*

*We have confirmed our commitment to our Dairies business by announcing a major capital investment programme. In addition we have continued to innovate with further developments in our new doorstep internet proposition. We have substantially reduced our pension scheme exposure and completed the important work to set out our corporate Vision and Values.*

*Dairy Crest has changed from the predominantly commodity focused, UK based business that it was fifteen years ago to an added value dairy food company with a significant profit stream from continental Europe. We have shown that we can grow added value sales both organically and through acquisitions and we are well placed to continue this.”*

**For further information:**

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There will be a presentation for analysts at 09.30 am today (18<sup>th</sup> May 2010) at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED.

## Chairman's Statement

### Delivering against our strategy

I was delighted to take over as Chairman on 1 January 2010 and want to thank my predecessor, Simon Oliver, for all he did to transform the business. The Group has progressed enormously under Simon's leadership over the last ten years, and he leaves the business very well positioned for the future. In his role as Honorary Group President following his retirement from the Board, he helps us to continue to develop our key relationship with the 1,350 dairy farmers who supply milk directly to the Group, providing us with his extensive knowledge and experience of the dairy industry. We can demonstrate strong progress in this area over recent years and Simon's involvement will help maintain the momentum that we and Dairy Crest Direct, our suppliers' representative group, now have.

This has been a good year for Dairy Crest in which we have delivered against the strategy that we put in place eighteen months ago. At that time, in an extremely uncertain and challenging environment, we set out the following priorities: to continue to develop market-leading positions in branded and added value markets; to focus on cost reduction and efficiency improvements; and to drive cash generation in order to reduce our debt. Eighteen months on, it gives me great pleasure to be able to report that we have delivered against all these strategic objectives. The strong performance seen last year places the business in a good position, and fit for future growth opportunities, both organically and by acquisition if suitable opportunities arise.

Dairy Crest is a broadly based dairy business and the Group's performance in 2009/10 demonstrates the benefits of this. Our Dairies division performed particularly well last year. This division has bounced back from a difficult 2008/9 and is benefiting from a series of efficiency projects and higher cream prices. In 2008 we made a conscious decision to combat the effects of the economic recession on the consumer by increasing our investment in our brands. This additional expenditure on marketing and promotions has contributed to lower profits in our Spreads and Cheese divisions.

Overall, Group adjusted profit before taxation\* increased 5% to £83.5 million. However, as expected, a higher tax charge led to reduced adjusted basic earnings per share\* of 44.5 pence compared to 45.0 pence last year. Reported Group profit before taxation fell 25% to £77.8 million (2009: £103.2 million). This reduction is principally due to the £50.4 million exceptional gain on the sale of our stake in Yoplait Dairy Crest last year.

Importantly, we have generated cash ahead of our forecasts and this has allowed us to reduce our debt by more and sooner than we anticipated when we made our last major acquisition, that of St Hubert in France in 2007. As a result the Group's financial position is much stronger than it was eighteen months ago. This underpins our ability to invest for the future.

The strong financial performance of the business and our confidence in its future prospects has allowed the Board to recommend a final dividend of 13.6 pence per share, an increase of 5%. As a result, the total dividend for the financial year 2009/10 will be 18.9 pence per share. The Board intends to maintain its progressive dividend policy and will seek to maintain dividend cover of 2.0 to 2.5 times.

We have also made good progress in addressing the pension scheme issues that face us. The Board has approved the payment of additional cash contributions of £20 million per annum to the pension fund. These started in October 2009. We have also now closed the defined benefit pension scheme to future accrual. This significantly reduces future risk to the business. It is a credit to all concerned that the pension scheme changes were achieved with little adverse effect on the relationship with our employees.

Alongside the delivery of a strong financial performance, we have developed a corporate vision and set of core values that give everyone working in and with our business a clear and aligned sense of purpose. One of our core values is 'we care' which takes in our corporate responsibility programme. This programme has gathered pace over the past year during which time we have made real progress on environmental improvements.

Apart from Simon Oliver's departure, there has been one other change to the Board this year. On 1 August 2009 Andrew Carr-Locke was appointed as Non-executive Director and Chairman of the Audit

Committee. In this role he succeeded David Richardson who left the Board on the same date. We welcome Andrew to the Board and thank David for his contribution to the business.

Finally, the improvements we continue to make would not have been possible without the hard work of all our employees. We have a strong workforce, led by an experienced and well-motivated leadership team. We greatly value the work they have done and I would like to thank all employees for their contribution to the ongoing success of the Group.

Overall I am pleased by the strong progress the Group has made over the past year, and am optimistic and excited about our future prospects. In summary, we are a broadly based dairy business with a clear strategy, a strong vision, robust values and good people. We are fit for the future.

**Anthony Fry, Chairman**

17 May 2010

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

## Chief Executive's Review

### Fit for the Future

This has been an exciting year for Dairy Crest. We have consistently delivered on our strategy of brand investment, cost reduction and cash generation, and have strengthened the business for the future. During the year, we have increased operating profits and significantly cut our borrowings, and at the same time continued to develop our key brands and other added value sales. We have demonstrated our commitment to our Dairies business by announcing a major capital investment programme. In addition we have continued to innovate with further developments in our new doorstep internet proposition. We have substantially reduced our pension scheme exposure and completed the important work we have been doing to set out our corporate Vision and Values. We believe we are in a strong position to continue this progress in the future.

### Financial Results

Strong growth in sales of key brands and liquid milk to retailers, which together increased by £52 million, were offset by planned lower sales of dairy ingredients and lower sales to doorstep and middle ground milk customers. The Group's revenue for the year ended 31 March 2010 was £1,630 million (2009: £1,648 million).

Adjusted Group profit before tax was up 5% at £83.5 million (2009: £79.5 million). After adjusting for £4.0 million of net exceptional profit (2009: £26.4 million), £0.5 million other finance expense (2009: £6.9 million credit) and £9.2 million of acquired intangible amortisation costs (2009: £9.6 million) reported profit before tax was down 25% at £77.8 million (2009: £103.2 million). Adjusted basic earnings per share fell by 1% to 44.5 pence (2009: 45.0 pence).

Group net debt at 31 March 2010 was £337.2 million, which was better than expected and £78.6 million lower than at 31 March 2009 when the debt was £415.8 million.

### Increased profits and lower borrowings

Operating profits have increased and at the same time we have invested more in innovation and marketing our key brands. This has been possible because our focus on cost control has delivered efficiency improvements and strong cash generation. This in turn has led to lower borrowings and reduced interest costs.

Our Dairies division has performed strongly and has benefited from lower costs and higher cream returns during the year. This has been partly offset by lower profits in our Spreads and Cheese divisions where, in line with our strategy to continue to grow our key brands, we have spent more on advertising and promotions during the year.

We are confident that this ongoing marketing investment leaves our brands well placed for further profitable growth.

It is particularly pleasing to be able to report overall profit growth without cheese stock profits, which in 2008/09 contributed around £10 million to operating profit. The increase has also been achieved without a contribution from our 49% stake in Yoplait Dairy Crest which was sold in March 2009.

### Growing added value sales

We continue to grow sales in three areas of strategic importance.

**1. Key brands** - our five key brands (Cathedral City, Country Life, St Hubert Omega 3, Clover and FRijj) have continued to perform strongly against very tough prior year comparatives. Together they have increased volume by 13% and value by 9%. Over recent years we have driven consistent growth in these combined brands and have outperformed the market. Our sales of these brands are nearly 50% higher than three years ago.

We have used a number of different methods of marketing our brands from 'traditional' television advertisements to internet campaigns. The sustained increase in marketing investment has led to higher consumer awareness for all our brands and has helped us get our key messages across. For example more consumers now think that Cathedral City is one of the best cheeses money can buy (up 15% over the past two years), that Country Life is a superior tasting product (up 22%) and British (up 23%), that Clover is a good balance between health and taste (up 100%) and FRijj has cool packaging (up 33%).

We are particularly pleased with the ongoing success of our French business, St Hubert, which has delivered ahead of expectations and has again made a significant contribution to the profitability of the Group. We have improved St Hubert's performance under our ownership, sharing best practice with our UK businesses and driving purchasing synergies. It has a strong management team who are capable of generating further improvements.

**2. Fresh milk to major retailers** - we have maintained good year on year growth in milk sales to major retailers. These have grown by 9% in volume and 8% in value. Alongside a steady increase in conventional milk sales to these customers, sales of organic and flavoured milk have also grown strongly. During the year we have also made good progress in developing sales of milk in bags using our innovative patented jug, Jugit. Sainsbury's was the first retailer to launch national distribution of this product, which contains 75% less packaging than a standard 2 pint plastic milk bottle and we expect to gain listings with other major retailers. We have also trialled this concept successfully with our doorstep customers and expect to increase distribution of milk in bags through this channel during 2010/11.

**3. milk&more** - our doorstep delivery internet proposition, milk&more, continues to show strong momentum. We are delighted that we now have over 250,000 registered customers, which is in line with the challenging target we set when we fully launched this service last September. The initial success of milk&more has already contributed to a lower decline in doorstep sales.

### **Cost reduction**

Cost reduction remains a key part of our strategy. It has allowed us to grow underlying profits and increase investment across our business while at the same time maintain high levels of customer service. We continue to set ourselves challenging targets to reduce our costs and are confident further improvements remain possible.

During 2009/10 we achieved cost reductions that in total will deliver annualised savings of approximately £20 million. These range from appointing a new media-buying agency to redesigning our spreads tubs. We have also driven efficiencies in our dairies and distribution depots and continue to identify further opportunities.

### **Strengthened financial position**

As a result of the focus we have put on cash generation, our reported borrowings are the lowest they have been since 30 September 2006.

In addition we continue to reduce risk in order to stabilise and simplify the business.

We have made significant progress in reducing the risks associated with our defined benefit pension scheme. This has now closed to future accrual.

During 2009/10 we have processed significantly lower volumes of milk into commodity ingredients than we did in 2008/09 and are confident we can maintain this in the future. We are also in the process of reducing our stake in our Irish cheese business, Wexford Creamery Limited. The prospective purchaser, Wexford Milk Producers Limited, will be shortly seeking its members' approval to the transaction. When completed, this transaction will largely complete our withdrawal from commodity cheddar.

Finally, we have offered new longer term, fixed price contracts to some of our milk suppliers. Milk purchased under these contracts will be used to meet milk&more sales demand and will increase price stability between our suppliers and us.

## **Vision and Values**

Although it is only fourteen years since we started life as a plc, we have a history that stretches as far back as the creation of the Milk Marketing Board in 1933. Today we buy milk directly from over 1,350 dairy farmers and have around 8,500 employees and franchised milkmen. We operate factories in rural areas where they play a significant role in the local economy. We aim to produce healthy and convenient products that are enjoyed by millions of consumers across Western Europe and they expect us to continue to innovate and develop our products and services, while at the same time caring for our environment.

During the year we have completed the development of our corporate Vision and Values which recognises the needs of these different stakeholders in our business and sets out how we can do the best we can for them all – and as a result maximise returns for shareholders. I am really pleased with this. In particular we have linked our Vision and Values with key performance indicators which will allow us to monitor our progress.

## **Market environment**

Retail markets in the UK and France remain dominated by concerns over consumers' reaction to financial pressures caused by the global recession. We have reacted to this by promoting our brands more in order to provide value to our consumers. We expect this to continue during 2010/11.

Dairy markets and UK milk prices have been relatively stable over the past year. Recently dairy commodity prices have started to increase and this may put upward pressure on milk prices in coming months.

There are also signs that some other commodity costs are starting to increase. We continue to drive efficiencies to offset these and believe that our track record demonstrates that we can deal with this challenge.

## **Looking forward**

This has been a year of progress for Dairy Crest in which we have strengthened the business for the future. Against this background we expect our key brands to continue to grow. As noted above, we have grown sales of these brands by nearly 50% over the past three years and consumers' spontaneous awareness of these brands has increased significantly. We will maintain this momentum by continuing to invest in marketing and innovation.

The benefits from being a broadly based dairy business have been clearly demonstrated this year. We have taken the opportunity created by strong cash generation to initiate a £75 million capital investment programme in our dairies that will support our business with our key liquid milk customers. This expenditure will allow us to increase capacity, reduce costs and accelerate innovation. We expect to make this investment over the next three years and to achieve a minimum of a four-year payback on this investment. In addition, as we continue to improve all aspects of our Dairies Division, we would look to benefit by selling more milk to our key customers, who recognise that the cost, quality and service we provide is of the highest level.

We are excited about the prospects of our doorstep delivery internet proposition, milk&more. Although we are breaking new ground here we have already achieved our first stretching target of 250,000 customers. We now want to grow the amount each customer buys from us and believe that we can do this. However it is difficult precisely to predict how milk&more will change our business. From what we know today it is possible that in the future milk&more could eliminate doorstep decline and eventually provide growth in total doorstep sales at acceptable margins.

Supporting all these developments that will provide added value sales growth is an ongoing programme of cost reduction. In our Household business we have the opportunity to simplify and centralise our depot administration. This project is progressing well and will lead to substantial savings in our cost base.

Additionally we continue to revisit our central overheads to reduce the administration costs for each litre of milk that we process.

In 2010/2011 we intend to continue to increase profits, generate cash and further reduce our borrowings. We anticipate that our borrowings at 31 March 2011 will be meaningfully lower than at 31 March 2010, despite planned higher capital expenditure and increased dividend payments.

Trading at the start of the new year is in line with our expectations.

Dairy Crest has changed from a predominantly commodity focused, UK based business to an added value dairy food company with a significant profit stream from continental Europe. We have shown that we can grow added value sales both organically and through acquisitions and we are well placed to do either or both.

We are fit for an exciting future.

**Mark Allen, Chief Executive**

17 May 2010

## **Operating review**

### **Foods**

#### **Brands going from strength to strength**

The Foods Division manufactures and sells cheese and spreads in the UK and Europe. Over 80% of this Division's sales are branded with a strong focus on marketing and innovation.

During the year, despite challenging economic conditions, we have chosen to increase our investment in brand development, strengthening the level of advertising and promotions, and driving innovation to build our market position. Marketing value for money has been achieved by focusing on a small number of key brands, by rigorous activity evaluation, and by improved media buying.

Our investment has paid dividends, achieving share growth on Clover, Country Life, St Hubert Omega 3, and Cathedral City; the latter reaching £214 million in consumer sales value.

Our innovation continues to centre around developing and establishing healthier products that do not compromise on taste or quality. Our portfolio now offers consumers choice in all categories, with Cathedral City Lighter, Clover Lighter and Country Life Spreadable Lighter all representing over 10% of each brand's total sales.

We now report the financial results of our Spreads and Cheese businesses separately. Our profits in these businesses were depressed versus last year due to higher cream costs in Spreads, the absence of stock profits in Cheese, and our decision to increase investment in consumer value for money and communication.

#### **Spreads**

Our Spreads portfolio comprises St. Hubert, in France and Italy, and the UK Spreads business.

During the year our Spreads portfolio had to contend with market declines in the UK, France and Italy, as well as significant increases in input costs – most notably the cost of cream. Despite this pressure, we have increased our investment in brand advertising and at least matched competitive levels of promotion in order to provide value to our consumers and compete for in-store display space.

Impacted by market declines, our segment revenue has reduced by 2%, and our segment operating profit at £54.0 million has reduced by 9%. However, with a margin of 19%, Spreads remains a key driver of profitability for the Group, and the market share gains from our key brands gives us a good platform for future growth.

#### **St Hubert**

St Hubert was acquired in January 2007 from Uniq, and has now become an integral part of the Dairy Crest Group. We manufacture our spreads at Ludres in North Eastern France, for distribution across France and to Italy. The business continues to strengthen its leading market positions in France and Italy, through increased investment in marketing activity, funded by strong cost control. Despite difficult market conditions, St Hubert continues to perform ahead of our expectations.

The total non-butter French spreads market declined by 2% in value to Euro 376 million. Overall the St Hubert business has held market share, with the St Hubert total brand in growth, and now the number one brand in the French spreads market with 29% value market share. Within the "health" segment, which continues to grow by 4%, our leading brand variant, St Hubert Omega 3, has strengthened its market leadership, with value growth of 9% (volume +11%) to achieve an all time high value share of 21% of the French spreads market.

Building on last year's launch of two products targeted at health-conscious consumers, St Hubert Omega 3 Leger in France and Valle + Leggera in Italy, we have further expanded our offering this year. St Hubert Bio is the first mainstream organic spread in the French market and has been well received by both retail and consumers.

St Hubert's subsidiary, Valle' Italia, remains the undisputed leader of the Italian spreads market. With continued media support, Valle' has achieved a record value market share of 57%.

## **UK Spreads**

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

Despite unprecedented levels of consumer promotion, the £1.1 billion UK market for butter and spreads was flat in volume (+0.6%), and declined by 2% in value in the year to March 2010. The only significant sector in value growth was dairy spreads at +1%, driven in large part by the performance of our Clover brand.

We have focused our efforts behind Clover and Country Life.

The Clover brand had a very successful year, growing by 5% in value and 13% in volume. The mid-year re-launch activity, based on the proposition of "churned like butter with half the saturated fat", has been very successful, with the advertising scoring well in consumer tracking studies.

Our butter brand, Country Life, has continued to grow strongly, out-performing the butter and spreadables segments, with sales up 4% in value and 6% in volume. The brand has continued with the highly successful television and radio advertising campaign, which emphasizes the provenance of Country Life as the only major British butter brand.

Both of our leading brands reduced fat options, Clover Lighter and Country Life Lighter Spreadable, have seen good growth during the year with value sales up by 13% and 12% respectively. Clover Lighter has been confirmed as the most successful launch in the butters and spreads market in the last 5 years and its sales are now 13% of total Clover sales. Country Life Lighter Spreadable sales are 26% of total Country Life Spreadable sales.

In addition to our main brands, Clover and Country Life, we also continue to manufacture and sell Vitalite, Willow and Utterly Butterly. Although Vitalite and Willow have maintained prior year sales volumes, Utterly Butterly has seen a decline this year. Despite solid base rates of sale, based on strong consumer loyalty, the brand has suffered from distribution losses due to increased competition. Sales have declined from last year's peak by 27% in value and 21% in volume.

To remain competitive we have recently reduced the number of employees at our Kirkby factory.

## **Cheese**

Our flagship brand, Cathedral City, is the leading cheese brand in the UK. It is made at our well-invested creamery in Davidstow, Cornwall. Then it is matured, cut, wrapped and despatched to retailers, all from our combined packing and distribution centre at Nuneaton. Some of the cheddar made at Davidstow is sold under the Davidstow label as a retailer "named creamery" brand, and we also supply some high quality retailer branded products to major retailers.

Despite its maturity, the UK cheese retail market continues to grow, and is now worth nearly £2.4 billion. The market grew by 3% in value and 5% in volume in the 52 weeks to March 2010. The cheddar category grew by 3% in value (6% in volume). Branded cheddar continued to out-pace own label products and now represents 46% of the market.

Cathedral City has again outperformed the category, with sales up 12% and volume up 18%. The brand now sells £214 million at retail prices, and has a 16% share of total cheddar. This performance reflects our new and successful consumer marketing campaign, with new advertising proclaiming the Nation's Favourite cheese brand, and new updated packaging. The Davidstow named creamery brand has also improved its position with volume up 21% and value up 7%.

Our segment operating profit of £16.9 million was lower this year due to the absence of stock profits enjoyed last year. Mature cheddar is generally around a year old when it is sold. Stock profits occur

when raw milk costs and cheese sales prices increase while the cheese is maturing. The cheese we sold in 2008/09 at these higher prices was made with milk purchased a year earlier when milk costs were lower.

In addition a strong increase in Irish cheddar imports early in the year led to increased promotional pressure. We responded by increasing marketing and promotional expenditure to ensure the continued strong performance of our business, with revenue up £15.8 million or 6%. Towards the end of the year the promotional pressure has abated slightly as both UK and Irish cheese production reduced.

We are now approaching the anniversary of the commissioning of our highly automated, cheese cutting and packing facility at our national distribution centre and maturation store in Nuneaton. In addition to the efficiency of the facility itself, we have removed 250,000 miles of transport by putting every element of the post-conversion supply chain together. This completed our plans to achieve a world-class supply chain for cheese linked to our state-of-the-art creamery at Davidstow, served by a dedicated pool of local dairy farmers.

As with our butters and spreads range, we have been successful in launching alternative cheese recipes to suit health-conscious consumers. The Cathedral City Lighter variant has continued strongly and now represents 11% of the brand's sales. The launch of a lighter variant of the Davidstow brand has further enhanced our health-conscious range.

Our strategy is to focus on brands and businesses where we can add value, and where we own the brands outright. In line with this, we announced in January 2010 our intention to sell our majority share in Wexford Creamery to our farmer partners, Wexford Milk Producers. This will allow us to focus on the Cathedral City and Davidstow brands in cheese.

## **Dairies**

### **Growing business with our retail customers and building milk&more**

The Dairies Division comprises Dairy Crest's Liquid Products and Household activities. Revenue in the year fell by 2%, reflecting lower prices. Segment operating profit increased significantly to £34.9 million (2009: £7.9 million) as a result of lower costs and higher cream returns.

### **Liquid Products**

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

The business has four milk packing dairies located at Severnside in Gloucestershire, Chadwell Heath in London, Fenstanton in Cambridgeshire and Foston in Derbyshire. A large proportion of our potted cream and our retail milk powders are made at our creamery in Chard in Somerset. FRijj is produced at our Severnside dairy.

The Liquids Products business has a sustainable business model based on driving efficiency and cost reduction which provides customers and consumers with excellent quality and service through innovation and investment.

Lower milk costs, improved site operating efficiencies, reductions in milk and packaging wastage and lower distribution costs have contributed to a much improved financial performance.

We will build on this performance by accelerating investment in our liquid milk dairies. In addition to the recent investment of £34 million at our Foston site and our new regional distribution centre at Aldridge in West Midlands, we have now committed to additional capital expenditure of £75 million over the next three years in the three key areas of capacity, infrastructure and innovation. The capital plan will deliver new lines at our sites, driving efficiencies and creating capacity, and allow us to innovate through packaging and product technology.

The first phase of the programme has already commenced. In total we expect to commit around one third of the total cost during 2010/11. At Severnside we will invest around £13 million in the coming year. This will allow us to upgrade and expand milk processing and end of line capabilities, increasing the site's capacity and reducing wastage. We also intend to replace our potted cream equipment and commission a new milk bag line and are investing in extended shelf life technology.

At Chadwell Heath we will invest over £4 million in 2010/11 in processing and cold storage capacity in preparation for new filling lines in 2011/12. We have already prepared the production areas for the first of these new lines. The Foston site is also now ready for an additional high speed filling line when the business needs it.

As our production facilities continue to become more efficient and we drive down costs we will also increase our focus on inbound and outbound distribution. We have a unique opportunity to use our national network of Household depots as regional distribution centres. By investing in advanced route planning systems we will integrate our dairies, regional distribution centres and selected household depots into a single supply chain from which we can offer customers efficient solutions whatever their store formats and sizes. This should allow us to reduce food miles, building on the recent improvements in vehicle fuel consumption.

We have grown milk sales to our major retail customers again this year. We have won new business with Lidl and the Co-op in the Midlands and this has helped increase our share of the retailer conventional milk market with a volume growth of 8% against a market decline of 1%. In Sainsbury's, we are pleased to have secured a 3 year contract for conventional milk as well as national distribution for Jugit and milk bags. This innovative new product, which reduces packaging by 75%, has won the best product innovation at the 2010 Sainsbury supplier awards. We are delighted by this and are excited about its future prospects.

Our leading milkshake brand FRijj, which now represents over 50% of the fresh flavoured milk market, increased its volume by 14%, again outperforming the market which grew by 10%. Innovative marketing targeted at young consumers has helped increase its retail sales to £44 million. Around a theme of swamp soccer, FRijj has sponsored Soccer AM and has used augmented reality technology to allow computer generated "swamp soccerettes" to appear from the bottles. Since the year end the launch of the St George special edition has performed very well. Our investment of around £7 million over the next two years in packaging formats, processing capacity and new lines will allow further growth.

We have also been successful in improving the quality and health credentials of our range of own label flavoured milks as recipes move from using full fat milk to semi-skimmed. Investment in our production facilities at Chadwell Heath in London has enabled us to grow capacity and secure new business, which has helped generate volume growth of 55% for own label flavoured milk sales.

The organic milk market continued its decline with volume dropping 2% over the last year. However, new listings of Country Life Organic helped to drive growth in our organic milk volumes by 6%.

Addressing both health and indulgence markets, the WeightWatchers cream range has more than tripled in volume and the newly launched range of Baileys creams has secured listings in all of the major retailers and achieved strong sales in its first year.

We were particularly pleased by our service performance over the difficult winter conditions and the ability of our business to deliver the new Co-op conventional milk business that was acquired at short notice in June 2009. We are also proud to have halved the number of reported safety incidents in the year.

Our Ingredients operation, which is also based in Severnside, provides the Dairies Division with a flexible balancing solution and deals with the Group's by products such as whey and buttermilk. This operation has had a successful year on the back of rising commodity markets. Through careful management of seasonal supply and demand, the amount of milk and skimmed milk to balance was reduced significantly from the previous year and year end stocks were almost half the value of the previous year at less than £3 million.

During the year, we acquired the balance of the equity in Fayrefield Foodtec, which provides added value products in the ingredients arena and we have driven new branded opportunities in products such as Equilibrium stress relief tablets based on milk protein.

Looking forward, our focus remains on increasing efficiency and improving quality and service.

## **Household**

Dairy Crest's Household business delivers Country Life fresh milk and a wide range of other products. It has 1.3 million residential customers, 20,000 business customers ranging from coffee shops to hospitals, and supplies milk to around 600 independent dairymen, most of whom have their own residential customers.

The business has an extensive distribution network across England and Wales, with over 3,000 employees and another 1,500 franchised milkmen, 130 depots and 3,000 vehicles. Milk is bottled at dairies located at Aintree in Liverpool and Hanworth in London.

The year ended 31 March 2010 may turn out to be a pivotal one for our business. During the year we completed the national roll out of our internet-based, doorstep delivery service, 'milk&more'. This gives our residential customers a contemporary shopping experience delivered by the traditional milkman. It allows consumers to order over 200 products through the internet up to 9pm in the evening for their next doorstep delivery and puts us firmly in competition with convenience stores for top-up purchases. Having previously carried out local trials of milk&more, we launched nationally in September 2009 and set ourselves the challenging target of recruiting 250,000 registered users by 31 March 2010. We reached our target with one day to spare! milk&more users already spend more with us and our milk&more website allows us to target promotions of milk and other products which will further drive doorstep sales. For many years these have been declining as consumers choose to buy more of their milk from other outlets. However a successful implementation of milk&more could reverse this trend. It has already made a significant difference to the annual decline rate which fell back from 10% at the start of the year to 6% at 31 March 2010. We have maintained this improved performance since the year end.

milk&more moves us from being a somewhat outdated delivery service firmly into the modern day and the feedback we are getting suggests our customers love the modern approach to a familiar tradition. Our milkmen have adapted well to the different demands that milk&more places on them and appreciate the benefit of having to collect less cash because customers using milk&more pay either by electronic card or direct debit.

During the year turnover in the Household business fell due to the ongoing decline of doorstep deliveries and the sale of sixteen unprofitable middle ground delivery depots in June 2009. However profitability has improved, despite higher marketing costs arising from the roll out of milk&more. We implemented a strong cost reduction programme, including closing our glass bottling operation in Fenstanton, Cambridgeshire, and the reorganisation of our non-milk supply chain. Milk costs were also lower following purchase price cuts early in 2009.

Furthermore we have identified that we may be able to make further cost savings by leveraging recent investments in IT systems. In February 2010 we initiated a pilot programme to evaluate the potential benefit. This project is progressing well and will lead to substantial savings in our cost base.

We continue to innovate around Dairy Crest's key themes of health and the environment. During the year we started delivering 1% fat milk, a lower fat alternative to semi-skimmed, to our residential and business customers, and we have also trialled the milk packed in bags, described more fully in the Liquid Products and Ingredients section of the Operating Review. The bags use 75% less packaging than polybottles and further enhance the environmental credentials of our doorstep delivery service, which also offers milk in returnable glass bottles and electrically powered milk floats.

Looking forward our focus will continue to be on making milk&more successful. We will aim to provide service excellence so that on-line customers spend more with us and continue to recruit more customers for milk&more. We will also continue with our cost reduction projects.

## Financial Review

### Overview

This year has seen the Group make good progress. We have delivered increased profits while increasing investment in advertising and innovation to drive our key brands now and in the future. Importantly, we have again reduced net debt significantly this year and made important steps towards further de-risking the business.

We end the year with stronger brands, a lower cost base and a more stable business and our strategy will continue to deliver on these in the future.

<b>Revenue</b>	<b>2010</b>	2009	Change	Change
	<b>£m</b>	£m	£m	%
Cheese	<b>260.0</b>	244.2	15.8	6.5
Spreads	<b>277.7</b>	284.2	(6.5)	(2.3)
Dairies	<b>1,081.2</b>	1,108.2	(27.0)	(2.4)
Share of joint ventures	<b>1.2</b>	70.3	(69.1)	(98.3)
Other	<b>10.8</b>	11.0	(0.2)	(1.8)
Total segment revenue	<b>1,630.9</b>	1,717.9	(87.0)	(5.1)
Group revenue (excluding joint ventures)	<b>1,629.7</b>	1,647.6	(17.9)	(1.1)

Reported Group revenue decreased by 1% to £1,629.7 million. Good growth in our key brands and retail milk operations was offset by lower ingredients realisations and reduced volumes in the Household business and non-strategic brands. Total segment revenue reduced by 5% to £1,630.9 million reflecting the sale of our 49% share in Yoplait Dairy Crest ('YDC') in March 2009.

<b>Segment operating profit</b>	<b>2010</b>	2009	Change	Change
	<b>£m</b>	£m	£m	%
Cheese	<b>16.9</b>	34.3	(17.4)	(50.7)
Spreads	<b>54.0</b>	59.5	(5.5)	(9.2)
Dairies	<b>34.9</b>	7.9	27.0	341.8
Share of joint ventures	<b>0.1</b>	7.3	(7.2)	(98.6)
Total segment profit	<b>105.9</b>	109.0	(3.1)	(2.8)
Remove share of joint ventures	<b>(0.1)</b>	(7.3)		
Acquired intangible amortisation	<b>(9.2)</b>	(9.6)		
Group profit on operations (pre-exceptionals)	<b>96.6</b>	92.1	4.5	4.9

Segment operating profit is quoted before the impact of exceptional items and amortisation of acquired intangibles and includes our share of joint venture profit after tax. On this basis, segment profit was down £3.1 million or 2.8% due to the reduced share of profit from joint ventures following the YDC disposal.

Reported pre-exceptional Group profit on operations increased by 4.9% to £96.6 million. We have benefited from being a broadly based dairy business and a strong recovery in Dairies profits has offset lower margins in our Cheese and Spreads segments where, in the current economic environment, levels of promotional investment remains high and, in the case of cheese, we benefited from stock profits during 2008/09 as selling prices increased on the back of milk price increases, but the impact on cost of sales lagged due to the long maturation period.

### Exceptional items

Six exceptional items have been recorded in the year, four of which are carried over from previous years. These items principally represent projects aimed at increasing efficiency or de-risking and simplifying the business in the future. The pre-tax exceptional gain in relation to these items was £4.0 million, which comprises the following.

Our new cheese cutting and packing operation in Nuneaton became fully operational in the first half of the year. In 2008/09 and during the first half of 2009/10, volumes were being ramped up with additional packing being carried out by a third party. We incurred duplicate running costs during this time until the Nuneaton site was running at full capacity. In 2009/10 these costs amounted to £1.5 million.

In April 2010, the Office of Fair Trading ('OFT') announced that the parties to the 2007 Statement of Objections will get a penalty reduction provided each company continues to co-operate with the OFT. The OFT expects to conclude and issue its decision by early summer 2010. Accordingly, the provision has been reduced to reflect our best estimate of the penalty ultimately payable along with any associated professional fees. This has resulted in an exceptional release of £2.2 million.

During the year, having consulted with employees, we closed the Dairy Crest defined benefit pension scheme to future service accrual with an effective date of April 2010. The closure of the scheme to future service accrual resulted in an exceptional curtailment gain of £16.9 million and significantly reduces future pension risks. Fees of £0.6 million were incurred resulting in a net exceptional credit of £16.3 million.

Having closed our Nottingham dairy in 2008/09, the site was sold during the year for cash proceeds of £2.5 million resulting in an exceptional profit of £1.0 million.

We announced on 2nd February 2010 our intention to sell a majority share of our investment in Wexford Creamery Limited ('WCL'), a cheese manufacturing business in Ireland. The sale had not been completed at 31 March 2010, however the assets and liabilities of WCL represent a disposal group held for sale at 31 March 2010. The carrying value of WCL assets has been impaired by £16.0 million to management's best estimate of the business's fair value less costs to sell.

On disposal of our 49% share of YDC in March 2009, the Group placed cash in an escrow account to cover the cost of closing the YDC defined benefit pension scheme. The final cost of closure was lower than anticipated and the Group received £2.0 million back from escrow (net of fees) during the year.

## **Interest**

Finance charges have decreased by £7.1 million (24%) to £22.4 million principally as a result of significantly reduced levels of borrowings. At 31 March 2010, all borrowings were at fixed rates of interest through fixed coupon loan notes or interest rate swaps. Short term borrowing requirements are met by utilisation of the November 2006 and July 2008 revolving credit facilities which are at floating rates of interest based on LIBOR plus margin.

Other finance income comprises the net expected return on pension scheme assets after deducting the interest cost of the defined benefit obligation. This resulted in a cost of £0.5 million in the year ended 31 March 2010 compared to £6.9 million income in 2008/09. This amount can be highly volatile year on year as it is dependent upon financial market conditions at 31 March, and therefore is excluded from our headline adjusted profit before tax.

Interest cover excluding pension interest, calculated on total segment profit, remains comfortable, at 4.7 times (2009: 3.7 times).

## **Adjusted profit before tax**

The Group's adjusted profit before tax (before exceptional items and amortisation of acquired intangibles) was £83.5 million (2009: £79.5 million). This is management's key Group profit measure and the 5% increase has been achieved after having invested significantly more in marketing our key brands during 2009/10. Reported profit before tax reduced from £103.2 million in 2008/09 to £77.8 million in 2009/10. This reduction is principally due to the £50.4 million exceptional gain on the sale of our stake in YDC in 2008/09.

## **Taxation**

The Group's effective tax rate on profits excluding exceptional items and including joint ventures' tax was 28.3% (2009: 26.8% after adjusting for tax on joint ventures). The increase in effective rate of tax compared to last year is primarily due to a higher proportion of St Hubert profits and tax (French profits are taxed at higher rate). The reported Group effective tax rate is 32.5% (2009: 28.0%). Last year's reported effective tax rate benefited from the profit on disposal of our share in YDC which did not attract tax.

## **Group profit for the year**

Reported Group profit for the year decreased to £52.5 million (2009: £74.3 million including an exceptional gain of £50.4 million on the sale of our 49% stake in YDC).

## **Earnings per share**

The Group's adjusted basic earnings per share decreased by 1% to 44.5 pence per share (2009: 45.0 pence per share). In the year to 31 March 2009, Yoplait Dairy Crest contributed £7.1 million of profit after tax and 5.4 pence per share.

Basic earnings per share from continuing operations which includes the impact of exceptional items, pension interest and the amortisation of acquired intangibles, decreased by 29% to 40.6 pence per share (2009: 56.8 pence per share).

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

## **Dividends**

The proposed final dividend of 13.6 pence per share represents an increase of 4.6% on last year's final dividend of 13.0 pence. Together with the interim dividend of 5.3 pence per share this gives a total dividend of 18.9 pence per share for the full year. This represents a decrease of 6.0% on the dividend declared for 2008/09. The final dividend will be paid on 5 August 2010 to shareholders on the register on 25 June 2010.

## **Pensions**

We have made further progress during the year in reducing exposures to pension scheme risks in the future. In the first half of the year we took out a second tranche of insurance for retired members meaning substantially all our retired membership liabilities are now covered by insurance contracts. In the second half, after consultation with members, we enacted the closure of the defined benefit scheme to future service accrual with an effective date of 31 March 2010. This action significantly reduces the future benefit accretion within the scheme and therefore reduces funding risks. The closure resulted in a one-off exceptional curtailment gain of £16.9 million in the year ended 31 March 2010. This amount has been classified as exceptional along with fees relating to the scheme closure. All members have been given the opportunity to join our stakeholder pension scheme for 2010/11.

In addition to the structural changes referred to above, we have paid additional contributions of £10 million into the defined benefit scheme in the second half of the year and are committed to paying a further £20 million in 2010/11. There is a full actuarial valuation currently taking place based on 31 March 2010.

The total pension deficit at 31 March 2010 was £142.4 million compared to £63.3 million at 31 March 2009 and £178.0 million at 30 September 2009. The position since March 2009 worsened principally as a result of falling corporate bond yields, which are used as the benchmark rate for discounting future scheme liabilities. This more than offset the strong asset returns achieved during the year, both in equities and bonds. The actuarial loss reported in other comprehensive income for the year is £117.7 million (2009: £118.1 million). The March 2010 deficit excludes the deficit of £2.0 million in the Wexford Creamery pension scheme which, since the announcement of our intention to sell a controlling stake in that business, is classified within liabilities associated with disposal group held for sale.

## **Cash flow**

We have delivered another year of strong cash generation and have substantially reduced borrowings. Cash generated from operations was £145.9 million in the year (2009: £129.1 million). This includes a working capital inflow of £25.7 million (2009: £19.1 million). This performance was driven by significant reductions in stock levels, principally maturing cheese stocks.

Capital expenditure of £26.9 million, was £22.4 million lower than last year (2009: £49.3 million). Significant investment was undertaken last year at our National Distribution Centre in Nuneaton in order to build and commission a new cheese cutting and packing facility. Expenditure in the first half of 2009/10 was reduced, however capital investment has increased in the second half of the year and is expected to increase further in 2010/11. Cash receipts from the disposal of fixed assets amounted to £10.2 million (2009: £22.4 million) however last year's proceeds included £15.5 million from the sale of certain plant and equipment at Nuneaton, which was then leased back under an operating lease.

Cash interest and tax payments amounted to £22.1 million and £10.5 million respectively (2009: £30.3 million and £9.2 million). Interest payments are £8.2 million lower than last year consistent with the lower interest cost in the profit and loss account. Tax payments remain low in the UK due to additional pension deficit contributions (£10 million in 2009/10) on which we receive a tax deduction.

Cash inflows from the sale of businesses of £1.2 million comprise the sale of certain Household depots in June 2009. Furthermore, we received a net amount of £1.2 million in relation to the sale of YDC comprising pension refund on final closure of the pension scheme less cash costs of the disposal, most of which were accrued at 31 March 2009. In 2008/09 we received proceeds of £59.9 million from the sale of our 49% share of YDC and £3.2 million from the sale of our Stilton and speciality cheese business.

## **Net debt**

Net debt decreased by £78.6 million to £337.2 million at the end of the year driven by strong operating cash flows and reduced capital expenditure. Net debt is defined such that, where cross currency swaps are used as cash flow hedges to fix the interest and principal payments on currency debt, the swapped Sterling liability is included rather than the retranslated foreign currency debt. It also includes any cash held in businesses classified as disposal groups held for sale.

The Group remains comfortably within its covenants with the net debt to EBITDA ratio (for covenant purposes) at 31 March 2010 being 2.4 times (March 2009: 2.9 times). At 31 March 2010, gearing (being the ratio of net debt to shareholders' funds) was 115% (2009: 116%).

## **Borrowing Facilities**

Group borrowing facilities comprise £307.4 million of loan notes maturing between April 2013 and April 2017, a £100 million multi-currency revolving credit facility expiring in November 2011 and a £85 million plus €175 million multi-currency revolving credit facility expiring in July 2013. At 31 March 2010 there was £295.1 million effective headroom against committed facilities (2009: £234.5 million).

Borrowing facilities are subject to covenants which specify a maximum ratio of net debt to EBITDA of 3.5 times and a minimum interest cover ratio of 3.0 times.

## **Treasury policies**

The Group operates a centralised treasury function, which controls cash management and borrowings and the Group's financial risks. The main treasury risks faced by the Group are liquidity, interest rates and foreign currency. The Group uses derivatives only to manage its foreign currency and interest rate risks arising from underlying business and financing activities. Transactions of a speculative nature are prohibited. The Group's treasury activities are governed by policies approved and monitored by the Board.

## **Net Assets**

The Group's balance sheet remains robust with net assets of £292.8 million (2009: £357.0 million). Goodwill, intangible assets and property, plant and equipment total £794.4 million (2009: £834.2 million). Inventories of £153.7 million are £44.1 million lower than prior year reflecting significant reductions in maturing cheese stocks and the reclassification of inventories in Wexford as assets in a disposal group held for sale.

## **Going concern**

The financial statements have been prepared on a going concern basis as the directors are satisfied that the Group has adequate financial resources to continue its operations for the foreseeable future. In making this statement, the Group's directors have: reviewed the Group budget, strategic plans and available facilities; have made such other enquiries as they considered appropriate; and have taken into account 'Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009.

**Alastair Murray, Finance Director**  
17 May 2010

## Consolidated income statement

Year ended 31 March

	Note	2010			2009		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
<b>Group revenue</b>	2	<b>1,629.7</b>	-	<b>1,629.7</b>	1,647.6	-	1,647.6
Operating costs	3	(1,536.5)	0.7	(1,535.8)	(1,559.8)	(24.0)	(1,583.8)
Other income - pensions	4,5	-	16.3	16.3	-	-	-
Other income - property	4	3.4	1.0	4.4	4.3	-	4.3
<b>Profit on operations</b>		<b>96.6</b>	<b>18.0</b>	<b>114.6</b>	92.1	(24.0)	68.1
Impairment of assets on creation of disposal group held for sale	5	-	(16.0)	(16.0)	-	-	-
Finance costs	6	(22.4)	-	(22.4)	(29.5)	-	(29.5)
Other finance (expense) / income – pensions	6	(0.5)	-	(0.5)	6.9	-	6.9
Share of joint ventures' net profit		0.1	-	0.1	7.3	-	7.3
Profit on disposal of joint venture	5	-	2.0	2.0	-	50.4	50.4
<b>Profit before tax</b>		<b>73.8</b>	<b>4.0</b>	<b>77.8</b>	76.8	26.4	103.2
Tax expense	7	(20.9)	(4.4)	(25.3)	(18.5)	(10.4)	(28.9)
<b>Profit for the year</b>		<b>52.9</b>	<b>(0.4)</b>	<b>52.5</b>	58.3	16.0	74.3
Profit attributable to equity shareholders		52.6	1.4	54.0	58.3	17.1	75.4
Profit attributable to minority interests		0.3	(1.8)	(1.5)	-	(1.1)	(1.1)
<b>Group profit for the year</b>		<b>52.9</b>	<b>(0.4)</b>	<b>52.5</b>	58.3	16.0	74.3

<b>Earnings per share – continuing operations</b>		2010	2009
Basic earnings per share (pence)	10	40.6	56.8
Diluted earnings per share (pence)	10	40.2	56.3
Adjusted basic earnings per share (pence) *	10	44.5	45.0
Adjusted diluted earnings per share (pence) *	10	44.0	44.6

<b>Dividends</b>		2010	2009
Proposed final dividend (£m)	8	18.1	17.3
Interim dividend paid (£m)	8	7.0	9.4
Proposed final dividend (pence)	8	13.6	13.0
Interim dividend paid (pence)	8	5.3	7.1

The consolidated income statement relates to continuing operations.

\* Adjusted earnings per share calculations are presented to give an indication of the underlying operational performance of the Group. The calculations exclude exceptional items, amortisation of acquired intangibles and pension interest in relation to the Group's defined benefit pension schemes, the latter being highly dependent upon market assumptions at 31 March each year.

## Consolidated statement of comprehensive income

Year ended 31 March

	Note	2010	2009
Profit for the year		52.5	74.3
Net investment hedges:			
Exchange differences on foreign currency net investments		(13.9)	53.1
Exchange differences on foreign currency borrowings designated as net investment hedge		6.0	(36.8)
		(7.9)	16.3
Actuarial losses	14	(117.7)	(118.1)
Cash flow hedges - reclassification adjustment for gains/(losses) in income statement		10.6	(48.6)
Cash flow hedges - (losses) / gains recognised in other comprehensive income		(14.2)	40.3
Share of joint ventures' income recognised in equity		-	1.7
Tax relating to components of other comprehensive income **	7	34.3	35.3
Other comprehensive loss for the year, net of tax		(94.9)	(73.1)
<b>Total comprehensive (loss) / gain for the year, net of tax</b>		<b>(42.4)</b>	<b>1.2</b>
Attributable to equity shareholders of the parent		(40.7)	1.6
Attributable to minority interests		(1.7)	(0.4)

\*\* Tax on share based payments is now reported in the Statement of Changes in Equity. Prior year amounts have been reclassified accordingly. The tax on share based payments taken to equity in the year ended 31 March 2010 was £0.1 million credit (2009: £0.4 million charge).

**Consolidated balance sheet**

As at 31 March

	Note	2010 £m	2009 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	271.6	292.1
Goodwill	12	336.8	342.7
Intangible assets	13	186.0	199.4
Investment in joint ventures using equity method		-	2.9
Deferred tax asset	7	-	0.4
Financial assets - Derivative financial instruments		25.4	39.5
		<b>819.8</b>	<b>877.0</b>
<b>Current assets</b>			
Inventories		153.7	197.8
Trade and other receivables		135.5	137.8
Financial assets - Derivative financial instruments		0.1	1.3
Cash and short-term deposits		20.0	107.5
		<b>309.3</b>	<b>444.4</b>
Assets in disposal group held for sale	9	18.8	-
<b>Total assets</b>	<b>2</b>	<b>1,147.9</b>	<b>1,321.4</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities		(382.9)	(553.4)
		(3.7)	(4.1)
Retirement benefit obligations	14	(142.4)	(63.3)
Deferred tax liability	7	(65.8)	(91.2)
Deferred income		(7.3)	(8.6)
		<b>(602.1)</b>	<b>(720.6)</b>
<b>Current liabilities</b>			
Trade and other payables		(230.3)	(229.4)
Financial liabilities		(2.3)	(2.0)
		(0.4)	(0.4)
Current tax liability		(4.5)	(1.2)
Deferred income		(0.6)	(0.7)
Provisions	15	(7.3)	(10.1)
		<b>(245.4)</b>	<b>(243.8)</b>
Liabilities associated with disposal group held for sale	9	(7.6)	-
<b>Total liabilities</b>		<b>(855.1)</b>	<b>(964.4)</b>
<b>Shareholders' equity</b>			
Ordinary shares		(33.3)	(33.3)
Share premium		(70.7)	(70.7)
Interest in ESOP		0.7	1.9
Other reserves	16	(66.4)	(76.5)
Retained earnings		(120.1)	(173.7)
<b>Total shareholders' equity</b>		<b>(289.8)</b>	<b>(352.3)</b>
<b>Minority interests</b>		<b>(3.0)</b>	<b>(4.7)</b>
<b>Total equity</b>		<b>(292.8)</b>	<b>(357.0)</b>
<b>Total equity and liabilities</b>		<b>(1,147.9)</b>	<b>(1,321.4)</b>

Mark Allen, Chief Executive

Alastair Murray, Finance Director

The financial statements were approved by the directors on 17 May 2010.

**Consolidated statement of changes in equity**  
Year ended 31 March

	Attributable to equity shareholders of the parent						Minority interest	Total Equity
	Ordinary shares	Share premium	Interest in ESOP	Other Reserves*	Retained earnings	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
<b>2010</b>								
At 31 March 2009 **	33.3	70.7	(1.9)	76.5	173.7	<b>352.3</b>	4.7	<b>357.0</b>
Profit for the year	-	-	-	-	54.0	<b>54.0</b>	(1.5)	<b>52.5</b>
Other comprehensive loss:								
Net investment hedges	-	-	-	(7.5)	-	<b>(7.5)</b>	(0.4)	<b>(7.9)</b>
Cash flow hedges	-	-	-	(3.6)	-	<b>(3.6)</b>	-	<b>(3.6)</b>
Actuarial losses	-	-	-	-	(117.9)	<b>(117.9)</b>	0.2	<b>(117.7)</b>
Tax on components of other comprehensive income	-	-	-	1.0	33.3	<b>34.3</b>	-	<b>34.3</b>
Other comprehensive loss	-	-	-	(10.1)	(84.6)	<b>(94.7)</b>	(0.2)	<b>(94.9)</b>
Total comprehensive loss	-	-	-	(10.1)	(30.6)	<b>(40.7)</b>	(1.7)	<b>(42.4)</b>
Exercise of options	-	-	1.2	-	(1.2)	-	-	-
Share based payments	-	-	-	-	2.4	<b>2.4</b>	-	<b>2.4</b>
Tax on share based payments	-	-	-	-	0.1	<b>0.1</b>	-	<b>0.1</b>
Equity dividends	-	-	-	-	(24.3)	<b>(24.3)</b>	-	<b>(24.3)</b>
<b>At 31 March 2010</b>	<b>33.3</b>	<b>70.7</b>	<b>(0.7)</b>	<b>66.4</b>	<b>120.1</b>	<b>289.8</b>	<b>3.0</b>	<b>292.8</b>
<b>2009</b>								
At 31 March 2008	33.3	70.2	(3.7)	67.0	215.8	<b>382.6</b>	5.1	<b>387.7</b>
Profit for the year	-	-	-	-	75.4	<b>75.4</b>	(1.1)	<b>74.3</b>
Other comprehensive income / (loss):								
Net investment hedges	-	-	-	15.4	-	<b>15.4</b>	0.9	<b>16.3</b>
Cash flow hedges	-	-	-	(8.3)	-	<b>(8.3)</b>	-	<b>(8.3)</b>
Actuarial losses	-	-	-	-	(117.9)	<b>(117.9)</b>	(0.2)	<b>(118.1)</b>
Share of joint ventures' income recognised in equity	-	-	-	-	1.7	<b>1.7</b>	-	<b>1.7</b>
Tax on components of other comprehensive income	-	-	-	2.4	32.9	<b>35.3</b>	-	<b>35.3</b>
Other comprehensive income / (loss)	-	-	-	9.5	(83.3)	<b>(73.8)</b>	0.7	<b>(73.1)</b>
Total comprehensive loss	-	-	-	9.5	(7.9)	<b>1.6</b>	(0.4)	<b>1.2</b>
Issue of share capital	-	0.5	(0.5)	-	-	-	-	-
Exercise of options	-	-	2.3	-	(2.3)	-	-	-
Share based payments	-	-	-	-	0.8	<b>0.8</b>	-	<b>0.8</b>
Tax on share based payments ***	-	-	-	-	(0.4)	<b>(0.4)</b>	-	<b>(0.4)</b>
Equity dividends	-	-	-	-	(32.3)	<b>(32.3)</b>	-	<b>(32.3)</b>
At 31 March 2009 **	33.3	70.7	(1.9)	76.5	173.7	<b>352.3</b>	4.7	<b>357.0</b>

\* Further details are provided in Note 16.

\*\* The classification of reserves at 31 March 2009 has been restated to correctly analyse net investment hedges in relation to Wexford Creamery Limited between translation reserve and retained earnings. The impact is to increase retained earnings at that date by £0.9 million and to reduce other reserves by £0.9 million (translation reserve). There is no impact on total share capital and reserves, nor on minority interests at that date. The classification of reserves at 31 March 2008 is not affected by this change.

\*\*\* Tax on share based payments is now reported in the Statement of Changes in Equity. Previously these amounts were recorded in the Statement of Recognised Income and Expense. Prior year amounts have been reclassified accordingly. The tax on share based payments taken to equity in the year to 31 March 2010 was £0.1 million.

**Consolidated statement of cash flows**  
Year ended 31 March

	Note	2010 £m	2009 £m
<b>Cash generated from operations</b>	18	<b>145.9</b>	129.1
Dividends received from joint ventures		0.1	2.9
Interest paid		(22.1)	(30.3)
Taxation paid		(10.5)	(9.2)
<b>Net cash flow from operating activities</b>		<b>113.4</b>	92.5
<b>Cash flow from investing activities</b>			
Capital expenditure		(26.9)	(49.3)
Proceeds from disposal of property, plant and equipment		10.2	22.4
Purchase of businesses (net of cash and debt acquired)	17	(1.9)	(1.3)
Sale of investment in joint venture		1.2	59.9
Sale of businesses		1.2	3.2
<b>Net cash used in investing activities</b>		<b>(16.2)</b>	34.9
<b>Cash flow from financing activities</b>			
Repayment and cancellation of term loans and facilities		-	(146.3)
New facilities advanced		-	132.9
Net (repayment) / advance under revolving credit facilities		(150.6)	(11.3)
Dividends paid	8	(24.3)	(32.3)
Finance lease repayments	19	(2.0)	(2.5)
<b>Net cash used in financing activities</b>		<b>(176.9)</b>	(59.5)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(79.7)</b>	67.9
Cash and cash equivalents at beginning of year	19	107.5	38.9
Exchange impact on cash and cash equivalents	19	(0.3)	0.7
<b>Cash and cash equivalents at end of year</b>	19	<b>27.5</b>	107.5
<b>Analysed:</b>			
Reported as cash and cash equivalents	19	20.0	107.5
Reported as part of disposal group	9	7.5	-
<b>Memo: Net debt at end of year</b>	19	<b>(337.2)</b>	(415.8)

## Notes to the financial statements

### 1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards ("IFRS") and International Financial reporting Interpretation Committee ("IFRIC") interpretations as endorsed by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2009, as described in those financial statements.

The following accounting standards and interpretations became effective for the current reporting period:

- IAS 1 (Revised) – Presentation of Financial Statements
- Amendment to IFRS 2 – Vesting Conditions and Cancellations
- IFRS 8 – Operating Segments
- Amendments to IAS 23 – Borrowing Costs
- Amendments to IFRS 7 – Improving disclosures about Financial Instruments
- Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 – Transfer of Assets from customers
- Improvements to IFRSs (issued May 2008)

The application of IAS 1 (Revised) has resulted in the Group presenting a consolidated statement of changes in equity as a primary statement. The consolidated statement of changes in equity was previously presented as a note to the financial information and presents all changes in equity including those arising from transactions with the owners. The Group has elected to present two income statements: a Group consolidated income statement and a Group consolidated statement of comprehensive income. The Group consolidated statement of comprehensive income was previously described as the Consolidated Statement of Recognised Income and Expense and presents all changes in financial position other than through transactions with owners. This presentation has been applied in this consolidated financial information for the year ended 31 March 2010. Comparative information has been represented so that it is also in conformity with the revised standard. No balance sheet for 31 March 2008 has been presented, as there were no retrospective restatements impacting the balance sheet for 31 March 2008 resulting from the introduction of new accounting standards and interpretations.

The impact of the application of IFRS 8 is disclosed in note 2.

The application of the remaining standards and interpretations has not had a material effect on the net assets, result and disclosures of the Group.

The financial information set out in this document does not constitute the statutory accounts of the Group for the years ended 31 March 2010 or 31 March 2009 but is derived from the 2010 Annual Report and Financial Statements. The Group Annual Report and Financial Statements for 2010 will be delivered to the Registrar of Companies in due course. The auditors have reported on those accounts and have given an unqualified report which does not contain a statement under Section 498 of the Companies Act 2006.

### 2 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Company's Board members as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. Previously, segments were determined and presented in accordance with IAS 14, "Segment Reporting".

The CODM uses trading profit, as reviewed at monthly business review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Trading profit is a consistent measure within the Group and the reporting of this measure at the monthly business review meetings, which are organised according to the product types, has been used to identify and determine the Group's operating segments. Trading profit is defined as profit on operations before exceptional items and amortisation of acquired intangible assets, but includes the Group share of post-tax profit of joint ventures.

Following the adoption of IFRS 8, the Group has revised its operating and reporting segments. The Group's operating segments are 'Cheese', 'UK Spreads', 'St Hubert', 'Liquid Products', 'Household', 'Share of Joint Ventures' and 'Other'. Certain of these operating segments have been aggregated and the Group reports on five continuing segments within the business: 'Cheese', 'Spreads', 'Dairies', 'Share of Joint Ventures' and 'Other'.

The 'Cheese' segment has not been aggregated with any other segment. This business manufactures predominantly branded cheese in the UK and Ireland and sells mainly to retail customers.

The 'UK Spreads' and 'St Hubert' segments have been aggregated into one reportable segment being 'Spreads'. Both of these segments operate within the European Union and manufacture branded dairy spreads, using similar production methods. Products are sold to similar end consumers in similar economic environments. Distribution methods are similar and in both businesses customers are major retailers.

The 'Liquid Products' and 'Household' segments have been aggregated into one reportable segment being 'Dairies'. The 'Liquid Products' and 'Household' businesses both operate in the UK and predominantly sell fresh milk to a similar class of customer. The milk processing sites, included in the 'Liquid Products' segment, pack milk for both businesses.

'Share of Joint Ventures' forms a separate segment whose results are reviewed on a post-tax basis consistent with IFRS. The results of this segment are now insignificant following the group's disposal of its 49% share of Yoplait Dairy Crest Limited in March 2009.

The 'Other' segment comprises revenue earned from distributing product for third parties and certain central costs net of recharges to the operating segments. Generally, all central costs less external 'other' revenue are recharged back into operating segments such that their result reflects the total cost base of the Group. Other operating profit therefore is nil.

Comparative information has been restated to reflect these new reportable segments.

Previously the Group reported two segments under IAS 14. These comprised 'Foods' and 'Dairies'. The 'Dairies' segment was equivalent to the 'Dairies' segment under IFRS 8. The 'Foods' segment incorporated 'Cheese', 'Spreads' and 'Joint Ventures' as reported under IFRS 8 and for revenue also incorporated 'Other' revenue from third party distribution.

## Notes to the financial statements

### 2 Segmental analysis (continued)

The segment results for the year ended 31 March 2010 and for the year ended 31 March 2009 and the reconciliation of segment measures to the respective statutory items included in the financial statements are as follows:

	Year ended 31 March	
	2010	2009
	£m	£m
<b>Segment external revenue</b>		
Cheese	260.0	244.2
Spreads	277.7	284.2
Dairies	1,081.2	1,108.2
Share of joint ventures' external revenue	1.2	70.3
Other	10.8	11.0
<b>Total segment external revenue</b>	<b>1,630.9</b>	<b>1,717.9</b>
Less: share of joint ventures' external revenue	(1.2)	(70.3)
Group revenue	1,629.7	1,647.6
<b>Segment profit</b>		
Cheese	16.9	34.3
Spreads	54.0	59.5
Dairies	34.9	7.9
Share of joint ventures' net profit	0.1	7.3
<b>Total segment profit</b>	<b>105.9</b>	<b>109.0</b>
Finance costs	(22.4)	(29.5)
<b>Adjusted profit before tax</b>	<b>83.5</b>	<b>79.5</b>
Acquired intangible amortisation	(9.2)	(9.6)
Exceptional items	4.0	26.4
Other finance (expense) / income - pensions	(0.5)	6.9
Group profit before tax	77.8	103.2
<b>Segment total assets</b>		
Cheese	211.8	243.9
Spreads	511.8	535.8
Dairies	347.2	356.8
Share of joint ventures'	-	2.9
Other	31.6	33.3
Group	1,102.4	1,172.7
Unsegmented assets	45.5	148.7
Total assets	1,147.9	1,321.4
<b>Inter segment revenue</b>		
Cheese	6.3	7.4
Spreads	4.1	3.8
Dairies	-	-
Elimination	(10.4)	(11.2)
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Segment depreciation and amortisation (excluding amortisation of acquired intangible assets)</b>		
Cheese	5.8	7.3
Spreads	7.2	7.1
Dairies	20.9	23.1
Other	4.9	3.8
<b>Total</b>	<b>38.8</b>	<b>41.3</b>
<b>Segment additions to non-current assets</b>		
Cheese	4.8	19.6
Spreads	5.6	5.5
Dairies	19.3	16.5
Other	1.9	4.9
<b>Total</b>	<b>31.6</b>	<b>46.5</b>

## Notes to the financial statements

### 2 Segmental analysis (continued)

	Year ended 31 March	
	2010	2009
	£m	£m
<b>Segment exceptional items</b>		
Cheese	(17.5)	(13.8)
Dairies	1.0	(10.2)
Pension curtailment gain (not segmented)	16.3	-
OFT settlement reduction (not segmented)	2.2	-
Share of joint ventures	2.0	50.4
<b>Total</b>	<b>4.0</b>	<b>26.4</b>

Interest revenue and expense are not included in the measure of segment profit reviewed by the CODM. Group Treasury is centrally managed and external interest income and expense is all incurred in the UK and is not allocated to segments. Where interest is reviewed by the CODM it is done so on a net basis. Further analysis of the interest expense for the Group is provided in Note 6.

Tax costs are not included in the measure of segment profit reviewed by the CODM. Group Tax is centrally managed and the group effective tax rate, not individual segment tax rates, is reported.

Segment assets comprise property, plant and equipment, goodwill, intangible assets, inventories, receivables and assets in disposal group held for sale and investments in joint ventures and exclude cash and cash equivalents, derivative financial assets and deferred tax assets as these items are managed on a Group basis. Other segment assets comprise certain property, plant and equipment that is not reported in the segments. Total segment liabilities have not been presented as this measure is not regularly reviewed by or provided to the CODM.

Inter-segment revenue comprises the sale of finished Cheese and Spreads products into the Dairies segment on a cost plus basis and is included in the segment result. Other inter-segment transactions principally comprise sales of cream from the Dairies segment to the Spreads segment for the manufacture of butters. Cream sold into Spreads is priced by reference to external commodity markets and is adjusted regularly so as to reflect the costs that the Spreads segment would incur if it were a stand alone entity. Revenue from inter-segment cream sales is not reported as revenue to the CODM but as a reduction to the Dairies segment's input costs.

Segment depreciation and amortisation excludes amortisation of acquired intangible assets of £9.2 million (2009: £9.6 million) as these costs are not charged in the segment result.

Segment additions to non-current assets comprise additions to goodwill, intangible assets and property, plant and equipment through capital expenditure and acquisition of businesses.

	Year ended 31 March	
	2010	2009
	£m	£m
<b>Geographical information</b>		
External revenue attributed on basis of customer location		
UK	1,495.4	1,498.2
France	85.8	78.8
Rest of world	48.5	70.6
Total segment revenue (excluding joint ventures)	1,629.7	1,647.6
Non-current assets* based on location		
UK	416.9	433.5
France	370.5	393.1
Rest of world	7.0	10.5
Total	794.4	837.1

\* Comprises property, plant and equipment, goodwill, intangible assets and investment in joint ventures.

No individual customer contributes more than 10% of Group revenue (2009: nil). The business segmentation above is based upon similar product groupings namely cheese, spreads and liquids and therefore any analysis of Group revenue by product and services is consistent with the revenue analysis presented above with the exception of non-milk product sales in the Dairies segment (through the Household division), which amounted to £37.1 million (2009: £42.0 million).

## Notes to the financial statements

### 3 Operating costs

	Year ended 31 March 2010			Year ended 31 March 2009		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Cost of sales	1,150.2	1.5	1,151.7	1,182.2	19.5	1,201.7
Distribution costs	302.7	-	302.7	301.3	-	301.3
Administrative expenses	83.6	(2.2)	81.4	76.3	-	76.3
	<b>1,536.5</b>	<b>(0.7)</b>	<b>1,535.8</b>	1,559.8	19.5	1,579.3
Loss on disposal of business (Note 5)	-	-	-	-	4.5	4.5
	<b>1,536.5</b>	<b>(0.7)</b>	<b>1,535.8</b>	1,559.8	24.0	1,583.8

### 4 Other income

	Year ended 31 March 2010			Year ended 31 March 2009		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Profit on disposal of household depots	3.4	-	3.4	4.3	-	4.3
Profit on disposal of closed sites (Note 5)	-	1.0	1.0	-	-	-
	<b>3.4</b>	<b>1.0</b>	<b>4.4</b>	4.3	-	4.3
Pension curtailment gain (Note 5)	-	16.3	16.3	-	-	-

The Group continues to rationalise its household operations as a result of the ongoing decline in doorstep volumes. This rationalisation includes the closure of certain depots (the profit on which is shown above) and rationalisation of the ongoing household operations. These activities represent a fundamental part of the ongoing ordinary activities of the household operations.

### 5 Exceptional items

Exceptional items comprise those items that are material and one-off in nature that the Group believes should be separately disclosed to assist in the understanding of the underlying financial performance of the Group.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Duplicate running costs at National Distribution Centre	(1.5)	(3.7)
Reduction in estimated Office of Fair Trading ('OFT') settlement	2.2	-
Curtailment gain in UK defined benefit pension scheme	16.3	-
Profit on sale of closed Nottingham site	1.0	-
Provision for onerous contract	-	(1.0)
Loss on disposal of Stilton and speciality cheese business	-	(4.5)
Impairment of plant and equipment	-	(5.6)
Restructuring costs	-	(9.2)
	<b>18.0</b>	(24.0)
Impairment of disposal group held for sale	(16.0)	-
Profit on disposal of investment in Yoplait Dairy Crest Limited joint venture	2.0	50.4
	<b>4.0</b>	26.4
Tax (charge) / relief on exceptional items	(4.4)	3.9
Deferred tax provision in relation to cessation of Industrial Buildings Allowances	-	(14.3)
	<b>(0.4)</b>	16.0

#### Exceptional items in the year ended 31 March 2010 comprised:

- The continuation of duplicate running costs in relation to the new cheese cutting and packing facility at our national distribution centre in Nuneaton. There was significant capital investment during 2008/09 and between January 2009 and July 2009, volume was transferred into the new facility from First Milk's facility at Maelor. During the ramp up period, cheese was being cut and packed at both Nuneaton and Maelor with resulting duplicate costs as both sites were operating at below normal capacity. These duplicate running costs ceased in the first half of the year as substantially all cutting and packing was transferred successfully to Nuneaton. The duplicate costs incurred in the period amounted to £1.5 million.

## Notes to the financial statements

### 5 Exceptional items (continued)

- In April 2010, the OFT announced that parties to the 2007 Statement of Objections will get a penalty reduction, provided each company continues to co-operate with the OFT. The OFT expects to conclude and issue its decision by early Summer 2010. Accordingly, the settlement provision has been reduced to reflect our best estimate of the penalty ultimately payable (£7.1 million) plus legal fees expected to be incurred (£0.2 million) resulting in a release of £2.2 million in the year ended 31 March 2010 (see Note 15).
- In November 2009, the UK defined benefit pension plan was closed to future service accrual beyond 31 March 2010. This cessation of future service accrual resulted in an exceptional curtailment gain of £16.9 million in the year ended 31 March 2010 (see Note 14). Additionally, legal and professional fees of £0.6 million were incurred in order to effect this change.
- During 2008/09, we closed our Nottingham dairy processing plant and reduced the carrying value of the land and buildings to £1.5 million, being management's best view at that time of fair value less costs to sell. In August 2009, the site was sold to a third party for proceeds of £2.5 million resulting in an exceptional gain on disposal of £1.0 million.
- The Group is in discussions with Wexford Milk Producers ('WMP') to sell 50% of the shares in Wexford Creamery Limited which, if successful, would decrease the Group's shareholding from 80% to 30%. The assets and liabilities of Wexford Creamery have been disclosed as a disposal group held for sale at 31 March 2010. On classification as a disposal group held for sale, an impairment of £16.0 million was charged to reduce the carrying value of assets to fair value less costs to sell. Further details are provided in Note 9.
- On 26 March 2009, the Group disposed of its 49% share in Yoplait Dairy Crest Limited ('YDC') for cash consideration of £63.5 million (see below). As part of the disposal of YDC, future service accruals immediately ceased in the YDC defined benefit scheme and the Group contracted to extinguish any remaining funding liability by purchasing an insurance buy-out. On 26 March 2009, £3.5 million was charged as a provision for the cost of the insurance and funds were deposited in escrow for the benefit of the YDC scheme trustee. This amount was the best estimate at that time of the cost of buying out the scheme liabilities. The final cost of the buy out was £1.2 million, £2.3 million less than was estimated. In the period to 31 March 2010, the Group received funds of £2.3 million from the escrow account reflecting the reduced cost of insurance. This credit has been classified as exceptional in a manner consistent with the original gain on disposal in 2008/09. Additionally, the Group incurred costs in relation to the disposal of this business in excess of amounts accrued at 31 March 2009. These additional costs, totalling £0.3 million, have been classified as exceptional.

#### Exceptional items in the year ended 31 March 2009 comprised:

- £9.2 million charge in relation to a large restructuring within Dairies. The closure of the Nottingham dairy processing plant and associated distribution network restructuring costs amounted to £7.2 million. Additionally, an impairment was charged against the carrying value of the previously closed Totnes site. This and associated costs amounted to a £2.0 million exceptional charge.
- £1.0 million charge in relation to an onerous long-term milk supply contract. This contract was renegotiated in the first half of 2009/10 and the new supply agreement is not onerous.
- £3.7 million charge in respect of duplicate running costs at the newly commissioned cheese cutting and packing facility at Nuneaton. During the ramp up period, cheese was cut and packed both at Nuneaton and by First Milk under a transitional agreement. This resulted in inefficiencies during the dual running period.
- £4.5 million loss on the disposal of the property, plant and equipment and the inventories of the Group's Stilton and speciality cheese business based in Hartington, Derbyshire to Long Clawson Dairy Limited. The loss on disposal comprised:

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

-£5.6 million impairment charge against the carrying value of plant and equipment at the Group's cheese manufacturing plant in Wexford, Ireland. These assets were written down to their fair value less costs to sell based on management's best view as to their current market value at that time.

-£50.4 million gain on sale of 49% share in YDC sold on 26 March 2009. The profit on disposal as reported at 31 March 2009 was as follows:

	£m
Sales proceeds - cash consideration	63.5
Group share of YDC net assets at date of disposal	(8.6)
Provision for cost of insuring YDC defined benefit pension scheme liabilities	(3.5)
Other estimated fees and costs	(1.0)
Gain on disposal - reported in 2008/09	50.4

-£14.3 million exceptional tax charge relating to the cessation of Industrial Buildings Allowances which was enacted in the first half of 2008/09.

## Notes to the financial statements

### 6 Finance costs and other finance income

<b>Finance costs</b>	<b>Year ended 31 March 2010</b>	Year ended 31 March 2009
	<b>£m</b>	£m
Bank loans and overdrafts (at amortised cost)	(21.9)	(29.1)
Interest expense on financial liabilities not at fair value through profit and loss	(21.9)	(29.1)
Unwind of discount for provisions (Note 15)	-	(0.2)
Finance charges on finance leases	(0.7)	(0.8)
Total finance costs	(22.6)	(30.1)
Finance income on cash balances (financial assets not at fair value through profit and loss)	0.2	0.6
Total net finance costs	(22.4)	(29.5)

<b>Other finance (expense) / income - pensions</b>	<b>Year ended 31 March 2010</b>	Year ended 31 March 2009
	<b>£m</b>	£m
Expected return on defined benefit plan assets (Note 14)	39.0	49.0
Interest cost on defined benefit obligation (Note 14)	(39.5)	(42.1)
	(0.5)	6.9

### 7 Tax expense

The major components of income tax expense for the years ended 31 March 2010 and 2009 are:

<b>Consolidated income statement</b>	<b>2010</b>	2009
	<b>£m</b>	£m
Current income tax		
Current income tax charge at 28% (2009: 28%)	14.9	8.5
Adjustments in respect of previous years	(1.3)	-
	- current tax	-
	- transfer from deferred tax	-
	0.5	-
	14.1	8.5
Deferred income tax		
Relating to origination and reversal of temporary differences	11.7	20.7
Adjustment in respect of previous years	-	(0.3)
	- deferred tax	-
	- transfer to current tax	-
	(0.5)	-
	25.3	28.9
Analysed: Before exceptional items	20.9	18.5
Exceptional items	4.4	10.4
	25.3	28.9

Reconciliation between tax expense and the profit before tax multiplied by the standard rate of corporation tax in the UK:

	<b>2010</b>	2009
	<b>£m</b>	£m
Profit before tax	77.8	103.2
Tax at UK statutory income tax rate of 28% (2009: 28%)	21.8	28.9
Adjustments in respect of previous years	(1.3)	(0.3)
Adjustment for overseas profits taxed at different rates	1.7	0.6
Adjustment in respect of joint ventures' profits	-	(2.0)
Deferred tax adjustment for abolition of industrial buildings allowances	-	14.3
Non-deductible expenses	5.8	4.3
Profits offset by available tax relief	(2.7)	(16.9)
At the effective rate of 32.5% (2009: 28.0%)	25.3	28.9

The effective pre-exceptional rate of tax on Group profit before tax (after adjusting for joint ventures' tax in 2009) is 28.3% (2009: 26.8%).

<b>Consolidated other comprehensive income</b>	<b>2010</b>	2009
	<b>£m</b>	£m
Deferred income tax related to items charged to other comprehensive income		
Tax relief on actuarial losses	(33.3)	(32.9)
Valuation of financial instruments	(1.0)	(2.4)
	(34.3)	(35.3)

## Notes to the financial statements

### 7 Tax expense (continued)

	2010 £m	2009 £m
<b>Consolidated changes in equity</b>		
Deferred income tax related to items charged to changes in equity		
Share based payments	-	0.5
Income tax credited to changes in equity		
Share based payments	(0.1)	(0.1)
	<b>(0.1)</b>	<b>0.4</b>

#### Deferred income tax

Deferred income tax at 31 March 2010 and 2009 relates to the following:

	2010 £m	2009 £m
<b>Deferred tax liability</b>		
Accelerated depreciation for tax purposes	(44.2)	(44.0)
Goodwill and intangible assets	(65.8)	(69.1)
Financial instrument valuation	(0.3)	(1.2)
	<b>(110.3)</b>	<b>(114.3)</b>

#### Deferred tax asset

Government grants	2.2	2.4
Share based payments	0.4	0.2
Pensions	39.9	17.2
Other	2.0	3.7
	<b>44.5</b>	<b>23.5</b>

#### Net deferred tax liability

	<b>(65.8)</b>	<b>(90.8)</b>
Analysed:		
Net deferred tax assets (2009: Wexford, Ireland)	-	0.4
Net deferred tax liabilities (2010: UK and France; 2009: UK and France)	(65.8)	(91.2)
Memo:		
Included in disposal group assets held for sale (Wexford, Ireland – Note 9)	0.3	-

The Company has a deferred tax liability of £0.2 million at 31 March 2010 (2009: £0.7 million). This relates to temporary differences in respect of financial instruments.

The movement on the net deferred tax balance is shown below:

	2010 £m	2009 £m
Net deferred tax liability brought forward	(90.8)	(96.1)
Charge to income statement	(11.2)	(20.4)
Credit to other comprehensive income	34.3	35.3
Charge to changes in equity	-	(0.5)
Exchange impact	2.2	(9.1)
Transferred to disposal group assets held for sale	(0.3)	-
<b>Closing net deferred tax liability</b>	<b>(65.8)</b>	<b>(90.8)</b>

### 8 Dividends paid and proposed

	2010 £m	2009 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2009: 13.0 pence (2008: 17.3 pence)	17.3	22.9
Interim dividend for 2010: 5.3 pence (2009: 7.1 pence)	7.0	9.4
	<b>24.3</b>	<b>32.3</b>
<b>Proposed for approval at AGM (not recognised as a liability at 31 March)</b>		
Equity dividends on ordinary shares:		
Final dividend for 2010: 13.6 pence (2009: 13.0 pence)	18.1	17.3

## Notes to the financial statements

### 9 Disposal group held for sale

On 2nd February 2010, the Group announced that it was in advanced discussions with Wexford Milk Producers ('WMP') to sell 50% of the shares in Wexford Creamery Limited ('WCL') which if successful, will result in WMP becoming the majority shareholder in WCL. This transaction would reduce the Group's shareholding from 80% to 30% and increase WMP's shareholding from 20% to 70%. The proposed transaction reduces further the Group's exposure to commodity cheese and allows the Group to concentrate on its key brands. Cash proceeds are expected to be approximately €9 million and the transaction is expected to complete in the first half of 2010/11.

The assets and liabilities of WCL comprise a disposal group held for sale and have been separately identified as such at 31 March 2010. The disposal group is analysed as follows:

Assets in disposal group held for sale	£m
Deferred tax asset	0.3
Investment in joint ventures	0.6
Inventories	4.6
Trade and other receivables	5.8
Cash and short-term deposits	7.5
	18.8
Liabilities associated with disposal group held for sale	£m
Trade and other payables	(4.7)
Retirement benefit obligations	(2.0)
Deferred income	(0.6)
Current tax liability	(0.3)
	(7.6)

At 31 March 2009, an impairment of £5.6 million was recorded against the carrying value of property, plant and equipment of WCL based upon management's best estimate of fair value less costs to sell at that time. No further impairment was recorded in the period up to WCL becoming a disposal group held for sale.

On recognition of the disposal group held for sale, an impairment of £16.0 million was recognised against the previous carrying value of WCL's net assets. This write-down was necessary to reduce the carrying value of the disposal group to the estimated fair value less costs to sell of the business calculated by reference to the proposed consideration of €9 million for 50% of the business adjusted for other costs, and fair value implications of the proposed divestment including options relating to the remaining 30% holding and proposed commercial agreements post completion. In the first instance, £2.6 million was allocated to property, plant and equipment to write down the carrying value to nil. The remaining £13.4 million impairment has been allocated against inventories as there are no other scoped-in non-current assets against which to allocate the remaining impairment and inventories comprise the largest value current asset available for allocation.

On final disposal in 2010/11, certain items previously taken to other comprehensive income in relation to the hedging of WCL's net assets will be recycled to the income statement.

Inventories comprise principally maturing cheese stocks. The retirement benefit obligation relates to the Wexford defined benefit pension scheme. The fair value of plan assets at 31 March 2010 was £10.2 million and the defined benefit obligation was £12.2 million resulting in a net scheme deficit of £2.0 million. Prior year numbers are highlighted in Note 14.

WCL is reported within the Cheese segment.

## Notes to the financial statements

### 10 Earnings per share

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

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

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

The shares held by the Dairy Crest Employees' Share Ownership Plan Trust ('ESOP') are excluded from the weighted average number of shares in issue used in the calculation of earnings per share.

To show earnings per share on a consistent basis, which in the Directors' opinion reflects the ongoing performance of the business more appropriately, adjusted earnings per share have been calculated. The computation for basic and diluted earnings per share (including adjusted earnings per share) are as follows:

	Year ended 31 March 2010			Year ended 31 March 2009		
	Earnings £m	Weighted average no of shares million	Per share amount pence	Earnings £m	Weighted average no of shares million	Per share amount pence
<b>Basic EPS on profit for the year</b>						
Net profit attributable to equity shareholders	54.0	133.0	40.6	75.4	132.8	56.8
Effect of dilutive securities:						
Share options	-	1.4	(0.4)	-	1.2	(0.5)
<b>Diluted EPS on profit for the year</b>	<b>54.0</b>	<b>134.4</b>	<b>40.2</b>	<b>75.4</b>	<b>134.0</b>	<b>56.3</b>
<b>Adjusted basic EPS</b>						
Basic EPS from continuing operations	54.0	133.0	40.6	75.4	132.8	56.8
Exceptional items excluding minority interest (net of tax)	0.6	-	0.5	33.3	-	25.1
Amortisation of acquired intangible assets (net of tax)	6.2	-	4.6	6.4	-	4.8
Pension interest credit (net of tax)	0.4	-	0.3	(5.0)	-	(3.7)
Joint ventures' exceptional items (net of tax)	(2.0)	-	(1.5)	(50.4)	-	(38.0)
<b>Adjusted basic EPS</b>	<b>59.2</b>	<b>133.0</b>	<b>44.5</b>	<b>59.7</b>	<b>132.8</b>	<b>45.0</b>
Effect of dilutive securities:						
Share options	-	1.4	(0.5)	-	1.2	(0.4)
<b>Adjusted diluted EPS</b>	<b>59.2</b>	<b>134.4</b>	<b>44.0</b>	<b>59.7</b>	<b>134.0</b>	<b>44.6</b>

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

## Notes to the financial statements

### 11 Property, plant and equipment

	Land and buildings £m	Vehicles, plant and equipment £m	Assets in the course of construction £m	Total £m
<b>Consolidated 2010</b>				
<b>Cost</b>				
At 1 April 2009	195.7	297.2	8.1	501.0
Additions	2.9	9.3	11.3	23.5
Acquisition of business	-	0.8	-	0.8
Disposals	(8.8)	(27.9)	(0.5)	(37.2)
Transfer to assets in disposal group held for sale	(4.3)	(18.1)	-	(22.4)
Transfers and reclassifications	0.4	6.6	(7.0)	-
Exchange	(0.4)	(1.3)	-	(1.7)
<b>At 31 March 2010</b>	<b>185.5</b>	<b>266.6</b>	<b>11.9</b>	<b>464.0</b>
<b>Accumulated depreciation</b>				
At 1 April 2009	53.4	155.5	-	208.9
Charge for the year	6.8	29.0	-	35.8
Disposals	(5.6)	(25.8)	-	(31.4)
Transfer to assets in disposal group held for sale	(2.6)	(17.2)	-	(19.8)
Exchange	(0.3)	(0.8)	-	(1.1)
<b>At 31 March 2010</b>	<b>51.7</b>	<b>140.7</b>	<b>-</b>	<b>192.4</b>
<b>Net book amount at 31 March 2010</b>	<b>133.8</b>	<b>125.9</b>	<b>11.9</b>	<b>271.6</b>
Net book amount at 31 March 2009	142.3	141.7	8.1	292.1
<b>Consolidated 2009</b>				
<b>Cost</b>				
At 1 April 2008	195.8	307.0	22.3	525.1
Classification adjustment (see Note 13)	-	(0.4)	(4.5)	(4.9)
Additions	7.1	25.8	4.6	37.5
Acquisition of business	-	-	-	-
Disposals	(2.2)	(15.4)	(15.9)	(33.5)
Disposal of business	(7.4)	(22.2)	-	(29.6)
Transfers and reclassifications	0.7	(2.3)	1.6	-
Exchange	1.7	4.7	-	6.4
<b>At 31 March 2009</b>	<b>195.7</b>	<b>297.2</b>	<b>8.1</b>	<b>501.0</b>
<b>Accumulated depreciation</b>				
At 1 April 2008	50.0	147.8	-	197.8
Charge for the year	6.9	33.1	-	40.0
Asset impairments and write-downs	0.7	8.3	-	9.0
Disposals	(1.2)	(15.6)	-	(16.8)
Disposal of business	(4.0)	(21.2)	-	(25.2)
Transfers and reclassifications	-	-	-	-
Exchange	1.0	3.1	-	4.1
<b>At 31 March 2009</b>	<b>53.4</b>	<b>155.5</b>	<b>-</b>	<b>208.9</b>
Net book amount at 31 March 2009	142.3	141.7	8.1	271.6

#### 2010

During the year, the assets of Wexford Creamery Limited were transferred to a disposal group held for sale (see Note 9).

#### 2009

Asset impairments comprise £5.6 million in relation to plant and equipment at Wexford, £3.2 million in relation to property, plant and equipment at the closed Dairy sites at Totnes and Nottingham and £0.2 million in relation to other plant and equipment. Further details are provided in Note 5.

## Notes to the financial statements

### 12 Goodwill

	£m
<b>Cost</b>	
At 31 March 2008	316.1
Additions (Note 17)	0.3
Exchange	28.6
At 31 March 2009	345.0
Additions (Note 17)	1.7
Exchange	(7.6)
<b>At 31 March 2010</b>	<b>339.1</b>
<b>Accumulated impairment</b>	
At 31 March 2008, 2009 and 2010	(2.3)
<b>Net book amount at 31 March 2010</b>	<b>336.8</b>
Net book amount at 31 March 2009	342.7

### 13 Intangible assets

	Assets in the course of construction £m	Internally generated £m	Acquired intangibles £m	Total £m
<b>Cost</b>				
At 31 March 2008	-	3.3	183.0	186.3
Classification adjustment (Note 11)*	4.9	-	-	4.9
Additions	7.5	1.2	-	8.7
Transfers and reclassifications	(5.6)	5.6	-	-
Exchange	-	-	29.2	29.2
<b>At 31 March 2009</b>	<b>6.8</b>	<b>10.1</b>	<b>212.2</b>	<b>229.1</b>
Additions	-	5.6	-	5.6
Transfers and reclassifications	(6.8)	6.8	-	-
Exchange	-	-	(7.8)	(7.8)
<b>At 31 March 2010</b>	<b>-</b>	<b>22.5</b>	<b>204.4</b>	<b>226.9</b>
<b>Accumulated amortisation</b>				
At 31 March 2008	-	1.1	13.8	14.9
Amortisation for the year	-	1.3	9.6	10.9
Asset impairments and write-downs	-	0.8	-	0.8
Exchange	-	-	3.1	3.1
At 31 March 2009	-	3.2	26.5	29.7
Amortisation for the year	-	3.0	9.2	12.2
Exchange	-	-	(1.0)	(1.0)
<b>At 31 March 2010</b>	<b>-</b>	<b>6.2</b>	<b>34.7</b>	<b>40.9</b>
<b>Net book amount at 31 March 2010</b>	<b>-</b>	<b>16.3</b>	<b>169.7</b>	<b>186.0</b>
Net book amount at 31 March 2009	6.8	6.9	185.7	199.4

The remaining useful lives at 31 March 2010 for significant intangible assets are as follows:

Acquired St Hubert brand	22 years
Acquired Le Fleurier brand	12 years
Acquired Valle brand	12 years

#### 2010

- Additions in the year relate principally to software development for manufacturing sites, the Household business and head office. These costs will be amortised over four to seven years.

#### 2009

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

\* Certain internally generated intangible assets that were in the course of construction at 31 March 2008 were included within plant and equipment for that year. The classification of those assets into intangibles was reflected in the year ended 31 March 2009.

## Notes to the financial statements

### 14 Retirement benefit obligations

The Group has two defined benefit pension plans, Dairy Crest in the UK and Wexford in Ireland, both of which require contributions to be made to separately administered funds. The Dairy Crest Group pension fund is a final salary scheme that was closed to new employees joining after 30 June 2006. Employees joining after this date are invited to join a Dairy Crest Group defined contribution plan. During the year ended 31 March 2010, the Dairy Crest Group pension fund was closed to future service accrual with an effective date of 1 April 2010. Members of the scheme have been invited to make contributions into the defined contribution plan in future.

During the year ended 31 March 2010, Wexford Creamery Limited became a disposal group held for sale. As a result the Wexford pension scheme is no longer included in the analysis below at 31 March 2010. Further details are provided in Note 9.

The most recent full actuarial valuation of the Dairy Crest Group pension fund was carried out as at 31 March 2007 by the fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially and the March 2010 valuation will be completed in the year ended 31 March 2011.

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

	<b>Dairy Crest Group pension plans</b>	
	<b>2010</b>	2009
	<b>£m</b>	£m
<b>Net benefit expense recognised in the consolidated income statement</b>		
Current service cost	9.5	12.8
Curtailed gains (see Note 5)	(16.9)	(0.5)
Interest cost on benefit obligation	39.5	42.1
Expected return on plan assets	(39.0)	(49.0)
Net benefit (income)/expense	<b>(6.9)</b>	5.4
<b>Net actuarial loss recognised in other comprehensive income</b>		
Actual return less expected return on pension scheme assets	134.2	(231.1)
Experience gains arising on scheme liabilities	7.9	6.8
(Loss) / gain arising from changes in assumptions underlying the present value of scheme liabilities	(259.8)	106.2
Net actuarial loss	(117.7)	(118.1)
Related tax	33.3	32.9
Net actuarial loss recognised in other comprehensive income	<b>(84.4)</b>	(85.2)
Actual returns on plan assets were £173.2 million (2009: £182.1 million negative return).		
<b>Defined benefit obligation</b>		
Fair value of plan assets:		
- Equities	63.6	264.9
- Bonds and cash	234.0	106.9
- Equity return swaps valuation	70.0	-
- Property and other	51.4	27.2
- Insured retirement obligations	261.1	114.0
	<b>680.1</b>	513.0
Defined benefit obligation:		
- Uninsured retirement obligations	(561.4)	(462.3)
- Insured retirement obligations	(261.1)	(114.0)
Total defined benefit obligation	<b>(822.5)</b>	(576.3)
Net liability recognised in the balance sheet	<b>(142.4)</b>	(63.3)
Analysed:		
Dairy Crest scheme	(142.4)	(60.0)
Wexford scheme	-	(3.3)
	<b>(142.4)</b>	(63.3)
Related deferred tax asset	39.9	17.2
Net pension liability	<b>(102.5)</b>	(46.1)

After the last triennial actuarial review based on March 2007, the Group agreed to make cash contributions of 18.3% of pensionable salary into the UK defined benefit pension scheme for three years. Furthermore, additional contributions of £12 million per annum were agreed for the two years to March 2009. Further additional contributions of £20 million per annum have been agreed from October 2009 (£10 million in the year ended 31 March 2010). These arrangements will be reviewed with the Trustee after the March 2010 full actuarial valuation is completed.

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

The purchase of the second insurance contract in June 2009 was funded by the sale of equities. Subsequently, in order to re-establish an appropriate equity weighting of scheme assets, the Fund purchased equity total return swaps (synthetic equity). These instruments comprise an asset leg and a liability leg. The asset leg generates a return based on UK and overseas equity indices and the liability leg incurs a cost based on LIBOR plus margin. At inception, the principal value of each leg was £200 million. The positive valuation of synthetic equity at 31 March 2010 reflects the underlying strength in equities subsequent to the swap purchase. Credit risk is minimised since collateral is provided by the counterparties to the benefit of the Dairy Crest Pension Scheme when the instruments are in the money.

## Notes to the financial statements

### 14 Retirement benefit obligations (continued)

Scheme assets are stated at their market values at the respective balance sheet dates with the exception of the insured retirement obligations which equal the IAS 19 valuation of obligations which they cover. The expected rate of return on equities of 7.8% (March 2009: 8.3%) reflects historic UK equity returns with an assumption for 2010 that the strong equity market rally in 2009/10 will give rise to marginally lower market returns in the medium term versus what was assumed at 31 March 2009. The equity return assumption represents a reasonable risk premium over gilts. It is within the range of assumptions typically used by companies of a similar size. This return assumption is also applied to the equity leg on equity total return swaps. The liability leg cost assumption is based upon medium term LIBOR yields. The expected rate of return on bonds of 5.1% (March 2009: 7.1%) is based upon the gross redemption yields available on a similar profile of gilts and corporate bonds.

The average duration of scheme liabilities is approximately 19 years. Discount rate assumptions for each reporting period are based upon quoted AA-rated corporate bond indices, excluding collateralised bonds, with maturities matching the schemes expected benefit payments. Inflation assumptions are based upon the difference between long-term fixed income and index linked gilt yields. The scheme deficit is highly dependent upon these input assumptions which are set at the reporting period end dates. A 0.1% decrease in the discount rate assumption would increase the scheme obligation by approximately £16 million (2009: £12 million). A 0.1% increase in the inflation assumption would increase the scheme obligation by approximately £10 million (2009: £7 million). An increase in life expectancy across all members of one year would increase the scheme obligation by approximately £24 million (2009: £13 million).

The net benefit expense for the year for Wexford Creamery Limited, included in the table above, amounted to £0.5 million (2009: £0.5 million). The fair value of plan assets, the obligation and the net scheme deficit are disclosed in Note 9.

	<b>Dairy Crest Group pension plans</b>	
	<b>2010</b>	2009
	<b>£m</b>	£m
<b>Movement in the present value of the defined benefit obligations are as follows:</b>		
Opening defined benefit obligation	(576.3)	(653.2)
Current service cost	(9.5)	(12.8)
Curtailment gains	16.9	0.5
Interest cost	(39.5)	(42.1)
Contributions by plan participants	(5.9)	(6.7)
Actuarial (losses) / gains	(251.9)	113.0
Wexford scheme obligations transferred to disposal group held for sale	12.2	-
Exchange impact	0.3	(1.8)
Benefits paid	31.2	26.8
Closing defined benefit obligation	(822.5)	(576.3)
<b>Movement in the fair value of plan assets are as follows:</b>		
Opening fair value of plan assets	513.0	684.8
Expected return	39.0	49.0
Actual less expected return	134.2	(231.1)
Contributions by employer	29.7	28.8
Contributions by employees	5.9	6.7
Wexford scheme assets transferred to disposal group held for sale	(10.2)	-
Exchange impact	(0.3)	1.6
Benefits paid	(31.2)	(26.8)
Closing fair value of plan assets	680.1	513.0

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

	<b>2010</b>	2009
	%	%
<b>Key assumptions:</b>		
Rate of increase in salaries	5.2	4.4
Rate of increase in pensions in payment and deferred pensions (and price inflation)	3.7	2.9
Average expected remaining life of a 65 year old non-retired male (years)	20.9	20.9
Average expected remaining life of a 65 year old retired male (years)	19.8	19.8
Average expected remaining life of a 65 year old non-retired female (years)	23.2	23.2
Average expected remaining life of a 65 year old retired female (years)	22.1	22.1
Discount rate	5.7	7.0
Expected return:		
- Equities	7.8	8.3
- Bonds and cash	5.1	7.1
- Synthetic equity exposure on equity swap contracts	7.8	-
- LIBOR exposure on equity swap contracts	4.7	-
- Property and other	7.0	7.0
- Insured retirement obligations	5.7	7.0

The agreed cash funding requirement resulting from the last full actuarial review is for the Group to make cash contributions of 18.3% of pensionable pay amounting to approximately £14.4 million in 2009/10. This will be virtually nil in 2010/11 due to the closure of the scheme to future service accrual.

## Notes to the financial statements

### 15 Provisions

	YDC pension liabilities	OFT provision (including legal fees)	Onerous contract	Total
	£m	£m	£m	£m
At 1 April 2008	-	9.6	3.0	<b>12.6</b>
Charged in the year as exceptional (see Note 5)	3.5	-	0.9	4.4
Utilised	(3.5)	-	(3.6)	(7.1)
Discount unwind	-	-	0.2	0.2
At 31 March 2009 - Current	-	9.6	0.5	10.1
Released during the year as exceptional (see Note 5)	-	(2.2)	-	(2.2)
Utilised	-	(0.1)	(0.5)	(0.6)
<b>At 31 March 2010 - Current</b>	<b>-</b>	<b>7.3</b>	<b>-</b>	<b>7.3</b>

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

An exceptional provision was charged in 2007/08 in relation to the settlement of the OFT investigation into milk price initiatives (including legal costs). The amount of the fine provided was £9.4 million plus legal fees and reflected the early resolution agreement that was reached with the OFT in December 2007. In April 2010 the OFT announced that parties to the 2007 Statement of Objections will get a penalty reduction provided each company continues to co-operate with the OFT. The OFT expects to conclude and issue its decision by early summer 2010. Accordingly, the provision has been reduced to reflect our best estimate of the penalty ultimately payable (£7.1 million) plus legal fees expected to be incurred (£0.2 million). This fine is dependent upon the Group's continued full co-operation with the OFT until the matter is settled. Settlement is expected to be reached in the year ending 31 March 2011 and therefore the related provision has been classified as current.

#### Onerous contract

The Group had one milk supply contract with a middle ground customer which, due to unprecedented increases in milk costs in 2007/08 and a subsequent weakening of cream prices, became onerous. An exceptional provision of £4.4 million was charged in the year ended 31 March 2008, being the best estimate at the time of the present value of future cash outflows resulting from the contractual obligations in the contract. In the year ended 31 March 2009, there were further milk cost increases and contract negotiations took longer than anticipated. This resulted in a £0.9 million additional provision being charged. The onerous contract was exited in June 2009 by which point the remaining provision had been fully extinguished.

#### YDC pension liabilities

As part of the disposal of YDC, future service accruals immediately ceased in the YDC defined benefit scheme and the Group contracted to extinguish any remaining funding liability by purchasing an insurance buy-out. On completion of the disposal, £3.5 million was charged as a provision for the cost of the insurance and funds were deposited in escrow for the benefit of the YDC scheme trustee. This amount was the best estimate at the date of disposal of the cost of buying out the scheme liabilities. This was accounted for as a provision under IAS 37 and not under IAS 19 as there ceased to be a defined benefit scheme on completion of the disposal. During the year ended 31 March 2010, the Group received £2.3 million back from escrow as the final cost of insuring future pension liabilities was lower than originally anticipated. The refund from escrow was treated as an exceptional gain and further details are provided in Note 5.

### 16 Notes to statement of changes in equity

Other reserves	Merger reserve	Hedging reserve	Translation Reserve*	Other reserves
	£m	£m	£m	£m
At 31 March 2009	55.9	3.2	17.4	<b>76.5</b>
Total recognised in other comprehensive income	-	(2.6)	(7.5)	<b>(10.1)</b>
<b>At 31 March 2010</b>	<b>55.9</b>	<b>0.6</b>	<b>9.9</b>	<b>66.4</b>
At 31 March 2008	55.9	9.1	2.0	67.0
Total recognised in other comprehensive income	-	(5.9)	15.4	9.5
At 31 March 2009	55.9	3.2	17.4	76.5

\* The classification of reserves at 31 March 2009 has been restated to correctly analyse net investment hedges in relation to Wexford Creamery Limited between translation reserve and retained earnings. The impact is to increase retained earnings at that date by £0.9 million and to reduce the translation reserve by £0.9 million. There is no impact on total share capital and reserves, nor on minority interests at that date. The classification of reserves at 31 March 2008 is not affected by this change.

The merger reserve includes the premium on shares issued to satisfy the purchase of Dairy Crest Limited in 1996. The cumulative amount of goodwill charged against the merger reserve is £86.8 million (2009: £86.8 million). The reserve is not distributable.

The hedging reserve records the movements on designated hedging items, offset by any movements recognised directly in equity on underlying hedging items.

The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

## Notes to the financial statements

### 17 Business combinations and disposals

#### Year ended 31 March 2010

On 20 June 2009, the Group completed the sale of 16 depots to Medina Dairy Limited. The Group retained supply of packed milk into these depots and ownership of land and buildings where relevant. Proceeds amounted to £1.4 million and the Group incurred fees and other costs of £0.2 million resulting in a net cash inflow of £1.2 million. The loss on disposal amounted to £0.4 million and can be analysed as follows:

	£m
Proceeds	1.4
Book value of inventories	(0.1)
Book value of trade receivables	(1.6)
Book value of trade and other creditors	0.1
Other fees and costs	(0.2)
Loss on disposal	(0.4)

In June 2009 the Group took advantage of call options agreed on the acquisition of its initial 50% stake, and acquired the remaining 50% of the ordinary share capital of Fayrefield Foodtec Limited for gross consideration of £2.5 million. The provisional fair value of the identifiable assets and liabilities of the business at the date of acquisition was as follows:

	Fair value to Group £m	Book value £m
Property, plant and equipment	0.8	0.8
Inventories	1.2	1.2
Receivables	1.3	1.3
Cash	0.8	0.8
Payables	(1.1)	(1.1)
Net assets	3.0	3.0
Goodwill	1.7	
	4.7	
Comprising:		
Cash consideration in December 2007	2.0	
Cash consideration in June 2009	2.5	
Fees & other	0.2	

No material fair value adjustments were made to the book value of assets acquired as accounting policies were consistent with Group policies and no further recognisable intangible assets were identified. Factors affecting goodwill include the benefits that might accrue to the wider Dairy Crest Group from future new product development.

#### Year ended 31 March 2009

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

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

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

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

## Notes to the financial statements

### 18 Cash flow from operating activities

	Year ended	Year ended
	31 March 2010	31 March 2009
	£m	£m
Profit before taxation	77.8	103.2
Finance costs and other finance income	22.9	22.6
Impairment of assets on creation of disposal group held for sale	16.0	-
Share of joint ventures' net profit	(0.1)	(7.3)
Profit on disposal of joint venture	(2.0)	(50.4)
Profit before net finance costs and taxation	114.6	68.1
Depreciation	35.8	40.0
Amortisation of intangible assets	12.2	10.9
Exceptional items	(20.6)	11.2
Release of grants	(0.7)	(0.7)
Share based payments	2.4	0.8
Profit on disposal of household depots	(3.4)	(4.3)
Difference between pension contributions paid and amounts recognised in the income statement	(20.1)	(16.0)
Decrease / (increase) in inventories	28.9	(38.3)
(Increase) / decrease in receivables	(3.4)	49.3
Increase in payables	0.2	8.1
<b>Cash generated from operations</b>	<b>145.9</b>	<b>129.1</b>

### 19 Analysis of net debt

Group	At 1 April 2009	Cash flow	Transfer	Exchange movement	At 31 March 2010
	£m	£m	£m	£m	£m
Cash at bank and in hand	107.5	(79.7)	(7.5)	(0.3)	20.0
Overdrafts	-	-	-	-	-
Cash and cash equivalents	107.5	(79.7)	(7.5)	(0.3)	20.0
Borrowings (non-current)	(541.6)	150.6	-	17.6	(373.4)
Finance leases	(13.8)	2.0	-	-	(11.8)
	(447.9)	72.9	(7.5)	17.3	(365.2)
Cash included in disposal group (Note 9)	-	-	7.5	-	7.5
Impact of cross-currency swaps *	32.1	-	-	(11.6)	20.5
	(415.8)	72.9	-	5.7	(337.2)
		At 1 April 2008	Cash flow	Exchange movement	At 31 March 2009
		£m	£m	£m	£m
Cash at bank and in hand		40.3	66.5	0.7	107.5
Overdrafts		(1.4)	1.4	-	-
Cash and cash equivalents		38.9	67.9	0.7	107.5
Borrowings (current)		(25.0)	25.0	-	-
Borrowings (non-current)		(456.6)	(0.3)	(84.7)	(541.6)
Finance leases		(16.3)	2.5	-	(13.8)
		(459.0)	95.1	(84.0)	(447.9)
Impact of cross-currency swaps *		(15.8)	-	47.9	32.1
		(474.8)	95.1	(36.1)	(415.8)

\* The Group and Company have \$233 million and €75 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (2009: \$233 million only). Under IFRS, currency borrowings are retranslated into Sterling at year end exchange rates. The cross-currency swaps are recorded at fair value and incorporate movements in both market exchange rates and interest rates. The Group defines net debt so as to include the effective Sterling liability where cross-currency swaps have been used to convert foreign currency borrowings into Sterling. The £20.5 million adjustment included above (2009: £32.1 million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£220.5 million (2009: £232.1 million)) to the fixed Sterling liability £200.0 million (2009: £200.0 million)). This amount forms part of the overall swap fair value of £25.4 million (2009: £39.5 million).