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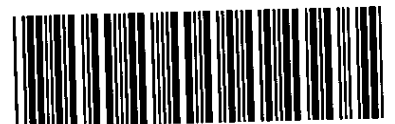
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GROWING TOGETHER



Dairy Crest Group plc
Annual Report 2017

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ABOUT US

Dairy Crest is a leading British dairy company. We have a well-established strategy, a clear vision, robust values and great people.

The company's success is driven by a strong portfolio of market leading brands including Cathedral City cheese, Clover dairy spread, Country Life butter and Frylight, the original one calorie cooking spray.

The year ended 31 March 2017 marked a new chapter in our history as we started production of two functional ingredients, demineralised whey powder and galacto-oligosaccharide ('GOS') at our Davidstow facility. This brings exciting new opportunities in the high growth global infant formula market.

We strive constantly to innovate, bringing new products to market and introducing new ways of working across the business.

Our success has been built on our links to the countryside, our dairy heritage and our people and we continue to ensure we are setting the standard for responsible business practice.

Dairy Crest is very well positioned for profitable and sustainable growth in our added value and branded markets.

**The UK's No1
cheese brand**

**The UK's No1
dairy spread**

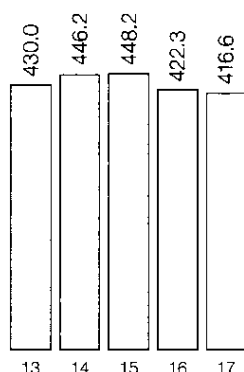
**The UK's No1
oil brand**

**The UK's fastest growing
major spreadable brand**

2017 HIGHLIGHTS

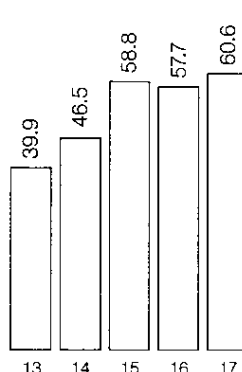
Revenue ¹ (£m)

£416.6m



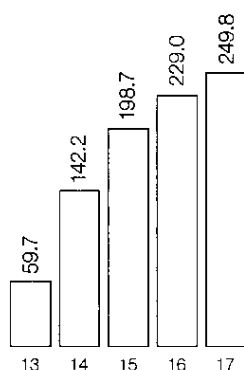
Adjusted profit before tax ^{1,2} (£m)

£60.6m



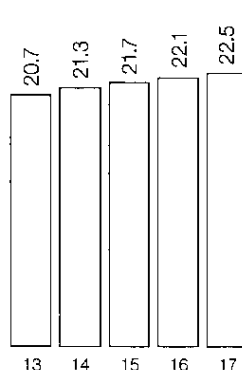
Net debt (£m)

£249.8m



Total dividends per share (pence)

22.5p



¹ All years have been restated to remove discontinued operations

² Continuing operations before exceptional items, amortisation of acquired intangibles and pension interest

Statutory results

	2017 £m	2016 £m
Profit before tax from continuing operations	40.3	45.4
Profit from continuing operations	33.1	38.5
Profit/(loss) from discontinued operations	5.2	(151.5)
Profit/(loss) for the year	38.3	(113.0)

Notice: Limitations on Director liability – The purpose of the Annual Report and Accounts is to provide information to members of the Company and it has been prepared for, and only for, the members of the Company as a body. The Company, its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility is expressly disclaimed. Under the Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' report contained on pages 4 to 40 and 62 to 64 and from the Directors' remuneration report at pages 41 to 61. Under English law the Directors would be liable to the Company (but not to any third party) if the Directors' report contained errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but they would not otherwise be liable. The Directors' report and the Directors' remuneration report have been drawn up and presented in accordance with and in reliance upon English company law. Liabilities of the

Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

Cautionary statement regarding forward-looking statements – The Group's reports including this Annual Report and Accounts and written information released or oral statements made to the public in the future, by or on behalf of the Company and the Group, may contain forward-looking statements. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the time of their preparation and, except to the extent required by applicable regulations or by law, the Company and the Group undertake no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

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Non-GAAP measures of financial performance used throughout this Annual Report and Accounts are defined in the financial review on pages 12 to 15 and in Note 1 to the financial statements.

Strategic report

Governance

The numbers

AT A GLANCE

Who we are

Dairy Crest is a leading British dairy company

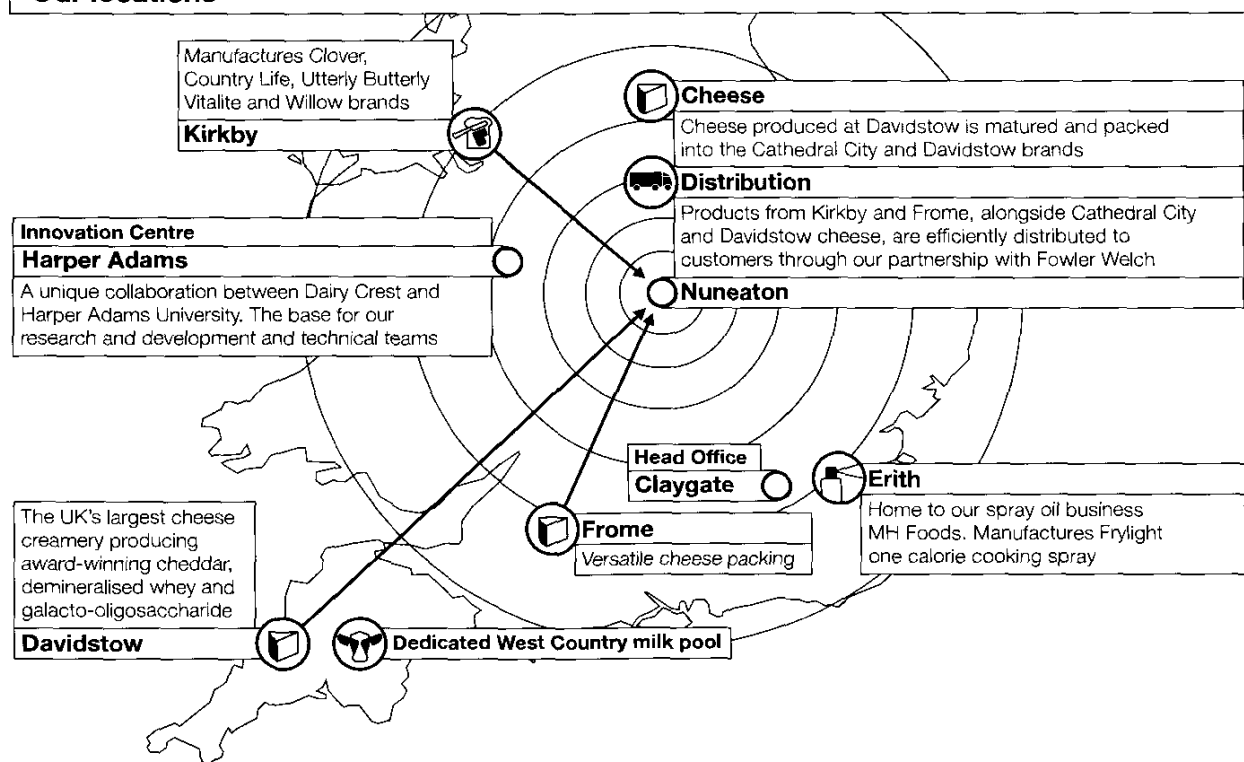
Vision

- Our success has been built on our links to the countryside, our dairy heritage and the people in our business
- From this, we will grow through a shared passion to create exceptional food, loved by every generation

Strategy

- To generate growth by building strong positions in branded and added value markets
- To simplify, make more resilient and reduce costs
- To generate cash and reduce risk
- To make acquisitions where they will generate value

Our locations



Our retail markets

Cheese*	£2.5 billion
Butter and spreads*	£1.2 billion
Oils**	£330 million
Infant formula global***	\$55 billion

* IRI market data, 52 weeks ended 25 March 2017
 ** Kantar market data 52 weeks ended 26 March 2017
 *** Euromonitor estimate 2016

Retail sales of our four key brands

£420m

360

British farms supply Dairy Crest

The infant formula market is growing by

8% year on year

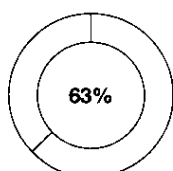
99% of people regularly consume dairy products

c500m litres of raw milk purchased a year

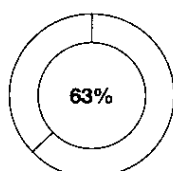
Product groups

Cheese & functional ingredients

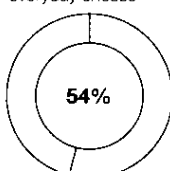
Revenue



Profit



Market share Retail branded everyday cheese



Contribution to Group: % of total Group. Revenue excludes other revenue. Profit is product group profit excluding share of associates.

Market share source: IRI 52 weeks ended 25 March 2017.

Dairy Crest produces and markets Cathedral City, the UK's leading cheese brand, and the premium Davidstow cheddar brand. Our world-class supply chain starts with milk supplied by 360 farmers in the dairying heartlands of Cornwall and Devon. This top quality milk is made into cheddar cheese at our highly-automated creamery in Davidstow, Cornwall. The cheese then matures for on average nearly a year at our purpose-built Nuneaton facility before being cut, packed and distributed. We have a second packing site in Frome, Somerset, for more complex and innovative packaging.

Whey is a by-product of the cheese making process. Our new facility at Davidstow produces demineralised whey and galacto-oligosaccharide ('GOS'), a lactose based prebiotic, which are both ingredients for infant formula, a high-growth, high-margin global market.

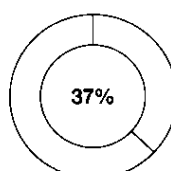
Highlights

- Cathedral City is Britain's largest cheese brand, 18th largest grocery brand and 7th largest online grocery brand
- Cathedral City is now bought by nearly 55% of UK households each year
- Cathedral City has been re-launched with new and improved packaging design across the range
- 100% of our milk comes from dedicated farmers in the South West of England
- Production and sales of demineralised whey and GOS are underway

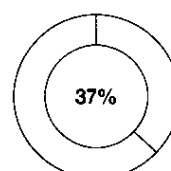
**The UK's No1
cheese brand**

Butters, spreads & oils

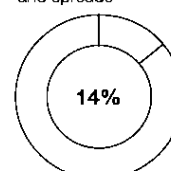
Revenue



Profit



Market share Retail butter and spreads



Dairy Crest manufactures a number of leading butters, spreads & oil brands in the UK. Key brands include Country Life (butter) and Clover (spread) which are produced at a single facility in Kirkby, Merseyside, alongside a portfolio of smaller brands in the spreads category.

Our subsidiary company, MH Foods, is based in Erith, Kent and has a strong heritage in innovative food products spanning more than 30 years. It produces Frylight, the original one calorie cooking spray and now the UK's largest oil brand.

Highlights

- Frylight continues to grow sales strongly, growing volumes by 23% and increasing its lead as the UK's No1 oil brand
- Country Life spreadable gained share and grew sales by 7%
- 'No artificial ingredients' Clover continued to gain share, outgrowing a difficult spreads market by 4%
- Re-launched Vitalite, our iconic dairy free brand, grew sales by 3%

**The UK's No1
dairy spread**

**The UK's No1
dairy free spread**

**The UK's fastest growing
major spreadable brand**

The UK's No1 oil brand

OUR BUSINESS MODEL

Making the most from milk

Dairy Crest processes and markets branded dairy products and value-added ingredients. Our business depends on milk and we make sure we use every drop we buy. This diagram shows how milk flows through our business and the products we make from it.

We have two product groups: Cheese & functional ingredients and Butters, spreads & oils.

Cheese & functional ingredients

c 500 million litres of fresh milk from 360 farms

Butters, spreads & oils

Bulk butter and oils

Cheese

Dairy Crest produces and markets Cathedral City, the UK's leading cheese brand, and the premium Davidstow cheddar brand. Our world-class supply chain starts with milk supplied by 360 farmers in the dairying heartlands of Cornwall and Devon. This top quality milk is made into cheddar cheese at our highly-automated creamery in Davidstow, Cornwall. The cheese then matures for an average of nearly a year at our purpose-built Nuneaton facility before being cut, packed and distributed. We have a second packing site in Frome, Somerset, for more complex and innovative packaging.

Functional ingredients

Dairy Crest's functional ingredients business produces and sells demineralised whey, GOS and other added value dairy ingredients including whey butter.

Whey is a by-product of the cheese making process. We have a new facility at Davidstow producing demineralised whey and GOS, both ingredients for infant formula, a high-growth, high-margin global market.

Cheese**Cheddar****Functional ingredients****Demineralised whey****Galacto-oligosaccharide (GOS)****Butters and spreads****Packet butter and spreadable****Dairy spreads****Oils****Frylight****Butters & spreads**

Dairy Crest manufactures a number of leading butters and spreads brands in the UK. Key brands include Country Life (butter) and Clover (spread) which are produced at a single facility in Kirkby, Merseyside, alongside a portfolio of smaller brands in the spreads category.

Oils

Dairy Crest produces Frylight, a one calorie cooking spray, at its facility in Erith. Since its acquisition in 2011 sales have more than doubled and Frylight is now the No1 oil brand in the UK.

Dedicated milk supply

A sustainable supply of high quality milk is important to Dairy Crest. We buy around 500 million litres annually from 360 farmers in the South West of England.

We are committed to working in partnership with our farmers to ensure that together, we are best placed to take advantage of market growth opportunities.

OUR STRATEGY

Dairy Crest has a clear strategy against which we continue to make progress.

Our key performance indicators ('KPIs') are summarised opposite. These KPIs are also used as measures for our Long Term Alignment Plan ('LTAP') for Directors and senior employees.

Operational performance – pages 18 to 21
Financial performance – pages 12 to 15
Corporate responsibility performance – pages 22 to 27
See how we make 'the most from milk' through our integrated business model – pages 4 to 5
Further details of our LTAP – pages 52 to 54 and 58 to 59

Our strategy	Progress 2016/17
To generate growth by building strong positions in branded and added value markets	<ul style="list-style-type: none"> ● Combined volumes of four key brands are flat: <ul style="list-style-type: none"> – Cathedral City master brand launch with support from TV advertising – growth in second half – Clover and other spreads brands grow volumes well ahead of the market and take a combined 2 percentage points of share – Country Life spreadable grew volumes by 6% – Frylight volume growth of 23%, increasing its lead as the UK's No1 oil brand, and winning the IGD 'Health and Wellness' product of the year ● Entered into a research partnership with Danisco Animal Nutrition, part of Dupont, to explore further the potential uses of GOS in animal nutrition ● Improved level of demineralised whey hitting the infant formula quality target rate of 80%
To simplify, make more resilient and reduce costs	<ul style="list-style-type: none"> ● Post the sale of our Dairies business we are now a much simpler business ● We are driving further efficiencies and cost savings, which remains an integral part of doing business at Dairy Crest ● We have started the implementation of new, simplified IT systems, which will drastically reduce the number of systems we use ● We signed an agreement with Fowler Welch Coolchain Ltd, transferring our transport operations to them and will, over time, build a larger warehousing and logistics operation at our Nuneaton site
To generate cash and reduce risk	<ul style="list-style-type: none"> ● Dairy Crest increased its cash inflow from operating activities by 11% but debt reduction was hampered by one-off items: Davidstow commissioning, final settlement of consideration on the sale of the Dairies business and working capital increases as milk costs rose ● We now have five well-invested manufacturing sites and hence capital expenditure has been significantly reduced ● We have put in place specific financing covering our new functional ingredients plant at Davidstow, which has led to a cash inflow of £37.9 million
To make acquisitions where they will generate value	<ul style="list-style-type: none"> ● Our focus has been on organic growth and we have not made any acquisitions during the year ended 31 March 2017

Future priorities

- Our focus will remain to grow the market share of our key brands, Cathedral City, Clover, Country Life and Frylight
- Continued investment in advertising and promotion
- Further develop our strong pipeline of innovation
- Accelerating returns from our investment in demineralised whey and GOS at Davidstow
- Further developing our GOS business in adult and animal nutrition

- To continue to implement a two year programme to replace core IT systems to deliver a less costly and simpler IT infrastructure more appropriate for our smaller business and realise significant associated cost savings
- Continue to seek cost reductions and drive operational efficiency improvements across the business

- Net debt expected to reduce in 2017/18 as a result of strong underlying cash generation and reduced one-off costs
- Continued sales of properties will provide cash to the business
- We have a low future capital expenditure requirement
- For 2017/18 the sharply higher milk price will impact working capital but milk costs have now started to fall

- We will continue to look for value-enhancing acquisitions which meet our stringent requirements

Key performance indicators and performance in the year ended 31 March 2017

Deliver progressive dividends with cover between 1.5 and 2.5 times.

In the year ended 31 March 2017 the Board is recommending a total dividend up 1.9%. This is covered 1.6 times.

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

In the year ended 31 March 2017 EBITDA was flat and adjusted PBT increased by 5%.

Deliver an acceptable return on capital employed (ROCE)*.

ROCE for the year ended 31 March 2017 was 15.4%.

Maintain net debt/EBITDA within the range 1 – 2 times**.

At 31 March 2017 net debt/EBITDA was 2.9 times (31 March 2016: 2.7 times).

Grow our four key brands ahead of the market.

In the year ended 31 March 2017 Clover, Frylight and Country Life spreadable grew ahead of the market although Cathedral City did not (31 March 2016: 3 of our key brands grew ahead of the market).

Deliver cost saving initiatives.

Cost reduction projects initiated in the year ended 31 March 2017 have delivered substantial benefits ahead of plan.

Achieve revenue targets for products developed in the last 3 years.

In the year ended 31 March 2017 around 13% of our revenue came from such sales against a target of 10% (31 March 2016: 11% of revenue).

Improve corporate responsibility measures.

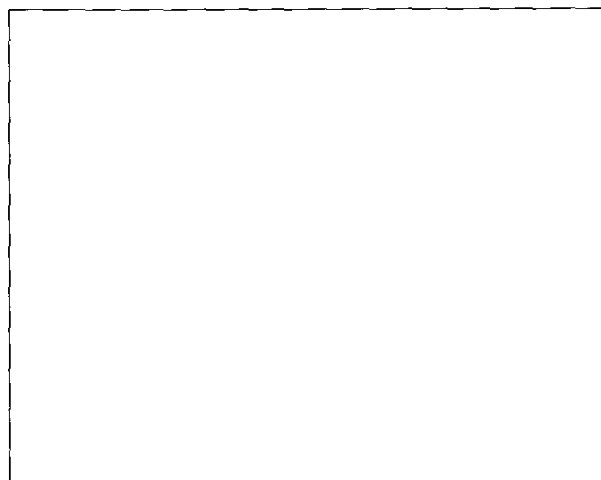
During the year we introduced our new corporate responsibility pledges. There are fourteen pledges grouped under the four pillars of Climate, Colleagues, Consumers and Community. See the corporate responsibility section on pages 22 to 27 for more detail.

* ROCE is calculated as product group profit from continuing operations for the year divided by the average operating assets of the continuing operations over the year. Operating assets are defined as property, plant and equipment, goodwill, intangible assets, inventories, trade and other receivables, trade and other payables, and provisions.

** Further details on page 14.

Definitions of the 'adjusted' numbers are included in the financial review on pages 12 to 15. There is a more detailed review of our performance against KPIs on pages 52 to 54 and 58 to 59.

CHAIRMAN'S STATEMENT



Review of the year

This year we have delivered a set of results which demonstrate the underlying robustness of our business. Adjusted profit before tax has increased by 5% to £60.6 million and profit margins have increased to 16.4%. This performance has been delivered despite a highly volatile background in global dairy markets.

In the first half of the year, milk volumes were strong across the UK and falling milk and cream prices reflected this. However, after two years of pronounced deflation, UK and global dairy markets strengthened in the second half of the year as supply fell. In this environment, we increased the price we pay our farmers for milk by 38% between the summer of 2016 and March 2017. The impact on cream prices was even more pronounced and butter input costs doubled in the second half of 2016.

Despite this background, we increased profits and delivered a strong branded performance, especially across our butters, spreads and oils portfolio. Furthermore, 2016/17 saw the start of demineralised whey and GOS production at our Davidstow creamery. Sales of functional ingredients represent an important future growth opportunity for the business.

Developing brands

Developing brands is at the heart of our business and 2016/17 saw good progress across our portfolio. Cathedral City, Clover and Frylight have each benefited from refreshed packaging during the last 12 months and the level of overall marketing activity was increased compared to the prior year. We aired two new TV advertisements for Cathedral City and Frylight and supported a significant programme of consumer-facing and in-store advertising, and promotional activity across our key brands.

Innovation at the core

I am delighted that our success in innovation and product development was recognised this year. Clover won the spreads category 'Product of the Year 2017' award in the world's largest consumer survey award for product innovation. This is testimony to the work undertaken to remove all artificial ingredients from the recipe. Furthermore, in October 2016 Frylight won the Institute of Grocery and Distribution 'Health and Wellness' award.

Innovation is critical in order to continue to grow our business and 13% of the Group's revenue in 2016/17 resulted from products that are less than three years old. This is well ahead of the 10% target we set ourselves.

Value-added ingredients

We have now completed our investment at our cheese creamery at Davidstow, Cornwall. We are producing demineralised whey, an added value by-product of the cheese-making process. Demineralised whey is the base ingredient for infant formula and by March 2017 over 80% of production was meeting the exacting standards required for use in infant formula recipes.

Furthermore, we have also started manufacturing GOS at Davidstow. GOS is a prebiotic which is added into premium infant formula to help aid digestion and growth in babies.

Both of these products are being marketed and sold into global infant formula manufacturers by our partner, Fonterra. We also continue to research other potential applications for GOS in both human nutrition and animal feed. In December 2016 Dairy Crest announced that it had entered into a research partnership with Danisco Animal Nutrition, part of DuPont, to explore further the potential uses of GOS in poultry and swine. If successful, this work would help to broaden the potential market for GOS beyond infant formula.

Our culture and values

Our success has been built on our links to the countryside, our dairy heritage and the people in our business. From this foundation we will grow through a shared passion to create exceptional food, loved by every generation.

Dairy Crest remains committed to doing the right thing in the way we conduct ourselves and do business. Following the sale of the Dairies business, we have refined our corporate responsibility agenda into 14 new pledges. These pledges set demanding targets across areas such as environmental impact, employee safety, diversity and development, delivering to our consumers and contributing to the communities in which we operate. We will measure ourselves against these pledges and report on progress annually.

Increased dividend recommended

The Board is recommending a final dividend of 16.3 pence per share, making a full year dividend of 22.5 pence per share. In line with our progressive dividend policy, this is a 1.9% increase on last year. The dividend is covered 1.6 times by adjusted basic earnings per share. A key part of our strategy remains to continue to increase dividends each year, aiming for a target cover range of 1.5 to 2.5 times.

Summary

Our performance this year is not only a result of the Group's long-term strategy but also a reflection of the significant contribution and dedication of all of our employees, for which I would like to thank them.

The Board remains confident in the future prospects for Dairy Crest. The business has a strong management team who are delivering against a clear business strategy of building brands, adding value, driving simplicity, generating cash and reducing risk.

Stephen Alexander Chairman

17 May 2017

CHIEF EXECUTIVE'S REVIEW

Summary: margin improvement despite deflation

Dairy Crest has implemented significant changes during the last two years. We are a much leaner, more focused organisation that makes predominantly branded and high value-added products. This allows management and the business to focus on those areas that will drive long-term value creation: innovation, brand building, efficiency improvements and cost reduction.

I am particularly pleased that overall margins in the business have improved. This is despite the difficult input cost environment and the longer than expected commissioning period of the new functional ingredients facility at Davidstow. The strength of our brands, our well-invested supply chain and the quality of our people all ensure that the Company is well positioned for the future. This will help us to maintain our strong track record of rewarding shareholders with higher dividends.

Market background: the return of inflation

We are a major UK buyer of milk and last year we purchased around 500 million litres. The past year has seen a turning point in dairy prices. After a prolonged period of deflation, dairy commodity prices have experienced strong gains. Low milk prices had an effect on milk volumes. They were down in most large milk producing countries across the world. Consequently milk prices rose. During the course of the year we have increased the price we pay farmers for milk by 38% to 30 pence per litre. Since then we have announced a 1 pence per litre reduction from June and a further 1 pence per litre reduction from July. We pay our farmers a fair, competitive price for their milk and our price remains one of the highest in the country.

However these inflationary forces do take time to work their way through to the prices that consumers see in the shops. In the first nine months of the financial year cheese retail prices fell or remained stable. Since Christmas, however, we have seen evidence of prices increasing on shelf.

Butter has been even more affected than cheese. Cream prices, which determine the input costs for butter, more than doubled during the year. Inevitably this has impacted margins in our butters, spreads and oils business.

Managing volatility is a challenge for both us and food retailers, our principal customers. For this reason we continue to work with our customers to help to grow our categories through innovation, marketing and category merchandising.

Key brands perform robustly

Overall revenues from our four key brands were down 6%. This is in line with our expectations. Most of this decline was due to the deflationary market place that we experienced for over three quarters of the year. Key brand volumes were flat across the year. Volume growth in Frylight, Clover and Country Life spreadable was offset by declines in Country Life block butter, which we promoted less, and Cathedral City. However, as predicted, the latter made good progress in the second half of the year, with a return to volume growth.

Cheese

IRI data for the 52 weeks ended 25 March 2017 shows that the total cheese market grew by 3% in volume but was unchanged in value terms. Within this the everyday cheese market grew by 2% in volume but fell by 3% in value, a deflation of 5%. For much of the year there were high levels of cheese stocks in the market. In order to maintain the brand's premium positioning within the category we decided against discounting aggressively. Consequently, Cathedral City slightly underperformed this market growth, with volumes down 3% for the year. However volumes improved in the second half and this positive momentum has continued into 2017/18.

Highlights

- Adjusted profit before tax up 5% to £60.6m
- Cathedral City returns to volume growth in the second half
- Frylight, Clover and Country Life spreadable all grow volume and increase market share
- Demineralised whey production meets targeted levels of infant formula grade
- Partnerships with DuPont and others to research GOS usage in animal nutrition – trials underway
- Innovation – proportion of sales from recently launched products now 13%, well above target
- Net debt increased as expected due to completion of Davidstow commissioning and final payment to Müller on sale of Dairies business
- Proposed final dividend up 1.9% to 16.3 pence

CHIEF EXECUTIVE'S REVIEW CONTINUED

Brand	Market	Dairy Crest volume growth*	Dairy Crest value growth*
Cathedral City	Cheese	(3)%	(9)%
Clover	Butters, spreads, margarine	1%	(9)%
Country Life	Butters, spreads, margarine	0%	2%
Frylight	Oils	23%	19%
Total		0%	(6)%

*Dairy Crest volume and value sales 12 months to 31 March 2017 vs 12 months to 31 March 2016

Cathedral City remains the nation's favourite cheese brand. It accounts for 54% of total branded everyday cheese sales in the UK and almost three fifths of households bought Cathedral City during the past year.

Earlier in the year we successfully rolled out a refreshed master brand identity for Cathedral City. The new design simplifies the brand, improves visibility on shelf and strengthens our range. This allows our brand investment to work better across the whole of the growing cheese category. It was supported by significant investment including a successful new TV advertisement, 'The Rules of Cheese'. We have seen a positive consumer reaction both to the new packaging and the marketing campaign.

Spreads and butters

IRI total market data for the 52 weeks ended 25 March 2017 shows that butter volumes grew by 2% but that spreads volumes declined by 7%. Selling prices for spreads were down very slightly for the year and for butters were up slightly. However, for butter this full year number masks the change from heavy deflation in the first part of the year to price increases of 16% in the last quarter.

Our main spreads brand, Clover, had a very successful year, growing volumes at 1% versus a significant market decline, partly driven by increased promotional volumes. Our other smaller spreads brands, Utterly Butterly, Vitalite and Willow also performed well and our total volume growth in spreads, including Clover, was 4%, 11 percentage points better than the market. This means that our overall spreads market share has climbed by 2 percentage points to 27.2%.

With Clover we continued to reinforce the 'no artificial ingredients' positioning through a marketing campaign in the first half of the year and launched new packaging in the second half of the year. We were pleased that the 'no artificial ingredients' recipe received external recognition as 'Product of the Year 2017' in the spreads category in the world's largest consumer survey award for product innovation.

Whilst Country Life overall volumes were flat for the year, sales were up 2%. Country Life spreadable, which accounts for 65% of brand sales, grew volumes by 6% and was the best performing major branded spreadable product over the year. However the block product experienced a volume decline as we promoted less following the sharp rises in input costs.

Frylight: another exceptional year

Frylight, our one calorie cooking spray, has had another outstanding year. Volumes grew by 23% and sales by 19%, well ahead of market growth of 1% and 2% respectively (Kantar data for the 52 weeks ended 26 March 2017). Frylight has strengthened its lead as the UK's number one oil brand and increased its share of the market for the whole year to 11%, with a household penetration rate of 23%.

During the year we redesigned the pack to emphasise its 'no artificial ingredients' credentials and this was highlighted in well received TV advertising in the fourth quarter. This advertising has driven increased growth during the final quarter with market share climbing to 15% and the brand will be advertised again in the first quarter of this year. We were delighted that during the year Frylight received the Institute of Grocery and Distribution (IGD) 'Health and Wellness' product award.

Infant formula quality improvement

The quality targets for infant formula grade demineralised whey are rightly demanding. During the year we have continually improved our product so that by the year end we had met our target of 80% of our demineralised whey being of infant formula grade. The feedback we have received from customers so far on the quality of our product has been very positive. In partnership with Fonterra we are building our sales relationships with infant formula producers for both GOS and demineralised whey and expect strong growth in sales of these products during the coming year, with the majority of this growth coming in the second half of the year.

Long-term demand for proteins looks robust. Whey protein concentrate prices have risen strongly in the second half and demineralised whey prices are now starting to firm. We are well positioned to deliver improved returns in 2017/18.

An important part of the long-term future for GOS is its potential beyond the infant formula market, to extend its use into other areas such as animal and adult nutrition. The research and development programme for GOS in animals has broadened and during the year we signed an agreement with Danisco Animal Nutrition, part of DuPont. Trials are now underway in this partnership that will provide an extensive level of research into the benefits of GOS in the animal husbandry industry.

Innovation

The retained business is much more focused following the sale of the Dairies business. The pace of innovation is, and needs to be, an important point of difference. Future growth will be underpinned by innovation.

Our Innovation Centre on the Harper Adams University campus, which opened in late 2015, is already helping to drive our ambitious target of 10% of sales each year coming from innovation in the previous three years. This year, helped by the re-launch of Clover with 'no artificial ingredients', we achieved 13% of sales from innovation during the last three years. This is an industry-leading level of innovation.

GROWING TOGETHER

Innovation continues to drive our business forward. As well as building on the success of the new Clover product, in the year ended 31 March 2017, we:

- brought a new Frylight product to market – avocado spray oil;
- developed a new Frylight cap design to be launched in early 2017/18;
- launched a new Cathedral City snack bar range;
- re-launched the Cathedral City spreadable range;
- strengthened our 'dairy free' Vitalite range with the launch of a new coconut variant; and
- agreed a partnership with Fowler Welch Coolchain Ltd, a logistics specialist, to maximise the throughput at our Nuneaton distribution and warehousing site.

A simpler business

Dairy Crest is a simple, lean and responsive business. We have five well-invested manufacturing sites and fewer than 1,200 employees. There are opportunities to further simplify procedures and support structures within the business. During the year we embarked on a change to our core IT systems which will bring benefits over the next two years. This will deliver a more appropriate and cost effective IT infrastructure for a business of our scale and is also acting as a catalyst for us to simplify the processes that sit alongside these IT systems.

We continue to drive operational efficiency improvements. A particular focus is improving performance efficiency at Kirkby, where we successfully consolidated all our butters and spreads production onto one site in 2015. We are confident that all our sites will contribute towards further improved productivity over the year to 31 March 2018.

Future prospects

In the first full year since the transformational sale of our Dairies business, we have delivered a robust performance in a tough market.

Our industry leading margins are the result of us driving long-term value through innovation, brand building, investment in a world class supply chain and strong cost control.

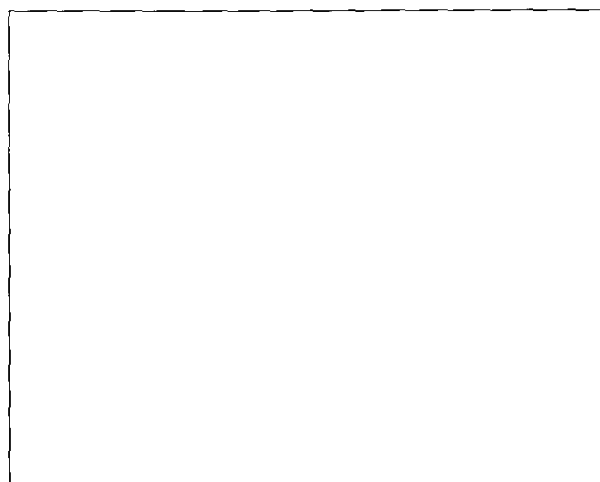
Our key brands continue to perform well. Cathedral City remains the nation's favourite cheese and following its brand refresh at the start of the year, the good progress and momentum we have seen in the last six months has continued in the new financial year. Our overall spreads market share has climbed, and Frylight had another outstanding year with sales growing 19%, well ahead of the market. The ongoing investment we are putting behind our brands gives me confidence that we can grow market share.

We have continued to make good progress in our demineralised whey operations at Davidstow. We are now hitting our targeted level of demineralised whey being of infant formula grade. Developing our sales of demineralised whey and GOS into the high-margin global infant formula market will be a key priority this year. At the same time we are continuing our research into other potential animal and human applications for GOS.

Looking forward, I am excited about the future for Dairy Crest. The business is well positioned to deliver profitable, sustainable growth and stronger cash generation, underpinning our commitment to growing our dividends and reducing debt.

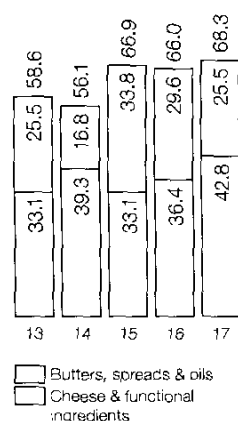
Mark Allen Chief Executive
17 May 2017

FINANCIAL REVIEW



Product group profit* (£m)

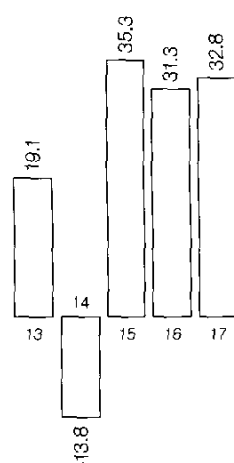
£68.3m



*Profit on continuing operations before exceptional items and amortisation of acquired intangibles

Cash generated from/ (used in) operations (£m)

£32.8m



Overview

This year we have delivered a set of results which demonstrate the underlying robustness of our business. Revenue is lower than last year despite flat volumes reflecting the deflationary environment that existed for much of the last two years. However, milk and butter input costs rose significantly as the year progressed. Despite this highly volatile background we improved profit margins.

Continuing operations

Revenue

We continue to provide product group analysis consistent with prior years to assist the users of the financial statements although the Group operated as one segment throughout 2017.

	2017 £m	2016 £m	Change £m	Change %
Cheese & functional ingredients	254.8	263.7	(8.9)	(3.4)
Butters, spreads & oils	150.7	152.6	(1.9)	(1.2)
Other	11.1	6.0	5.1	85.0
Continuing operations	416.6	422.3	(5.7)	(1.3)

Revenue decreased by 1.3% to £416.6 million, although revenue in the second half of the year was 3.7% ahead of the same period last year. Despite sales volumes across our four key brands remaining broadly flat, the Group faced price deflation in the first half which only partially reversed in the second half of the year. Cheese and whey revenue fell by £8.9 million (3.4%) with decreased sales volumes and prices. Revenue in butters, spreads and oils fell by £1.9 million (1.2%) as price deflation across spreads and butter in the first half of the year more than offset the second half recovery and the strong value and volume growth in Frylight. Other revenue comprised warehousing and distribution services provided to third parties.

Profit on continuing operations

	2017 £m	2016 £m	Change £m	Change %
Cheese & functional ingredients	42.8	36.4	6.4	17.6
Butters, spreads & oils	25.5	29.6	(4.1)	(13.9)
Total product group profit	68.3	66.0	2.3	3.5
Acquired intangible amortisation	(0.4)	(0.4)	-	-
Group profit on continuing operations (pre-exceptional items)	67.9	65.6	2.3	3.5

Overall total product group profit (before interest, acquired intangible amortisation and exceptional items) increased by £2.3 million to £68.3 million and the profit margin increased to 16.4% (2016: 15.6%). This margin is after charging all central corporate costs and includes £3.0 million profit (2016: £3.6 million) on the sale of closed depots that were not disposed of as part of the sale of the Dairies business in 2015 to Muller UK & Ireland Group LLP ('Müller'). These depot sales are expected to continue next year but will then cease. Their treatment as operating income is consistent with the treatment in previous years of the related closure costs. Future sales of ex-manufacturing sites such as Fenstanton, Cambridgeshire and Crudgington, Shropshire will be classified as exceptional consistent with the historic treatment of the related closure costs.

Cheese and functional ingredients product group profits increased by 17.6% and the margin increased to 16.8% (2016: 13.8%). This is despite lower revenue which reflected lower selling prices during the year. The profit and margin benefited from the reduction in milk costs in 2015/16 that resulted in lower cost of sales in 2016/17 due to the 12 month average cheese maturation cycle.

Milk costs increased significantly in the second half of the year and these costs will lead to higher cost of sales in 2017/18.

Butters, spreads and oils product group profits at £25.5 million (2016: £29.6 million) were £3.5 million lower than 2016 with profit margins of 16.9% (2016: 19.4%) reflecting the competitive butters and spreads market and significantly higher butter input costs.

Exceptional items

Pre-tax exceptional charges from continuing operations increased to £19.1 million (2016: £11.3 million).

The Group incurred £19.0 million of exceptional costs in relation to the building and commissioning of the demineralised whey and GOS facilities at the Davidstow creamery in Cornwall (2016: £16.2 million). The principal elements of spend were duplicate running costs, stock write-offs, commissioning expenses and project management. In addition, there was an exceptional charge of £2.3 million (2016: £nil) relating to the disposal costs of closed manufacturing sites at Totnes, Fenstanton and Crudgington. The treatment of this charge as an exceptional item is consistent with the treatment of closure costs in prior years. These costs have been partly offset by the release of £2.2 million of an exceptional provision in relation to the settlement of historic claims between the Group, Farmright Limited and Quadra Foods Limited at £1.0 million, which was lower than the creditor balance held of £3.2 million.

In 2016 an exceptional provision of £1.8 million was created for dilapidation costs for leased properties in the retained business, crystallised by the sale of the Dairies business, and provisions relating to the closure of the Crudgington site totalling £0.7 million were released. The Group also realised a gain in 2016 of £6.0 million on its investment in Promovita Ingredients Limited at the point that it acquired 100% control in December 2015.

Finance costs

Finance costs of £7.7 million reduced by £0.6 million in the year. This reflected the benefit from refinancing the £80 million of loan notes that matured in April 2016 with loan notes issued in March 2016 at a lower interest rate. This was offset by a £0.7 million reduction in interest capitalised on the investment at Davidstow and increased interest costs on borrowings under the revolving credit facility, as the total level of borrowings increased. The interest cost will increase next year as the capitalisation of interest on the investment at Davidstow will cease. Capitalised interest costs in the year amounted to £3.1 million (2016: £3.8 million).

Interest cover excluding pension interest, calculated on total product group profit was 9.0 times (2016: 8.1 times).

Other finance expenses, which comprise the net expected return on pension scheme assets after deducting the interest cost on the defined benefit obligation, increased slightly to £0.8 million (2016: £0.6 million). These costs are dependent upon the pension scheme position at 31 March each year and are volatile, being subject to market fluctuations. We therefore exclude this item from headline adjusted profit before tax.

Profit before tax – continuing operations

	2017 £m	2016 £m	Change £m	Change %
Total product group profit	68.3	66.0	2.3	3.5
Finance costs	(7.7)	(8.3)	0.6	7.2
Adjusted profit before tax	60.6	57.7	2.9	5.0
Amortisation of acquired intangibles	(0.4)	(0.4)	–	–
Exceptional items	(19.1)	(11.3)	(7.8)	–
Other finance expenses – pensions	(0.8)	(0.6)	(0.2)	–
Reported profit before tax – continuing operations	40.3	45.4	(5.1)	(11.2)

Adjusted profit before tax (before exceptional items, amortisation of acquired intangibles and pension interest) increased by 5.0% to £60.6 million. This is management's key Group profit measure because it excludes exceptional items and therefore gives a better indication of underlying performance. Reported profit before tax of £40.3 million represents a £5.1 million (11.2%) decrease from 2016 predominantly due to the increase in exceptional items.

Taxation

The Group's effective pre-exceptional tax rate on continuing operations was 18.0% (2016: 17.5%). The effective tax rate is slightly below the headline rate of UK corporate tax as we continue to sell a small number of properties, the profits on which are offset by brought forward capital losses or roll over relief.

Earnings per share

The Group's adjusted basic earnings per share from continuing operations increased by 3.2% to 35.6 pence (2016: 34.5 pence) as a result of the increase in adjusted profit before tax and the lower tax charge. Basic earnings per share from continuing operations, which includes the impact of exceptional items, pension interest expense and the amortisation of acquired intangibles, amounted to 23.7 pence (2016: 27.9 pence).

Discontinued operations

The post-tax profit on discontinued operations totalled £5.2 million. A gain of £1.4 million relates to the disposal of the Dairies business, which completed in 2015/16. This gain includes: additional costs of £2.1 million resulting from a re-assessment of liabilities at the date of disposal; the final consideration reduction of £2.5 million paid back to Müller following determination by an independent expert; and a tax credit on these items of £6.0 million.

There is a discontinued credit of £3.8 million that relates to the release of tax provisions held in relation to the St Hubert business that was sold in August 2012. These provisions are no longer required.

In 2016 the loss from discontinued operations was £151.5 million. This reflected operating losses in the nine months to December 2015 of £33.3 million (post tax £26.4 million), post-tax exceptional items totalling £14.4 million as the operations to be sold were carved out of the Dairy Crest Group and site restructuring continued in the Dairies business and a post-tax loss on disposal of £110.7 million.

Full details of discontinued operations are set out in the notes to the financial statements.

Group result for the year

The reported Group profit for the year from continuing operations was £33.1 million (2016: £38.5 million). The profit for the year attributable to equity shareholders was £38.3 million (2016: £113.0 million loss).

FINANCIAL REVIEW CONTINUED

Dividends

We remain committed to a progressive dividend policy and have continued to deliver against that policy by increasing our proposed final dividend by 1.9%. The proposed final dividend of 16.3 pence per share represents an increase of 0.3 pence per share. Together with the interim dividend of 6.2 pence per share (2016: 6.1 pence per share) the total dividend for the year is 22.5 pence per share (2016: 22.1 pence per share). The final dividend will be paid on 11 August 2017 to shareholders on the register on 7 July 2017.

Dividend cover of 1.6 times is within the Board's target range of 1.5 to 2.5 times (2016: 1.6 times).

Pensions

During the year ended 31 March 2017 the Group paid £13.1 million cash contributions into the closed defined benefit pension scheme (2016: £20.8 million including an £8.3 million pre-payment of future agreed cash contributions in relation to lease payments on three properties owned by the pension scheme).

The reported deficit under IAS 19 at 31 March 2017 was £109.6 million; an increase of £67.1 million from March 2016. The principal reason for the increase was falling corporate bond yields which are the reference point for the discount rate used to value scheme liabilities.

The March 2016 actuarial valuation and corresponding schedule of contributions has yet to be finalised. This valuation will determine future cash contributions and will replace the existing funding plan which has cash contributions for 2017/18 of £17.2 million.

We continue to manage pension scheme liabilities and during the year a Flexible Retirement Option programme was undertaken resulting in £18.8 million of liabilities being permanently removed from the scheme.

Cash flow

The business generates strong operating cash flows. However, the year saw a number of one-off items in the form of final payments associated with the sale of the Dairies business and high levels of exceptional commissioning costs at Davidstow.

In the year ended 31 March 2017 cash generated from operations was £32.8 million (2016: £31.3 million).

Operating cash flow was impacted by a £6.1 million increase in working capital (2016: £14.0 million reduction). This reflected higher stocks of demineralised whey and lower levels of creditors. Exceptional cash costs of £25.6 million (2016: £17.6 million) relate principally to the commissioning of the demineralised whey and GOS plants at Davidstow. This commissioning is now substantially complete.

Cash interest payments amounted to £12.2 million (2016: £12.8 million) reflecting lower costs on the Group's loan notes following the maturity of notes in April 2016. Capital expenditure of £25.6 million represents a £41.2 million (62%) reduction from last year's £66.8 million. This reflects the completion of the projects at Davidstow. Capital expenditure next year is expected to be similar to this year.

Proceeds from depot disposals were £4.5 million (2016: £5.4 million). In addition the Group received £37.9 million from the sale of some of the assets at Davidstow relating to GOS and demineralised whey, which were subsequently leased back on operating lease terms. During the year the Group repaid a total of £28.4 million to Müller including £2.5 million following an independent expert's determination of final adjustments to the consideration. In 2016 the sale of our Dairies business resulted in initial cash proceeds of £54.5 million – comprising headline proceeds of £80.0 million less £15.0 million for the cost of the undertaking in lieu, £7.5 million of property sales from which the Group had already received the cash proceeds and £3.0 million in relation to pre-sale capital expenditure in the Dairies business

falling below an agreed target. Against this, the Group paid £5.5 million in related fees reflecting the extended review undertaken by the UK Competition and Markets Authority ('CMA'). The Group also paid £6 million for the outstanding 50% of the share capital of Promovita Ingredients Limited in 2015/16.

Overall, the final payments to Müller, the commissioning costs at Davidstow and the adverse movement in working capital offset by the sale and leaseback at Davidstow have resulted in a £20.8 million increase in net debt during the year (2016: £30.3 million increase) to £249.8 million (2016: £229.0 million). However, looking ahead, strong underlying cash generation will translate into lower levels of borrowing as these one-off factors fall away – the Dairies business is sold, Davidstow commissioning is complete and milk input costs are set to reduce in June 2017. We remain committed to reducing net debt/EBITDA to below 2.0 times.

Borrowing facilities

Total borrowing facilities comprise £380 million Sterling equivalent.

The Group has a five year multi-currency revolving credit facility for £240 million which reduces by £80 million in October 2018.

At 31 March 2017 the Group had a swapped Sterling equivalent of £140 million of loan notes outstanding maturing between 2017 and 2026.

Post balance sheet events

On 4 April 2017, the Group repaid €10.7 million (£9.2 million Sterling equivalent) and £2.8 million of 2007 fixed coupon loan notes on their maturity.

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 only uses derivatives 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.

Tom Atherton Group Finance Director
17 May 2017

**GROWING
TOGETHER**

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk to help us achieve our strategic objectives and protect our reputation.

The Group faces a number of risks which, should they materialise, could affect our ability to achieve our strategic objectives. The Board has overall responsibility for ensuring the effective management of risk across the Group. It is supported by the Audit Committee which reviews the effectiveness of the Group's risk management processes and internal controls. Responsibility for the day-to-day management of risk is delegated to the Executive Committee which reviews the business' performance and the risks and threats being managed at each of its meetings. Executive Committee meeting minutes are routinely reviewed by the Board. All functions of the Group are represented at Executive Committee enabling the Committee to manage the Group's risks on an on-going basis.

Risk appetite: The Board believes that the assumption of informed risks enables the delivery of long-term success. It determines the nature and extent of significant risks the Company assumes to achieve its strategic objectives. The Directors have carried out a robust assessment of the principal risks which the Company faces including those that would threaten the business model, future performance, solvency or liquidity.

Risk management process: Each key function in the Group is required to prepare a risk register for its area of accountability. Functional risk registers are reviewed by the Executive Committee and from them the Group risk register is compiled. It is formally reviewed by the Board when the Group sets its budget in April. The Group Internal Audit function reviews the Group risk register at the start of each year. It is a key component of the compilation of its annual audit plan. All Group Internal Audit function reports are provided to the Executive and Audit Committees. The Audit Committee reviews the Group's Internal Audit's reports and progress against its work plan. The Audit Committee reports to the Board after each meeting. Group Internal Audit provides independent assurance over the management and mitigation mechanisms. This process explicitly recognises the relationship between Group Internal Audit and risk management. The Audit Committee is satisfied that the processes are adequate and appropriate. Further details of the Group's approach to risk management and internal control are set out in the Corporate Governance report at pages 32 to 33.

Risks and uncertainties: Details of the principal risks and uncertainties faced by the Group and the associated mitigating controls are set out on this page and on page 17. Although the Group has an on-going process for identifying, evaluating and managing the principal risks and uncertainties facing the Group, additional risks which are not presently known to management could also have an adverse effect on the Group. The risks and uncertainties referred to in this Annual Report are not intended to be an exhaustive analysis of all risks facing the Group.

Commercial risks

Reduced profitability

Risk area and potential impact

We operate in competitive markets. If we fail adequately to control our cost base, to compete effectively or are subject to higher input prices that cannot be recovered by raising selling prices without losing volumes, we could lose sales and profits.

Mitigating controls

We set ourselves the target of continually reducing our cost base and are able to invest in our supply chain to help achieve this.

Despite challenging trading conditions we continue to invest in marketing our key brands. Our innovation programme continues to generate new products that reinforce our appeal to customers. We recognise the importance of strong customer relationships and the executive team plays an active part in maintaining and developing these. They are also involved in major customer negotiations. We conduct customer surveys to benchmark our performance and we continuously monitor the service and quality levels provided to our customers and consumers, and have procedures in place to react quickly to any issues. Our commitment to corporate responsibility is an important part of our overall proposition to some customers.

Reduced demand from consumers

Risk area and potential impact

Consumers could move away from dairy products for economic, health, ethical, or other reasons leading to lower sales and profits.

Mitigating controls

Consumers are at the heart of our business and we regularly monitor consumer trends. We continue to promote the health benefits provided by dairy products and develop healthier products. We also continue to maintain our focus on developing a compelling new product development pipeline, enabling us to react to consumer trends, for example with more environmentally-friendly packaging, and healthier variants of our key brands. We have a direct involvement with government to understand and influence future legislation that could affect future consumer demand.

Inadequate levels of innovation

Risk area and potential impact

We operate in markets in which our competitors are continually innovating in order to maintain customer and consumer interest in their products and to attract customer and consumer interest for new products. If we do not successfully innovate we may lose customers and consumers and we may fail to attract new customers and consumers. That would result in fewer sales, loss of profit and failure to meet growth targets.

Mitigating controls

We have a strong new product development and innovation team who are based at our Innovation Centre on the Harper Adams University campus. That team works closely with Harper Adams University leveraging the research and other expertise of the University, including taking students on secondment into our innovation team. The innovation team's brief includes enhancing the appeal of existing products, driving product and manufacturing efficiencies and improvements and developing new exciting products and variants of existing products. Continued investment in innovation enables our business to maintain or outstrip innovation in the rest of the market. Focusing an element of senior management remuneration on innovation through the use of a balanced scorecard including an innovation target for the Group's share based long-term incentive plan helps to ensure continued focus on and drive behind innovation as does the publicly adopted target of achieving 10% of revenue from products developed in the last three years.

Input cost volatility

Risk area and potential impact

Volatile milk and non-milk costs (vegetable oils, diesel, electricity, gas and packaging) could reduce margins unless we can manage cost risk, find other cost efficiencies elsewhere or increase selling prices.

Milk prices could remain volatile driven by global and European commodity market pressures as well as local market and environmental factors.

Mitigating controls

Key input cost trends are continually monitored by our experienced procurement team and are regularly reviewed by the Executive Committee. Milk and vegetable oil are critical inputs for the Group. Milk price negotiations are conducted following careful review with the Executive Committee which provides the procurement team with a specific mandate. The use of a balancing contract with direct milk suppliers (introduced in the first quarter of the financial year) enables better balancing of milk supply and demand thereby reducing the risk of milk oversupply resulting in lower recoveries. The balancing contract helps to reduce our exposure to lower value commodity markets thereby supporting the Group's strategy of focusing on branded and added value markets. Vegetable oil is reviewed monthly by a risk committee which monitors and hedges forward vegetable oil purchases as appropriate. We seek to absorb short-term cost movements through supply chain efficiencies. Our procurement and commercial teams have clear lines of communication between them to ensure customers are kept aware of changes to our cost base and requests for price increases can be fully justified.

Entry into new product areas or territories

Risk area and potential impact

The dynamics of new categories may not be in line with our expectations resulting in lower than anticipated margins, lower than anticipated volumes, longer than anticipated payback on investment and higher than expected costs to access markets.

Mitigating controls

We work with commercial partners who are already established in new categories and markets where the Group is not already operating or present. Contractual relationships with these established commercial partners for the sale and distribution of products in new categories and markets enable the Group to have certainty over minimum levels of returns and known costs of accessing new markets.

Operational risks

Inability to source milk

Risk area and potential impact

Without milk we would not have a business. Restricted milk supply could be caused by economic factors, weather, fuel availability or an epidemic which affects dairy cows. This could lead to lower sales and profits. Consumer confidence in dairy products could also be adversely affected.

Mitigating controls

We invest significant resources in maintaining strong relationships with our milk suppliers by attending forums and discussing current issues and pressures that affect both the farms and our business. Our milk comes directly from farms on contracts that include a notice period of between three months and one year. Our experienced milk procurement team understand milk production and are alert to changes in supply. We aim to pay a fair, market related milk price and closely monitor the milk price we pay to suppliers. Significant effort is expended by our team of dedicated Farm Business Managers to make the Group an attractive purchaser of milk for our suppliers, including working closely with our direct supplying farmers providing valuable support to them with their businesses. We have contingency plans established for major incidents and work closely with DEFRA and industry bodies to ensure these are appropriate. These plans are regularly tested and reviewed by the Executive Committee.

Failure of a key supplier
Risk area and potential impact
We are dependent on key suppliers and could lose sales and face financial penalties from customers if a supplier's failure leaves us unable to supply. Failure of key information technology suppliers could adversely affect our financial systems.
Mitigating controls
Our procurement team regularly monitors suppliers' ability to supply and puts in place alternative arrangements, including dual purchasing, if appropriate. We have taken specific actions to reduce our dependency on information technology suppliers.
Disruption to production
Risk area and potential impact
An accident, a fire, product contamination, the failure of equipment or systems, a deliberate malicious act, or industrial action could disrupt production, affect food safety, cause injury, and/or cause reputational damage with adverse consequences. We are also reliant on information technology and are exposed to losses in the event that systems fail.
Mitigating controls
Plans are maintained to respond quickly to incidents and minimise any impact to the Group. Our business is committed to the health and safety of all our employees and maintains systems aimed at ensuring everyone is able to work safely. All of our manufacturing sites have a trained engineering resource, are supported by our major equipment suppliers and hold appropriate stocks of spare parts. They also all have fire protection systems and regular fire drills. Our information technology systems are regularly backed up and duplicated in the majority of areas. Appropriate safeguards such as firewalls are in place to thwart cyber attack and the robustness of those safeguards is regularly and routinely tested as part of our cyber security programme. We are also advised by a reputable insurance broker and maintain insurance cover for public and product liability, product recall and property damage and business interruption risks with reputable insurers. We maintain strong relations and communication with staff organisations and trade unions including at National Officer level. Established grievance and disciplinary procedures are well embedded in the business and compliance with them is managed through a strong Employee Relations function. Pay benchmarking processes and centrally controlled pay negotiations are in place to ensure pay remains competitive against the market and in line with the Group's stated remuneration aims. Regular employee engagement surveys enable us to maintain a good on-going understanding of staff satisfaction and to identify emerging issues or trends and understand the effectiveness of actions undertaken to manage them.
Major projects
Risk area and potential impact
To remain competitive we periodically undertake major transformational projects following strategic reviews or have to undertake major projects or works in response to the changing condition of our infrastructure. Successful execution of these projects is often key to delivering strategic objectives. At the same time we have to ensure that major projects do not divert from the on-going day-to-day delivery of products and services to our customers.
Mitigating controls
We have a good track record of managing projects and use experienced and appropriately skilled senior managers to lead these. Supervisory governance structures are also put in place to help successful delivery. We are aware that too much change concentrated in too short a timescale can be detrimental and manage this by ensuring key project resource is full time with appropriate backfilling and use of third parties.
Product quality
Risk area and potential impact
Failure to maintain product quality could lead to reputational damage and loss of sales and profits. As we start to manufacture ingredients for infant formula this risk could increase.
Mitigating controls
We have well-established supply chains and a close working relationship with our milk suppliers. We have an independent quality team, including experienced cheese graders. Customer and consumer complaints are monitored and acted upon. Where possible we have liability caps in our contracts and using the advice of a reputable insurance broker we have product recall liability insurance in place with reputable insurers. Our contractual relationship with Fonterra, who sell the infant formula ingredients we produce, allows us to utilise its experience in this field.
Risk area and potential impact
If we don't meet stringent infant formula specifications for added value ingredients products we will not be able to sell those products for their intended use. That could lead to lower than anticipated sales volumes of infant formula grade products associated with which would be lower than anticipated profits; customer confidence may also be eroded as a result.

Mitigating controls
Implementation of and strict adherence to manufacturing procedures designed to ensure product meets specification. Assurance over adherence to those procedures is provided by internal technical audit, customer audit and external expert audit. Our contractual relationship with Fonterra, who sell the infant formula ingredients we produce, allows us to utilise its experience in producing product which conforms to the required specification. Focus on continual enhancement of site team capabilities through technical training and behavioural programmes coupled with ensuring appropriately experienced and skilled people are recruited into and retained in the team. We have a short milk supply chain with good traceability and strict controls to ensure quality. Farm audits ensure supplier compliance with quality requirements.
People risks
Recruitment and retention
Risk area and potential impact
We need to attract and retain high quality employees to provide customers and consumers with safe, high quality products and services.
Mitigating controls
We carry out rigorous selection procedures and benchmark pay and benefits to ensure we can attract and retain the best people. We have a widely applied bonus scheme and a range of other incentives to reward good performance. Our share based long-term incentive plan aligns the interest of management to shareholders and helps to retain key senior employees. We use a performance review and talent management scheme to identify and develop our own people. We undertake regular surveys to monitor our relationship with our employees and their engagement, communicate with them regularly and encourage them to ask questions.
Financial risks
Pension scheme
Risk area and potential impact
Despite the action we have taken to reduce the risks associated with our pension scheme, including closing the scheme to future accrual in 2010 and buying insurance to meet the liabilities associated with many of our retired members in 2008 and 2009, the deficit could continue to increase and we may then have to increase our contributions. The risk of a need for higher cash contributions to the scheme over a longer than anticipated period may be increased by a persisting low gilt yield environment.
Mitigating controls
We continue to work closely with the Trustee of the Pension Fund to improve the Fund's financial position at an acceptable cash cost to the business. We have reduced the Fund's exposure to equities and other higher-risk asset classes and aim to do so further. The strength of the Company's covenant and ability to continue to fund contributions has been improved by the sale of the Daines business.
Legal and compliance risks
Compliance with laws
Risk area and potential impact
Our sector is subject to a number of complex statutory requirements. There is a risk of fines or lawsuits and reputational damage if we fail to comply.
Mitigating controls
We have a strong in-house legal function supported by external advisers. We have undertaken Group-wide training in respect of competition law and actively monitor and adjust to on-going legal and regulatory changes. We have Business Conduct and Data Protection Policies and programmes designed to ensure that all relevant employees understand what is and is not permissible under the Bribery and Data Protection Acts.
Regulatory change
Risk area and potential impact
Food safety and product specification regulations affecting the UK and other jurisdictions where products are sold impact the products that we manufacture. Regulatory authorities regularly enact changes to food safety and product specification legislation. Changes to legislation could result in restrictions on the movement and sale of the Group's products and raw materials between territories or require changes to the production processes or specification of our products.
Mitigating controls
We have a strong technical function which routinely monitors planned and implemented changes to food and ingredients legislation in the UK and other relevant jurisdictions which might necessitate changes to our production processes or product specifications. Our product development function works in tandem with the technical function and key supplier partners and customers to respond to anticipated or implemented legislative changes. The Group has invested in its technical and product development functions and has its technical and innovation centre at Harper Adams University with which we have a cooperation agreement providing access to state of the art academic and technical expertise. We are a member of recognised industry bodies who represent our interests, along with others in the food and dairy industries and advise and lobby on our behalf. We have close links with UK government and government representatives to help represent our interests in jurisdictions outside the UK together with commercial partners already established in other jurisdictions.

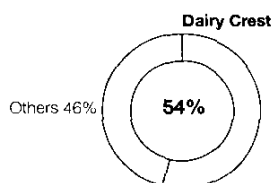
PERFORMANCE

Cheese & functional ingredients

£ million	2016/17	2015/16
Revenue	254.8	263.7
Product group profit	42.8	36.4
Margin (%)	16.8	13.8

**Share of retail
branded everyday
cheese**

Source: IRI 52 weeks
ended 25 March 2017



Dairy Crest produces and markets Cathedral City, the UK's leading cheese brand, and the premium Davidstow cheddar brand.

Our world-class supply chain starts with milk collected from around 360 farmers in the dairy heartlands of Cornwall and Devon. This top quality milk is made into cheddar cheese at our highly-automated creamery in Davidstow, Cornwall. The cheese then matures for around a year at our purpose-built Nuneaton facility before being cut, packed and distributed. We have a second packing site in Frome, Somerset, for more complex and innovative packaging.

Whey is a by-product of the cheese making process. Our new state of the art facility at Davidstow demineralises this whey to supply the high-growth, high-margin global infant formula market. Additionally we produce GOS, a lactose-based prebiotic, which is also an ingredient for infant formula, but has potential applications in other human life stages as well as in animal husbandry.

Market background

2016/17 was a turning point in the UK dairy market. Having fallen for three years, prices paid to farmers for milk started to rise in the summer and then rose quickly through the autumn and winter before stabilising in the spring. The price we pay to farmers for the milk we use to make cheese rose from a low of 21.7p per litre in July to 30p per litre in February, although in April 2017 we did announce a 1p reduction from 1 June and another 1p reduction from 1 July. The maturation process means we sell cheese made with milk purchased around a year before the sale takes place. Therefore the effect of these higher milk prices will not be seen in the profit and loss account until later in 2017/18, although the effect was seen in higher working capital balances for cheese at 2016/17 year end.

Meanwhile year-on-year cheese retail prices were falling in 2016/17 and only just started rising on a quarter-on-quarter basis in January. Market cheese volumes have been reasonably robust during the year, rising by 2%, with little change throughout the year.

Global whey prices have also started to rise over the last six months.

Cathedral City: A true market leader

It is the UK's 18th largest grocery brand, bigger than all other competitor cheddar brands combined and accounts for 54% of all branded everyday cheese sold by UK retailers.

For much of the year there were high levels of cheese stocks across the market, driven by high milk supply in the preceding year. In order to maintain the brand's premium positioning within

the category we decided not to discount too aggressively.

Consequently, Cathedral City slightly underperformed the market and volumes were down 3% for the year. However volumes improved in the second half and we expect this performance to continue during 2017/18.

During the early part of the year we successfully rolled out a new master brand identity for Cathedral City. The new design simplifies the brand, improves visibility on shelf and strengthens our range. This allows our brand investment to work better across the whole of the growing cheese category. It was supported by significant investment including a successful new TV advertisement, 'The Rules of Cheese'. We have seen a positive consumer reaction both to the new packaging and the marketing campaign.

Innovation remains at the heart of what we do and 2016/17 saw the relaunch of Cathedral City spreadable in three flavours: Mature, Extra Mature and Garlic & Herb. We have launched a new flavour, Lighter Mature, and towards the end of the year our new snack bar was launched in front of store. This is an important development for the long-term expansion of the brand into the on-the-go food section. Innovation will remain key to our future growth.

A world-class supply chain

Our farmers play a vital role in our world-class cheese supply chain, with 100% of the milk we buy coming direct from around 360 farmers in the South West of England. We pride ourselves on the close working relationship with our farmers, through both our Farm Business Team and Dairy Crest Direct ('DCD'), the independently elected body which represents Dairy Crest farmers. Thanks to our Davidstow Farm Standards, all milk supplied to us meets the strict international standards for the production of infant formula and in 2016/17 we have further developed and enhanced our Davidstow farm audits.

New infant formula ingredients come on stream

During the year we completed our investment at the Davidstow creamery in Cornwall to make demineralised whey and GOS. The quality targets for infant formula grade demineralised whey are demanding. We have been continually improving the quality of our product so that by the year end we had met our target of more than 80% of our whey being of infant formula grade. In partnership with Fonterra we are building our sales relationships with infant formula producers in both GOS and demineralised whey and expect strong growth in sales of these products during the coming year. These added value products give Dairy Crest access to new sales channels in fast growing global markets.

GROWING TOGETHER

Potentially exciting new applications for GOS

We are investigating some potential further applications for GOS. Promovita® is the new brand name of our GOS for use in food applications. In animal nutrition, where we use the brand name Nutrabiotic®, the product may improve food uptake but also animal health, potentially leading to the need for lower levels of antibiotics in the animal husbandry industry. During the year we signed an agreement with Danisco Animal Nutrition, part of DuPont, which will provide an extensive level of research into the benefits of GOS.

A business with huge potential

Our cheese and functional ingredients business has state of the art facilities, strong brands with market-leading positions and opportunities within new and exciting markets. It remains well placed to generate attractive growth in the future.

Cathedral City is the UK's 18th largest grocery brand, bigger than all other competitor cheddar brands combined and accounts for 54% of all branded everyday cheese sold by UK retailers.

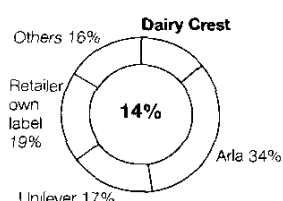
PERFORMANCE CONTINUED

Butters, spreads & oils

£ million	2016/17	2015/16
Revenue	150.7	152.6
Product group profit	25.5	29.6
Margin (%)	16.9	19.4

Share of retail butter and spreads market by value

Source: IRI 52 weeks ended 25 March 2017



Dairy Crest manufactures a number of leading butters, spreads and oil brands in the UK. The key brands are Country Life (butter), Clover (spread) and Frylight (spray oil). Our secondary spreads brands are Vitalite, Utterly Butterly and Willow. All the butter and spreads brands are produced at a single facility in Kirkby, Merseyside, whilst Frylight is manufactured at our facility in Erith, Kent.

Butters and spreads market remains challenging

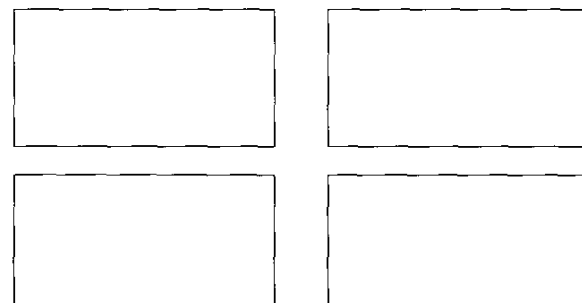
The butters and spreads market has continued to see overall volume decline, but price inflation during the second half resulted in the market reporting some value growth. Within the category the long-term trend of butter gaining volume share was maintained and butter volumes were up 2% whilst spreads volumes declined 7%. However, during the second half of the year there was considerable inflation in butter prices and this has widened the price gap between the two categories. Partly as a result butter volumes fell by 5% in the final quarter and spreads volume decline slowed to 5%.

Dairy Crest gaining share

Clover is well placed to meet consumer needs within the changing market. Over the past eighteen months we have re-launched and advertised Clover with 'no artificial ingredients', positioning it as a dairy spread made with buttermilk. The improved Clover original recipe was introduced in late 2015 and Clover lighter is due to be re-formulated this year. This positioning has been further reinforced by the launch of new packaging in late 2016 and an extensive marketing campaign, which has resulted in Clover gaining another 1.1 percentage points of share during the year. In recognition of our work in launching the improved recipe, Clover won the spreads category 'Product of the Year 2017' award in the world's largest consumer survey award for product innovation.

Our other spreads brands have all performed well and together Dairy Crest spreads have increased share by 2.2 percentage points. Total spreads volumes are up 4% and Clover volumes are up 1% in a market that has declined by 7%, a fantastic performance. During the year we also launched a new Vitalite coconut variant, which contributes to our share of the growing 'dairy free' market.

Country Life has performed well against a backdrop of high input cost inflation. The British themed packaging introduced last year resonates well with consumers and our new spreadable formulation has helped that product grow volumes by 6% to become the fastest growing major spreadable brand. Managing this inflation and volatility resulted in us reducing the amount of block butter promotions during the second half and has led to some



share loss in this sector. Overall, Country Life volumes were flat and the higher input prices for butter have had a negative impact on margins for the business.

Frylight: another strong year

Frylight has been a phenomenal success ever since Dairy Crest acquired the brand in 2011 and last year was no different. During the year it was successfully re-launched with a new packaging design, which emphasises Frylight's 'no artificial ingredients' credentials. This was supported by a new TV advertising campaign across the important fourth quarter period, which encompasses both the start of the New Year and Pancake Day. Sales during the campaign and around Pancake Day both increased by over 25%. Innovation also continued, with a new avocado variant launched early in 2017. This follows on from the launch of a coconut variant last year, which has already become our third biggest selling line. All this has resulted in volume growth of 23% and a penetration rate of 23% of UK households.

This year has already seen the launch of the new cap design and the business is also exploring export opportunities in Europe to support its medium-term growth ambitions. We are also delighted that Frylight has been singled out by the industry, winning the Institute of Grocery and Distribution (IGD) 'Health and Wellness' product award in October 2016.

Simplified supply chain, generating cash

All our butters and spreads manufacturing has been consolidated on one site at Kirkby for the last two years. We are well positioned to continue driving efficiency and to further lower manufacturing costs. The simplified supply chain, combined with improvements in brand performance, will enable continued investment into this high-margin category and underpin on-going cash generation.

All our butter and spreads manufacturing has been consolidated on one site at Kirkby for the last two years. We are well positioned to continue driving efficiency and to lower manufacturing costs further.

CORPORATE RESPONSIBILITY

A successful approach to corporate responsibility is an essential part of securing a sustainable business which thrives both today and in the future. Dairy Crest's Corporate Responsibility ('CR') strategy is designed to cover our business activities and is reflected in our new four strategic pillars of Climate, Colleagues, Consumers and Community.

2017 marks the 10th anniversary of our CR strategy. During this time, we have enjoyed a number of CR achievements and awards; this strong heritage sets us up well for future success.

In the last year we have reviewed our objectives, and how we will approach current and emerging issues. An important change following this review was the simplification of our pledges and the introduction of four strategic pillars (Climate, Colleagues, Consumers and Community) which are championed by our Executive Committee; this means that the spirit and intent of the pledges within the pillars are more alive than ever before.

In this section we report on what we have achieved in the first year of our five year CR programme. We will describe areas of focus in our Climate pillar including our engagement with our

farmers and our progress on CO₂ and waste reduction.

For our Colleagues pillar we have improved our industry leading health and safety performance and the well-being programmes for our employees.

Our commitments to health and nutrition contained in our Consumers pillar are supported by growth in Frylight volumes and additional Cathedral City Lighter product formats. Our extensive research programmes continue, including the exciting area of animal health benefits from functional ingredients such as GOS.

Finally, in delivering our Community pillar, we continue to support our local communities. We have been very busy working with The Princes Countryside Fund, Macmillan Cancer Support and Crisis at Christmas, and promoted employee volunteering days.

Greenhouse Gas Report 2016/17

In line with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 our greenhouse gas ('GHG') emissions are quantified below.

	2016/17	2015/16	
Scope 1	11,438	79,050	tonnes CO ₂ e
Scope 2	27,561	57,256	tonnes CO ₂ e
Total scope 1&2	39,019	136,306	tonnes CO₂e
Intensity ratio	64.40	81.37	kg CO₂e per tonne throughput
Emissions from Biomass fuel	26,102	22,033	tonnes CO ₂ e

We follow the GHG Protocol Corporate Accounting and Reporting Standard to calculate emissions from the combustion of fuels (Scope 1) and from purchased electricity, heat, steam and cooling (Scope 2). Carbon emission factors are used to convert each activity that gives rise to GHG emissions to a carbon dioxide equivalent ('CO₂e') using the latest UK Government conversion factors for company reporting.

The GHG data reported below relates to emissions from activities in the operational control of Dairy Crest Group plc from 1 April 2016 to 31 March 2017 consistent with our financial reporting period.

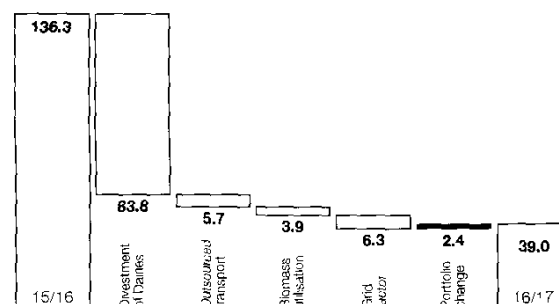
Scope 1 emissions data includes material sources of fossil fuels used at manufacturing sites and depots and road fuel used in the transport and distribution of intermediate and finished products. Road fuel used in company cars operated by Dairy Crest for business travel is also included. Minor losses of refrigerants used in cooling equipment have been converted to tonnes of carbon dioxide equivalent and are included for completeness.

Scope 2 emissions data includes purchased electricity used in manufacturing, distribution and in offices.

We employ a 'per tonne of throughput' denominator as the most effective measure of relative performance. This measure is consistent with our internal target setting process and how we communicate relative performance.

Consistent with the GHG Protocol emissions from biologically sequestered carbon are reported separately from the other Scopes. These comprise emissions from combustion of biomass fuel at our creamery in Davidstow that significantly reduce Scope 1 emissions from fossil fuels. Emissions from combustion of biomass fuels are not included in the emissions intensity ratio reported above.

Scope 1 and 2 emissions reduced in 2016/17 by 71% compared to the previous year driven by the changes summarised in the chart below.



Divestment and outsourcing:

- full year effect of the divestment of the Dairies business on 26 December 2015 reducing Scope 1 emissions (fuels used in processing sites and depots and road fuel used for distribution and business travel) and Scope 2 emissions (electricity used in manufacturing sites and depots) compared to April – December in this reporting year
- outsourcing of primary transport for distribution of finished products to Fowler Welch on the 5 June 2016 reducing Scope 1 emissions from HGV road fuel and refrigeration for the remainder of this reporting year

Operational changes at manufacturing sites:

- the biomass boilers at Davidstow returned to high levels of utilisation experienced in previous years providing around 80% of the heat to the creamery and reducing Scope 1 emissions from the use of fossil fuels. In 2016/17 on-site renewable energy represented 41% of total energy (63% of fuel) used by manufacturing sites.
- the carbon intensity of electricity imported from the public grid reduced by 11% compared to the previous year (based on annual emissions factors issued by DEFRA) reducing Scope 2 emissions
- changes to portfolio of production at Davidstow with the introduction of new functional ingredients at Davidstow and associated site infrastructure, such as new and enhanced assets for the treatment of process waste water which increased relative energy use and hence both Scope 1 and 2 emissions

The overall effect of the changes described above on the emissions intensity metric was a year-on-year decrease of 21%.

Climate

As a leading dairy manufacturer we are determined to play an active role in mitigating and adapting to the effects of climate change, reducing waste and looking after our natural resources.

Targeting **50%**
of water from
recycled sources

Working with The Grocer's 'Waste Not Want Not' campaign

Responsible stewardship on farm

Our well-established farmer support package consists of our Farm Business Centre, field based Farm Business Managers, our farmers' portal plus independent advisory and audit services. We work closely with Dairy Crest Direct ('DCD'), our farmer representative body, and actively supported their successful application to become the first Dairy Producer Organisation in the UK.

Our Davidstow Farm Standards have proven an effective way to reflect the shared priorities of Dairy Crest and our direct supplying dairy farmers. These standards are designed to reflect best practice on farm and ensure the highest quality of milk supply. Each of our direct supplying farms achieves a ranking under the standards. Our pledge is to assist and support farmers in achieving the highest ranking which is currently achieved by around 70% of our supplying farms.

We are engaging with other stakeholders and supply chain partners in the South West to assess further cost effective best practice standards for example in relation to environmental controls that support local healthy eco-systems.

Low carbon manufacturing

We are committed to reducing greenhouse gas emissions associated with our direct operations by reducing energy demand and switching to less carbon intensive forms of energy.

Our site teams continue to make good progress in improving the efficiency of generation and use of energy with relative energy use reducing across Kirkby, Frome and Nuneaton by 4%. A wide range of projects included investment in low energy lighting, heat recovery from air compressors and efficient refrigeration systems.

At Davidstow the introduction of new processes to manufacture functional ingredients and the new and enhanced assets for the treatment of process waste water has increased relative energy demand. Our investment in detailed metering of demand patterns will help us further to optimise energy use for these new processes.

Around 80% of the heat required by the Davidstow creamery was provided from biomass, significantly reducing energy from

40% of
total energy use
comes from
biomass boilers

80% waste
segregation target
exceeded

fossil fuels. Energy from the biomass boilers represented more than 40% of total energy use, meeting our pledge for more than one third of total energy to come from on-site renewables.

The combined effect for our manufacturing sites was a lower than forecast increase in relative energy use of 2% with an associated reduction in greenhouse gas emissions of 13%. This represents significant progress towards our pledge to reduce emissions from our direct operations by 20% over the next five years.

Water stewardship

Securing sufficient, high quality freshwater is essential to our business strategy. We have invested in advanced water treatment technologies to enable the re-use of process waste water at Davidstow reducing long-term reliance on freshwater imports. Towards the end of the year, higher recovery rates meant that around 45% of water used came from recycled sources. Maintaining high water recovery rates at Davidstow is key to the achievement of our pledge for more than 50% of the water required to manufacture our products to come from recycled sources.

Reducing demand for water also remains important to us and we continue to prioritise efficiency projects such as enhanced cleaning of process equipment and plant areas.

Reducing waste

In 2016/17 we again achieved our short-term objective to send zero waste to landfill and acknowledged that this was an early, albeit important, stage of achieving our pledge to increase the value generated from unavoidable non-edible wastes. Our focus remains on reducing non-edible wastes at source, converting wastes into by-products and moving materials up the waste hierarchy.

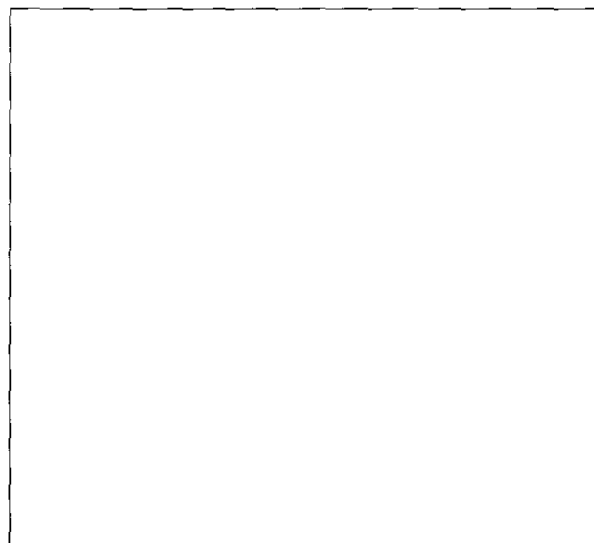
We track the proportion of operational wastes segregated on site and were pleased to exceed our target of 80% segregation by the year end.

We have worked with WRAP as part of the Courtauld 2025 agreement and The Grocer's Waste Not Want Not campaign to reduce household food waste.

CORPORATE RESPONSIBILITY CONTINUED

Colleagues

At Dairy Crest we continually work to improve the excellent safety record we have achieved, we engage with our people and fully utilise their expertise. We are developing our approach to Diversity and Inclusion to strengthen our skill base, and we continue to develop our people to drive our business forward.



Through our refreshed Corporate Responsibility pledges, Dairy Crest employees have a volunteering day each year to help support local causes.

Safety is always first

We have seen over the years that a commitment to health and safety is key to building a great business. Our track record during 2016/17 shows further improvement on an already strong performance.

At the end of March 2017, we have reduced our Lost Time Accident Frequency Rate from 0.19 to 0.13 due to a 43% reduction in the number of reportable incidents against the 2013 baseline. Having set ourselves what appeared to be a challenging objective of a 50% reduction in Accident Incident Rate by 2018 versus the 2013 baseline, we have achieved 69% reduction in the last year.

Encouraging employees to report near misses is key to achieving sustainable long-term change in safety behaviour. Against our target of 100:1 ratio of near miss and behavioural conversations versus all types of accident by 2018, we achieved a ratio of 423:1, an improvement on last year's 175:1 performance.

Another important way of engaging our teams in safety is through our cultural change programme, encouraging employees to 'Stop, Think, Assess, Review' ('STAR') and complete STAR cards where they see safety related conditions or actions. By discussing and addressing these issues, we have created greater levels of dialogue, involvement and a safety first culture. To build on this programme in 2016 we introduced the STAR safe system of work ('SSoW') conversations, where front line managers initiate a conversation with a work colleague, based on the recognised safe system of working. Through this discussion better and safer ways of working have been identified, reducing our risks and injuries.

Well-being for our people

2016/17 has seen continued growth in free well-being checks for employees with 256 members of our staff receiving this valuable service that is open to all.

Our well-being days continue to attract high staff attendance. Comprised of practical health and safety advice for work and home, these events are run across the business and receive very positive feedback from our teams.

Our busy Occupational Health team also delivered 924 mandatory health checks throughout the year.

Engaging employees

Creating an environment where all employees understand they have a key role to play in the Company's success is crucial to achieving the objectives and targets we set. 2016/17 has seen a number of people initiatives aimed at further engaging our employees.

An employee roadshow, presented by members of the Executive Committee, visited all Dairy Crest sites and offices. Over a 6 week period, 80% of employees attended the presentation which covered important topics such as our refreshed Vision and Values, CR pledges, our business plans and our progress to date. The roadshows were very well received by employees with structured feedback reporting high levels of engagement.

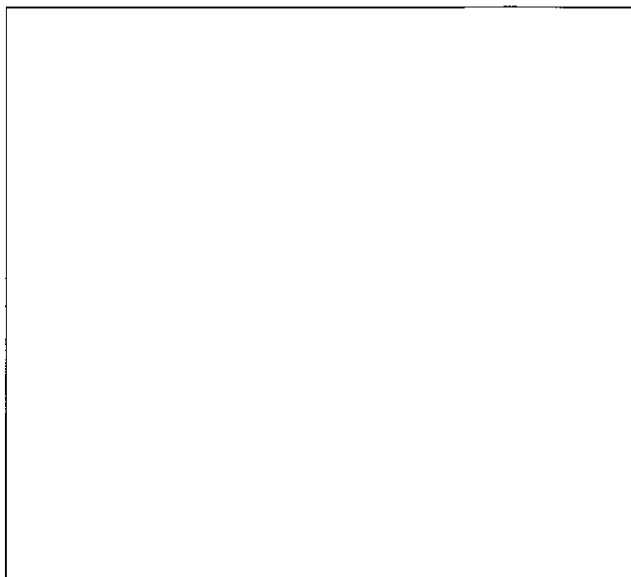
We continue to develop our other employee communication channels with a weekly news roundup, regular business performance updates and our staff intranet.

Feeling valued and part of the wider Dairy Crest team is key to employee engagement. We support this in three ways:

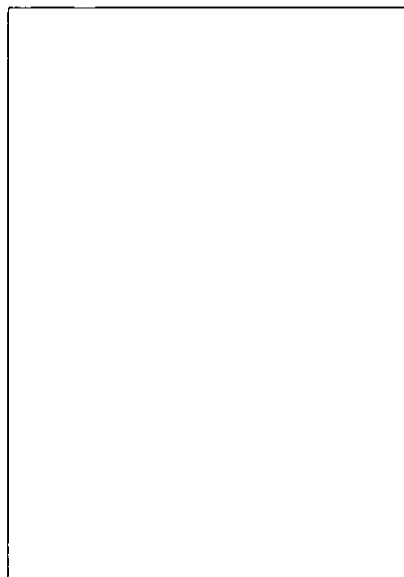
- All employees have the opportunity to be part of a bonus or incentive scheme which is linked to either personal, site and/or company performance;
- Dairy Crest runs share save schemes whereby employees can invest in Dairy Crest and take a real ownership role. Two share save schemes are currently in operation with circa 40% of staff investing their money, up to £500 a month; and
- Our Reward & Recognition scheme continues to benefit employees who 'go the extra mile'. Bronze and Silver awards, that attract a monetary benefit, recognise excellent behaviour in line with our values. Silver award winners are selected by a committee of staff to receive one of three prestigious Gold awards. In 2016/17 462 Bronze and Silver awards were awarded.

Investing in learning

In 2016/17 Dairy Crest has maintained its focus on induction training and manufacturing compliance skills development. These now achieve consistently high levels of compliance with our internal targets for timing of completion, respectively 99% and 98% at year end.



Our Procurement team enjoying a volunteering day at Brooklands Museum.

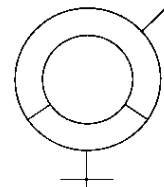


Our very first Eden engineering apprenticeship trainees at their graduation ceremony.

GENDER PROFILE

All employees

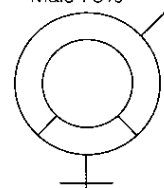
Male 69%



Female 31%

Senior management

Male 76%



Female 24%

An important emphasis this year has been on management development for all our team leaders, from first line to Director level. The training provided focussed on the skills required to enhance high performance from individuals and teams and included coaching skills, feedback, objective setting and development planning. This programme was attended by 150 managers from all disciplines within the business. We are in the process of evaluating the outcomes of this programme and defining next steps, however, initial feedback has been very positive and we aim to build upon this to ensure continued improvements in the management and development of our employees.

To enhance access to learning further, Dairy Crest has launched a new Learning Management System 'mydevelopment' incorporating e-learning programmes on a diverse range of business topics, including Dairy Crest's specific environmental awareness module and 'how to' tool kits. This new platform allows Dairy Crest to drive blended and dynamic learning initiatives across the business.

The Dairy Crest Talent Management Review is undertaken annually and is the foundation of our talent assessment process and succession planning. As recognised in the CR pledges, there has been additional emphasis this year on identifying all business critical roles and the succession and development plans for these. This will continue into 2017/18 to ensure Dairy Crest is in the best position to secure and retain the right skills for the business.

Dairy Crest continues to invest in apprenticeship programmes to provide a pipeline of talent into key skill areas. Our Eden apprenticeships develop competence in the core areas of dairy processing, manufacturing and engineering. Dairy Crest currently supports three technology apprentices and five engineering apprentices. Our first two Eden engineering trainees graduated this year and both went straight into shift engineer and maintenance engineer roles within the Group.

Turnover of employees has stabilised during 2016/17 and now sits at 15%. Although some turnover of staff is positive in refreshing our skill base, the current level is higher than desired and Dairy Crest will be looking to the Employee Survey, undertaken in April 2017, to help identify any areas where we can improve on this

key metric. With regard to absence, this now sits at 2.7%, slightly above last year's level of 2.6% but in line with our objective to maintain absence below 3%.

Diversity and inclusion

Businesses are more sustainable and perform better when they attract and develop talent from the broadest possible base. It is this understanding that drives our Diversity and Inclusion agenda. We also know that people are at their most productive when they can achieve an appropriate balance between work and home life. At Dairy Crest we wish to employ and grow a diverse workforce who feel they are treated flexibly with regard to their ways of working according to business needs.

Employees are encouraged to reach their full potential regardless of their age, gender, marital status (including civil partnerships), disability, nationality, colour, ethnic origin, sexual orientation or religious affiliation. Dairy Crest does not tolerate discrimination or harassment on any of these grounds. To help us achieve our aims our policies include the right to apply for flexible working hours, a sabbatical, support with taking time off to study, and we provide maternity pay above the statutory minimum and full pay during paternity leave.

During 2016/17 we have refreshed our Diversity and Inclusion programme, the objective of which is enshrined in our CR pledge to develop employment policies and working practices that encourage a diverse and inclusive workforce. Already we have reviewed the Diversity training and development provided and will look to enhance this during 2017/18. Further action will include a review of policies and communications.

Working with trade unions

Dairy Crest has enjoyed good relationships with the recognised unions, USDAW and Unite, for many years. We acknowledge the positive role trade unions can play in the development of our business and the constructive way we have worked together.

CORPORATE RESPONSIBILITY CONTINUED

Consumers

We are committed to providing healthier, tasty products that make it easier for consumers to choose healthier foods and to play our part in helping to improve the nation's health.

LIGHT & BRIGHT future

Healthier choices

Dairy Crest has continued to invest in its portfolio of lower fat options. Market data shows that volumes of the lower fat variants of our cheese, butters and spreads brands grew by 1% from 2015/16, and now account for 13.8% of our overall branded cheese, butters and spreads volumes, an increase from 13.2% in 2015/16.

Collectively, along with Frylight, our one calorie cooking spray, our lower fat variants reached a retail sales value of £84.0 million, an increase of 3.2% over 2015/16.

Cathedral City has expanded its extensive range of lower fat options, with the addition of two new variants – Cathedral City Lighter snack bar and Cathedral City Lighter spreadable. This has helped retail sales of lower fat options from Cathedral City to grow to £34.1 million.

Our lower fat spreads – Clover Light, Utterly Butterly Lightly and Country Life Lighter spreadable – have a collective retail sales value of £20.0 million, and sales of our 'no artificial ingredients' Clover have been strong, out-performing the spreads market.

Frylight enjoyed another impressive year reaching a record retail sales value of £29.9 million, a growth of 19%, allowing it to become the UK's biggest oil brand. It is now bought by over a fifth of UK households, and its contribution to healthier cooking was recognised in winning the 2016 IGD 'Health and Wellness' product award.

Innovation and quality

Our dedicated Innovation Centre and partnership with Harper Adams University gives us the opportunity to develop even more healthy products. In 2016 we won 'Most Innovative Contribution to Business-University Collaboration' at the Times Higher Education Awards in recognition of numerous research-led projects that Dairy Crest and Harper Adams University are engaged in together.

Our colleagues take enormous pride in the quality of the food we produce; this is a founding principle at the heart of our quality agenda. Our quality management systems are regularly reviewed and audited by our own technical teams and third parties to ensure they comply with industry standards.

Demineralised Whey and GOS

Our plant at Davidstow is now producing high quality ingredients for infant formula manufacturers and is showing high levels of consistent quality. We produce demineralised whey, which forms the base of infant formula, and GOS, a lactose based prebiotic that has been shown to help aid digestive health in infants.

In addition, we have commenced an extensive research programme with universities and commercial partners to illustrate the benefits of GOS in animal and human nutrition. GOS may improve animal health, as well as food uptake, potentially leading to the need for lower levels of antibiotics in the animal husbandry industry.

Sustainable, ethical sourcing

Dairy Crest works with its suppliers to exceed best practice around areas including quality and traceability. We can trace milk and raw materials from farms and suppliers through to finished product.

Thanks to our Davidstow Farm Standards, all milk supplied to us meets the strict international standards for the production of infant formula. In 2016 we commenced a project to review the Davidstow farm audits with a view to further developing and enhancing the standards in 2017.

Since 1 April 2016 all palm oil used in our spreads products comes from RSPO certified sustainable sources, more than four years ahead of our original committed date.

Reducing our packaging impact

To avoid sending waste to landfill, we are investing in new ways of packaging our products so they are not only made with less material and more recycled material but also that the packaging itself is recyclable.

We are pleased to report that all of the tubs and lids used in our spreads business are now recyclable.

Community

Our community programme supports and enhances the communities in which we work and live. Our three key priorities are supporting rural communities working with The Prince's Countryside Fund, supporting local communities and employee volunteering.

Supporting rural communities

Dairy Crest recognises that the countryside continues to face significant challenges across a wide range of complex social and economic issues.

Dairy Crest has a long standing relationship with The Prince's Countryside Fund. The charity, set up by HRH The Prince of Wales in 2010, exists to improve the prospects of family farm businesses and the quality of rural life. The Fund's vision is of a confident, robust and sustainable agricultural and rural community which is appreciated for its vital contribution to the UK.

Dairy Crest donated £50,000 to the Fund in 2016/17 through brand partnerships with Davidstow cheddar and Country Life butter. We are also sponsors of The Prince's Dairy Initiative, launched in 2012. The initiative has brought the dairy sector together to take practical action to support the sustainability of a diverse British dairy industry.

Supporting local communities

Dairy Crest is committed to supporting local good causes in the communities where we work and live that improve health, education, youth engagement, employability skills, the environment and the countryside.

Each Dairy Crest site is allocated a community budget. In total, during 2016/17, we spent over £100,000 supporting over 75 local good causes.

We are proud to have supported local schools, care homes, hospices, scout and girl guiding groups and health charities to name but a few.

During December 2016, we donated 318 cases of Cathedral City cheddar, 71 cases of Country Life spreadable and 3,000 slices of Cathedral City to the 45th Crisis at Christmas. This

In 2016/17 we spent over

£100,000 supporting
over 75 local good causes

enabled the homeless charity to support approximately 4,000 homeless guests attending the ten Crisis London centres. In total 36,000 meals were served across the eight days that the Crisis centres were open.

Dairy Crest also donated 40kg of Cathedral City cheddar for the Chelsea Pensioners Ceremony of the Cheeses to enjoy over the festive season.

Dairy Crest operates a staff lottery which is open to all Dairy Crest employees. This year staff have supported over 30 charitable causes through financial donations including Surrey Search and Rescue, Metro Blind Sport, The Stroke Association, MS Society, Cerebral Palsy, Lady Taverers and Macmillan Cancer Support.

Dairy Crest also participated in the Calling London 2016 Winter Coat Drive helping reach a target of 3,500 coats which were distributed across London.

Employee volunteering

All Dairy Crest employees are encouraged to take up their fully paid volunteering day each year. Measured as people days equivalent compared to total number of employees, this represents more than 1,000 volunteering days per annum.

Dairy Crest staff voluntarily deliver healthy, fresh food to vulnerable people in our local communities through Meals On Wheels. We also support release time for staff to volunteer with the Fire Service and other services.

We host visits to our sites for local schools, The Women's Institute and Young Farmer Groups. Staff also volunteer at various local events including providing support at days out for children with special needs.

BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND ADVISERS

Dairy Crest is led by an experienced Board of Directors, which comprises three Executive Directors, one Non-executive Chairman and three independent Non-executive Directors. Together, the Executive Directors have over 50 years' experience of the business.

The Board sets strategy and monitors progress. Day-to-day matters are the responsibility of the Executive Committee, which comprises the three Executive Directors, the Company Secretary & General Counsel, the Group Supply Chain Director and the Group HR Director. Other senior managers attend by invitation. The Executive Committee normally meets weekly.

* Audit Committee Member
† Remuneration Committee Member
‡ Nomination Committee Member
◊ Corporate Responsibility Committee Member
Δ Executive Committee Member
Not a Board Member

Board of Directors

Stephen Alexander Chairman ‡

Appointed as a Non-executive Director in January 2011, as Chairman in September 2014 and Chairman of the Nomination Committee in March 2015. He is an Operating Partner at OpCapita LLP and Chairman of the charitable organisation Look Ahead Care, Support and Housing. Stephen was Chairman of Immediate Media Company Ltd until January 2017 and Chairman of Rhubarb Food Design Ltd until December 2016. Previously he was Chairman of Maltby Capital Ltd (parent company of EMI Group), Chairman of Odeon Cinemas, Chief Executive of Hilldown Holdings Ltd and held senior positions with Allied Domecq PLC and Imperial Foods. He was also Senior Independent Director at Devro plc.

Richard Macdonald Non-Executive Director * † ‡ ◊

Appointed as a Non-executive Director in November 2010, as Senior Independent Director in May 2012 and as Chairman of the Remuneration Committee in November 2014, prior to which he was Chairman of the Corporate Responsibility Committee. Richard had a 30 year career with the National Farmers Union, serving as Director General for 13 years. He is a Non-executive Director of Moy Park Limited, Vice Chairman of the National Institute of Agricultural Botany and Chairman of Farm Africa. Richard is a Non-executive Director and Deputy Chairman of the Environment Agency.

Andrew Carr-Locke Non-Executive Director * † ‡

Appointed as a Non-executive Director and Chairman of the Audit Committee in August 2009. A Fellow of the Chartered Institute of Management Accountants, he has previously held senior finance positions at Courtaulds Textiles, Diageo, Bowater Scott and Kodak and was Group Finance Director at George Wimpey plc until 2007. More recently he was Executive Chairman of Countryside Properties. He is a Non-executive Director of Grainger plc and has previously held Non-executive directorships at Royal Mail Holdings, Venture Production and AWG.

Sue Farr Non-Executive Director * † ‡ ◊

Appointed as a Non-executive Director in November 2011 and Chairman of the Corporate Responsibility Committee in November 2014. She is a special advisor to Chime Communications plc, having previously been a member of the Executive Management team. Sue has extensive marketing communications experience having served as Marketing Director of the BBC for 7 years, Director of Corporate Affairs, Thames Television for 3 years and Director of Corporate Communications, Vauxhall Motors. Sue is a Non-executive Director of Millennium & Copthorne Hotels plc, Accsys Technologies PLC and British American Tobacco p.l.c. She has previously held positions as a Trustee of the Historic Royal Palaces and as a Non-executive Director of Motivcom Limited. She was appointed as a Non-executive Director of Dolphin Capital Investors Limited in July 2016.

Advisers

Auditor Ernst & Young LLP	Corporate Brokers Shore Capital Group Ltd
Solicitors Eversheds Sutherland (International) LLP	Peel Hunt LLP
Principal Bankers The Royal Bank of Scotland plc	Registered Office Claygate House, Littleworth Road, Esher, Surrey KT10 9PN
Rabobank London	Registered in England No. 3162897
Lloyds Bank plc	
Santander UK plc	

Mark Allen**Chief Executive ◊ Δ**

Appointed as an Executive Director in 2002 and became Chief Executive in January 2007. Mark joined Dairy Crest in August 1991. He was formerly with Shell UK Ltd. He is a Trustee for The Prince's Countryside Fund and a Non-executive Director of Howdens Joinery Group Plc. He was appointed a Non-executive Director of Warburtons Limited in January 2017.

Tom Atherton**Group Finance Director ◊ Δ**

Appointed as an Executive Director in May 2013. A Chartered Accountant who has worked for Dairy Crest since 2005. Prior to his appointment to the Board Tom served as Director of Financial Control. He is a member of the Board of Dairy UK and a member of BiTC's Finance and Risk Committee. He has previously held senior finance positions in Logica plc and Thorn plc.

Adam Braithwaite**Executive Director ◊ Δ**

Appointed as an Executive Director in July 2016. Adam joined Dairy Crest in 2002 and has held a number of senior management positions within the business. He was appointed Group Commercial Director in April 2013.

Non-board Executive Committee members**Robin Miller****Company Secretary & General Counsel ◊ Δ #**

Appointed in April 2008. Robin is a solicitor having worked in private practice and in-house in both retail and international manufacturing.

Mike Barrington**Group Supply Chain Director Δ #**

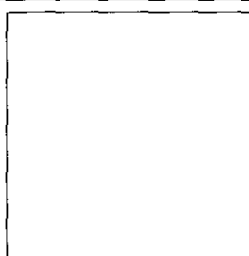
Before joining Dairy Crest in 2011, Mike held senior management positions with Cadbury Schweppes and Kraft Foods, latterly Manufacturing Director for Cadbury in the UK & Ireland. Mike joined Dairy Crest as Supply Chain Director, Dairies and was appointed to his current role in April 2013.

Robert Willock**Group HR Director ◊ Δ #**

Robert joined Dairy Crest 11 years ago as HR Director, Dairies from The Maersk Company where he was Director of Human Resources. He was appointed to his current role in April 2013.

CORPORATE GOVERNANCE

Chairman's introduction



As I mentioned in my Chairman's statement earlier in this report, market conditions continued to be challenging during the year.

Despite these, the Company has continued to focus on the on-going execution of the Group's strategy of generating growth in our branded and functional

ingredients businesses, particularly following the commencement of manufacture of our new demineralised whey and GOS ingredients.

During the year the Management Board has been renamed the Executive Committee and this Committee continues to execute its responsibilities with the same membership and terms of reference.

In addition, following the implementation of the Modern Slavery Act 2015, the Group has published its first Modern Slavery transparency statement for the financial year 2015/16. The statement for financial year 2016/17 will be published in September 2017.

The Board is committed to high standards of corporate governance and supports the principles laid down in the UK Corporate Governance Code published in September 2014 by the Financial Reporting Council ('Code'). A copy of the Code can be found at www.frc.org.uk. The Board considers that the Group has complied with all relevant provisions of the Code.

The Board recognises its collective responsibility for the governance of the Company. Its strong governance framework is supported by a combination of clear values, appropriate policy, and an environment of transparency and accountability. The Board's central role is to work alongside the executive team providing support, challenge, guidance and leadership. I believe that the Board is well balanced with a broad range of skills, diversity and experience.

Stephen Alexander Chairman
17 May 2017

The Board

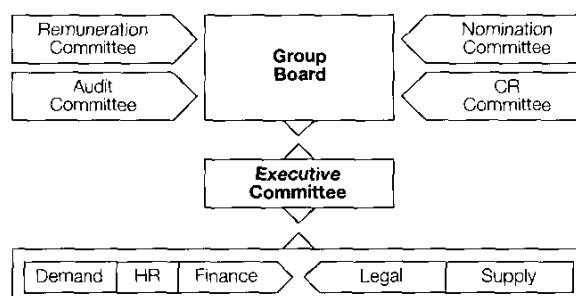
Role: The Board is responsible for the long-term success of the Group, corporate governance, strategy, risk management and financial performance. The Board meets regularly throughout the year to approve the Group's strategic objectives, to lead the Group within a framework of effective controls which enable risk to be assessed and managed, and to ensure sufficient resources are available to meet the objectives set.

There are a number of matters which are specifically reserved for the Board's approval; strategy and management, structure and share capital, corporate governance, approval of dividends, remuneration, approval of significant transactions, capital expenditure and contracts.

In addition, the Board is responsible for ensuring appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company.

The work of the Board complements, enhances and supports the work of the Executive Committee. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement in standards and performance across our business.

The Board and its Committee structure is set out below.



Board Committees: The Board has established five Committees:

- Audit Committee
- Corporate Responsibility Committee
- Executive Committee
- Nomination Committee
- Remuneration Committee

The terms of reference of these Committees can be found on our website and the reports of each Committee are on pages 34 to 61.

The Board delegates to the Executive Committee the execution of the Group's strategy and the day-to-day management and operations of the Group's business.

Board Composition: The Board consists of three Executive Directors and four Non-executive Directors including the Chairman. A list of the current Directors, their roles on the Board and its Committees and their experience is set out on pages 28 to 29.

Further details on the roles and responsibilities of the Chairman and Chief Executive are in the document entitled 'Chairman/Chief Executive Division of Responsibilities' on the Group's website.

Richard Macdonald is the Company's Senior Independent Director.

Independence of Directors: The Board reviews the independence of its Non-executive Directors as part of its annual Board effectiveness review. The Chairman is committed to ensuring that the Board comprises a majority of independent Non-executive Directors who objectively challenge management, balanced against the need to ensure continuity on the Board. The Board considers that all the Non-executive Directors bring strong independent oversight and continue to demonstrate independence. The Board recognises the recommended term of appointment for Non-executive Directors within the Code. It is mindful of the need for suitable succession, and therefore maintains a clear framework of the time each Non-executive Director has served the Company and the skill sets that each provide.

The Chairman periodically meets individually or collectively with the Non-executive Directors in the absence of the Executive Directors.

Board meetings: A minimum of eight face to face meetings are planned throughout the year to consider for example, half year and full year announcements and the strategy of the Group. Other ad hoc meetings are held as and when required. Details of the Board and Committee meetings held during the 2016/17 year are set out in the table below.

Attendance: The attendance of the Directors at Board and Committee meetings during the year is shown in the table below. The numbers in brackets show the maximum number of meetings Directors could have attended during 2016/17.

Board and main Committee meetings

The Directors named in the table below held office during the year. The number of Board and Committee meetings attended by Directors in the year is shown in the table below. The numbers in brackets show the maximum number of meetings Directors could have attended during 2016/17.

	Board	Audit	Remuneration	Nomination	Corporate Responsibility	Executive Committee
Mr M Allen	8(8)	–	–	–	3(3)	32(42)
Mr T Atherton	8(8)	–	–	–	3(3)	35(42)
Mr A Braithwaite	8(8)	–	–	–	2(2)	25(28)
Mr S Alexander	8(8)	5(5)	6(6)	2(2)	–	–
Mr A Carr-Locke	8(8)	5(5)	6(6)	2(2)	3(3)	–
Ms S Farr	8(8)	5(5)	6(6)	1(2)	3(3)	–
Mr R Macdonald	8(8)	5(5)	6(6)	2(2)	3(3)	–

Board effectiveness review: Each year the performance of the Board and its Committees is reviewed. The last externally facilitated review was carried out during the 2015/16 financial year with the assistance of Russell Reynolds Associates. During the year, the Chairman oversaw the implementation of various recommendations arising from the last review. This year the Board and its Committees carried out an effectiveness review without external assistance. The use of questionnaires based on the framework provided by Russell Reynolds Associates last year ensured year-on-year consistency and enabled progress against the previous year to be tracked and assessed. They were completed by Directors in March 2017 and the output from the questionnaires was used to inform a review discussion at the Board's meeting in April 2017. That discussion included an evaluation of the Chairman of the Board's performance, without the Chairman present, which was led by the Senior Independent Director.

Evaluation questions for the Board were grouped into four key areas; strategy, structure & process, people & composition, and stakeholders. Those four key areas were sub-divided into more specific areas of focus including, amongst other matters, the performance of the Chairman of the Board, the performance of the Chairmen of the Committees and the performance of Directors individually. Directors were also asked to comment on progress made against specific development opportunities identified for the Board in the 2015/16 effectiveness review. Committee questionnaires, which were also based on the framework used the prior year to allow consistency and for progress to be tracked, were completed in March 2017. Each of the Committees reviewed the output of the questionnaires alongside their terms of reference at their meetings in May 2017. Committee questionnaires focussed on, amongst other matters; the quality of leadership, the quality of debate, performance against and suitability of Committee terms of reference, and the quality of Committee reporting.

The Board effectiveness review concluded that:

- All Directors perform well and all continue to make valuable contributions to the work of the Board
- Further enhancements to the skills and experience represented amongst the Directors in the area of FMCG marketing and/or international ingredients businesses would be beneficial – more detail of the continued work of the Nomination Committee in that regard can be found on pages 38 to 39 of this Annual Report
- The Board, initially through the work of the Nomination Committee, needed to ensure continued focus on the requirement in the near future to ensure appropriate refreshment of Non-executive Director appointments

The effectiveness reviews of the Committees concluded that the Committees continue to perform well and to fulfil their briefs against their terms of reference. The review process identified, amongst other matters, and in particular:

- The need for greater rigour in the reporting of all Committees to the Board
- That the importance of the Corporate Responsibility Committee needed further emphasis so that it is demonstrably given as much prominence and focus as the longer standing Audit, Nomination and Remuneration Committees. To that end it was decided that progress by the Group against the four pillars of the CR strategy should be added to the Executive Committee's work programme for quarterly review (in addition to the existing regular reviews of health & safety and technical, quality & environmental performance). Doing so will ensure continuous rigorous operational focus on all of the pillars of the CR strategy. In addition, on days when the Board has Committee meetings, the Corporate Responsibility Committee meeting shall be scheduled as the first of the Committee meetings to ensure that it receives appropriate focus and that sufficient time is devoted to it, equivalent to that of the more established Committees.

CORPORATE GOVERNANCE CONTINUED

Director induction and training: All new Directors undergo a comprehensive induction programme on appointment. In addition to equipping Directors with sufficiently detailed knowledge of the operations of the Group's business to enable them effectively to carry out their duties, the induction programme is tailored to their experience, background and particular areas of focus. On-going training is provided for the Board by way of site visits, presentations and circulation of updates on, amongst other things, corporate governance, environmental, regulatory developments and investor relations matters.

On appointment Adam Braithwaite received one to one training on directors' duties and responsibilities from the Group's external solicitors, Eversheds Sutherland (International) LLP.

During the year the Market Abuse Regulation which came into effect in July 2016 was a particular point of focus and the Board was fully briefed on the updated inside information and share dealing policies and procedures arising from the new regulations.

Conflicts of interest: The Company's Articles of Association ('Articles') allow the Directors, where appropriate, to authorise conflicts or possible conflicts of interest between Directors and the Company. In addition, Non-executive Directors' letters of appointment require them to obtain the prior approval of the Board to appointments external to the Company where those appointments might affect the time they are able to devote to their role. When considering conflicts or potential conflicts of interest, the conflicted or potentially conflicted Director is excluded from participation in the Board's consideration of the conflict or potential conflict situation.

Procedures are in place for Directors to disclose conflicts or potential conflicts of interest. As at April 2017 the Directors all confirmed that they had no present or anticipated conflicts of interest. No Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

Appointment and re-election of Directors: The Articles provide that the Directors or the members, by ordinary resolution, may appoint a Director to fill a vacancy or as an additional director. The Articles require all Directors to be re-elected annually. All Directors will stand for re-election at the Company's 2017 Annual General Meeting ('AGM') except for Adam Braithwaite, who consistent with the Articles, will stand for election having been appointed since the last AGM. Having regard to the roles performed by each of the Directors, the individual input and contribution they make and their individual expertise and experience, the Board is satisfied that each Director's performance justifies nomination for election or re-election by shareholders.

Service agreements and letters of appointment: Details of the Executive Directors' service agreements and the Chairman and Non-executive Directors' letters of appointment are published on the Company's website and appear in the Directors' Remuneration report on page 47. These documents are available for inspection at the registered office of the Company during normal business hours or at the AGM.

Independent advice: The Board has approved a procedure for Directors to take independent professional advice at the Company's expense if necessary. No such advice was sought by any Director during the year. In addition, the Directors have direct access to the advice and services of the Company Secretary.

Shareholder engagement: The Company recognises its responsibility for ensuring that a satisfactory dialogue takes place with shareholders. This continued engagement is highly beneficial to all parties as it helps to build a greater understanding of our investors' views, opinions and concerns. The Chief Executive and Group Finance Director have primary responsibility for investor relations.

Throughout the year the Board has continued to maintain an active programme of engagement with investors with regular meetings held with key institutional shareholders to discuss strategy, financial performance and investment activities. This year the Chief Executive and Group Finance Director met with over 90 investors in eleven major cities in the UK, Europe, North America and Canada.

Analysts and investors are invited to our capital markets day each year and this year it was held at our Davidstow creamery. It focussed on the dairy market, the Company's strategy and performance and included a tour of the new demineralised whey and GOS manufacturing facilities. The event was attended by the Chief Executive, Group Finance Director, Group Commercial Director and other senior management. In addition there were further shareholder visits to both Davidstow and our Nuneaton site.

Presentation slides are made available in the investors section of the Company's website along with audio recordings, annual and interim reports, interim management statements, trading updates and company announcements.

All the Non-executive Directors, and, in particular, the Chairman and Senior Independent Director, are available to meet with shareholders. Feedback from meetings with shareholders is provided to the Board to ensure that all Directors have a balanced understanding of the issues and concerns of shareholders. The Board receives feedback from the Chief Executive and the Group Finance Director on their meetings with shareholders, periodic reports on investor relations and independent feedback from the Company's brokers on the views of major shareholders.

Risk management and internal control

The Board determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. It has overall responsibility for monitoring the Group's risk management and internal control systems and the effectiveness of those systems. It is assisted in that task by the Audit Committee and the Group Internal Audit function. There is an on-going process for identifying, evaluating and managing the principal risks facing the Group. The Board has delegated responsibility for management of day-to-day operational risks to the Executive Committee. The Audit Committee conducts reviews of the internal control systems and the Board reviews them annually. The principal risks and uncertainties identified by the Group are set out on pages 16 to 17 along with the steps which are taken to mitigate and manage them. The Board has satisfied itself that its systems accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and that satisfactory internal control procedures and systems have been in place throughout the year and up to and including the date of this Report in compliance with the requirements of the Code.

A rolling audit programme conducted by Group Internal Audit across the Group forms a key facet of the Group's systems of internal control. The Head of Group Internal Audit reports independently to the Chairman of the Audit Committee on assurance matters. Under its terms of reference, the Audit Committee, amongst other matters, approves the appointment or dismissal of the Head of Group Internal

Audit and the Audit Committee Chairman approves the remuneration of the Head of Group Internal Audit. It is not possible to eliminate risk entirely. Accordingly, although the Group's systems are designed to manage risks they cannot provide absolute assurance against material misstatement or loss. They provide reasonable assurance that potential issues can be identified promptly and remedied appropriately. The key components of the risk management and internal control systems include:

- The adoption and communication of clearly documented values, policies, procedures and processes, including, amongst others, the Group's Business Conduct Policy
- Reservation to the Board of control of, amongst other matters, all significant strategic, financial and organisational risks
- A management structure which includes clear lines of responsibility and documented delegations of authority with appropriate policies, levels and rules for, amongst other matters, incurring capital expenditure or divesting of the Group's assets
- The operation of comprehensive financial and strategic planning, forecasting and review processes
- Exercise of oversight by the Audit Committee, with input from the Head of Group Internal Audit, over the Group's control processes designed to ensure the integrity of internal and external financial reporting
- The preparation of monthly management accounts packs for the business, including KPI dashboards for each constituent part of the Group's business, trading results, balance sheet and cash flow information with comparison against prior year and budget, all of which are reviewed by the Executive Committee and the Board
- Monthly scrutiny of performance against budget (including analysis of key trends, variances and key risks and plans for mitigation as well as the continued appropriateness of those risks) in monthly meetings referred to as Accounts Reviews where each key constituent part of the Group and key departments report performance year-to-date and forecast against budget to a panel comprising the Executive Committee and other senior managers
- Formal documented financial controls and procedures including specific procedures for treasury transactions and the approval of significant contracts
- Quarterly completion by each key constituent part of the Group of a self-assessment controls questionnaire that requires the approval of management
- Preparation and refreshment of risk registers which are reviewed by senior management, the Executive Committee and the Board with the assignment of individual responsibility for the ownership and mitigation of significant risks to members of the Executive Committee and independent assurance over the appropriate implementation and operation of mitigating activities provided by Group Internal Audit
- Review by the Audit Committee of the Group's risk register processes
- Review and approval of the audit plan for the Group Internal Audit function together with progress against and revision of the plan as appropriate, throughout the year
- Receipt by the Audit Committee and the Executive Committee of all Group Internal Audit reports detailing audit issues noted, corrective action plans and progress against those plans
- The operation of an integrated business planning process with formal procedures for highlighting on a monthly cycle financial performance and risks to budgetary delivery together with associated opportunities to counteract or mitigate those risks to performance

Fair balanced and understandable: Provision C.1 of the Code requires the Directors to present a fair, balanced and understandable assessment of the Company's position and prospects. When the provision was first introduced to the Code, the Audit Committee adopted a detailed process to enable the Board to report against this principle of the Code. The resultant more structured approach (see table below) to the preparation of the Report and Accounts has been applied in the production of this Report and Accounts which the Board formally signed off at its meeting in May 2017.

January/February/March		April	May
Initial content production	Agree key messages	Review and sign off	Formal sign off
Prepare content not dependent on year end results, e.g.: business model, strategy, corporate governance sections.	Start completing and collating performance related content, e.g. remuneration report.	Confirmation from contributors as to completeness of input.	Consider level of assurance obtained over non-financial information in the ARA.
Project Manager ('PM') considers whether content collated is itself and collectively fair balanced and understandable ('FBU'): review and amend.	Consider new regulations and consistency with key messages and KPIs.	Appropriate review of full content, for consistency, completeness and messaging: review and amend.	Where applicable Audit Committee to formally report to the Board on how it has satisfied itself that ARA is FBU.
Identify material events/ performance issues that will need to be reported.	PM considers whether content collated is itself and collectively FBU: review and amend.	'Sign-off' by section owners.	Board to minute consideration of FBU with Board paper showing the process and results.
		Bring together all section owners to agree that whole Annual Report and Accounts ('ARA') is FBU.	
		Consider formal sign off from section owners to the Board.	

The Board's assessment of the fair, balanced and understandable nature of the Annual Report and Accounts is further assisted by, amongst other matters, the following:

- The Annual Report and Accounts is drafted by senior management with overall coordination by the Company Secretary & General Counsel.
- An internal validation process is undertaken by Group Internal Audit to ensure factual accuracy.
- Comprehensive reviews of the draft Annual Report and Accounts are undertaken by Executive Committee members and in relation to certain sections by the Company's external lawyers, the external auditor and other advisers.
- The drafts of each relevant section are reviewed as they are prepared through an iterative drafting process by the Chairmen of appropriate Committees of the Board and the final draft is reviewed by those Committees prior to consideration by the Board.

At its May 2017 meeting, the Board reviewed and was satisfied that the Annual Report and Accounts for financial year 2016/17, taken as a whole, is fair, balanced and understandable and the Board believes that the information contained therein provides the information necessary for shareholders to assess the Company's and Group's performance, position, business model and strategy.

CORPORATE GOVERNANCE CONTINUED

Audit Committee report

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 31 March 2017.

During the year, the Committee has continued to play a key role within the Group's governance framework to support the Board in matters relating to internal control, risk

management and financial reporting.

Over the following pages we provide insight into the workings of the Committee and its activities during the year. The report provides an overview of the significant issues the Committee has assessed and the Committee's opinion on the 2017 Annual Report and Accounts as a whole, including how it has assessed the narrative reporting in the front of the report to accurately report the financial statements in the back.

The Committee members as Directors of the Company have an in depth understanding and ownership of the Company's strategy. They receive regular updates on strategic progress together with insight concerning day-to-day performance through the receipt of the Executive Committee meeting minutes and monthly management accounts. This enables the Committee to determine areas of focus in addition to its regular work programme. During the year we paid particular attention to controls following the major reorganisation arising from the disposal of the Dairies business and the large scale investment programme at Davidstow.

Of specific importance this year has been the oversight of a formal tender process for the Group's statutory auditor contract, following the retirement by rotation of the Group's current auditor, Ernst & Young ('EY'). Following the audit tender and the recommendations of the Audit Committee, the Board has appointed Deloitte LLP ('Deloitte') as its external auditor for the year commencing 1 April 2017. The appointment will be subject to shareholder approval at the 2017 AGM.

Looking forward to the next 12 months, the Committee will continue to focus on the audit, assurance, and risks processes within the business, as well as monitoring changes in EU and UK regulation, including the impact of Brexit. We will also implement a more formal appraisal process of the quality of our external audit.

I would like to thank the other members of the Committee and Dairy Crest's Internal Audit and Finance teams for their on-going support. I would particularly like to record my thanks to EY for their contribution to the Committee and the Company over many years.

Andrew Carr-Locke Chairman of the Audit Committee
17 May 2017

Summary of the more significant risks and financial reporting issues

The Committee is responsible for reviewing the effectiveness of the Group's framework for risk management and financial controls, and ensuring that the Group's procedures are updated as and when required. On behalf of the Board, the Committee has carried out a robust assessment of the principal risks facing the Company. The Committee has discussed with management the key estimations and judgements applied to the Group's financial statements and the impact of significant accounting matters arising during the year. The main items discussed were:

1. Revenue recognition

The Group's accounting policy for promotional accruals provides that the Group accrues for agreed promotional funding, which is calculated based on a number of estimates and judgements relating to promotions. The Committee has reviewed the levels of promotional accruals and considered the results of the interim review and the audit conducted by EY which assessed the design of controls around this area and tested samples to underlying documentation. The Committee was satisfied with the judgements made by management in respect of the accounting policy for promotional accruals and that the revenue reported for the year had been appropriately recognised.

2. Exceptional items

The Group's accounting policy on exceptional items provides that items of a material, one-off nature are classified as exceptional. The Committee considered the nature and levels of exceptional items associated with both the continuing and discontinued operations together with the results of the interim review and the audit conducted by EY. The Committee was satisfied that exceptional items had been appropriately classified and disclosed, treated consistently and that discussions with management were transparent.

3. Goodwill

The goodwill held by the Group is reviewed for impairment on an annual basis. This exercise requires management to make an estimate of future cash flows. The Committee has considered the impairment review completed by management and the findings of the external auditor; it is satisfied that the assumptions made in concluding that no impairment has been required are appropriate.

4. Retirement benefit obligations

The valuation of the Group's retirement benefit obligations is made at each reporting date in accordance with international financial reporting standards. The valuation is subject to a number of assumptions and estimates and the Committee is satisfied that those made at 31 March 2017 are appropriate.

5. Other income – property

The Group recognises the profit on disposal of closed depots as 'Other Income – Property'. The Committee has considered this treatment; both the Committee and the external auditor are satisfied that it is appropriate.

6. Non-current assets held for sale

The Group has classified some closed properties as non-current assets held for sale on the basis that they meet the criteria under international financial reporting standards. The Committee is satisfied that the assumptions made around the timing of the disposals are appropriate.

7. Dilapidations liability

A contingent liability has been disclosed in respect of a potential dilapidation liability relating to Chadwell Heath, a manufacturing site disposed of with the Dairies business. The Committee has considered the Group's position and together with the external auditor is satisfied that the disclosure as a contingent liability is appropriate.

8. Litigation liability

There are a number of contractual disputes in relation to the demineralised whey and GOS capital project at Davidstow. Both claims made by, and against, the Group remain outstanding at 31 March 2017. The Committee has considered the Group's position and both the Committee and the external auditor are satisfied that the disclosure as a contingent liability is appropriate.

9. Operating segments

Management has judged that the Group operates as one segment under international financial reporting standards. This judgement has remained unchanged from the prior year and the Committee is satisfied this is appropriate and supports the voluntary disclosure provided in Note 1 to the Accounts.

10. Deferred tax

The Committee has considered the recoverability of tax losses that have arisen from various unprofitable operations and rationalisation initiatives of the Group. The Committee discussed with both management and the external auditor the key judgements which had been made and was satisfied that the judgements were reasonable and that, accordingly, the deferred tax asset recognised in the accounts is appropriate.

11. Fair balanced and understandable

The Committee has considered whether the 2017 Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee was satisfied with the process which had been followed for the preparation of the 2017 Report and Accounts; it has reviewed and provided feedback on the content of the draft Report for consideration by the Board and the Report was amended to incorporate this feedback.

Following this review, the Committee was of the opinion that the 2017 Report and Accounts is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders.

12. Going concern

The Committee reviewed management's assessment of the Group's ability to continue as a going concern in line with the guidance published by the Financial Reporting Council ('FRC'). The assessment included a review of the principal risks facing the Group, their financial impact, how they were being managed, together with a discussion as to the appropriate period for assessment. The Group's viability statement is included in the Directors' report on page 62.

13. Effectiveness of Internal Audit

The Committee engaged a third party to conduct a review of the effectiveness of the Group's Internal Audit function. Overall the Internal Audit function substantially meets key stakeholders' expectations and provides a good source of assurance for the Committee. The Committee supported the recommendations made and has worked with the Head of Internal Audit to implement them.

Membership: The Committee is composed entirely of independent Non-executive Directors. The current members and details of their attendance at meetings are set out on page 31. The Committee members have between them a wide range of business and financial experience appropriate to the sector in which the Company operates. The Board considers that Andrew Carr-Locke has recent and relevant financial experience for the purposes of the Code.

Invitations to attend meetings: A standing invitation is made to the Chairman of the Board, the Chief Executive, the Group Finance Director and the Group Commercial Director to attend the Committee's meetings. The Group Financial Controller, Head of Internal Audit and representatives of the external auditor attend all meetings. In addition, the Committee holds private meetings with the Head of Internal Audit and with the external auditor.

Role: The Committee oversees and reviews the Group's financial reporting processes, the consistency of the Group's accounting policies, the effectiveness of the Group's accounting and business risk systems and the Group's Internal Audit function, the external audit process and relationship with the external auditor, and the Group's process for monitoring compliance with applicable laws and regulations.

Terms of reference: The Committee's terms of reference, which are reviewed annually by the Committee, take into account relevant legislation and recommended good practice. The terms of reference were reviewed in March 2017 and can be found on the Group's website.

CORPORATE GOVERNANCE CONTINUED

Meetings: The Committee has a regular work programme of activity agreed between the Chairman of the Committee, the Group's management and the external auditor. The Committee undertakes additional work in response to the evolving audit landscape. A summary of some of the key matters considered at each meeting during the year are set out below:

Meeting	Key matters considered
12 May 2016	<ul style="list-style-type: none"> External auditor – EY's 2015/16 year end final report Annual Report and Accounts for the year ending 31 March 2016 (including fair balanced and understandable review) External audit – re-appointment of EY as external auditor and external control effectiveness Going concern review Group Internal Audit's report on financial and operational controls audits, whistleblowing notifications and work plan for 2016/17
12 September 2016	<ul style="list-style-type: none"> Review of financial controls including failures EY's audit planning report Group Internal Audit's report on financial and operational controls audits and whistleblowing notifications External audit tender process update FRC audit quality review Committee training on forthcoming technical changes
7 November 2016	<ul style="list-style-type: none"> Draft interim financial statements Financial controls update External audit – EY's interim review report External audit tender process update Group IT security update Review of the effectiveness of the Internal Audit function
2 December 2016	<ul style="list-style-type: none"> Recommendation of appointment of new external audit firm
13 March 2017	<ul style="list-style-type: none"> Group Internal Audit's report on financial and operational controls audits, whistleblowing notifications and budget for 2017/18 Review of Group Internal Audit's audit universe to ensure alignment to the Group's risk management framework External audit – EY's update to planning report Transition plan for new external auditor Group IT security update Committee's terms of reference and 2017/18 work programme Financial controls update Impact of IFRS 15: Revenue from contracts with customers Private meeting with Head of Internal Audit Private meeting with external auditor, EY

External Auditor:

The Committee considers that the relationship with the current auditor is working well and is satisfied with the effectiveness. As reported in the 2016 Annual Report, the Committee concluded that a tender for the external audit contract should take place during 2016 to enable the appointment of a new external auditor for the start of the 2017/18 financial year. EY has been the Company's and Group's external auditor since 1996 and the external audit appointment has not been tendered competitively since EY's appointment. Accordingly EY is retiring by rotation and was not invited to tender.

External auditor tender process:

Process and selection criteria

The tender process was overseen by the Chairman of the Committee and carried out in compliance with the provisions of the Competition and Markets Authority Audit Order 2014 ('CMA Order'). A selection committee was appointed, comprising the Chairman of the Committee, a Non-executive Director who is also a member of the Audit Committee, the Group Finance Director and Group Financial Controller. The process was supported by the Group's third party procurement specialists. The selection criteria adopted by the selection committee closely followed those detailed in the Audit Tender notes of best practice set out by the FRC as at July 2013 (namely, quality and clarity of approach, understanding of the business and risks, appropriate geographic breadth, appropriate team structure and experience, cultural fit and approach to independence and conflict issues).

Due to the nature and size of the Group's business, a mid-tier accountancy firm was invited to tender alongside other larger firms, but investors' views were not sought on the list of tender participants.

Process summary from 9 August 2016 to 2 December 2016

A Request for Proposal ('RFP') was issued by the Chairman of the Committee to these firms on 9 August 2016.

Knowledge and information meetings were held between RFP firms and senior management from key functions as well as the Chief Executive, Group Finance Director and the Chairman of the Committee. In addition the firms all took up the opportunity to visit two of the Group's factories.

The firms submitted their final written tenders on 3 October 2016 which were measured against the selection criteria and agreed by the selection committee. This was followed by a formal presentation to the selection committee on 24 November 2016 at which each firm was questioned in relation to its audit approach and on issues of independence.

An Audit Committee meeting was convened on 2 December 2016 to consider the outcome of the selection committee's review of the tender responses. The selection committee recommended Deloitte as its preferred firm and Deloitte was invited to present to the Committee. On the recommendation of the Audit Committee and subject to shareholder approval, the Board appointed Deloitte as the Group's new external auditor.

A resolution to appoint Deloitte as the Group's external auditor is included in the Notice of 2017 AGM.

Auditor's independency policy: The Committee has an established policy to safeguard and support the independence and objectivity of the Group's external auditor, which complies with the provisions of the CMA Order. The key principle of the policy is that the Group's external auditor may be engaged to provide services only in cases where those services do not impair its independence and objectivity, and provided that the total annual fees for non-audit services are below the sum of annual fees for audit and audit-related services.

The external auditor may not be engaged to provide services if the provision of such services would result in the external auditor:

- having a mutual or conflicting interest with any Group company;
- being placed in the position of auditing its own work;
- acting as a manager or employee of any Group company; or
- being placed in the position of advocate for any Group company.

The Committee's assessment of EY's independence during the year was underpinned by the Group's policy on the use of the external auditor for the provision of non-audit services. The policy contains a presumption against the use of the external auditor for non-audit services. The external auditor may only be engaged for the provision of non-audit services in contravention of that presumption where those services are expressly permitted under the policy and where there is a demonstrable efficiency, audit enhancement or cost benefit resulting from the engagement of the external auditor. Furthermore, before it may be engaged for the provision of such non-audit services, alternative providers must have been considered and discounted. This policy has been updated to reflect the FRC's revised ethical standard 2016 and revised guidance on audit committees 2016, including an update to expand the list of prohibited non-audit services.

Services which the external auditor is prohibited from providing to the Group include, amongst others:

- Bookkeeping services and preparation of financial information
- The design, supply or implementation of financial information systems
- Appraisal or valuation services
- Internal audit services
- Actuarial services

A breakdown of audit and non-audit fees paid to EY in 2016/17 is summarised in the following table, together with a comparison with fees paid in 2015/16:

	2016/17 £m	2015/16 £m
Total audit fees	0.5	0.4
Non-audit fees		
Taxation services	0.1	0.1
Other non-audit services	0.1	0.1
Total non-audit fees	0.2	0.2
Total Fees	0.7	0.6

Details of the non-audit work undertaken by EY during the year are set out at Note 2 to the Accounts at page 84. The Committee was satisfied that the overall levels of audit related and non-audit fees were not material relative to the income of the external auditor firm as a whole. It was satisfied that the objectivity and independence of the external auditor was maintained throughout the year.

CORPORATE GOVERNANCE CONTINUED

Nomination Committee report

I am pleased to present my report for the 2016/17 financial year as Chairman of the Nomination Committee. Last year I reported that the Committee's main focus would be on considering expanding the Board. The Committee's aim, in particular, was to explore adding further relevant skills and experience to those of the existing Directors reflecting the demands of our changing business following the successful sale of the Dairies business and the establishment of our added value ingredients business.

In addition to considering the need for additional skills and experience to help us with the development of our business, on which I comment further below, the Committee has given consideration during the year to succession planning for Non-executive Directors and to strengthening further the Executive Director presence on the Board. As a result, in July, the Committee made its recommendation to the Board that Adam Braithwaite should be appointed to the Board as an Executive Director.

The Committee considered the benefit of bringing new talent onto the Board as well as ensuring senior representation of the sales and marketing function at the Board now and into the future. Adam's promotion to the Board recognised that in his service to Dairy Crest of more than 14 years, during which time he has held a variety of senior management positions, Adam possesses a depth of knowledge of the business which would not be brought to the Board through external recruitment. He was appointed to the role of Group Commercial Director in 2013 with responsibility for sales and marketing and his promotion to the Board recognised his deep knowledge of the business and his relationships with key stakeholders, as well as the significance of his role and his valuable contribution to Dairy Crest.

In addition to considering the 'bench strength' of the Executive Directors the Committee considered the need to augment further the experience of the wider Board. The effectiveness review conducted with the assistance of Russell Reynolds Associates last year identified that the majority of Directors believed that it would be beneficial to increase the number of Non-executive Directors from four to five.

The Nomination Committee has appointed the Zygos Partnership as headhunters to conduct a search for an additional Non-executive Director. The Zygos Partnership has been used by the Company in previous Non-executive Director searches but has no other connections with the Company. They have been asked to prepare a long list of candidates with international experience in either FMCG and/or ingredients businesses. The Committee will narrow the long list to a shortlist for interview and recommendation to the Board. In compiling a long list Zygos has been instructed to include candidates representing the most diverse range of backgrounds possible, including, but not limited to gender, ethnicity, nationality and personal background.

The Committee has also spent time during the year considering succession for Non-executive Directors in light of their length of service and the requirements of the Code. Andrew Carr-Locke is the longest serving of the independent Non-executive Directors having been appointed to the Board in August 2009. By the end of this year

he will have served 8 years on the Board and the Committee intends to conduct a search exercise for his replacement during late 2017/early 2018. Andrew is an exceptionally able Audit Committee Chairman and the Committee will be looking for candidates with recent and relevant financial experience which will enable them to take on the role of chairing the Audit Committee. It is the Committee's intention to ensure that sufficient time is allowed for an appropriate hand-over period from Andrew to his successor. Accordingly, it is the Committee's intention to have concluded the search process in time to make recommendations to the Board so that an appointment may be made by April 2018 enabling the incoming Audit Committee chairman to shadow the Audit Committee's activities related to the 2017/18 financial year-end process.

In addition to the matters referred to above, during the new 2017/18 financial year the Committee will also be focussing on mapping out the succession requirements associated with other Non-executive Directors. In November this year, Richard Macdonald will have completed 7 years' service on the Board, including 3 years as chairman of the Remuneration Committee. The Committee is conscious of the recommendation that before being appointed to chair a remuneration committee, individuals should have served at least a year on a board as a non-executive. The effect of that is to require even longer forward planning for the recruitment of remuneration committee chair successors than was previously the case. With that in mind, the Committee is conscious that the recruitment of a successor for Richard would need to have been concluded by November 2018. Moreover, the Committee is conscious that the burden associated with chairing a remuneration committee has increased significantly over recent years. As a result, the pool of individuals with the requisite experience for the role may not be as broad as for other roles. Accordingly, sufficient time needs to be allowed for a longer more challenging search process. Although there remains ample time to conduct a search, the Committee is thinking ahead and intends to start a search in mid 2018 to allow time for recruitment of the best possible candidate.

The Committee is satisfied that it has performed its duties under its terms of reference, including:

Director appointments: The Committee's primary responsibility is to consider and recommend to the Board candidates who are appropriate for appointment as Executive and Non-executive Directors. Its objective is to maintain an appropriate balance of skills and experience on the Board and to ensure progressive refreshment of the Board.

Processes for Director appointments: The process for the appointment of new Directors is rigorous and transparent. The Committee ensures that the recruitment exercise for Directors is conducted against a documented brief setting out the requirements of the role and the skills and experience required of the person to fill it. In the past, the Company has engaged the services of external search consultancies and as referred to above, it is anticipated, in the ordinary course, that it would do so in the future. Were it not to do so, open advertising would be used as an alternative. Prospective appointees are interviewed by the Committee and the Committee makes a recommendation to the Board. The Board makes the decision whether to appoint the recommended individual. The Committee reports the outcome of its meetings to the Board.

Director commitments: The Committee evaluates the commitments of individual Directors. The Board believes that it is in the best interests of the Company that Executive Directors take up opportunities to act as non-executive directors in other appropriate

companies. Unless the Board approves otherwise, Executive Directors may serve in a non-executive capacity on the board of one other company. Non-executive Directors may serve as directors, executive or otherwise, on the boards of other companies or appropriate organisations. Non-executive Directors' letters of appointment require them to seek prior approval from the Board before accepting any additional commitment that might affect the time that they are able to devote to their role as a Non-executive Director of the Company. The Board has the opportunity to satisfy itself that Non-executive Directors' other commitments allow them to devote adequate time to their commitments to the Company. The Board approved all new appointments of Directors during the year and is satisfied that all Directors continue to have sufficient time to devote themselves properly to their duties for the Company.

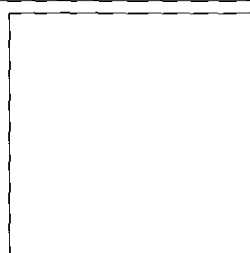
Diversity: The Committee monitors diversity on behalf of the Board. The Group interprets diversity in its widest sense and aims to achieve the best possible leadership for the Group by ensuring an appropriate mix of skills, backgrounds, gender, experience and knowledge amongst its Directors, senior managers and other employees. The Committee considers that first and foremost, appointments must be made based on an objective assessment of who is the best person to fill a role, with candidates drawn from a diverse range of backgrounds. The Company has not adopted targets for female representation amongst the Directors. The Group will continue to operate policies giving equal opportunities to all, irrespective of age, gender, marital status, disability, nationality, colour, ethnic origin, sexual orientation or religious affiliation.

Board effectiveness: The Board normally undertakes an annual effectiveness review. In accordance with the Code, every three years, it uses the services of an external facilitator to facilitate its effectiveness review. Last year's review of the effectiveness of the Board, its Committees and of me as Chairman was conducted with the assistance of Russell Reynolds Associates. This year I led a review of the effectiveness of the Board and its Committees with the assistance of the Company Secretary and the Senior Independent Director, who led the review of my performance. Details of that review can be found at page 31.

Stephen Alexander Chairman of the Nomination Committee
17 May 2017

CORPORATE GOVERNANCE CONTINUED

Corporate Responsibility Committee report



I am pleased to present the report of the Corporate Responsibility Committee to shareholders. Full details of our corporate responsibility programme can be found at pages 22 to 27. The Committee oversees the Group's corporate responsibility programme and ensures that key social, ethical and environmental issues

are assessed and prioritised including reviewing the Company's corporate responsibility pledges. In addition to me as Chairman, the Committee comprises Richard Macdonald, Mark Allen, Tom Atherton, Robin Miller, Robert Willock, Adam Braithwaite and Simon Hewitt (Group Technical Director).

During the year we have concluded our review of our corporate responsibility strategy resulting in the approval by the Committee and the adoption by the Group of a simplified strategy centred around four key pillars; 'Climate', 'Colleagues', 'Consumers' and 'Community'. Having previously adopted the language of Business in the Community's corporate responsibility structure, we felt that our corporate responsibility programme was sufficiently established to allow us to move away from slavishly aping that structure. We also believed it was important to adopt language which would resonate better with our employees, hence the change to the four new strategic pillars.

We have also re-affirmed ownership of each of the pillars by a member of the senior management team. We felt that direct individual accountability for each of the pillars of our strategy would help to drive ownership within the business and thereby help to drive progress. Mike Barrington our Group Supply Chain Director owns 'Climate', 'Colleagues' is owned by Robert Willock our Group HR Director, Adam Braithwaite our Group Commercial Director owns 'Consumers' and finally, 'Community' is owned by Tom Atherton, our Group Finance Director. In addition to adopting new pillars for our corporate responsibility strategy, we have adopted new simplified pledges which reflect the simpler structure of our business following the sale of the Dairies business. We have been careful to ensure though that with these key pledges we remain able to track progress from the beginning of our new five year corporate responsibility programme.

More detail on our achievements and progress can be found on pages 22 to 27 of this Annual Report but I wanted to pull out the following highlights for your attention:

- We increased the amount of on-site renewable energy to 63% of fuel used by manufacturing sites in our business from 51% in the prior year
- Our focus on low carbon manufacturing has seen a 4% reduction in relative energy use at our Kirkby, Frome and Nuneaton sites compared to the prior year
- Around 80% of the heat required by our Davidstow creamery was produced from biomass with energy from biomass boilers representing more than 40% of the Group's total energy use in the year. This means we met our pledge that more than one third of total energy used should come from on-site renewables
- Higher water recovery rates towards the end of the year meant that around 45% of water used in manufacturing by our business came from recycled sources

- We exceeded our target of 80% segregation of operational waste on site by year end
- We achieved a 69% reduction in Accident Incident Rate in the last year versus the 2013 baseline against which we measure ourselves
- During 2016/17 we managed to achieve zero RIDDORS. We are particularly proud of this achievement, especially as we have continued to hold ourselves to account against the more stretching, but superseded, definition of a RIDDOR where incapacitation is suffered for more than 3 days rather than the softer definition which the HSE has adopted where an incident needs to result in incapacitation for more than 7 days to be classified as a RIDDOR
- 80% of the Group's employees attended a roadshow presented by members of the Executive Committee which covered topics ranging from the Group's Vision and Values to our business plans and progress against them
- Lower fat variants of our products collectively achieved a retail sales value of £84.0 million an increase of 3.2% on the prior year

Last year I talked of the Committee's recognition of the need continually to evolve our corporate responsibility strategy in order to meet the changing demands of our customers, employees and the consumers of the great products we make. By evolving our corporate responsibility strategy and pledges as we have during the year the Committee has demonstrated that commitment to evolution.

A successful approach to corporate responsibility is, we believe, an essential part of securing a sustainable business which thrives both today and in the future.

Sue Farr Chairman of the Corporate Responsibility Committee
17 May 2017

Executive Committee

The Chief Executive chairs the Executive Committee which comprises the other Executive Directors and senior members of the Group's executive team. Details of the members of the Executive Committee can be found at page 29. The Executive Committee is responsible, amongst other matters, for implementing the Group's strategic direction and monitoring the performance of the business and its control procedures on a day-to-day basis, as well as the day-to-day operations of the Group's business, its performance against forecasts and budgets and profitability. The Executive Committee normally meets weekly.

Information included in the Directors' report

Certain information fulfilling the requirements of the Corporate Governance report can be found in the Directors' report at pages 62 to 64 under the headings 'Substantial shareholdings', 'Rights and obligations attaching to shares', 'Articles of association' and 'Purchase of own shares' and is incorporated into this Corporate Governance report by reference.

By order of the Board

Robin Miller Company Secretary & General Counsel
17 May 2017

DIRECTORS' REMUNERATION REPORT

Chairman's statement

Dear shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration report for the 2016/17 financial year. The current Directors' Remuneration Policy ('Policy') was approved by shareholders at the 2014 AGM and applies from 1 April 2015 until the 2017 AGM. We have therefore undertaken a process during the

year to develop a revised Policy to be put to a shareholder binding vote at the 2017 AGM, which is also included within this report.

As part of the remuneration review, I met with a large number of our shareholders and the shareholder representative bodies to consult on the details of the Policy and I would like to thank them for their input and helpful guidance.

The revised Policy continues to be based upon a core set of principles which supports the strategic and financial ambitions of the Company:

- The remuneration package should support a performance based culture, attract and retain talented personnel and align executives' and shareholders' interests
- The remuneration structure should be both uncomplicated and transparent and we remain committed to open disclosure
- The measures used for incentive plans should reflect the strategic priorities which the Committee considers critical to the future success of the Company

The Committee is confident that the Policy we are proposing fulfils these principles to the fullest extent possible within the current climate and I hope we are able to depend on your support at the upcoming AGM.

Company performance over the year

2016/17 has been the first full year following the successful sale of our Dairies business to Müller in December 2015. Our business is now almost entirely branded or added value and we have a clear strategy for future growth. We have delivered another good branded performance this year through investment in product innovation, promotional activity and advertising. We will continue to develop our portfolio. Our innovation is beginning to generate new business opportunities by selling demineralised whey and GOS into growing infant formula markets globally.

Overall, the Group has delivered increased adjusted profit before tax and adjusted earnings per share and is recommending an increased final dividend of 16.3 pence per share.

Review of remuneration policy

In carrying out the remuneration review this year, the Committee was mindful of the significant changes to Dairy Crest's business model since our existing Policy was adopted, in combination with the evolving external executive pay environment. Over the last three years many shareholders have been supportive of the nature of the current long-term incentive plan within our existing policy, a performance-on-grant model called the Long Term Alignment Plan ('LTAP'), in particular noting the alignment with the business strategy achieved through the scorecard. However, the Committee also recognises the challenges raised by some shareholders in relation to the operation of the scheme and a more general dislike of performance-on-grant models and that, as such, some would be unlikely to be supportive of it as part of Dairy Crest's future policy. Therefore the last grant under the LTAP will be made this year, based on the assessment of performance against the scorecard which was disclosed in last year's Remuneration report.

In developing a revised long-term arrangement to be included in the future policy, the Committee considered the full spectrum of alternatives with the aim of creating the best alignment with the business and its strategy. We have transformed the Group into a high margin, added value and branded business. However, our operating model and sector does continue to result in potential earnings volatility. Our primary raw material, milk, is subject to significant price volatility which cannot be hedged and, as a result of the manufacturing process, there is a lag between when the cost of raw materials is incurred in manufacturing cheese and when the product sales are recognised on average nearly 12 months later (the average maturity of our cheese). This dynamic is unique to companies such as Dairy Crest and results in potential margin volatility which is not consistent with a smooth progression in earnings over several years.

In light of this volatility, setting robust long-term financial earnings or cash targets which are appropriately stretching is extremely challenging, as price volatility can generate a boom or bust vesting outcome which is not within management's control. The Committee also wanted to simplify the arrangements, increase transparency and maximise alignment with shareholders. As a result of these factors we concluded that a restricted share arrangement would be optimal for the business to achieve these goals. Our proposed approach for restricted shares included a number of trade-offs to reflect the increased certainty of the award for management, comprising a significantly reduced opportunity level, a vesting period of five years and the inclusion of a dividend underpin.

We consulted with our largest shareholders and shareholder bodies on this proposal and whilst many were supportive, a number of shareholders and a proxy body were not able to confirm their support for our proposed approach. In the current environment and given this uncertainty the Committee therefore determined that it would not be appropriate to put restricted shares forward as a proposal at the 2017 AGM.

Since this decision was made, the House of Commons Select Committee on Corporate Governance published its findings which included support for restricted shares in line with the approach we were considering. As such, we intend to continue to monitor the evolution of views within the market and may revisit restricted shares in the future as the acceptability of this model in the market evolves.

DIRECTORS' REMUNERATION REPORT CONTINUED

In light of the shareholder consultation, the Committee decided to revisit the possible incentive alternatives and after much deliberation, we are now proposing to return to the use of a traditional long term incentive plan ('LTIP'). Dairy Crest had a traditional LTIP in place prior to the LTAP, the Long Term Incentive Share Plan ('LTISP'), and the new LTIP will replicate many of the features of this plan, but with some amendments such that it reflects the current business strategy and market. Normally, the maximum quantum for awards granted to any individual under the plan will be set at 150% of base salary per financial year which is the lower quartile compared to the FTSE250, equal to the maximum under our previous LTISP and therefore with an expected value equal to that of our current LTAP.

In particular, given the challenges the Company faces in setting long-term financial targets, the LTIP will be based primarily on relative Total Shareholder Return ('TSR') performance. TSR is a robust financial measure which achieves shareholder alignment whilst being a measure for which it is straightforward to calibrate targets which are acceptable to shareholders, given its relative nature. We believe share price and ultimately shareholder return are critical measures of the successful implementation of strategy and the performance and growth of the business and ensure that management is rewarded in the case where Dairy Crest's shareholders have experienced a higher overall return than the market.

Therefore, our proposed Policy states that at least 75% of the overall award will be based on financial measures, with at least 50% of the overall award based on TSR versus a broad comparator group. The remaining part of the award may be based on strategic measures and we will retain discretion to determine the appropriate measures year on year based on strategic priorities at the time.

As stated, we will not be making a grant under this award until 2018. Taking into account business strategy and context at that time we will determine the specific measures for the first grant. We will ensure transparency on the measures set.

The plan will also incorporate elements in line with best practice, including malus, clawback and the addition of a two-year holding period post the three year vesting period, in order to align further management's interests with those of shareholders.

Other than changes to the long-term incentive plan, we have made no other significant changes to our revised Policy.

2016/17

We were pleased to welcome the Group Commercial Director Adam Braithwaite to the Board on 19 July 2016. His remuneration upon joining the Board was fully in line with the current Remuneration Policy, with his salary set at £255,000, a level competitive against the market for similar roles in FTSE 250 companies.

As set out in last year's report, our annual bonus has been assessed against three metrics; profit before tax, free cashflow and personal objectives. This approach was applied to all scheme participants across the Group.

The economic and trading circumstances faced by the business over the year, in particular, significant cost inflation in the second half, resulted in the Company achieving below threshold in respect of the cashflow measure albeit above threshold in respect of the profit measure. Whilst the reported results against the targets set would result in a payout under the profit element of the bonus the Executive Committee, supported by the Remuneration Committee, determined that this would not be appropriate given the extended commissioning of demineralised whey and GOS plants at Davidstow which resulted in a higher than anticipated exceptional charge for the year. However, it was agreed that, given the profit threshold level was met, a payout under the personal objectives element of the bonus was warranted. This results in bonus outcomes of 18.75% of salary for Mark Allen, 18.75% for Tom Atherton and 15.63% for Adam Braithwaite, reflecting their achievement against challenging personal objectives for the year.

Under the LTAP, the Executive Directors are measured against a pre-determined set of strategic performance indicators which determines the level of grant. The award is subject to a dividend performance underpin for the first 3 years of the vesting period, with awards vesting in two equal tranches four and five years after grant. The 2016/17 grant level of 67.2% was determined based on the performance of the Company over 2016/17 against the scorecard disclosed in the previous year's report. Details of the achievement against each scorecard measure are included in this report and reflect a consistent performance in a challenging year.

2017/18

Mark Allen received an annual salary increase effective as of 1 January 2017. This figure reflects the longer period of 18 months before the next salary review in July 2018. Mark received a salary increase of 3.6%, equivalent to 2.4% per annum over 18 months. Salary increases for Tom Atherton and Adam Braithwaite will be 2.6% in line with that of the general workforce. The increases will be effective from 1 July 2017.

Non-executive Director fees have also increased during the year. Full details are provided on page 60.

In light of the importance to Dairy Crest of reducing net debt over the short-term, the Committee has reviewed the weightings of measures under the bonus plan. To reflect this, the Committee decided to increase the proportion of bonus relating to free cash flow generation. The bonus quantum is unchanged.

The performance period under the one-off Transformational Incentive Award ('TIA') completes in December 2017. This award supported the retention and motivation of Mark Allen through the critical period of the sale of the Dairies business to Müller in which his knowledge and experience were vital to a successful outcome. Further details of the TIA objectives and performance against these to date are set out in this report.

Finally, I would like to thank my fellow Committee members and internal and external teams who supported us with their commitment and hard work over the past year. We remain committed to hearing your views as shareholders. If you would like to discuss any aspect of our remuneration further I would welcome your comments.

Approved by the Board and signed on its behalf by

Richard Macdonald Chairman of the Remuneration Committee.
17 May 2017

Directors' Remuneration Policy

Directors' Remuneration Policy

We seek to ensure that the remuneration packages contribute to the delivery of long-term shareholder value. This is reflected in the Company's annual bonus scheme and long-term incentive plan, which are explained in more detail below. The Committee will be requesting shareholder approval of the following remuneration policy at the AGM on 18 July 2017 to cover a period of three years from that date.

Future policy table

The remuneration structure for Executive and Non-executive Directors (who are paid fees and receive no additional benefits) at Dairy Crest and the underlying principles on which each element of the package is based are set out below.

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used and time period applicable
Base salary Reflect assessment of market practice based on role and experience.	Benchmarked against executives with similar responsibilities in companies of comparable size and complexity, in particular the constituent companies of the FTSE 250 index (excluding financial services). Paid in 12 equal monthly instalments during the year. Reviewed annually and any changes are in the ordinary course effective from 1 July.	Increases will normally be broadly in line with inflation and the wider employee population. The Committee retains the flexibility to award higher base salary increases and to position salaries in such a way that ensures Dairy Crest remains competitive in the market and to take into account an individual's personal performance and experience in the role – as such the Committee may apply increases over time as appropriate to achieve alignment with market levels. Changes may also be made in the case of a change in role or responsibility.	Not applicable.
	Rationale for any changes No changes		
Pension Provide a market competitive level of provision with appropriate flexibility whilst minimising risk to the Group.	There is a defined contribution scheme and/or salary supplement in place. No further service accrual under final salary pension scheme from 1 April 2010.	Executive Directors receive employer contributions up to the Annual Allowance on pension contributions plus cash supplements. Overall employer contributions (including cash supplements) will not exceed 23% of salary.	Not applicable.
	Rationale for any changes No changes		
Benefits Provide market-competitive benefits.	Includes company car benefit, life assurance cover, permanent health insurance and medical insurance. Dairy Crest pays the cost of providing the benefits on a monthly basis, or as required for one-off events. The Remuneration Committee reserves the right to add to or remove these benefits as required.	All Executive Directors receive a company car/car allowance and private medical insurance, commensurate with market levels. Executive Directors receive life insurance cover of 7 x annual salary.	Not applicable.
	Rationale for any changes No changes		
Bonus Ensure that annual reward is consistent with successfully achieving the short-term financial targets and strategic objectives of the Group.	To deliver an appropriate balance between long-term and short-term reward, any bonus earned over 50% of annual salary is deferred into shares (see below). The remainder is paid as cash. The cash element of the bonus is ordinarily paid three months after the end of the financial year to which it relates. Clawback applies to cash payments for 3 years from the date this element is paid.	Current maximum award: 100% of salary. Target award: 50% of salary. Threshold award: 0% of salary. The Remuneration Committee has discretion to increase the maximum award to 150% of salary in exceptional circumstances. The Committee is not aware of any such circumstances and so does not currently expect to make awards above the maximum of 100% of salary.	Performance is measured by reference to the financial year. Metrics used to determine performance under the bonus will be based on a mix of financial, operational and personal measures. The metrics that apply for 2017/18 are set out on page 60 of the Annual Report. The Committee has the flexibility to vary the performance measures and weighting of metrics under this plan.
	Rationale for any changes No changes		

DIRECTORS' REMUNERATION REPORT CONTINUED

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used and time period applicable
Deferred bonus Deliver appropriate balance between long-term and short-term reward and to build up Directors' shareholdings in line with Policy.	<p>Any bonus over 50% of annual salary is deferred for three years, conditional on continued employment until vesting date.</p> <p>Delivered in shares. Participants will normally be entitled to an amount, payable in shares, on vesting equal in value to the dividends payable on deferred bonus shares over the deferral period.</p> <p>Malus applies to deferred bonus.</p>	<p>Policy maximum award: 50% of salary (maximum potential deferral).</p> <p>In the exceptional event the Remuneration Committee exercises discretion to award a bonus above 100% of salary, any bonus earned above 50% of salary would be deferred into shares.</p>	<p>None. Value growth is achieved only through change in share price and dividend equivalents paid.</p>
	Rationale for any changes No changes		
Long term incentive plan ('LTIP') Encourage and reward continuing improvement in the Group's performance over the longer term. Alignment of interest between participants and shareholders.	<p>Awards will take the form of either nil cost options to acquire shares or conditional awards to acquire shares.</p> <p>The Committee will determine the appropriate level of grant each year subject to the maximum award of 150% of base salary. For recruitment purposes only, where there is a need to provide replacement awards, grants can be made in excess of 150% of base salary.</p> <p>Normally, awards will vest 3 years after the date of grant and the number of shares that vest will be determined by reference to certain performance conditions. Awards granted for recruitment purposes may vest before the expiry of 3 years from the date of grant and may not be subject to performance conditions.</p> <p>A 2 year holding period will normally apply after the vesting period (subject to the Committee's discretion to reduce or not apply a holding period in exceptional circumstances).</p> <p>Vested shares accrue dividend equivalents.</p> <p>Awards (and dividend equivalents) may be settled in shares or cash.</p> <p>Malus and clawback apply to the LTIP.</p>	<p>Maximum award: 150% of base salary (other than where an award is made in connection with recruitment).</p> <p>Threshold award: 25% of the maximum award</p>	<p>Performance is measured by reference to the three financial years starting with the year of grant.</p> <p>Metrics used to determine performance under the LTIP will be based on a mix of financial and strategic measures.</p> <p>The Committee has the flexibility to vary the performance measures and weighting of metrics under this plan. However, at least 75% of the overall award will be based on financial measures, with at least 50% of the overall award based on relative TSR versus a broad comparator group. The remaining part of the award may be based on strategic measures.</p>
	Rationale for any changes <i>Further to extensive shareholder consultation where the future acceptability of the LTIP was questioned and after subsequent consideration of a restricted stock plan, it has been decided to implement a traditional LTIP. To achieve shareholder alignment, the LTIP is predominantly financially based, with the primary measure being TSR, incorporating an extended vesting/holding period. The maximum award of 150% is set at the lower quartile of the FTSE250 and is equal to the maximum under the previous LTIP with an expected value equal to the current LTIP.</i>		
Save as you earn scheme ('SAYE') Encourage share ownership across the Company.	<p>The SAYE Scheme is an all-employee HMRC approved savings-related share option scheme and no performance conditions are attached to SAYE options.</p> <p>Executive Directors are eligible to participate in the all-employee SAYE.</p>	<p>The maximum participation levels will be set based on the applicable limits set by HMRC.</p>	<p>Not applicable.</p>
	Rationale for any changes Executive Directors are invited to participate as part of a consistent reward framework open to all employees across the Company and its subsidiaries.		

How the element supports our strategic objectives	Operation of the element	Maximum opportunity under the element	Performance metrics used and time period applicable
Shareholding requirement Alignment of interest between participants and shareholders.	<p>Executive Directors are required to build a shareholding in the Company. Such shareholdings exclude unvested options under the LTISP and LTIP but include unvested deferred shares granted to Executive Directors as part payment of bonuses and unvested LTAP awards.</p> <p>Executive Directors who have not achieved the minimum shareholding will be required to retain 50% of net proceeds from any shares released under the deferred bonus/LTAP/LTIP until the required level of shareholding is reached.</p>	The shareholding requirement for Executive Directors is 200% of salary.	Not applicable.
	Rationale for any changes No changes		
Non-executive Directors' fees Remunerates Non-executive Directors and attracts Non-executive Directors of suitable calibre.	<p>Benchmarked against Non-executive Directors with similar responsibilities in companies of comparable size and complexity.</p> <p>The remuneration of the Non-executive Chairman is determined by the Board following recommendations from the Remuneration Committee and Chief Executive. The remuneration of Non-executive Directors is determined by the Board following recommendations from the Chief Executive having reviewed appropriate market levels.</p> <p>Non-executive Directors are paid a fee only.</p>	The total fees for Non-executive Directors remain within the limit of £600,000 set out in the Articles of Association.	Not applicable.
	Rationale for any changes No changes		
Provisions of previous policy that will continue to apply at all times so long as the LTAP awards remain in existence – final grant will be made in 2017, no further awards will be made under the LTAP			
Long Term Alignment Plan ('LTAP') Encourage and reward continuing improvement in the Group's performance over the longer term. Alignment of interest between participants and shareholders. Measures identified are central to Dairy Crest's strategy and are considered by Directors in overseeing the operation of the business.	<p>Annual grant of share awards.</p> <p>Awards will be subject to a phased vesting requirement, with 50% of the award vesting in year 4 and 50% in year 5 following grant.</p> <p>Participants will normally be entitled to an amount on vesting, paid in shares, equal in value to the dividends payable on shares awarded.</p> <p>Malus and clawback apply to the LTAP. The Board may at any time up to and on vesting reduce the number of shares that vest, should material misstatement or misconduct occur.</p>	<p>Maximum award: 90% of salary.</p> <p>If performance falls below a minimum level against the scorecard no award will be made.</p>	<p>Achievements over the prior year against a pre-grant performance scorecard comprising measures aligned to Dairy Crest's strategic priorities.</p> <p>The Committee has flexibility to amend the relevant measures, weightings and KPIs which determine the size of the awards granted. The weighting of financial KPIs in determining annual grant levels will be at least 60% of the scorecard.</p> <p>Vesting is subject to continued employment.</p> <p>The level of vesting may be reduced dependent on a dividend underpin over the first three years of the vesting period.</p> <p>An amount of the award proportional to the percentage decrease in dividend may not vest in the event of a decline of up to 50%. If the decline exceeds 50%, the Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest.</p> <p>Dividend cover must be maintained in a specific range over the three-year measurement period. The Remuneration Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range. Vesting of awards could be reduced to zero. The dividend cover range will be determined by the Committee annually and may be adjusted if the Committee determines this to be appropriate.</p>

DIRECTORS' REMUNERATION REPORT CONTINUED

Notes on Policy table and components of remuneration

Performance measures and targets

Performance measures for incentive plans and bonus reflect the strategic priorities which the Committee considers critical to the future success of the Company. Targets are set by reference to budgeted financials, wider Group targets, external market consensus and stretching strategic growth outcomes.

Differences in remuneration for all employees

All employees participate in some form of bonus plan. The size of award and the weighting of performance conditions vary by grade, with specific measures incorporated where relevant. All employees have the opportunity to participate in a pension arrangement at levels of employer contribution which vary by grade. Members of senior management participated in the LTAP at an award level appropriate to their role which will be replaced, subject to shareholder approval, by the new LTIP with the same individuals eligible.

CEO one-off Transformational Incentive Award

At the EGM held in December 2014, shareholders approved the grant of a one-off Transformational Incentive Award ('TIA') outside of policy to the CEO, connected to the key business change of the sale of the Dairies business. The key terms of the TIA are detailed below, with further detail in the 2016 Director's Remuneration report:

- The award will vest in December 2017 to the extent that the stretching performance conditions set in relation to the award are achieved over the three year period December 2014-2017
- The award is structured as a base award over Ordinary Shares having a market value at grant equivalent to 75% of Mark Allen's base salary. A multiplier of between 0 and 3 times the number of Ordinary Shares subject to the base award will be applied to it at the end of the three year performance period, depending on the level of performance achieved
- The Committee will determine the level of vesting of the TIA based on performance objectives which are intended to be demanding. In measuring performance in this regard, the Committee has identified three categories of objectives on which the assessment of performance will be based. These relate to the restructuring of the business and its future success, as follows:
 - Managing the competition approval process relating to the sale of the Dairies business, requiring strong leadership and a high level of personal involvement from a chief executive officer who is an acknowledged leader in the sector, as well as managing the business as a whole through a period of extended uncertainty
 - Appropriately reshaping the Group, taking account of the outcome of the competition approval process
- Establishing a successful future business, by reference to the development of the Group and its principal business streams, including the delivery of value to shareholders
- An update on the performance against these objectives to date is provided on pages 54 to 55

Statement of consideration of employment conditions elsewhere in the Company

As the Committee has oversight of remuneration matters for the broader senior management population, it brings the reward of these individuals into consideration when discussing packages for Executive Directors.

The Committee does not specifically ask employees to comment on matters related to the remuneration of Executive Directors but any comments received are taken into account. The level of salary increases for the general Dairy Crest employee population is considered when setting increases for the Executive Directors. In addition, salary benchmark information for companies of comparable size and complexity within the FTSE250 (excluding financial services) is taken into consideration.

The Committee has oversight of statutory matters in relation to wider employee pay, for example in respect of the National Living Wage and Gender Pay Gap, and receives regular updates on such matters.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay a competitive salary as appropriate to attract and motivate the right talent in the role.

The following table sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an Executive Director. In respect of a promotion, any remuneration commitments made prior to such promotion will be honoured. Any new Executive Director's remuneration package would include the same elements and be subject to the same constraints as those of the existing Executive Directors performing similar roles, as shown below:

Component	Policy and principles
Base salary and benefits	<p>The salary level will be set taking into account the responsibilities of the individual and the salaries paid for similar roles in comparable companies.</p> <p>Depending on the circumstances of any particular appointment the Committee may choose to set base salary above market median to attract the right talent, or below market median with increases applied over a period of time to achieve alignment with market levels for the role with reference to the experience and performance of the individual, all subject to the Company's ability to pay.</p> <p>Should relocation of a newly recruited Executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support could include but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel cost, a contribution to stamp duty and replacement of non-transferrable household items. In addition, the Committee may grant additional support as appropriate.</p> <p>Other benefits provided will be aligned to those set out on pages 43 to 45.</p>
Pension	The Executive Director will be able to participate in the defined contribution scheme up to the annual allowance and receive a cash supplement payment above this. The total benefit will not exceed 23% of Basic Salary.
Annual bonus	<p>The Executive Director will be eligible to participate in the annual bonus scheme as set out in the Remuneration Policy table.</p> <p>The Policy maximum award under the bonus will be 100% of salary.</p> <p>The Remuneration Committee has discretion to increase the maximum award to 150% of salary in exceptional circumstances. Any bonus over 50% of salary is deferred into shares for three years as set out in the Remuneration Policy table.</p>
Long term incentive awards	<p>The Executive Director will be eligible to participate in the LTIP at the Remuneration Committee's discretion.</p> <p>The maximum annual award under this scheme is 150% of base salary and associated conditions would apply as set out in the Remuneration Policy table.</p> <p>Under the rules of the plan, the Committee may grant additional awards under this scheme as replacement awards (see below)</p>
Replacement awards	<p>The Committee may grant additional awards under the LTIP as replacement awards. In such cases the level of award and timing of vesting could be different from that in the Remuneration Policy in order to replicate, as practically as possible, the value and timing of the remuneration forgone.</p> <p>The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of expected value or vesting period than the awards forfeited from a new recruit's previous employer.</p> <p>The Committee has the flexibility not to apply performance conditions or a holding period and to use cash and/or shares as the format for delivery of any replacement awards.</p>

Service contracts and policy on payment for loss of office

Service contracts and letters of appointment include the following terms.

Executive Director	Date of commencement of contract	Notice period
M Allen	18 July 2002	12 months
T Atherton	23 May 2013	12 months
A Braithwaite	19 July 2016	12 months

Executive Directors' service agreements are available on the Company's website www.dairycrest.co.uk.

Non-executive Director	Letters of appointment	Notice period
A Carr-Locke	15 July 2009	3 months
R Macdonald	4 October 2010	3 months
S Alexander	4 October 2010	3 months
S Farr	6 October 2011	3 months

It is the Company's policy that Non-executive Directors should not normally serve for more than nine years. Non-executive Directors' letters of appointment are available on the Company's website www.dairycrest.co.uk.

DIRECTORS' REMUNERATION REPORT CONTINUED

External Appointments

Executive Directors may be invited to become Non-executive Directors of other companies and it is recognised that exposure to such duties can broaden their experience and skills which will benefit the Company. External appointments are subject to agreement by the Chairman and reported to the Board. Any external appointment must not conflict with a Director's duties and commitments to Dairy Crest. Fees may be retained by Directors for such appointments.

Termination Policy

The Remuneration Committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination, contractual obligations of both parties as well as share plan and pension scheme rules (including relevant performance conditions).

The table below summarises the key elements of the Executive Director service contract and policy on payment for loss of office.

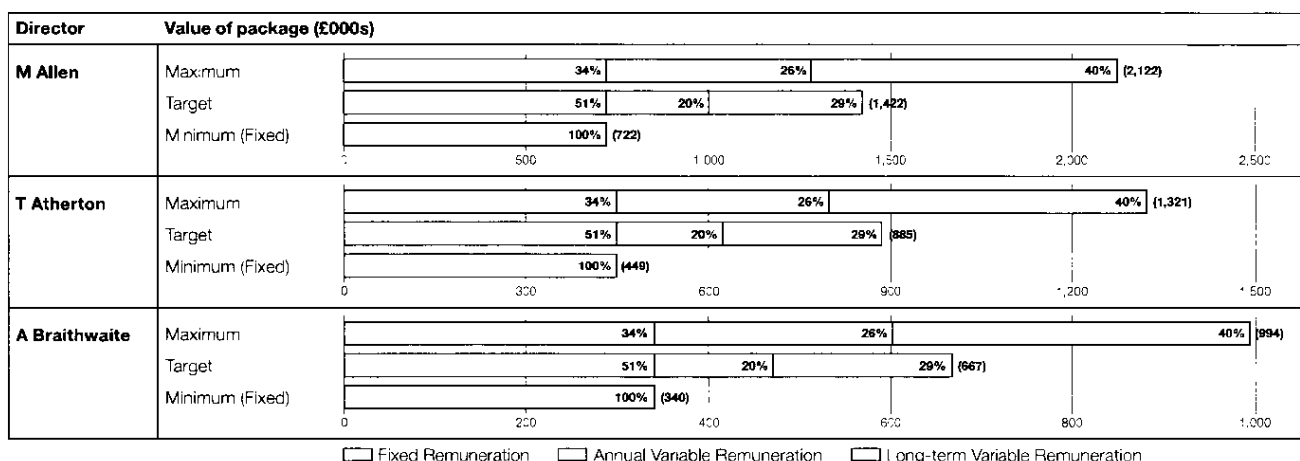
Component	Policy and principles
Notice period	12 months' notice from Company. 12 months' notice from Director.
Compensation for loss of office in service contracts	Up to 12 months' salary plus an additional 3% to account for presumed salary increases from any salary review that may have taken place in the notice period. Payable monthly and subject to mitigation if the Director obtains alternative employment up to 12 months after termination. Other payments to the Director in question include medical benefits, cost of company car and a sum equivalent to 23% of annual salary representing pension contribution for the unexpired part of the contractual notice period. Under the terms of Mark Allen's contract payments on termination are calculated as 90% of the sum of the following items – annual salary, benefits, pension plus 50% of maximum bonus opportunity for the notice period. This will not be the Company's policy going forward for other Executive Directors. Contractual provisions in respect of compensation for loss of office for Mark Allen are therefore grandfathered. In the event of a compromise or settlement agreement, the Remuneration Committee may make payments it considers reasonable in settlement of potential legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Remuneration Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements. The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee, as may the continuation of benefits for a limited period.
Treatment of unvested deferred bonus awards under plan rules	If termination is by way of death, injury, illness, disability, redundancy, retirement, or any other circumstances the Committee determines, deferred bonus share awards may be released in full on termination. Otherwise, the proportion of awards released will be determined at the discretion of the Board.
Treatment of unvested LTIP/LTAP plan awards under plan rules	In relation to the LTAP: Any outstanding award will lapse at cessation of employment with the Company, unless the reason for cessation is by way of injury, ill-health, disability, redundancy, retirement, the business or company in which the award holder works being sold outside of the Group, or any other circumstances the Committee determines, when the award will vest at the normal vesting date with the underpin and other conditions considered at the time of vesting, subject to pro-rata for time served. The Committee may determine not to pro-rate if deemed appropriate. Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee taking into account satisfaction of the underpin and any other factors the Committee considers relevant. In relation to the LTIP: Any outstanding award will lapse at cessation of employment with the Company, unless the reason for cessation is by way of injury, ill-health, disability, redundancy, retirement, the business or company in which the award holder works being sold outside of the Group, or any other circumstances the Committee determines, when the award will vest at the normal vesting date with the performance conditions considered at the time of vesting, subject to pro-rata for time served. The Committee may determine not to pro-rate if deemed appropriate. Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee taking into account satisfaction of the performance conditions and any other factors the Committee considers relevant. A proportion of the LTIP/LTAP will vest immediately on death, pro-rated for time.
Exercise of discretion	Any discretion available in determining treatment of incentives on termination of employment is intended only to be relied upon to provide flexibility in certain circumstances. The Remuneration Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Company.

Component	Policy and principles
Change of control	<p>Outstanding awards and options would normally vest and become exercisable on a change of control to the extent that any performance condition has been satisfied.</p> <p>The proportion of awards that vest under the LTIP/LTAP will be determined by the Remuneration Committee. Deferred bonus awards would normally be released in full. Payments under the bonus scheme would be pro-rated for service from the start of the relevant bonus year to the date of the change of control. For SAYE, participants can, at the Board's discretion, exercise options up to six months after the change of control. Contributions to SAYE can continue up to the date of exercise.</p> <p>The Committee reserves the right to alter the performance period or the performance measures and targets of the annual bonus plan or of any outstanding awards under the annual bonus plan or the LTIP/LTAP in the event of a change of control, to ensure that the performance conditions remain relevant but challenging.</p> <p>The Committee has the discretion to test performance at the point of change of control or to allow awards to continue or roll-over in any reasonable manner with agreement of the acquirer, taking into account the circumstances of the change of control.</p>

There are no pre-determined special provisions for Non-executive Directors with regard to compensation in the event of loss of office.

Illustration of application of Remuneration Policy

A significant proportion of an Executive Director's total remuneration package is variable, being subject to the achievement of specified short-term and long-term business objectives. The charts below show the composition of total remuneration at minimum, target and maximum performance scenarios for the Executive Directors. The TIA and SAYE are excluded.



Notes to the scenarios:

Fixed: This element comprises salary as of 1 July 2017 (see page 59), pension benefits (including salary supplement) and other fixed benefits (company car, etc) as per the last known number.

Annual variable remuneration: This element shows annual bonus (including any amount deferred) at 100% of salary in the maximum scenario and 50% of salary in the target scenario.

Long-term variable remuneration: This element shows remuneration in respect of the LTIP, at 150% of salary in the maximum scenario and 75% of salary in the target scenario. No allowance is made for share price growth and/or dividends and/or dividend equivalents paid, in accordance with the requirements of rules governing disclosure.

Statement of consideration of shareholders views

During 2016/17 the Committee consulted extensively with our largest shareholders as well as shareholder representative bodies on our new remuneration structure. We were grateful to shareholders for the level and quality of engagement, many of whom were supportive of our proposed approach to move to a restricted share arrangement. When the Committee decided to continue no longer with this proposed approach a second round of consultation took place.

The Committee values highly the quality of input from its engagement with shareholders. Shareholder consultation helps the Committee set meaningful remuneration policies that achieve clear alignment of the interests of shareholders and management. The Committee looks forward to continuing the productive dialogue with the Company's shareholders.

DIRECTORS' REMUNERATION REPORT CONTINUED

Annual report on remuneration

Single total figure of remuneration – subject to audit

The table below sets out the analysis of total remuneration for each Director. An explanation of how the figures are calculated follows the table. The total remuneration for each Director reflects the performance of the Company and the contribution each individual has made to the on-going success of the Company.

It is important to note that the LTAP award included in the column LTAP for 2016/17 is incorporated in the single total figure of remuneration for regulatory reasons with no shares vesting in the year. The 2014 LTAP vests 50% in 2018/19 and 50% in 2019/20. Therefore the actual remuneration earned in 2016/17 for Mark Allen, Tom Atherton and Adam Braithwaite was £805k, £501k and £261kⁱ respectively.

Director (£'000s)	Base salary/fees		Taxable benefits		Bonus		LTAP ⁱ		Pension ⁱⁱ		Total	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Non-executive												
Chairman												
S Alexander	155	155	–	–	–	–	–	–	–	–	155	155
Executive Directors												
M Allen	545	523	33	32	102	235	539	529	125	120	1,344	1,439
T Atherton	340	307	19	21	64	138	271	204	78	71	772	741
A Braithwaite ⁱⁱⁱ	179	–	13	–	28	–	105	–	41	–	366	–
Non-executive												
Directors^{iv}												
A Carr-Locke	49	43	–	–	–	–	–	–	–	–	49	43
R Macdonald	55	48	–	–	–	–	–	–	–	–	55	48
S Farr	49	43	–	–	–	–	–	–	–	–	49	43

i For 2015/16 the values included are for the 2013 LTAP. These shares have not vested, therefore the value of the awards has been calculated using the average middle market price during the final quarter of 2016/17.

For 2016/17, the values included are for the 2014 LTAP. Awards were subject to a dividend underpin over the period April 2014 – March 2017. The conditions under the dividend underpin were met and the awards are not subject to any further performance conditions – they are therefore included in the single figure. The value of the awards has been calculated using the average middle market price during the final quarter of 2016/17. 50% of awards will vest on 16 December 2018 and 50% will vest on 16 December 2019. As the vesting period for this award has not yet been completed, no value will be delivered to participants until 2018/2019.

ii Pension amounts include employer's pension contribution and salary supplement. Base salary, bonus and LTAP are defined on pages 43 to 45.

iii Amounts shown in relation to Adam Braithwaite relate to the period since 19 July 2016, when he was appointed to the Board.

iv There has been an increase to Non-executive Director fees in the year, effective from 1 December 2016. For further details see page 60.

Notes

Taxable benefits are valued at the taxable value, and include company car/car allowance and private medical insurance.

During the year, Mark Allen held the position of Non-executive Director including Audit Committee member and Remuneration Committee member at Howdens Joinery Group plc, with retained fees in association with this work totalling £55k (2016: £47k). From January 2017 he also held the position of Non-executive Director at Warburtons Limited with retained fees in association with this work totalling £9k.

Additional requirements in respect of the single total figure table – subject to audit

Performance against targets for annual bonus

Payment of the bonus is subject to the achievement of demanding short-term financial targets and personal objectives. To ensure that an appropriate balance is maintained between long-term and short-term reward, any bonus earned over 50% of annual salary is paid in Company shares and deferred for a three-year period subject to continued employment.

A summary of some of the key personal bonus objectives set for each of the Executive Directors and their performance against these during the year are provided below:

Mark Allen	
Performance measure	Performance outcome
New Revenue Streams	With Mark overseeing the governance of this major investment, demineralised whey and GOS production have achieved substantial improvements in quality, efficiency, yields and mineral consistency. This is key in establishing sales to infant formula manufacturers who require exacting high standards
Talent Development	Mark has overseen formal development planning for both Tom Atherton and Adam Braithwaite and led a full development/succession plan for business critical roles
Shareholder/Customer engagement	Mark has maintained excellent links with all major customers, meeting senior contacts throughout the year. In addition, Mark has undertaken investor roadshows both in the UK and USA, the latter bringing new shareholders on to the register
Tom Atherton	
Performance measure	Performance outcome
Pension Liability	Tom oversaw a successful programme offering Flexible Retirement Options to deferred scheme members. This attracted considerable interest with an in year financial benefit of £2 million excluding fees
Information Technology	Functionally responsible for IT, Tom developed a revised strategy incorporating fundamental hardware and software changes, providing a better fit IT solution for the Group post the sale of the Dairies business
Frylight	As Chairman of the company producing Frylight, Tom has guided and supported the leadership team in gaining further market share, consolidating its position as the UK's number one cooking oil brand and expanding the manufacturing footprint to enhance capacity
Adam Braithwaite	
Performance measure	Performance outcome
Commercial Performance	Adam has continued to build excellent relationships with our customer base. Strong growth has been achieved in a number of the brands during the year
New Business Growth	Adam has overseen the formulation, trial and delivery of three spreadable cheese varieties and the launch of cheese snack bars. Revenue from new product development in the last three years remains above our target of 10%
Developing the team	Completion of team review and action plans implemented. Succession plan delivered

Bonus payouts for the 2016/17 performance year are set out below:

Measure	Details	Maximum potential as a % of salary	Threshold	Target	Maximum	Actual	Outcome as a % of salary		
							M Allen	T Atherton	A Braithwaite
Profit before tax	Stretching targets based on budget, with a sliding scale between threshold and maximum.	80%	£57.7m	£61.3m	£67.4m	£60.6m	0%	0%	0%
Free cash flow	Stretching targets based on budget, with a sliding scale between threshold and maximum.	15%	£40.0m	£42.8m	£50.0m	£38.7m	0%	0%	0%
Personal objectives	A range of non-financial operational and strategic objectives will be assessed by the Committee, with an appropriate award level set under this element with reference to the overall performance of the business.	25%	See description above				18.75%	18.75%	15.63%
Total	–	100% of salary					18.75% = £102k	18.75% = £64k	15.63% = £28k ¹
Deferred into shares	–	–					Nil	Nil	Nil

¹ Amounts shown in relation to Adam Braithwaite relate to his pro-rated salary over the period since 19 July 2016, when he was appointed to the Board.

A profit before tax performance of £60.6m was within the range for a payment against this bonus target. However, the Executive Committee, supported by the Remuneration Committee, determined that a payout was not appropriate given the extended commissioning of the demineralised whey and GOS plants at Davidstow which resulted in a higher than anticipated exceptional charge. The Remuneration Committee supported this proposal and confirmed that no payment would be made for this bonus element.

The free cash flow outturn of £38.7m was outside of the bonus range and resulted in no payout.

DIRECTORS' REMUNERATION REPORT CONTINUED

Given the profit threshold was surpassed, a payment under the personal objectives component was warranted, albeit the stretching nature of the personal objectives resulted in partial payment.

LTAP 2014

Awards under the 2014 LTAP were subject to a dividend underpin over the period April 2014 – March 2017. The conditions under the dividend underpin were met and the awards are not subject to any further performance conditions – they are therefore included in the single figure.

Director	Grant date	Face value granted £000s	Number of shares granted	Dividend underpin conditions	Dividend underpin conditions met?	Value of awards at 31 March 2017' £000s	End of vesting period
Mark Allen	16 December 2014	414	84,406	To increase the dividend over the period April 2014 to March 2017 in line with progressive dividend policy whilst maintaining dividend cover within 1.5-2.5 x range for the period April 2013 to March 2016	Yes	539	50% on 16 December 2018 50% on 16 December 2019
Tom Atherton	16 December 2014	208	42,397		Yes	271	50% on 16 December 2018 50% on 16 December 2019
Adam Braithwaite	16 December 2014	81	16,510		Yes	105	50% on 16 December 2018 50% on 16 December 2019

i The value of the awards has been calculated using the average middle market price during the final quarter of 2016/17 and includes the dividends accrued to date over the vesting period

Current position on other outstanding LTAP awards – not subject to audit

The outstanding LTAP awards are subject to a dividend underpin for three years following the award being made. The award may be reduced by an amount proportional to the percentage decrease in dividend in the event of a decline of up to 50%. If the decline exceeds 50%, the Committee will use its discretion to determine the proportion of the award that shall vest.

Dividend cover must also be maintained in the range 1.5 – 2.5 over the three-year measurement period.

LTAP 2015: The dividend increase over the period following the award is currently 6.4%, and the dividend cover is 1.9 times.

LTAP 2016: The dividend increase over the period following the award is currently 5.3%, and the dividend cover is 2.1 times.

Total pension entitlements – subject to audit

Following the closure of the Dairy Crest Group Pension Fund (a defined benefit scheme) to future accruals, there is no increase in accrued pension during the year other than inflationary increases.

The scheme closed to future accrual at 31 March 2010. Mark Allen decided to draw benefits from 31 March 2010 and receives an annual pension. Mark Allen, Tom Atherton and Adam Braithwaite were members of the defined contribution scheme throughout 2016/17. The Company made contributions of £10,000 for Mark Allen and £6,656 for Tom Atherton incorporating both employee and employer contributions. For Adam Braithwaite zero contributions were made since his appointment to the Board (£10,000 of contributions incorporating both employer and employee contributions were made in 2016/17 but were processed prior to his promotion to the Board). Further cash supplements were paid such that the total of cash supplements and employer contributions amounted to 23% of basic salary for Mark Allen and Tom Atherton. Adam Braithwaite received contributions of 23% of salary for the period since joining the Board.

Payments for loss of office – subject to audit

No payments for loss of office were made in the year under review.

Payments to past Directors – subject to audit

No payments to past Directors were made in the year under review.

Scheme interests awarded during the financial year – subject to audit

LTAP 2016 award

The award made under the LTAP in 2016 was made on 3 June 2016. The award level is determined based on achievements over the prior year against the pre-grant performance scorecard, comprising measures aligned to Dairy Crest's strategic priorities. Outcomes against the 2016 scorecard are summarised in the second table below and detail on these outcomes against the targets set and context in which decisions were made is included thereafter.

The outcome against the LTAP scorecard may fall between 0% and 100%, based on assessment of performance against each measure (as determined by the Committee) and the weighting attributable to each in the table below. This scorecard percentage outcome then determines the proportion of the award that will be granted, in the range of 50% to 90% of salary for Executive Directors. As set out in the approved policy, in any year, in the event of performance below a certain threshold or where the performance against the scorecard for that year is determined not to be a fair reflection of the overall performance of the business, the Committee may determine that no award will be granted. The maximum opportunity under the LTAP (90% of salary) is lower than the typical long-term incentive level in the market, whilst certainty of payout for participants is higher.

Note that this award is subject to a dividend underpin for the first three years of the vesting period and is settled through nil cost share options.

Director	Level of award % of salary	Face value on grant £000s	Percentage vesting at threshold performance	Number of shares	End of vesting period
Mark Allen	67.6%	365	N/A	64,268	50% 4 years after the award date 50% 5 years after the award date
Tom Atherton	67.6%	230	N/A	40,465	50% 4 years after the award date 50% 5 years after the award date
Adam Braithwaite	38.8%	79	N/A	13,935	50% 4 years after the award date 50% 5 years after the award date

The LTAP award granted to Adam Braithwaite was made before he became a Board Director.

The number of shares was calculated based on the middle market price on 2 June 2016.

Determination of 2016 grant:

Measure	KPI	Alignment with strategy	Weighting	Outcome
1. Profit	Adjusted EBITDA target each year	Delivery of profit is core to the business and supports the progressive dividend policy	30%	0%
2. Balance sheet efficiency	ROCE target each year whilst maintaining net debt/EBITDA in the 1.0-2.0 x range	Ensuring acceptable return on investment within a sustainable level of gearing	20%	0%
3. Corporate Activity & Efficiencies	Delivery of annual cost savings targets Delivery of synergies and return on investment following acquisitions or successful divestments (when relevant)	Ensuring cost savings are delivered on an on-going basis Ensuring that major acquisitions/ divestments deliver against relevant synergy and return targets	15%	15%
4. Brand Growth	Key brand value growth over one and three years versus markets in which they operate	Brand growth is key to longer term business growth	20%	15%
5. Innovation	Achieve each year the targeted proportion of revenue from innovation in previous three years	Innovation is a key driver of productivity and growth	10%	10%
6. Corporate Responsibility	Range of metrics aligned to the 40 pledges including improvements in accident incident rates, reduced CO ₂ emissions & improved/maintained BITC score	Delivering results in a sustainable way which enhances reputation and stakeholder engagement	5%	4%
Total				44% For Executive Directors this converts to an award of 67.6% of salary

1. Profit **Weighting: 30%. Outcome: 0%**

EBITDA for 2015/16 was below the target threshold due to the higher than anticipated losses in the Dairies business up until the date of disposal. It reflected the challenges faced throughout the year versus the Group's budget expectations in a heavily deflating dairy environment with the added pressure that a prolonged Dairies business disposal had on the commercial performance of the liquid milk business.

This weaker than expected EBITDA outcome resulted in 0% pay out.

2. Balance sheet efficiency **Weighting: 20%. Outcome: 0%**

The KPI is targeted ROCE (operating profit/average operating assets) with an additional requirement that gearing should be between 1.0 and 2.0 times. With regard to ROCE, the long-term objective was to maintain this above 12% with individual targets and ranges set each year by reference to budget.

The ROCE for 2015/16 (based on a post-disposal operating asset position) was 15%. This demonstrates the transformational effect on ROCE that the disposal of the Dairies business delivered.

However, year-end gearing (net debt/EBITDA) was above the upper end of the target range of between 1.0 and 2.0 times. Staying within the range is an underpinning requirement for an award under the balance sheet efficiency measure and therefore, no award was made under this element.

DIRECTORS' REMUNERATION REPORT CONTINUED

3. Corporate activity & efficiencies

Weighting: 15%. Outcome: 15%

The KPI is targeted full year effect of cost efficiency projects initiated in any year and delivery of synergies and returns on acquisitions. Where there is no acquisition activity, the cost efficiency projects can deliver the full 15% award and this was the case in 2015/16.

In 2015/16 great success was achieved in removing costs ahead of target up until the disposal of the Dairies business. For the final quarter, cost saving could not be maintained at this level given that the Dairies business accounted for much of the scale of the organisation.

Although there was no relevant delivered M&A integration activity in 2015/16, related activity that was successfully delivered included the acquisition of the outstanding 50% of Promovita Ingredients Limited for a consideration of £6 million (giving Dairy Crest sole control over the development of the GOS business) and the segmentation of the Dairies business from the combined Group.

The Remuneration Committee recognised the cost savings achieved ahead of target up to the point of sale of the Dairies business and the successful business split along with the long-term strategic importance of the acquisition of the balance of ownership of Promovita Ingredients Limited. On the basis of this performance it decided that a 15% payout for this element was merited.

4. Brand growth

Weighting: 20%. Outcome: 15%

Key brand performance was strong in a deflationary marketplace. The Remuneration Committee considered robust quantitative IRI and Kantar Worldpanel data for all brands in reviewing this element. Cathedral City, Country Life and Frylight all grew share over 12 months. Over a three year timeframe Cathedral City, Clover and Frylight have all grown value share.

On this basis the Remuneration Committee considered an award of 15% was appropriate.

5. Innovation

Weighting: 10%. Outcome: 10%

The Group's target for innovation is that 10% of revenue should be from product innovation over the last three years. In the year ended 31 March 2016 a number of new innovations were brought to market including re-launched Clover with no artificial ingredients and new coconut and rapeseed variants of Frylight which helped drive the percentage of key brand revenue from innovation in the preceding three years to 11%.

In addition the Remuneration Committee recognised innovation in other areas of the business including the opening of the new innovation centre at Harper Adams University, new supplier arrangements for spreadable cheese with Hochland who are helping us to develop further a stronger cheese NPD pipeline, and the arrangement with Fowler Welch Coolchain Ltd that gives us the opportunity to grow warehousing volumes whilst planning for the completion of the distribution agreement with Müller.

On this basis an award of 10% was made.

6. Corporate responsibility

Weighting: 5%. Outcome: 4%

Our 2015/16 safety record has been better than was targeted. Customer complaints generally have been low and any quality issues have been addressed fully to investigate root cause and implement improved procedures. Energy usage was 6% below budget and carbon emissions were better than target and 13% below last year. No employee survey was conducted during 2015/16 due to the sizeable people impact of the sale of the Dairies business. However, considerable effort was put into maintaining employee engagement via enhanced communications and the inclusion of a sale related component in the bonus scheme for all Hay employees.

The Remuneration Committee felt that corporate responsibility performance had generally been better than target and a payout of 4% was agreed.

Dividend underpin

The level of vesting of this award may be reduced to the extent that a dividend underpin over the period April 2016 – March 2019 is not met.

The award may be reduced by an amount proportional to the percentage decrease in dividend in the event of a decline of up to 50%. If the decline exceeds 50%, the Remuneration Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest.

Dividend cover must be maintained in a specific range over the three-year measurement period. The Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range.

CEO One-off Transformational Incentive Award – update on objectives and performance against objectives

This year also marked the final full financial year of performance under the one-off TIA related to the sales of the Dairies business, granted to Mark Allen in December 2014 and which is due to vest later this year.

This award supported the retention and motivation of Mark Allen through this critical period in which his knowledge and experience were vital to a successful outcome. In line with the commitment made by the Committee in the 2014/15 Remuneration report and following the comprehensive update provided in last year's report, we have set out detailed information on the performance against the objectives set under this plan over the past year, which were split into three categories as shown below.

1. Managing the competition approval process relating to the sale of the Dairies business

The sale of the Dairies business required strong leadership and a high level of personal involvement from a chief executive officer who is an acknowledged leader in the sector. Mark Allen was set a number of objectives relating to the success of negotiations and discussions with Müller and the UK Competition and Markets Authority ('CMA') whilst managing the business as a whole through a period of extended uncertainty.

Mark Allen performed exceptionally in securing the successful completion of the sale to Müller in December 2015, positioning Dairy Crest as a branded and added-value business, focussed on growth, cash generation and enhanced shareholder value. In 2015/16 the Committee determined that all objectives in this category had been successfully completed. Full details are disclosed in the 2015/16 Remuneration report.

2. Appropriately reshaping the Group

A number of TIA objectives were built around a strategic review of the Group following the sale of the Dairies business, implementation of associated structural changes and the delivery of significant cost savings.

Mark has led the organisational review process carried out over the past year covering all areas of the Group and his leadership was instrumental in identifying both immediate cost savings and opportunities for the business to leverage from this and facilitate further cost savings in the future.

The initial part of this work was an organisational design activity which was undertaken immediately post the sale of the Dairies business, covering all functions, that streamlined the Group and delivered a management and administrative structure template appropriate for a smaller business. Mark's leadership of this work and the principles he established on which it was built, were integral to its success. He personally led the review of outputs and ultimately sanctioned the agreed changes which were critical to delivery and implementation in this area throughout 2016/17.

In addition, recognising the need to build a systems and process infrastructure suited to the post Dairies business, Mark established a major project under the title 'Evolve' that commenced in 2016 and has already set a clear roadmap for systems and process development for all parts of the business over the next 2 years. Starting with financial systems, this project will deliver change within supply chain, demand, business systems and HR, resulting in highly effective systems, improved processes and reduced costs.

As a consequence of the above, the Company is on-target to achieve savings of £5m and will be in excellent shape to deliver continued value to our customers and shareholders through streamlined, improved ways of working and further cost reductions.

3. Establishing a successful future business

The TIA performance period is three quarters complete and considerable progress has been made across the business.

Brands continue to develop through product innovation (Cathedral City spreadable and snack bar, Frylight avocado), packaging changes (Clover, Cathedral City and Frylight all had packaging refreshes), advertising (Cathedral City and Frylight were both advertised on TV and other brands were advertised through other channels) and promotional activity.

Mark's objectives also required the delivery of new product streams to enhance the profitability of the business and develop shareholder returns. He led the project that has made significant progress in delivering both the highly demanding demineralised whey infant formula quality standard and the necessary quality and tonnage targets for GOS. Mark has overseen the governance process, maintained focus and control over a highly complex, multi-dimensional project, whilst also leading the key commercial relationships with our partner Fonterra. 2016/17 has also seen further investment in the research into the uses of GOS outside the infant formula market. The research partnership with Danisco Animal Nutrition, part of DuPont, will help the Company understand the beneficial effects of GOS on poultry and swine production, building on the positive academic research already undertaken earlier in the year.

In respect of succession planning, Mark has identified the critical roles for which there may be potential future gaps and overseen a thorough succession planning process to secure the future skills required by the business. In addition, he has conducted a full review of Executive Director development, adopting a range of development processes and engaging specialist independent support, using the output of this to inform development discussions and plans for the Directors. Mark has also reviewed the senior management population more generally, developing plans to refresh the talent pool where necessary.

Mark has sponsored and personally led an intensive employee engagement process including a full Group roadshow to which every employee was invited and a refresh of the Group's Vision and Values. This was a key activity post the sale of the Dairies business in ensuring employees were engaged throughout this period of significant change but, more importantly, remained informed and committed to the future plans and growth of the Company.

Mark Allen has delivered outstanding progress to date with regard to the objectives set under the TIA. Mark's exceptional performance in delivering the sale of the Dairies business and his subsequent work in transforming Dairy Crest has resulted in the Company delivering industry leading margins of 16% compared to c.5% before the disposal of the Dairies business. Dairy Crest is in a strong position to deliver sustained future growth.

In the view of the Remuneration Committee, Mark has delivered on, and in some cases exceeded, the targets set to date. A significant proportion of the business transformation that the TIA was designed to engender and recognise has now been implemented and delivered. Given the level of positive progress and achievements against the TIA objectives, vesting at the maximum end is currently anticipated.

DIRECTORS' REMUNERATION REPORT CONTINUED

Shareholder dilution

In accordance with the guidelines set by the Investment Association ('IA'), the Remuneration Committee can satisfy awards under all its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10 year period to employees under all its share plans. Within this 10% limit, the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. Currently, awards over shares equalling 7.9% of the issued share capital have been made under share plans during a rolling 10 year period, with awards over shares equalling 2.7% under discretionary or executive schemes.

Statement of Director's shareholdings and share interests – subject to audit

Executive Directors are required to build a shareholding in the Company equivalent to 200% of salary and to this end are required to retain 50% of net proceeds from share plans and deferred bonus share awards until that shareholding is achieved. Shareholdings exclude unvested options under the LTISP and include unvested deferred shares granted to Executive Directors as part payment of bonuses and unvested LTAP awards. Mark Allen and Tom Atherton have satisfied the shareholding requirement. Adam Braithwaite has not met the requirements and will continue to grow his shareholding.

The interests of the Directors at the end of the year in the ordinary share capital of the Company were as follows:

Director	Number of shares owned outright (including connected persons)	Vested but unexercised LTISP 2012 shares ⁱ	Unvested LTAP 2013 shares ⁱⁱ	Unvested LTAP 2014 shares ⁱⁱⁱ	Unvested LTAP 2015 shares ^{iv}	Unvested LTAP 2016 shares ^v	Unvested TIA shares ^{vi}	Deferred annual bonus shares ^{vii}	SAYE ^{viii}	Total interest as at 31 March 2017 ^{ix}
M Allen	170,865	40,584	90,590	92,324	77,487	66,766	262,374	39,241	4,336	844,567
T Atherton	6,097	5,488	35,003	46,373	44,909	42,038	–	14,753	4,787	199,448
A Braithwaite	–	–	14,767	18,059	15,418	14,477	–	–	4,336	67,057
A Carr-Locke	2,000	–	–	–	–	–	–	–	–	2,000
R Macdonald	1,000	–	–	–	–	–	–	–	–	1,000
S Alexander	1,000	–	–	–	–	–	–	–	–	1,000
S Farr	4,465	–	–	–	–	–	–	–	–	4,465

i Vested but unexercised LTISP 2012 (nil cost share options)

ii Long term Alignment Plan 2013 (nil cost share options): The period for the dividend underpin condition ended on 31 March 2016. 50% of awards will vest on 15 August 2017 and 50% will vest on 15 August 2018. Amounts shown include grant and options related to accrued dividends to the date of this Report

iii Long term Alignment Plan 2014 (nil cost share options): The period for the dividend underpin condition ended on 31 March 2017. 50% of awards will vest on 16 December 2018 and 50% will vest on 16 December 2019. Amounts shown include grant and options related to accrued dividends to the date of this Report

iv Long term Alignment Plan 2015 (nil cost share options): The period for the dividend underpin condition will end on 31 March 2018. 50% of awards will vest on 26 May 2019 and 50% will vest on 26 May 2020. Amounts shown include grant and options related to accrued dividends to the date of this Report

v Long term Alignment Plan 2016 (nil cost share options): The period for the dividend underpin condition will end on 31 March 2019. 50% of awards will vest on 3 June 2020 and 50% will vest on 3 June 2021. Amounts shown include grant and options related to accrued dividends to the date of this Report

vi One-off transformational award to the CEO (nil cost share options): The performance period will end 23 December 2017 and awards will vest thereafter. Amounts shown include grant and options related to accrued dividends to the date of this Report

vii Deferred bonus scheme (nil cost share options)

viii Save As You Earn Scheme 2014 (cost options): The exercise price for these options is 376 pence per share and the exercise period is 9/2017 – 2/2018. There are no applicable performance conditions

ix Save As You Earn Scheme 2016 (cost options): The exercise price for these options is 463 pence per share and the exercise period is 9/2019 – 2/2020. There are no applicable performance conditions

ix Unvested TIA shares and SAYE are not considered when calculating shareholding requirements

There have been no changes in Directors' shareholdings between 31 March 2017 and 17 May 2017

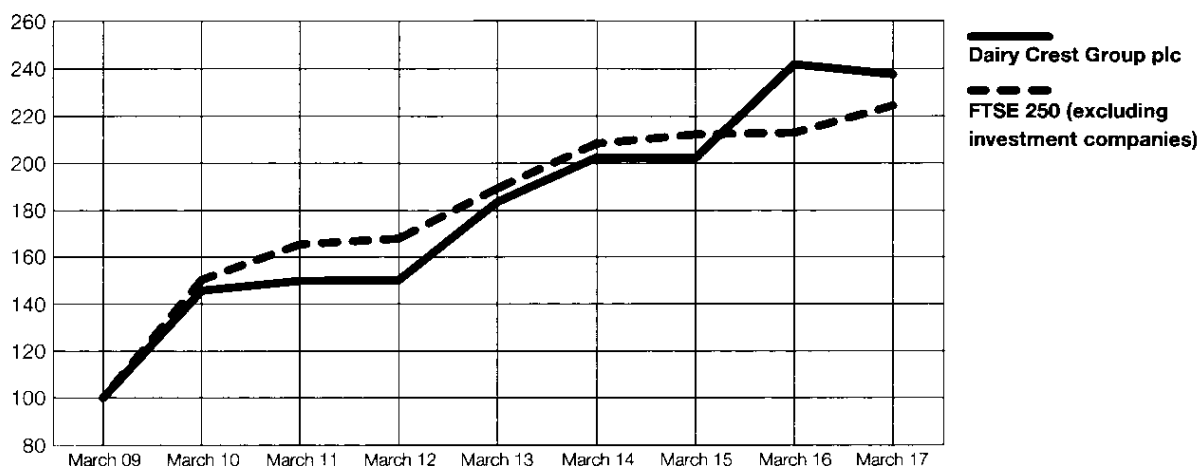
Gain on exercise of share options

Director	Number of options exercised	Option exercise price	Market value at exercise date £'s	Gain on exercise of share options £'s
M Allen	Nil	Nil	Nil	Nil
T Atherton	Nil	Nil	Nil	Nil
A Braithwaite	Nil	Nil	Nil	Nil

Performance graph and table

The graph below sets out for the eight years ended 31 March 2017 the total shareholder return of Dairy Crest Group plc and of the FTSE 250 index (excluding investment companies) of which the Company is a constituent member.

Dairy Crest – Total Shareholder Returns for £100 invested



The table below sets out CEO pay over the same period.

CEO pay	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total remuneration (£'000s)	1,018	888	904	937	1,247	991	1,439	1,344
Annual bonus (% max)	94%	54%	50%	52.5%	81.7%	18.8%	45%	18.8%
Long term incentive (% max)	0%	0%	0%	0%	23.5%	20.8%	89%*	89%**

* This figure represents the LTAP 2013 award (as shown in the single figure table) as a percentage of the maximum annual award under this plan. The vesting period for this award has not yet been completed – 50% will vest on 15 August 2017 and 50% will vest on 15 August 2018

** This figure represents the LTAP 2014 award (as shown in the single figure table) as a percentage of the maximum annual award under this plan. The vesting period for this award has not yet been completed – 50% will vest on 16 December 2018 and 50% will vest on 16 December 2019

Percentage change in CEO's remuneration

The table below sets out the percentage change in the CEO's salary, benefits and bonus between 2015/16 and 2016/17, compared with the percentage change in the average of each of these components of pay for those salaried members of the clerical, administrative, supervisory and management population allocated to Hay bands. This group comprises 42% of the total workforce, and has been identified as the most appropriate for this table in view of the comparable nature of employment and incentive arrangements:

	Salary			Taxable benefits			Bonus		
	2016/17	2015/16	% change	2016/17	2015/16	% change	2016/17	2015/16	% change
CEO (£'000s)	545	523	4%	33	32	3%	102	235	-57%
Average pay for wider employee population (£'000s)	49	47	5%	6.8	5.1	33%	1.5	4.6	-67%

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay at Dairy Crest, compared with distributions made to shareholders in 2015/16 and 2016/17:

£m	2016/17	2015/16	% change
Employee remuneration costs	41.2	44.3	-7%
Dividends	31.1	30.0	4%

DIRECTORS' REMUNERATION REPORT CONTINUED

LTAP 2017 award

The award to be made under the LTAP 2017 is based on achievements over the prior year against the pre-grant performance scorecard, comprising measures aligned to Dairy Crest's strategic priorities. This award will be granted later in 2017. Outcomes against the 2017 scorecard are summarised in the second table below and detail on outcomes against the targets set and the context in which decisions were made is included thereafter.

The outcome against the LTAP scorecard may fall between 0% and 100%, based on assessment of performance against each measure (as determined by the Committee) and the weighting attributable to each in the table below. This scorecard percentage outcome then determines the proportion of the award that will be granted, in the range of 50% to 90% of salary for Executive Directors. As set out in the approved Policy, in any year, in the event of performance below a certain threshold or where the performance against the scorecard for that year is determined not to be a fair reflection of the overall performance of the business, the Committee may determine that no award will be granted. The maximum opportunity under the LTAP (90% of salary) is lower than the typical long-term incentive level in the market, whilst certainty of payout for participants is higher.

Director	Level of award % of salary	Face value £'000s	End of vesting period
Mark Allen	67.2%	376	50% 4 years after the award date 50% 5 years after the award date
Tom Atherton	67.2%	228	50% 4 years after the award date 50% 5 years after the award date
Adam Braithwaite	67.2%	171	50% 4 years after the award date 50% 5 years after the award date

The number of shares granted will be calculated in accordance with the rules approved by shareholders at the 2013 AGM.

Determination of 2017 grant:

Measure	KPI	Alignment with strategy	Weighting	Outcome
Profit	Adjusted EBITDA target	Delivery of profit is core to the business and supports the progressive dividend policy	30%	0%
Balance Sheet Efficiency	ROCE target whilst maintaining net debt/ EBITDA in the 1-2 range	Ensuring acceptable return on investment within a sustainable level of gearing	20%	0%
Corporate Activity & Efficiencies	Delivery of annual cost savings targets	Ensuring cost savings are delivered on an on-going basis	15%	15%
	Delivery of synergies and return on investment following acquisitions or successful divestments (when relevant)	Ensuring that major acquisitions/ divestments deliver against relevant synergy and return targets		
Brand Growth	Key brand value growth over one and three years versus markets in which they operate	Brand growth is key to longer term business growth	20%	14%
Revenue Growth through Innovation	Achieve each year the targeted proportion of revenue from innovation in previous three years	Innovation is a key driver of productivity and growth	10%	10%
Corporate Responsibility	Range of metrics aligned to the CR pledges including improvements in accident incident rates, reduced CO ₂ emissions and improved/maintained BIC score	Delivering results in a sustainable way which enhances reputation and stakeholder engagement	5%	4%
Total				43% For Executive Directors this converts to an award of 67.2% of salary

1. Profit

Weighting: 30%. Outcome: 0%

EBITDA for 2016/17 was below the target threshold due to an extended commissioning period in relation to the demineralised whey and GOS plants at Davidstow.

2. Balance sheet efficiency

Weighting: 20%. Outcome: 0%

The KPI is targeted ROCE (operating profit/average operating assets) with an additional requirement that gearing should be between 1.0 and 2.0 times. With regard to ROCE, the long-term objective is to maintain this above 12% with individual targets and ranges set each year by reference to budget.

For 2016/17 a stretching vesting target of 15.8% ROCE was set. A ROCE of 15.4% was achieved which was just below the vesting level but above the ROCE outcome in 2015/16. In addition, year-end gearing (net debt: EBITDA) was above the upper end of the target range of between 1.0 and 2.0 times. Given both the ROCE target and the gearing range were not met, no award was made under this element.

3. Corporate activity & efficiencies **Weighting: 15%. Outcome: 15%**

The KPI is targeted full year effect of cost efficiency projects initiated in any year and delivery of synergies and returns on acquisitions. Where there is no acquisition activity, the cost efficiency projects can deliver the full 15% award and this was the case in 2016/17.

In 2016/17 success was achieved in removing costs with corporate costs below budget and procurement savings ahead of budget. Overall there was a reduction in Group administrative expenses of £5.4m.

With regard to efficiency projects, considerable progress has been made in defining a revised IT strategy which will deliver cost savings and improved ways of working.

On the basis of this performance it was decided that a 15% payout for this element was merited.

4. Brand growth **Weighting: 20%. Outcome: 14%**

Key brand performance was broadly strong in the year. The Remuneration Committee considered robust quantitative IRI data for all brands in reviewing this element. Clover and Frylight grew share over 12 months as did Country Life spreadable. Cathedral City lost value share but strengthened in the second half of the year. Over a three year timeframe, Cathedral City, Clover and Frylight have all grown value share.

On this basis an award of 14% was agreed.

5. Innovation **Weighting: 10%. Outcome: 10%**

The Group's target for innovation is that 10% of revenue should be from product innovation over the last three years. In the year ended 31 March 2017 product innovation drove the percentage of key brand revenue from innovation in the preceding three years to 13%. The development of Cathedral City spreadable, launch of cheese snack bars and the continued growth of Clover with no artificial ingredients all supported this result.

The Remuneration Committee decided on this basis an award of 10% should be made.

6. Corporate responsibility **Weighting: 5%. Outcome: 4%**

Our 2016/17 safety record achieved the best performance yet with zero reportable accidents in the year. Customer complaints generally have been low across our brands, albeit we did see some increase in cheese complaints. With regard to energy usage, this improved and better than target performance was achieved as did carbon emissions which were 13% below last year's level. No employee survey was conducted during 2016/17 however, considerable effort was put into maintaining employee engagement via enhanced communications including a full employee roadshow to which all employees were invited.

The Remuneration Committee assessed that corporate responsibility performance had generally been better than target, especially in the area of health and safety and a payout of 4% was merited.

Dividend underpin

The level of vesting of this award may be reduced to the extent that a dividend underpin over the period April 2017 – March 2020 is not met.

The award may be reduced by an amount proportional to the percentage decrease in dividend in the event of a decline of up to 50%. If the decline exceeds 50%, the Remuneration Committee will use its discretion to determine the proportion of the award that shall vest. In such circumstances not more than 50% of the award will vest.

Dividend cover must be maintained in a specific range over the three-year measurement period. The Committee retains discretion to reduce the vesting of awards as appropriate should dividend cover be outside this range.

Statement of implementation of Policy in the following financial year

The Directors' Remuneration Policy will be implemented for the 2017/18 financial year as follows:

Base salary – £'000s

Director	2016	2017
Mark Allen	540	560
Tom Atherton	340	349
Adam Braithwaite	255	262

Mark Allen's base salary increased on 1 January 2017 and he will not be eligible for a further increase until 1 July 2018. Base salary increases for Tom Atherton and Adam Braithwaite will be in line with increases across the general workforce and will be effective from 1 July 2017.

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-executive Directors' fees – £'000s

Role	Pre 1 December 2016	Effective 1 December 2016
Non-executive Chairman	155	155
Non-executive Director (base)	38	50
Audit Committee Chair	+5	+10
Corporate Responsibility Chair	+5	+10
Remuneration Committee Chair	+5	+10
Senior Independent Director	+5	+10

The Board noted that Non-executive Directors' fees had not been increased since 2008 and were below the level of comparable roles within companies of similar size and complexity. Further to a review of market levels and recognising the need to recruit appropriately skilled and experienced new Non-executive Directors, the Chief Executive recommended to the Board that the fees were increased as above. It was therefore determined that the fees be increased, effective from 1 December 2016.

Bonus measures

Maximum opportunity for Executive Directors under the 2017/18 bonus remains at 100% of salary.

Recognising the importance of reducing debt, the weightings under the bonus plan have been reviewed and the proportion of 2017/18 bonus relating to free cash flow generation will increase. Performance will therefore be assessed against the following measures:

- Profit before tax – 50% of award
- Free cash flow – 25% of award
- Personal objectives – 25% of award

The targets for the 2017/18 annual bonus measures are considered commercially sensitive because of the information that this provides to the Company's competitors. The targets and payout against them will be disclosed in the 2017/18 report. Categories in respect of the personal objectives include establishing new revenue streams and acquisition opportunities for Mark Allen, further managing pension liability, delivering systems change projects and managing the debt position for Tom Atherton and brand development, sales growth and establishing new sales channels for Adam Braithwaite.

Malus and clawback provisions will operate in respect of the 2017/18 bonus. The malus provision will apply to the deferred share awards up to vesting. The clawback provision will apply to the cash award for three years from the date of payment. Clawback may be operated in the event of gross misconduct on the part of the employee and/or material misstatement in Company or Group financial statements.

Long term incentive plan

No grant of LTIP will be made in 2017. The first grant under this new incentive structure will be made in 2018, subject to approval of the Policy and to approval by shareholders of the LTIP.

Sharesave Scheme

The Sharesave Scheme is open to all eligible employees and full time Executive Directors. Employees enter into an approved savings contract over a three year term to make monthly contributions up to an overall maximum of £500 per month. At the end of the term, members have the right to buy ordinary shares in the Company at a price fixed at the time of the option grant. Options may not be granted at less than 80% of the market price at the time of grant.

Consideration by the Directors of matters relating to remuneration

Members of the Remuneration Committee

The Board has appointed a Remuneration Committee of independent Non-executive Directors of the Company. During the year the Committee consisted of:

- Richard Macdonald (Chairman)
- Andrew Carr-Locke
- Sue Farr

Stephen Alexander in his capacity as Company Chairman and Mark Allen, Chief Executive attended the Remuneration Committee by invitation. Members of the Remuneration Committee have no potential conflicts of interest arising from cross-directorships and they are not involved in the day-to-day running of the Company.

The Committee's activities during the financial year

The Remuneration Committee is responsible for the broad Policy with respect to senior executives' salary and other remuneration. It specifically determines, within remuneration principles agreed with the Board, the total remuneration package of each Executive Director and reviews with the Chief Executive the remuneration packages for other senior executives. A copy of the terms of reference of the Committee can be found on the Company's website, www.dairycrest.co.uk

In 2016/17, the Committee met six times. Attendance at meetings by members of the Committee is shown on page 31. The Committee discussed, amongst other matters, the following:

Meeting	Agenda items discussed
May 2016	Approval of 2015/16 Bonus, LTAP outcomes Approval of 2016/17 Bonus rules, 2016/17 Bonus targets and LTAP targets Executive Directors' Remuneration Pension changes for Senior Management Approval of Remuneration Report
July 2016	Remuneration of new Executive Director
November 2016	Review of Remuneration Advisors Executive Directors' Remuneration
December 2016	Remuneration Policy Review
January 2017	Review Terms of Reference Remuneration Policy Review
March 2017	Review of potential bonus and long-term incentive outcomes Remuneration Policy update Review draft of Directors' Remuneration Report

Advisers to the Remuneration Committee

The Remuneration Committee has appointed PricewaterhouseCoopers LLP ('PwC') to provide advice on executive remuneration. PwC has provided such advice historically and was originally appointed through a competitive tendering process.

Work undertaken by PwC for the Committee included updates to the Remuneration Committee on remuneration and governance trends and market practice, providing remuneration benchmarking information for Executive Directors and advice in respect of the review of the Remuneration Policy. In this financial year, PwC was paid £99,000. This is based on an agreed fee for business as usual support with additional work charged at hourly rates.

During the year, PwC also provided other consultancy services to the Group, including tax, pensions, network security and structuring work.

The Remuneration Committee reviews the independence and objectivity of the advice it receives from PwC at a private meeting held in May each year. It is satisfied that PwC is providing objective and robust professional advice. PwC is a member of the Remuneration Consultants Group and has signed up to that group's Code of Conduct.

The Remuneration Committee also received materials, assistance and advice on remuneration policy from Robert Willock, the Group HR Director of Dairy Crest. The Chief Executive attends all meetings by invitation, but is not present at any discussions relating specifically to his own remuneration.

Statement of voting at General Meeting

The table below shows the advisory vote on the 2015/16 remuneration report at the 2016 AGM, and the latest advisory vote on the remuneration policy at the 2014 AGM.

Resolution	Number of votes cast	For	Against	Withheld
Approval of Directors' Remuneration Report (2016 AGM)	75,832,012	69,996,972 92.31%	5,835,040 7.69%	489,292
Approval of Directors' Remuneration Policy (2014 AGM)	70,936,887	68,099,552 96.00%	2,837,335 4.00%	44,478

The Remuneration Committee noted the outcome of the advisory vote at the 2016 AGM and remains committed to an open dialogue with investors, with engagement planned through the period ahead of the AGM.

The Directors' Remuneration report from pages 41 to 61 has been approved by the Board and is signed on its behalf by

Richard Macdonald Chairman of the Remuneration Committee
17 May 2017

DIRECTORS' REPORT

Dairy Crest Group plc ('Company') is the holding company of the Dairy Crest Group of Companies ('Group'). The Directors' report for the year ended 31 March 2017 comprises the Strategic report found at pages 2 to 27, the details of Directors at pages 28 to 29 and the Corporate Governance report at pages 30 to 61. The above-mentioned sections are expressly incorporated by reference into this, the Directors' report.

Going concern: The Group and Company's business activities, together with factors likely to affect future development, performance and position are set out in the Strategic report from pages 2 to 21. The financial position, cash flows, liquidity position and borrowing facilities are described in the financial review on pages 12 to 15 (which also form part of the Strategic report). In addition, Notes 31 and 32 to the Accounts include the Group and Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in Note 31, the Company and Group meet day-to-day working capital requirements through syndicated revolving credit facilities and cash to ensure that forecast net borrowings plus reasonable operating headroom are covered by committed facilities which mature at least 12 months after the year end. At 31 March 2017, effective headroom was £112.0 million. There were no breaches of bank covenants in the year ended 31 March 2017 and projections do not indicate any breaches in the foreseeable future. Having reviewed and taken into account Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009, the Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Viability statement: In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three year period. The Directors have determined that a three year period to 31 March 2020 is an appropriate period over which to provide its viability statement. This is the period reviewed by the Board in the strategic planning process where assumptions are made around future growth for the existing business, new market opportunities, investment needs and funding requirements of the Group. A robust financial model of the Group is built by product and the metrics for the Group's KPIs and bank covenants are reviewed.

Taking into account the Group's current position and potential impact of the principal risks documented on pages 16 and 17 of the Annual Report and Accounts, the Directors confirm that they have a reasonable expectation that the Company will be able to continue to operate and meet its liabilities as they fall due over the period to 31 March 2020.

In making this statement the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Board considers all of the principal risks, the likelihood of crystallisation, the potential net profit impact and the mitigating controls. In assessing the impact of a risk on the viability of the Group, the Board has considered the potential impact that the crystallisation of a severe but plausible risk may have on the Group meeting its bank covenants.

The assumption has been made that the Group will be able to source an appropriate level of funding following the cessation of the £80 million bank facility in October 2018.

Future developments: Future developments are described in the Strategic report at pages 2 to 21.

Group results: The Group's consolidated income statement is set out on page 70 and shows a profit for the financial year of £38.3 million compared with a loss of £113.0 million in 2015/16.

Dividends: The Directors are recommending a final dividend of 16.3p (2015/16: 16.0p) per ordinary share which, if approved, will be paid to members whose name appears on the register at the close of business on 7 July 2017. Together, the final dividend and interim dividend (6.2p per ordinary share paid on 28 January 2017) make total dividends for the year of 22.5p per ordinary share (2015/2016: 22.1p).

Directors: Details of the Directors of the Company are set out at pages 28 to 29.

Directors' interests: Details of the Directors' interests in the shares of the Company, including those of their immediate families, appear in the Directors' Remuneration report on page 56. The Company maintains liability insurance for its Directors and officers and those of its subsidiaries. The Directors, Company Secretary and other officers of the Company and those of its subsidiaries are indemnified by the Company to the extent permitted by company law. That indemnity provision has been in place during the year and remains in force.

Disclosure of information to the Auditor: Each Director confirms that as far as he or she is aware, there is no relevant audit information of which the Company's external auditor, EY, is unaware and that each Director has taken all steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the external auditor is aware of that information.

Political Donations: No political donations or expenditures were made during the year ended 31 March 2017.

Financial instruments: Information relating to financial instruments is at pages 113 to 117.

Post balance sheet events: Maturity of Fixed Coupon Loan Notes – on 4 April 2017 the Group repaid €10.7 million (£9.2 million Sterling equivalent) and £2.8 million of 2007 fixed coupon loan notes on their maturity.

Research and development: Relevant information is set out in the Strategic report on pages 10 to 11.

Employees: We remain committed to employee involvement throughout the business. Employees are kept well informed on the performance and strategy of the Group through a variety of communication tools, including personal briefings, regular meetings, and the Group's intranet. The Chief Executive and the Executive Committee have held roadshows and employee lunches at each site during the year. All employees are invited to attend these forums to receive an update on the business's performance and its priorities and to ask any questions.

The Group's principles of equal opportunities mean that the training, career development and promotion of disabled persons, should as far as possible, be the same as for other employees.

The Group has well-established consultation and negotiating arrangements with established trade unions.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Details of the savings-related share option scheme ('Sharesave Scheme') are set out in Note 27 to the financial statements on pages 106 to 107.

Issued Share Capital: The authorised and issued share capital of the Company together with details of movements in the Company's issued share capital during 2016/17 are shown in Note 25 to the financial statements at page 105. At the date of this Directors' report there were 141,072,297 ordinary shares of 25 pence each in issue, all of which are fully paid up and quoted on the London Stock Exchange with an aggregate nominal value of £35,268,074.

Rights and obligations attaching to shares: The holders of ordinary shares are entitled to receive the Company's Report and Accounts; to attend and speak at General Meetings of the Company; to appoint proxies and to exercise voting rights. To be effective, electronic and paper proxy appointments and voting instructions must be received at the Company's registered office, or such other place in the United Kingdom specified in the relevant notice of meeting, not later than 48 hours before a General Meeting. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights. Shares acquired through company share schemes and plans rank pari passu with the shares in issue and have no special rights.

Purchase of shares: The Directors have the authority to purchase up to 14,072,690 million of the Company's ordinary shares. The authority remains valid until the AGM in 2017.

Transfer of shares: Subject to applicable laws and regulations, there are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers.

Share schemes: Details of the employee Sharesave Scheme are set out in Note 27 to the financial statements. The Company has a discretionary employees' benefit trust, The Dairy Crest Employees' Share Ownership Plan Trust ('ESOPT') funded by gifts to acquire shares for the potential benefit of employees. Details of shares held by the ESOPT at 31 March 2017 are set out on page 106. During the year shares have been released by the ESOPT in respect of share schemes for employees. The trustee of the ESOPT has the power to exercise all voting rights in relation to any investment (including ordinary shares) held within the ESOPT.

Issue of shares: At the AGM on 19 July 2016, shareholders renewed the authority for the Board under the Articles to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £23,454,480.

Purchase of own shares: At the AGM on 19 July 2016, shareholders granted the Company authority to make market purchases of up to 14,072,690 of its issued ordinary shares of 25 pence each, provided that (i) the minimum price which may be paid for any such ordinary share is 25 pence (exclusive of expenses and appropriate taxes) and (ii) the maximum price (exclusive of expenses and appropriate taxes) which may be paid for any such ordinary share shall be not more than 5% above the average of the middle market prices for an ordinary share in the Company, as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase. The Company did not exercise this authority during the year and made no market purchases.

Substantial shareholdings: As far as the Company is aware, the only holder of more than 3% of, or 3% of voting rights attributable to, the Company's issued ordinary share capital on 31 March 2017, is indicated in the table below:

	Notified No. of shares	Notified percentage of issued share capital
Black Rock, Inc.	7,729,917	5.47

No disclosable changes in interests in the share capital of the Company have been notified to the Company between 1 April 2017 to 17 May 2017.

Articles of association: Changes to the Articles must be approved by the shareholders in accordance with applicable legislation. The Articles are available on our website.

Significant agreements – change of control: There are a number of agreements to which the Company or its subsidiaries is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

Borrowing facilities – Non-compliance with the change of control clauses in the Group's funding arrangements, or failure to reach agreement with the parties on revised terms, would require any acquirer to put in place replacement facilities.

Supply agreements – Certain supply agreements contain provisions whereby on a change of control of the Group, they may be terminable. Accordingly, a change of control of the Group could result in the need for the Group to source alternative supply for certain materials or services.

No compensation for loss of office: The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

DIRECTORS' REPORT CONTINUED

Pensions: The Company employs only the Executive Directors. Most employees in the Group are employed by the Company's main subsidiary, Dairy Crest Limited. Relevant companies within the Group became subject to the automatic enrolment regulations on 1 April 2013. Depending on their grade, effective from 1 April 2013 employees either enter the auto enrolled pension arrangements for the Group which are provided by Zurich or into the Group's defined contribution pension scheme also provided by Zurich. The Group's defined benefit pension fund is closed to future accrual and is now in run-off. It remains under the control of a corporate trustee, Dairy Crest Pension Trustees Limited, the board of which comprises four directors nominated by Dairy Crest Limited and three directors elected by all members. Its assets are held separately from those of the Group and can only be used in accordance with the rules of the fund.

Greenhouse gas emissions: The Company is required to report annually on the quantity of carbon dioxide equivalent emissions in tonnes emitted as a result of activities for which it is responsible. Details of our emissions during the year ended 31 March 2017 and the actions which the Group has taken to reduce them are set out on pages 22 to 23 and form part of the Directors' report disclosures.

Directors' responsibility statement: The responsibility statement required under DTR 4.1 is set out on page 65.

Branch offices outside the UK: The Company has no branch offices.

Annual general meeting: The AGM will be held at Eversheds Sutherland (International) LLP, One Wood Street, London, EC2V 7WS on Tuesday, 18 July 2017 at 12pm. The Notice of Meeting will be issued separately, together with details of the business to be considered and explanatory notes relating to each of the resolutions being proposed.

Auditor: The Group has appointed Deloitte LLP as the external auditor for the year commencing 1 April 2017. A resolution to appoint Deloitte LLP as the Group's auditor will be put to the forthcoming AGM. The Group's current auditor, EY, will retire by rotation.

The Directors' report from pages 62 to 64 has been approved by the Board and is signed on its behalf by

Robin Miller Company Secretary & General Counsel
17 May 2017

Dairy Crest Group plc
Company No: 3162897

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Annual Accounts

The Directors are responsible for preparing the Annual Report and the Group's and Company's financial statements in accordance with applicable laws and International Financial Reporting Standards ('IFRSs') as adopted by the EU.

Under company law the Directors must not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the EU;
- state whether the financial statements have been prepared in accordance with applicable UK accounting standards subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are responsible and prudent.

The Directors have responsibility for ensuring that the Group and Company keep accounting records which disclose with reasonable accuracy their financial position and which enable the Directors to ensure that the financial statements comply with relevant legislation. They have a responsibility for taking reasonable steps to safeguard the assets of the Group and of the Company to prevent and detect fraud or other irregularities.

The Directors are responsible for preparing a Strategic report, Directors' report, the Directors' Remuneration report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.

A copy of the financial statements of the Group is placed on our website at www.dairycrest.co.uk/investor-relations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DTR 4.1 Statement

Each of the Directors confirms that to the best of his or her knowledge:

- the Group's 2017 Annual Report and Accounts, taken as a whole, is fair and balanced and understandable, and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy;
- the Group's and Company's financial statements which have been prepared in accordance with IFRSs as adopted by the EU, Financial Reporting Standard 101 ('FRS 101') and UK accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors' Responsibility Statement has been approved by the Board and is signed on its behalf by

Mark Allen Chief Executive

Tom Atherton Group Finance Director
17 May 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DAIRY CREST GROUP plc

Our opinion on financial statements

In our opinion:

- Dairy Crest Group plc's Group financial statements and Parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Dairy Crest Group plc financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2017	Balance sheet as at 31 March 2017
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 36 to the financial statements
Consolidated cash flow statement for the year then ended	
Related notes 1 to 36 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> • Accounting for promotional expenditure, including the impact on revenue recognition • Classification of items as exceptional
Audit scope	<ul style="list-style-type: none"> • We have 3 full scope components where we have performed an audit of the financial information • The entities where we performed full scope audit procedures accounted for 99% of profit before tax adjusted for non-recurring exceptional items, 100% of revenue and 100% of total assets
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £3.0 million which represents 5% of profit before tax adjusted for non-recurring exceptional items

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of

the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Accounting for promotional expenditure, including the impact on revenue recognition</p> <p>Refer to the Audit Committee Report (page 34); Accounting policies (page 76); and Note 1 of the Consolidated Financial Statements (page 82).</p> <p>Revenue of £416.6 million (2015/16 £422.3 million) (continuing) is recognised net of rebates and discounts, which comprise promotional expenses in relation to agreed promotional activity and funding with customers.</p> <p>We focused on this area given the significance of promotional expenditure to the financial statements and the subjectivity in determining the promotional expenditure.</p> <p>Risks include:</p> <ul style="list-style-type: none"> • Promotional expenses could be recorded in the wrong financial year and are incorrectly classified in the income statement. • The methodology applied in calculating the level of promotional accruals at 31 March 2017 is inappropriate. <p>This risk was present in the prior year.</p>	<p>Specific procedures to address the fraud risk were:</p> <ul style="list-style-type: none"> • In assessing changes in key estimates and the Group's policy, we assessed both the methodologies and rationale applied in determining changes in approach from prior periods for risk of management override. We corroborated through an analysis of historical settlements. • We have corroborated the time frame for retaining unclaimed promotional accruals on the Group's balance sheet and the appropriateness of the year end accrual. • We evaluated the design of controls in relation to the authorisation of promotional activity and the determination of year end promotional accruals. • We tested on a sample basis year end promotional accruals and obtained third party documentation to support the existence and measurement of the accruals balance. • We tested subsequent invoices and cash paid after the balance sheet date to detect any unrecorded liabilities in promotional accruals and re-evaluated the approach to determining accrual amounts at year end. • We have tested a sample of invoices through the profit and loss account during the year and verified to customer documentation. • We verified the appropriateness of management's key assumptions, including the determination of redemption rates. Key assumptions were reassessed based on observed changes in consumer behaviour in relation to promotional offerings and the Group's experience of payments made against accruals. • On a sample basis we have performed cut-off testing to confirm that promotional expenditure has been recognised in the correct accounting period. 	<p>Based on our audit procedures, the methodology adopted in determining promotional expenditure netted against the revenue recognised is appropriate, and the year end accrual balance is correctly stated.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Classification of items as exceptional Refer to the Audit Committee Report (page 34; Accounting policies (page 76); and Note 4 of the Consolidated Financial Statements (page 85). Dairy Crest Group considers the separate reporting of exceptional items helps to give users of the accounts a better understanding of the underlying operational performance of the Group where items are material and one-off in nature. We have focused on the £8.6 million (2015/16: £133.4 million) of total net continuing and discontinuing costs that are classified as exceptional in the current year. Risks include: <ul style="list-style-type: none"> • Inappropriate classification of costs as exceptional items • Inconsistent treatment of exceptional items from year to year • Inappropriate quantification of exceptional items This risk was present in the prior year.	<ul style="list-style-type: none"> • For a sample of items we confirmed that they were recorded in line with the Group's policy for exceptional items and that the policy has been applied consistently with prior years. • In particular, we corroborated the appropriateness of the methodology and rationale supporting the calculation of duplicate running costs in relation to the initiation costs for the demineralised whey powder and GOS projects, through vouching incremental expenditure to supporting documentation. • We have reviewed the nature of both the income and expenditure items included within exceptionals and tested to supporting documentation on a sample basis. We specifically considered the level of transparency of the disclosures. 	We are satisfied that these items and their classification as exceptional is appropriate and in accordance with the Group's accounting policy for exceptional items and consistent with the treatment in prior years.

In the prior year, our auditor's report included the following risks of material misstatement. We have explained below why they are no longer recognised in the current year.

Risk identified in 2015/16	Why we do not consider this an area of significant risk in 2016/17
Accounting for the disposal of the Dairies operations	<p>We focused on this area given the material nature of the calculation of the loss on disposal and the performance of the dairies operations for the period up to the disposal in December 2015, which was reported as a single line item within discontinued operations in the income statement.</p> <p>We do not consider that the level of discontinued operations this financial year represents a key focus area of the audit.</p>
Deferred tax asset recognition relating to the Dairies losses.	<p>This risk was new in the 2015/16 auditor's report as the deferred tax asset relating to the Dairies losses carried forward arose following the completion of the sale itself.</p> <p>Key judgements were made in the prior year pertaining to the deferred tax recognition and those judgements have not changed significantly in 2016/17, therefore this no longer presents a significant area of audit focus in the current year.</p>
Redemption rates do not reflect ongoing changes in both consumer behaviour and the nature of promotional arrangements (previously included within promotional accruals)	<p>Based on prior years' audit experience, on reassessment, we do not consider that there is a high likelihood of a material misstatement occurring in respect of redemption rates.</p>

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 22 entities within the Group, we have selected all 2 trading entities and the parent company, which represent the principal business units within the Group. The remaining entities are either non-trading, holding or dormant entities.

We performed an audit of the complete financial information of 3 components ('full scope components') which were selected based on their size or risk characteristics.

The entities for which we performed audit procedures accounted for 100% (2015/2016: 99%) of the Group's revenue and 99% (2015/2016: 99%) of the Group's profit before tax adjusted for non-recurring exceptional items and 100% (2015/2016: 97%) of the Group's total assets.

For the remaining entities within the Group, we performed other procedures, including analytical review, testing of the clerical accuracy of the consolidation to respond to any potential risks of material misstatement of the Group financial statements and enquiries of management to address the residual risk of material misstatement.

The audit of the entities within the Group is undertaken by one audit team which is led by the senior statutory auditor.

There have not been any significant changes to the scope of our audit from the prior year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DAIRY CREST GROUP plc CONTINUED

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

- We determined materiality for the Group to be £3.0 million (2015/2016: £2.8 million), which is 5% (2015/2016: 5%) of profit before tax for continuing operations adjusted for non-recurring exceptional items. We believe that profit before tax for continuing operations, adjusted for exceptional items, provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity and one which management uses as a key performance indicator when reporting to the market.

Starting basis	<ul style="list-style-type: none"> • Reported profit before tax from continuing operations – £40.3 million (2015/2016: £45.4 million)
Adjustments	<ul style="list-style-type: none"> • Non-recurring exceptional items – increase basis by £19.1 million (2015/2016: £11.3 million)
Materiality	<ul style="list-style-type: none"> • Take 5% of £59.4 million (2015/2016: £56.7 million) adjusted profit before tax – £3.0 million (2015/2016: £2.8 million)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

- On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015/2016: 75%) of our planning materiality, namely £2.2 million (2015/2016: £2.1 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.2 million to £770,000 (2015/2016: £2.1 million to £525,000 for all entities).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £150,000 (2015/2016: £140,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 65, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- based on the work undertaken in the course of the audit:
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.</p> <ul style="list-style-type: none"> • We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit. 	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> • the directors' statement in relation to going concern, set out on page 62 and longer-term viability, set out on page 62; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	We have nothing material to add or to draw attention to.
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Anup Sodhi (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

(London)

17 May 2017

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2017

		2017			2016		
	Note	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	1	416.6	–	416.6	422.3	–	422.3
Operating costs	2,4	(351.7)	(19.1)	(370.8)	(360.3)	(17.3)	(377.6)
Remeasurement gain on Promovita Ingredients	4,30	–	–	–	–	6.0	6.0
Other income – property	3	3.0	–	3.0	3.6	–	3.6
Profit on continuing operations		67.9	(19.1)	48.8	65.6	(11.3)	54.3
Finance costs	5	(7.7)	–	(7.7)	(8.3)	–	(8.3)
Other finance expense – pensions	21	(0.8)	–	(0.8)	(0.6)	–	(0.6)
Profit before tax from continuing operations		59.4	(19.1)	40.3	56.7	(11.3)	45.4
Tax (expense)/credit	6	(10.7)	3.5	(7.2)	(9.9)	3.0	(6.9)
Profit from continuing operations		48.7	(15.6)	33.1	46.8	(8.3)	38.5
Profit/(loss) from discontinued operations	7,30	(1.8)	7.0	5.2	(26.4)	(125.1)	(151.5)
Profit/(loss) for the year attributable to equity shareholders		46.9	(8.6)	38.3	20.4	(133.4)	(113.0)

Earnings per share		2017	2016
Basic earnings per share from continuing operations (pence)	8	23.7	27.9
Diluted earnings per share from continuing operations (pence)	8	23.5	27.7
Basic earnings/(loss) per share (pence)	8	27.4	(81.9)
Diluted earnings/(loss) per share (pence)	8	27.1	(81.3)

Dividends		2017	2016
Proposed final dividend (£m)	9	22.8	22.3
Interim dividend paid (£m)	9	8.7	8.4
Proposed final dividend (pence)	9	16.3	16.0
Interim dividend paid (pence)	9	6.2	6.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2017

	Note	2017 £m	2016 £m
Profit/(loss) for the year		38.3	(113.0)
Other comprehensive income to be reclassified to profit and loss in subsequent years:			
Cash flow hedges – reclassification adjustment for (losses)/gains in income statement	32	(4.8)	4.4
Cash flow hedges – gains/(losses) recognised in other comprehensive income		1.6	(5.4)
Tax relating to components of other comprehensive income	6	0.9	0.2
		(2.3)	(0.8)
Other comprehensive income not to be reclassified to profit and loss in subsequent years:			
Remeasurement of defined benefit pension plans	21	(80.4)	(20.5)
Tax relating to components of other comprehensive income	6	10.7	1.0
		(69.7)	(19.5)
Other comprehensive loss for the year, net of tax		(72.0)	(20.3)
Total comprehensive loss for the year, net of tax		(33.7)	(133.3)

All amounts are attributable to owners of the parent company.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

At 31 March 2017

	Note	Consolidated		Parent Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Assets					
Non-current assets					
Property, plant and equipment	11	198.6	233.9	-	-
Goodwill	12	86.3	86.3	-	-
Intangible assets	13	14.4	11.1	-	-
Investments	14	-	0.5	229.3	484.3
Deferred tax asset	6	29.6	19.3	1.9	0.8
Financial assets – Derivative financial instruments	17	12.3	2.3	12.3	2.3
		341.2	353.4	243.5	487.4
Current assets					
Inventories	15	154.2	152.1	-	-
Trade and other receivables	16	33.4	43.2	391.3	10.5
Financial assets – Derivative financial instruments	17	-	16.0	-	16.0
Cash and short-term deposits	18	20.9	100.3	0.1	40.1
		208.5	311.6	391.4	66.6
Non-current assets held for sale	19	7.4	-	-	-
Total assets	1	557.1	665.0	634.9	554.0
Equity and Liabilities					
Non-current liabilities					
Financial liabilities – Long-term borrowings	20	(274.2)	(250.3)	(146.0)	(144.2)
– Derivative financial instruments	20	-	(1.3)	-	(1.3)
Retirement benefit obligations	21	(109.6)	(42.5)	-	-
Deferred tax liability	6	-	-	-	-
Deferred income	23	(3.0)	(4.5)	-	-
Provisions	24	(2.0)	-	-	-
		(388.8)	(298.6)	(146.0)	(145.5)
Current liabilities					
Trade and other payables	22	(79.1)	(120.3)	(1.2)	(3.2)
Financial liabilities – Short-term borrowings	20	(12.8)	(96.5)	(11.9)	(95.6)
– Derivative financial instruments	20	(0.3)	-	(0.1)	-
Current tax liability		-	(3.8)	-	(0.1)
Deferred income	23	(1.5)	(1.6)	-	-
Provisions	24	(2.7)	(10.0)	-	-
		(96.4)	(232.2)	(13.2)	(98.9)
Total liabilities		(485.2)	(530.8)	(159.2)	(244.4)
Shareholders' equity					
Ordinary shares	25	(35.3)	(35.2)	(35.3)	(35.2)
Share premium	25	(85.6)	(84.3)	(85.6)	(84.3)
Interest in ESOP	26	0.5	0.5	-	-
Other reserves	26	(48.3)	(50.6)	3.8	(157.0)
Retained earnings		96.8	35.4	(358.6)	(33.1)
Total shareholders' equity		(71.9)	(134.2)	(475.7)	(309.6)
Total equity and liabilities		(557.1)	(665.0)	(634.9)	(554.0)

Mark Allen Chief Executive Tom Atherton Group Finance Director

The financial statements were approved by the directors on 17 May 2017.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	Attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Interest in ESOP £m	Other reserves* £m	Retained earnings £m	Total Equity £m
2017						
At 31 March 2016	35.2	84.3	(0.5)	50.6	(35.4)	134.2
Profit for the year	–	–	–	–	38.3	38.3
Other comprehensive gain/(loss):						
Cash flow hedges	–	–	–	(3.2)	–	(3.2)
Remeasurement of defined benefit pension plan	–	–	–	–	(80.4)	(80.4)
Tax on components of other comprehensive income	–	–	–	0.9	10.7	11.6
Other comprehensive loss	–	–	–	(2.3)	(69.7)	(72.0)
Total comprehensive loss	–	–	–	(2.3)	(31.4)	(33.7)
Issue of share capital	0.1	1.3	–	–	–	1.4
Share-based payments	–	–	–	–	1.2	1.2
Tax on share-based payments	–	–	–	–	(0.1)	(0.1)
Equity dividends	–	–	–	–	(31.1)	(31.1)
At 31 March 2017	35.3	85.6	(0.5)	48.3	(96.8)	71.9
2016						
At 31 March 2015	34.4	79.8	(0.1)	51.4	124.3	289.8
Loss for the year	–	–	(0.3)	–	(112.7)	(113.0)
Other comprehensive gain/(loss):						
Cash flow hedges	–	–	–	(1.0)	–	(1.0)
Remeasurement of defined benefit pension plan	–	–	–	–	(20.5)	(20.5)
Tax on components of other comprehensive income	–	–	–	0.2	1.0	1.2
Other comprehensive loss	–	–	–	(0.8)	(19.5)	(20.3)
Total comprehensive loss	–	–	(0.3)	(0.8)	(132.2)	(133.3)
Issue of share capital	0.8	4.5	–	–	–	5.3
Shares acquired by ESOP	–	–	(0.3)	–	–	(0.3)
Exercise of options	–	–	0.2	–	(0.2)	–
Share-based payments	–	–	–	–	2.3	2.3
Tax on share-based payments	–	–	–	–	0.4	0.4
Equity dividends	–	–	–	–	(30.0)	(30.0)
At 31 March 2016	35.2	84.3	(0.5)	50.6	(35.4)	134.2

* Further details are provided in Note 26.

The numbers

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	Ordinary shares £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Other reserve* £m	Retained earnings £m	Total Equity £m
2017							
At 31 March 2016	35.2	84.3	142.7	(1.9)	16.2	33.1	309.6
Profit for the year	–	–	–	–	–	196.9	196.9
Other comprehensive gain/(loss):							
Cash flow hedges	–	–	–	(3.2)	–	–	(3.2)
Tax on components of other comprehensive income	–	–	–	0.9	–	–	0.9
Other comprehensive loss	–	–	–	(2.3)	–	–	(2.3)
Total comprehensive gain/(loss)	–	–	–	(2.3)	–	196.9	194.6
Issue of share capital	0.1	1.3	–	–	–	–	1.4
Share-based payments	–	–	–	–	0.4	0.8	1.2
Sale of shares held in Dairy Crest Limited	–	–	(142.7)	–	(16.2)	158.9	–
Equity dividends	–	–	–	–	–	(31.1)	(31.1)
At 31 March 2017	35.3	85.6	–	(4.2)	0.4	358.6	475.7
2016							
At 31 March 2015	34.4	79.8	142.7	(0.9)	14.7	27.4	298.1
Profit for the year	–	–	–	–	–	34.5	34.5
Other comprehensive gain/(loss):							
Cash flow hedges	–	–	–	(1.2)	–	–	(1.2)
Tax on components of other comprehensive income	–	–	–	0.2	–	–	0.2
Other comprehensive loss	–	–	–	(1.0)	–	–	(1.0)
Total comprehensive gain/(loss)	–	–	–	(1.0)	–	34.5	33.5
Issue of share capital	0.8	4.5	–	–	–	–	5.3
Share-based payments	–	–	–	–	1.5	0.8	2.3
Tax on share-based payments	–	–	–	–	–	0.4	0.4
Equity dividends	–	–	–	–	–	(30.0)	(30.0)
At 31 March 2016	35.2	84.3	142.7	(1.9)	16.2	33.1	309.6

* Other reserve represents the share-based payment credit in respect of amounts capitalised as investments (see Note 14).

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CASH FLOWS

Year ended 31 March 2017

	Note	Consolidated		Parent Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Cash generated from operations	33	32.8	31.3	–	–
Interest paid		(12.2)	(12.8)	–	–
Net cash inflow from operating activities		20.6	18.5	–	–
Cash flow from investing activities					
Capital expenditure		(25.6)	(66.8)	–	–
Proceeds from disposal of property, plant and equipment		42.4	5.4	–	–
Purchase of businesses and investments	30	–	(6.0)	–	–
(Repayment)/proceeds relating to sale of business net of fees	30	(28.4)	49.0	–	–
Amounts received from/(paid to) subsidiaries		–	–	69.9	(11.2)
Net cash (used in)/generated from investing activities		(11.6)	(18.4)	69.9	(11.2)
Cash flow from financing activities					
(Repayment)/issue of loan notes	34	(80.2)	76.1	(80.2)	76.1
Net drawdown under revolving credit facilities	34	23.0	–	–	–
Dividends paid	9	(31.1)	(30.0)	(31.1)	(30.0)
Proceeds from issue of shares (net of issue costs)	25	1.4	5.0	1.4	5.0
Finance lease repayments	34	(1.5)	(1.5)	–	–
Net cash (used in)/generated from financing activities		(88.4)	49.6	(109.9)	51.1
Net (decrease)/increase in cash and cash equivalents		(79.4)	49.7	(40.0)	39.9
Cash and cash equivalents at beginning of year	34	100.3	50.6	40.1	0.2
Cash and cash equivalents at end of year	34	20.9	100.3	0.1	40.1
Net debt at end of year	34	(249.8)	(229.0)	(140.1)	(180.3)

The numbers

ACCOUNTING POLICIES

Year ended 31 March 2017

Basis of preparation

The consolidated and Company financial statements have been prepared on a historical cost basis, modified in respect of the revaluation to fair value of financial instruments, assets held by defined benefit pension plans and on consolidation the original interest in an acquiree purchased through a stepped acquisition. They are presented in sterling and all values are rounded to the nearest 0.1 million (£ million) except where otherwise indicated.

The consolidated financial statements of Dairy Crest Group plc have been prepared in accordance with IFRS as adopted by the European Union ('EU'). The separate Company financial statements have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

After making enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore continued to be prepared on a going concern basis. See Going Concern section on page 62 of the Directors' Report.

Areas of estimation

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

(i) The Group accrues for agreed promotional funding. Accruals for promotional funding are calculated based on an estimated redemption rate of the promotion on expected volumes. The redemption rate and volumes used are dependent on the promotional mechanic and considers known historical data on the performance of that mechanic. Management considers this to be an area of estimation, which is dependent on the customer mix and promotion mechanic. See Note 22.

(ii) The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. See Note 21.

(iii) The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. The assessment of value in use is compared to the carrying value of goodwill. This requires estimation of future cash flows and the selection of a suitable discount rate. See Note 12.

Areas of judgment

The following items are considered by Management to be key areas of judgment:

(i) Classification of exceptional items – The Group classifies items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance as exceptional. These are disclosed separately in the consolidated income statement. Management considers this to be an area of judgment due to the assumption made that the items are material in size and one-off in nature. Further disclosure is provided in Note 4 and Note 7.

(ii) Profit on the disposal of depots – The Group recognises profits from the disposal of closed Dairies depots as 'Other income – property' within continuing operations. Management considers this treatment appropriate on the basis that the closed depots were not related to the disposal of the Dairies operation and that all historic costs in respect of the closure of these depots have been charged to the income statement therefore ensuring consistent treatment between gains and losses.

(iii) Non-current assets held for sale – The Group has classified some closed properties as non-current assets held for sale. Management considers this to be an area of judgement due to the assumptions made around the timing of the disposals. See Note 19.

(iv) Contingent liability in respect of Chadwell Heath – The Group has disclosed a contingent liability in relation to a potential dilapidations liability at Chadwell Heath. Management considers this to be an area of judgement due to the uncertainty around the intention of the landlord with respect to the future use of the land following the cessation of the lease. See Note 28.

(v) Contingent liability in respect of potential litigation – The Group has disclosed a contingent liability in respect of potential litigation in relation to the demineralised whey and galacto-oligosaccharide capital project at Davidstow. Management considers this to be an area of judgment because a reliable estimation of the liability, if any, cannot be made at this stage. See Note 28.

(vi) Recognition of deferred tax asset – The Group has recognised a deferred tax asset in relation to carried forward trading losses on the basis that these losses, which have arisen from various unprofitable operations within the Group and rationalisation initiatives to promote the profitability of the Group as a whole, will be available to offset future taxable profits of the Group. See Note 6.

(vii) Operating segments – Management has judged that the Group comprises one segment under IFRS 8 'Operating Segments'. Certain product Group information is provided voluntarily to assist the users of the accounts. See Note 1.

Changes in accounting policies

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

International Accounting Standards (IAS/IFRSs)

- IAS 7 'Disclosure Initiative' – Amendments to IAS 7
- IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' – Amendments to IAS 12
- IFRS 12 'Disclosure of Interests in Other Entities' – Clarification of the scope of the disclosure requirements in IFRS 12

The application of these standards has had no material impact on the net assets, results and disclosures of the Group in the year ended 31 March 2017.

The IASB and IFRIC have issued the following standards and interpretations (with an effective date after the date of these financial statements):

- IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)
- IFRS 9 'Financial Instruments' (effective 1 January 2018)
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective 1 January 2018)
- IFRS 16 'Leases' (effective 1 January 2019)

The Directors do not anticipate that the adoption of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRIC Interpretation 22 'Foreign Currency and Advance Consideration' will have a material impact on the Group's financial statements, however further disclosure around the potential impact of IFRS 15 has been provided.

IFRS 15 'Revenue from Contracts with Customers' will replace IAS 18 'Revenue' and the Group is in the early stages of evaluating the impact of the standard.

Under IFRS 15, revenue will be recognised based on a five step model which requires, for each contract with a customer, the transaction price to be matched against the performance obligation arising under the contract or in the case of more than one performance obligation, apportioned over those obligations. The transaction price will be the amount of consideration the Group expects to be entitled to in exchange for transferring the goods or service to the customer. Depending on the particular contractual arrangements in place, application of the new standard could change the amount of revenue recognised on a contract and/or its timing.

Whilst management continues the process of evaluating the impact against all of the Groups contracts with customers, initial reviews by management indicate the impact of IFRS 15 would not materially change the way in which the Group accounts for revenue.

IFRS 16 'Leases' will apply to annual reporting periods beginning on or after 1 January 2019 and will be applicable to the Group in its financial statements for the year ending 31 March 2020.

IFRS 16 will remove the distinction between Operating Leases and Finance Leases and will require lessees to report operating leases on the balance sheet, similar to the treatment of finance leases under IAS 17. Lessees will recognise an asset and a liability for each lease and will have to recognise an element of each lease payment as an interest charge.

The effect of this on the Group's financial statements will be that the gross assets and gross liabilities will each increase by an equal and opposite amount. There will also be a timing effect on the income statement, as interest on leases will have to be charged in a similar way to that in which interest is charged on a loan which will result in more interest being charged in early periods of each lease and less interest being charged in the later periods.

Basis of consolidation

The Group financial statements consolidate the accounts of Dairy Crest Group plc (the Company), its subsidiaries and associates (together referred to as the Group). The financial statements are drawn up to 31 March each year using consistent accounting policies.

Subsidiaries are entities that are directly or indirectly controlled by the Group. Subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date control ceases. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

a) Acquisitions

Subsidiaries acquired during the year are consolidated from the date on which control is transferred to the Group. The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate. Acquisition costs incurred are expensed in the income statement.

If a business acquisition is achieved in stages, the acquisition date carrying amount of the Group's previously held interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated profit and loss account. The fair value measurement is determined using the hierarchy principles of IFRS13 'Fair Value Measurement'.

b) Discontinued operations

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group. The comparative consolidated income statement, other comprehensive income and associated notes have been restated as if the operation had been discontinued from the start of the comparative year.

Foreign currency translation

The functional and presentational currency of Dairy Crest Group plc and its subsidiaries is Sterling (£).

Transactions in foreign currency are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the balance sheet date. Exchange differences on monetary items are generally taken to the income statement. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent the hedges are effective are recognised in other comprehensive income.

ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated to write off the cost (less residual value) of property, plant and equipment, excluding freehold land, on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings:	25 years
Leasehold land and buildings:	25 years or, if shorter, the period of the lease
Vehicles, plant and equipment:	4 to 20 years

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the estimated recoverable value, the asset is written down to its recoverable amount. The recoverable amount of plant and equipment is the greater of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are charged to the consolidated income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year that it is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets.

All other borrowing costs are recognised as an expense in the period they occur.

Goodwill

Goodwill arising on an acquisition is carried at cost at acquisition date less any accumulated impairment losses.

Goodwill on acquisition is initially measured as the cost of the acquisition less the fair value of net identifiable assets acquired and the liabilities assumed in exchange for the business combination. The cost of the acquisition is measured as the consideration transferred (measured at acquisition date fair value), the amount of any non-controlling interest in the acquiree and in the case of business combinations achieved in stages, the acquisition date fair value of any previous equity interest in the acquiree.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Any goodwill acquired is allocated to the cash-generating unit or groups of cash-generating units expected to benefit from the combination's synergies as at the acquisition date. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses. All intangible assets recognised by the Group have finite useful economic lives and are being amortised on a straight line basis.

Intangible assets acquired as part of an acquisition of a business are recognised at fair value separately from goodwill if the fair value can be measured reliably on initial recognition and the future expected economic benefits flow to the Group. Acquired intangible assets comprise the Frylight brand which was considered to have a useful life of 15 years at the date of acquisition.

Intangible assets generated internally comprise software and product development where the future recoverability can reasonably be assured under IAS 38 'Intangible Assets'. Development is amortised over a period of up to ten years dependent on the type of development. Internally generated intangible assets that are not yet available for use are tested for impairment annually either individually or at the cash-generating unit level or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Investments

The Company recognises its investments in subsidiaries at cost being the fair value of consideration paid, less provisions for impairment where appropriate.

Research and development

Expenditure on research is written off as incurred. Development expenditure is also written off as incurred unless the future recoverability of this expenditure can reasonably be assured as required by IAS 38 'Intangible Assets'.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes the purchase price of raw materials (on a first in first out basis), direct labour and a proportion of manufacturing overheads based on normal operating capacity incurred in bringing each product to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling costs.

Financial Assets and Liabilities

Financial assets and liabilities are recognised at fair value on initial recognition.

The Group and Company classify financial assets on initial recognition within the scope of IAS 39 as:

- financial assets at fair value through income statement;
- loans and receivables;
- held-to-maturity investments; or
- available-for-sale financial assets, as appropriate.

The Group and Company classify non-derivative financial liabilities into the following categories:

- financial liabilities at fair value through profit and loss; or
- other financial liabilities.

The Group holds derivative financial instruments to hedge its foreign currency exposures.

A financial asset is derecognised when the rights to receive cash flows from that asset have expired. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

a) Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Trade receivable debts are written off when there is no expectation of recovery.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

c) Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the Consolidated Income Statement when the liabilities are derecognised.

d) Net debt

The Group and Company define net debt as interest bearing loans and borrowings and finance leases less cash and cash equivalents. The calculation of net debt excludes the fair value of derivative financial instruments with the exception of cross-currency swaps to fix foreign currency debt in Sterling where they are designated as cash flow hedges. In this case the fixed Sterling debt, not the underlying foreign currency debt retranslated, is included in net debt. It includes any cash or borrowings included within disposal groups classified as held for sale and excludes unamortised upfront facility fees.

e) Derivative financial instruments

The Group and Company use derivative financial instruments such as forward currency contracts, cross-currency swaps to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value at each balance sheet date.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement for the year.

f) Cash flow hedges

When a derivative financial instrument is designated as a cash flow hedging instrument at inception of the hedge relationship, the effective portion of the changes in fair value of the derivative is recognised to other comprehensive income and accumulated in the hedging reserve. The ineffective portion is recognised in the income statement.

The cumulative amount recognised to other comprehensive income is reclassified into the income statement out of other comprehensive income in the same period or periods during which the hedged forecast cash flows affects the income statement or the hedged item affects the income statement, for example when the future sale actually occurs, interest payments are made or when debt matures.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedge instrument expires or is sold, terminated or exercised, or designated as revoked, the hedge accounting is discontinued prospectively. If the forecast transaction is no longer to occur, then the cumulative amount recognised in other comprehensive income is reclassified to the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is observable and significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

ACCOUNTING POLICIES CONTINUED

Provisions

A provision is a liability of uncertain timing or amount that is recognised when the Group or Company has a present obligation (legal or constructive) where, as a result of a past event, it is more likely than not that payment will be required to settle the obligation and the amount can be estimated. If the effect is material, expected future cash flows are discounted using the current pre-tax rate that reflects the risks specific to the liability.

Provisions are estimates and the actual costs and timings of future cash flows are dependent on future events. Provisions are reviewed regularly by management, with any difference between the amounts previously recognised and current estimate or actual liability being recognised to the income statement.

Leased assets

Assets acquired under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at fair value of the leased asset or, if lower, the present value of the minimum lease payments. The net present value of future lease rentals is included as a liability on the balance sheet. The interest element of lease rentals is charged to the income statement in the year. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Assets held under operating leases are not recognised in the Group's balance sheet, with the operating lease rentals being charged to the income statement on a straight-line basis over the lease term.

Non-current assets held for sale

Non-current assets held for sale comprise closed properties owned by the Group that meet the definition of held for sale assets under IFRS 5 'Non-current assets held for sale and discontinued operations'.

For a property to be classified as held for sale it must be available for immediate resale in its present condition and the sale must be highly probable. The following criteria must be met for the sale to be 'highly probable':

- Management must be committed to a plan to sell the asset
- An active programme to locate a buyer and complete the plan must be initiated
- The asset must be actively marketed for sale at a price that is reasonable
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification; and
- Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or the plan withdrawn

Non-current assets held for sale are measured at the lower of carrying value and fair value less costs to sell.

Retirement benefit obligations

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

a) Defined benefit scheme

The net asset or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the fair value of scheme assets less the present value of the defined benefit obligations at the balance sheet date as adjusted for unrecognised past service cost. Any asset resulting from the calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme. Where the Group is considered to have a contractual obligation to fund the scheme above the accounting value of the liabilities, an onerous obligation is recognised as an unrecoverable notional surplus. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full to the statement of comprehensive income as they arise.

The Company has closed its defined benefit scheme and therefore no current service costs are required to be charged to income statement. Past service costs are recognised in the income statement at the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises related restructuring costs.

Scheme administration costs that are not directly related to investment activities are charged to the income statement. Administration costs that are directly related to investment are recognised as part of the re-measurement exercise through the Statement of Comprehensive Income.

The net interest charge is calculated by applying the discount rate to the net defined benefit liability or asset.

b) Defined contribution scheme

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

Share-based payments

a) Equity-settled performance payments

The Group and Company have issued equity instruments for which they receive services from employees in consideration for these equity instruments. All of the awards granted under existing plans are classified as equity-settled awards. The Group and Company recognise a compensation expense that is based on the fair value of the awards measured at grant date using an appropriate pricing model. Fair value is not subsequently remeasured unless relevant conditions attaching to the award are modified.

Fair value reflects any market performance conditions and all non-vesting conditions. Adjustments are made to the compensation expense to reflect actual and expected forfeitures due to failure to satisfy service conditions or non-market performance conditions.

The compensation expense is generally recognised to the income statement on a straight-line basis over the vesting period and a corresponding credit is recognised in equity.

Where an equity-settled award is cancelled it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Rights granted to employees of subsidiary undertakings over equity instruments of the Company are treated as an investment in the Company's balance sheet.

b) Employees' Share Ownership Plan ("ESOP")

The shares in the Company held by the Dairy Crest Employees' Share Ownership Plan Trust to satisfy Long Term Incentive Share Plan awards are presented as a deduction from equity in arriving at shareholders' equity. Consideration received from the sale of such shares is also recognised in equity with no gain or loss recognised in the consolidated income statement.

Revenue

Revenue on the sale of food related products is recognised on delivery. Revenue comprises the invoiced value for the sale of goods net of Value Added Tax, rebates and discounts and after eliminating sales within the Group.

Discounts comprise mainly promotional accruals, overriding discounts and customer terms. Promotional accruals are made in respect of customer claims, where a discount is claimed following completion of the promotion based on the redemption rate of that promotion. The accruals are calculated based on the expected in-store redemption rate for the particular promotional mechanic (e.g. 'buy one get one free' or '25% off') against the delivered volume. The redemption rate used considers known historical data on the performance of that mechanic and is adjusted for actual performance. An overriding discount is a discount given across all sales of a particular product, providing the sales exceed agreed volumes. The overriding discounts are calculated as a proportion of the level of customer sales in the period. A customer term is where the Group has agreed to pay a customer a sum of money based on that customer delivering an agreed sales and promotional plan. These terms are generally paid for in arrears, following delivery of the plan, and are accrued for over the period to which they relate.

Dividend income is recognised when the Company's right to receive payment is established.

Other income

Other income comprises the profit on disposal of depots as a result of rationalisation.

Exceptional items

Certain items are recorded separately in the income statement as exceptional. Only items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance, are disclosed in this manner in order to give a better understanding of the underlying operational performance of the Group. The profits arising on disposal of closed sites, other than closed Dairies depots retained by the Group following disposal of the Dairies operation, are reported within exceptional items.

Government and other grants

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

Income tax

Income tax expense comprises current and deferred tax. It is recognised to the income statement except to the extent it relates to items recognised directly to equity or other comprehensive income.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except as indicated below. Deferred tax is not recognised in respect of:

- temporary differences arising from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which they can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset only if a legal enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

NOTES TO THE FINANCIAL STATEMENTS

1 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.

The business is managed centrally by functional teams (Demand, Supply, Procurement and Finance) that have responsibility for the whole of the Group's product portfolio. Although some discrete financial information is available to provide insight to the management team of the key performance drivers, the product group profit is not part of the CODM's review. Management has judged that the continuing Group comprises one operating segment under IFRS 8. As such, disclosures required under IFRS 8 for the financial statements are shown on the face of the consolidated income statement and balance sheet.

To assist the readers of the financial statements, management considers it appropriate to provide voluntary disclosure on a basis consistent with historical reporting of the cheese and functional ingredients product group and the butters, spreads and oils product group results included within the consolidated income statement. In disclosing the product group profit for the year, certain assumptions have been made when allocating resources which are centralised at a group level.

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

The results under the historical segmentation basis for the Group included in the financial information are as follows:

	Note	2017 £m	2016 £m
External revenue			
Cheese and Functional Ingredients		254.8	263.7
Butters, Spreads and Oils		150.7	152.6
Other		11.1	6.0
Total product group external revenue – continuing operations		416.6	422.3
Product group profit*			
Cheese and Functional Ingredients		42.8	36.4
Butters, Spreads and Oils		25.5	29.6
Total product group profit – continuing operations		68.3	66.0
Finance costs	5	(7.7)	(8.3)
Adjusted profit before tax – continuing operations**		60.6	57.7
Acquired intangible amortisation	2	(0.4)	(0.4)
Exceptional items	4	(19.1)	(11.3)
Other finance expense – pensions	21	(0.8)	(0.6)
Group profit before tax – continuing operations		40.3	45.4
		2017 £m	2016 £m
Total assets			
Cheese and Functional Ingredients		305.8	331.6
Butters, Spreads and Oils		150.5	147.2
Investments		–	0.5
Other		100.8	47.8
Total product group		557.1	527.1
Unallocated assets		–	137.9
Total assets		557.1	665.0

* Profit on operations before exceptional items and amortisation of acquired intangibles.

** Adjusted profit before tax from continuing operations is presented as management's key Group profit measure because it excludes exceptional items and therefore gives a better indication of the underlying operational performance of the Group. The calculations also exclude amortisation of acquired intangibles and pension interest in relation to the Group's defined benefit pension scheme, being dependent on market assumptions at 31 March each year.

1 Segmental analysis continued

	Note	2017 £m	2016 £m
Product group depreciation and amortisation (excluding amortisation of acquired intangible assets)			
Cheese and Functional Ingredients		(8.6)	(8.1)
Butters, Spreads and Oils		(4.0)	(4.5)
Other		(2.8)	(5.0)
Total		(15.4)	(17.6)
Product group additions to non-current assets			
Cheese and Functional Ingredients		21.6	65.8
Butters, Spreads and Oils		6.4	2.5
Other		2.6	4.1
Total		30.6	72.4
Dairies additions not included above amounted to £nil (2016: £7.3 million)			
Product group exceptional items			
Cheese and Functional Ingredients		(19.0)	(10.2)
Butters, Spreads and Oils		–	0.7
Unsegmented		(0.1)	(1.8)
Total exceptional operating costs	4	(19.1)	(11.3)

Interest income and expense are not included in the measure of product group profit. Group treasury has always been centrally managed and external interest income and expense are not allocated to product groups. Further analysis of the Group interest expense is provided in Note 5.

Tax costs are not included in the measure of product group profit.

Product group assets comprise property, plant and equipment, goodwill, intangible assets, inventories, receivables and cash and cash equivalents. They exclude derivative financial assets and deferred tax assets. Other product group assets comprise certain property, plant and equipment that is not reported in product groups.

Product group depreciation and amortisation excludes amortisation of acquired intangible assets of £0.4 million (2016: £0.4 million) as these costs are not charged in the product group result.

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

Geographical information – continuing operations

	2017 £m	2016 £m
External revenue attributed on basis of customer location		
UK	404.7	411.3
Rest of world	11.9	11.0
Total revenue	416.6	422.3
Non-current assets* based on location		
UK	336.3	350.6
Rest of world	–	0.5
Total	336.3	351.1

* Comprises property, plant and equipment, goodwill, intangible assets, investments, deferred tax asset and assets held for sale.

The Group has three customers which individually represent more than 10% of revenue from continuing operations in the year ended 31 March 2017 (2016: four) with each customer accounting for £54.2 million, £56.2 million and £92.7 million (2016: £46.9 million, £53.6 million, £67.6 million and £102.1 million) of revenue from continuing operations being 13.0%, 13.5% and 22.3% (2016: 11.1%, 12.7%, 16.0% and 24.2%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 Operating costs – continuing operations

	2017			2016		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Cost of sales	287.5	19.1	306.6	295.6	15.5	311.1
Distribution costs	31.6	–	31.6	26.7	–	26.7
Administrative expenses	32.6	–	32.6	38.0	1.8	39.8
	351.7	19.1	370.8	360.3	17.3	377.6

	2017 £m	2016 £m
Profit from continuing operations is stated after (charging)/crediting		
Release of grants	1.6	1.7
Depreciation	(14.9)	(16.5)
Amortisation of intangibles – acquired	(0.4)	(0.4)
Amortisation of intangibles – internally generated	(0.5)	(1.1)
Operating lease rentals	(3.9)	(4.5)
Research and development expenditure	(2.6)	(2.3)
Cost of inventories recognised as an expense	(287.5)	(295.6)
Including: movement in inventory provision	0.9	1.0

The equivalent disclosure for discontinued operation is contained within Note 7.

	2017 £m	2016 £m
Remuneration paid to auditors		
Fees payable to the Company's auditors – audit of Company's annual accounts*	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	0.4	0.3
Taxation services	0.1	0.1
Other services relating to corporate finance transactions	0.1	0.1
	0.7	0.6

* £10,000 (2016: £10,000) of this relates to the Company.

Non-audit services carried out in the year include advice in relation to the disposal of the Group's Dairies operations and tax advisory services.

Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of the Company because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

Ernst & Young LLP are auditors of the Dairy Crest Group Pension Fund. Fees paid by the Fund for audit services are not included in the above table.

3 Other income – property

Other income of £3.0 million (2016: £3.6 million) relates to the profits from the disposal of closed Dairies depots retained by Dairy Crest.

4 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.

The exceptional items charge to the operating costs of the continuing operations are analysed below. The exceptional items charged in relation to discontinued operations are analysed in Note 7.

	2017 £m	2016 £m
Operating costs		
Demineralised whey powder and GOS projects	(19.0)	(16.2)
Property provision	–	(1.8)
Spreads restructuring costs	–	0.7
Disposal costs in relation to closed manufacturing sites	(2.3)	–
	(21.3)	(17.3)
Settlement gain in relation to Farmright Limited and Quadra Foods Limited	2.2	–
Gain on remeasurement to fair value of original investment in Promovita Ingredients Limited	–	6.0
	(19.1)	(11.3)
Tax relief on exceptional items	2.8	3.0
Release of deferred tax liability in respect of industrial buildings	0.7	–
	(15.6)	(8.3)

Demineralised whey powder and GOS projects

The Group has completed an investment in its cheese creamery at Davidstow, Cornwall enabling the Group to manufacture demineralised whey powder, a base ingredient of infant formula, and galacto-oligosaccharide ('GOS'), widely used in infant formula. During the year £19.0 million of costs were charged to the income statement in relation to this project. £12.3 million related to commissioning of the facility of which £7.3 million was for the write-down of product produced during the commissioning process which did not meet the required standard to be considered for infant formula. In addition, £5.8 million related to project review costs. A further £0.9 million has been charged in respect of a financial liability relating to the project that did not meet the criteria for hedge accounting due to it being an ineffective hedge at 31 March 2017. In the prior year £16.2 million of exceptional costs were incurred of which £5.3 million related to the commissioning and £6.5 million on project review costs. A further £4.4 million was charged for set up costs. The tax credit relating to this exceptional charge in the year was £3.1 million (2016: £2.7 million). Management considers these costs to be exceptional due to the materiality and the one-off nature of the capital project to which they relate and do not expect any significant costs in relation to this project going forward.

Disposal costs in relation to closed manufacturing sites

The Group has incurred costs of £2.3 million relating to the disposal of closed manufacturing sites in Totnes in Devon, Fenstanton in Cambridgeshire and Crudgington in Shropshire. Management has determined these properties to be 'held for sale' at the 31 March 2017 and any future gains in respect of these properties will be treated as exceptional consistent with the historical closure costs. The tax credit in relation to these costs was £0.1 million.

Settlement gain in relation to Farmright Limited and Quadra Foods Limited

On 9 May 2016, the Group paid £1.0 million in full and final settlement of claims arising out of the debt originally owed to Farmright Limited. Claims between the Group, Farmright Limited and Quadra Foods Limited (and any assignees of the claims) are now resolved. Following settlement, £2.1 million plus a provision for professional fees of £0.1 million which was no longer required, have been released. Management considers this credit to be exceptional due to it being one-off in nature and in relation to the debt of Quadra Foods Limited, for which £4.3 million was provided for under an exceptional impairment provision in the year ended 31 March 2012. The tax charge in relation to this release was £0.4 million.

Prior Year

Property provision

The Group commissioned a dilapidation assessment on some of its leasehold properties. The £1.8 million exceptional charge represents an increase in provision for property dilapidation liabilities on properties where the Group considers there to be a high likelihood of exiting when the lease term expires. The tax credit on this exceptional charge was £0.4 million.

Spreads restructuring costs

During the year ended 31 March 2015, the Group completed the consolidation of its spreads production operations into one site in Kirkby, Liverpool. As a result of this consolidation, the site at Crudgington, Shropshire ceased production in December 2014. The exceptional credit of £0.7 million in the year represents the release of a prior year provision relating to the completion of this project that was not required. The tax charge relating to this exceptional credit was £0.3 million.

Gain on remeasurement to fair value of original investment in Promovita Ingredients Limited

On 18 December 2015, the Group completed the stepped acquisition of Promovita Ingredients Limited ('Promovita'). In accordance with IFRS 3 (Revised), the original investment was revalued to fair value at point of acquisition and the resulting gain of £6.0 million has been recognised within exceptional items. See Note 30.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 Finance costs and other finance income

	2017 £m	2016 £m
Finance costs		
Bank loans and overdrafts (at amortised cost)	(7.6)	(8.2)
Finance charges on finance leases	(0.1)	(0.1)
Total net finance costs – continuing operations	(7.7)	(8.3)

Interest payable on bank loans and overdrafts is stated after capitalising £3.1 million (2016: £3.8 million) of interest on expenditure on capital projects at a rate of 4.0% (2016: 5.0%). The tax impact of the capitalised interest was £0.6 million (2016: £0.7 million).

6 Tax expense

Continuing operations

The major components of income tax expense for continuing operations for the years ended 31 March 2017 and 2016 are:

	2017 £m	2016 £m
Consolidated income statement		
Current income tax	–	–
Deferred income tax		
<i>Net utilisation of deferred tax asset</i>	8.5	7.5
Effect of change in tax rate	(0.5)	(0.2)
Adjustment in respect of previous years – deferred tax	(0.8)	(0.4)
	7.2	6.9
Analysed: Before exceptional items	10.7	9.9
Exceptional items	(3.5)	(3.0)
	7.2	6.9

There is no current tax charge in the year due to tax relief in respect of pensions contributions, capital allowances and in relation to the disposal of the Dairies operation in December 2015.

Reconciliation between the tax charge and the profit before tax multiplied by the statutory rate of corporation tax in the UK:

	2017 £m	2016 £m
Profit before tax	40.3	45.4
Tax at UK statutory corporation tax rate of 20% (2016: 20%)	8.1	9.1
Adjustments in respect of previous years	(0.8)	(0.4)
Adjustment for change in UK corporation tax rate*	(0.5)	(0.2)
Non-deductible expenses	1.2	1.1
Profits offset by available tax relief	(0.8)	(2.7)
	7.2	6.9

The effective pre-exceptional rate of tax on the Group's profit before tax from continuing operations is 18.0% (2016: 17.5%).

The total Group effective tax rate is below the headline rate of UK corporation tax at 17.9% (2016: 15.2%). One of the reasons for this is the availability of capital losses for which no deferred tax asset has been recognised against profits of £3.0 million on the disposal of closed depots. We expect the effective tax rate to remain below the headline rate of UK corporation tax next year due to the expected disposal of closed properties.

* Two further reductions in the UK Corporation tax rate have been enacted, taking the rate to 19% from April 2017 and to 17% from April 2020. Accordingly, deferred tax has been provided on all temporary differences at the rate in force when they are anticipated to reverse.

Discontinued Operations

The total income tax credit in respect of discontinued operations for the year ended 31 March 2017 is £9.8 million (2016: £35.7 million). Tax relief on exceptional costs incurred by discontinued operations in the year ended 31 March 2017 was £5.7 million (2016: £28.8 million). A £3.8 million tax credit has been realised in respect of the disposal of St Hubert SAS. Tax attributable to discontinued operations is disclosed in Note 7.

6 Tax expense continued

	2017 £m	2016 £m
Tax credit relating to components of consolidated other comprehensive income		
Deferred income tax related to items charged to other comprehensive income		
Pension deferred tax movement taken directly to reserves	(10.7)	(1.0)
Valuation of financial instruments	(0.9)	(0.2)
Tax credit	(11.6)	(1.2)

Tax on items recognised directly to equity

Deferred tax of £0.1 million relating to share-based payments was charged directly to equity in the year ended 31 March 2017 (2016: £0.4 million credited to equity).

Deferred income tax

Deferred income tax at 31 March 2017 and 2016 relates to the following:

	2017 £m	2016 £m
Deferred tax liability		
Accelerated depreciation for tax purposes	–	(4.5)
Goodwill and intangible assets	(7.8)	(7.9)
	(7.8)	(12.4)
Deferred tax asset		
Accelerated depreciation for tax purposes	1.1	–
Government grants	0.9	1.2
Share-based payments	1.0	0.9
Pensions	18.6	12.5
Financial instruments valuation	1.2	0.3
Trading losses	14.0	15.3
Other	0.6	1.5
	37.4	31.7
Net deferred tax asset	29.6	19.3

The recognition of the deferred tax asset relating to trading losses is based on the expectation that the business will continue to be profitable going forward.

The Company has a deferred tax asset of £1.9 million at 31 March 2017 (2016: £0.8 million). This relates to temporary differences in respect of financial instruments valuations and share-based payments.

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

	Deferred tax asset/(liability)				
	Goodwill and intangible assets £m	Pensions £m	Accelerated tax depreciation £m	Other temporary differences £m	Total £m
Balances at 31 March 2016	(7.9)	12.5	(4.5)	19.2	19.3
(Charge)/credit to income statement: continuing operations	0.1	(4.6)	5.6	(8.3)	(7.2)
Credit to income statement: discontinued operations	–	–	–	6.0	6.0
Credit to other comprehensive income	–	10.7	–	0.9	11.6
Charge taken directly to reserves	–	–	–	(0.1)	(0.1)
Balances at 31 March 2017	(7.8)	18.6	1.1	17.7	29.6
Balances at 31 March 2015	(8.5)	16.0	(29.5)	10.9	(11.1)
(Charge)/credit to income statement: continuing operations	0.6	(4.5)	(3.5)	0.5	(6.9)
Credit to income statement: discontinued operations	–	–	–	7.2	7.2
Credit to other comprehensive income	–	1.0	–	0.2	1.2
Credit taken directly to reserves	–	–	–	0.4	0.4
Disposal of business	–	–	28.5	–	28.5
Balances at 31 March 2016	(7.9)	12.5	(4.5)	19.2	19.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 Tax expense continued

The Group has capital losses which arose in the UK of £121.2 million (2016: £118.1 million) that are available indefinitely for offset against future taxable gains. Deferred tax has not been recognised in respect of these losses as there is no foreseeable prospect of their being utilised. The Group has realised capital gains amounting to £22.6 million (2016: £47.9 million) for which rollover relief claims have been or are intended to be made.

7 Discontinued operations

On 26 December 2015, the Group completed the disposal of its Dairies operation to Muller UK & Ireland Group LLP. The Dairies operation has been classified as a discontinued operation since the year of disposal.

The results of the Dairies operation which have been included in the consolidated income statement within discontinued operations can be analysed as follows:

	2017 £m	2016 £m
Revenue	-	529.1
Operating costs	(2.1)	(562.5)
Other income – property	-	0.1
Operating loss before exceptional operating items and tax attributable to discontinued operations	(2.1)	(33.3)
Exceptional operating items	-	(16.6)
Operating loss before tax attributable to discontinued operations	(2.1)	(49.9)
Attributable tax	0.8	9.1
Tax credit in relation to the disposal of St Hubert	3.8	-
Profit/(loss) after tax from discontinued operations	2.5	(40.8)
Loss on disposal	(2.5)	(137.3)
Attributable tax on disposal	5.2	26.6
Profit/(loss) for the period from discontinued operations	5.2	(151.5)
Earnings/(loss) per share from discontinued operations		
Basic (pence)	3.7	(109.9)
Diluted (pence)	3.7	(109.0)
Loss from discontinued operations is stated after charging	2017 £m	2016 £m
Depreciation	-	(6.9)
Amortisation of intangibles – internally generated	-	(0.9)
Operating lease rentals	-	(13.7)
Research and development expenditure	-	(0.4)
Cost of inventories recognised as an expense	-	(426.3)

The operating costs of £2.1 million in the year comprise £1.6 million relating to certain costs in respect of the Dairies operation that had not been accrued for at the point of sale and as such were the liability of the Group in line with the sale and purchase agreement with Muller UK & Ireland LLP. A further £0.5 million has been charged in respect of the Group's investment in HEICO Limited which has been fully impaired in the period. The investment related to the Dairies operation and as such the impairment has been recognised within discontinued operations.

7 Discontinued operations continued

	2017 £m	2016 £m
a. Exceptional items		
Exceptional operating items after attributable tax	4.3	(14.4)
Profit/(loss) on disposal after attributable tax (Note 30)	2.7	(110.7)
Exceptional items after tax	7.0	(125.1)
Exceptional operating costs		
Rationalisation of operating sites	–	(7.7)
Costs associated with the separation and proposed sale of the Dairies operation	–	(8.9)
Exceptional operating costs – discontinued operations	–	(16.6)
Tax relief on exceptional items	0.5	2.2
Tax credit in relation to the disposal of St Hubert	3.8	–
	4.3	(14.4)

Tax credit in relation to the disposal of St Hubert

A tax provision of £3.8 million was created when St Hubert SAS was disposed of in August 2012. A tax credit has been recognised in the period in respect of this because the period during which the French authorities can raise tax assessments has now expired. This has been recognised within discontinued operations consistent with the results of St Hubert SAS following disposal.

Costs associated with the separation and proposed sale of the Dairies operations

In the prior year the Group incurred £8.9 million of separation costs such as one-off systems costs and professional fees. A tax credit of £0.5 million has been recognised in the period (2016: £1.9 million).

Rationalisation of operating sites

In September 2014, the Group announced it had started consultation with employees and their representatives regarding the closure of its glass bottling dairy in Hanworth, West London. In the prior year, an exceptional charge of £1.7 million was incurred in the year, primarily comprising accelerated depreciation of assets following an assessment of their useful economic lives as well as other associated closure costs. The Group ceased production at its specialist cream potting factory in Chard, Somerset in September 2015. In the prior year a charge of £6.0 million was recognised in relation to site decommissioning and demolition costs. The tax credit on these exceptional costs in the prior year was £0.3 million.

b. Net cash flows attributable to discontinued operations

Net cash flows attributable to the Dairies operation in the period and comparative period are as follows:

	2017 £m	2016 £m
Cash flow from operating activities	(2.1)	(51.6)
Cash used in investing activities	–	(10.4)
Net cash flows attributable to discontinued operations	(2.1)	(62.0)

8 Earnings per share

The basic earnings per share ('EPS') measures for the year have been calculated by dividing the profit attributable to equity shareholders from the relevant operations (continuing, discontinued and total Group) by the weighted average number of ordinary shares in issue during the period, excluding those held by the Dairy Crest Employees' Share Ownership Plan Trust which are held as treasury shares and treated as cancelled.

The weighted average number of shares used in the calculation of basic EPS is detailed below along with the diluted weighted average number of ordinary shares used for the calculation of diluted EPS. The diluted weighted average number of ordinary shares reflects the dilutive impact of share options exercisable under the Group's share option schemes. Note that in the circumstances where there is a basic loss per share from continuing operations, share options are anti-dilutive and therefore are not included in the calculation of any other EPS measures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 Earnings per share continued

To show earnings per share on a consistent basis, which in the Directors' opinion reflects the underlying performance of the Group more appropriately, adjusted earnings per share has been calculated.

	Year ended 31 March 2017			Year ended 31 March 2016		
	Earnings £m	Weighted average number of shares million	Per share amount pence	Earnings £m	Weighted average number of shares million	Per share amount pence
Basic EPS from continuing operations	33.1	139.8	23.7	38.5	137.9	27.9
Effect of dilutive securities:						
Share options	–	1.3	(0.2)	–	1.1	(0.2)
Diluted EPS from continuing operations	33.1	141.1	23.5	38.5	139.0	27.7
Adjusted EPS from continuing operations*						
Profit from continuing operations	33.1	139.8	23.7	38.5	137.9	27.9
Exceptional items (net of tax)	15.6	–	11.2	8.3	–	6.0
Amortisation of acquired intangible assets (net of tax)	0.3	–	0.2	0.3	–	0.2
Pension interest expense (net of tax)	0.7	–	0.5	0.5	–	0.4
Adjusted basic EPS from continuing operations	49.7	139.8	35.6	47.6	137.9	34.5
Effect of dilutive securities:						
Share options	–	1.3	(0.4)	–	1.1	(0.3)
Adjusted diluted EPS from continuing operations	49.7	141.1	35.2	47.6	139.0	34.2
Basic earnings/(loss) per share from discontinued operations	5.2	139.8	3.7	(151.5)	137.9	(109.9)
Effect of dilutive securities:						
Share options	–	1.3	–	–	1.1	0.9
Diluted earnings/(loss) per share from discontinued operations	5.2	141.1	3.7	(151.5)	139.0	(109.0)
Basic earnings/(loss) per share for the year	38.3	139.8	27.4	(113.0)	137.9	(81.9)
Effect of dilutive securities:						
Share options	–	1.3	(0.3)	–	1.1	0.6
Diluted earnings/(loss) per share for the year	38.3	141.1	27.1	(113.0)	139.0	(81.3)

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

* Adjusted earnings per share from continuing operations 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 scheme, being dependent on market assumptions at 31 March each year.

9 Dividends paid and proposed

	2017 £m	2016 £m
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2016: 16.0 pence (2015: 15.7 pence)	22.4	21.6
Interim dividend for 2017: 6.2 pence (2016: 6.1 pence)	8.7	8.4
	31.1	30.0
Proposed for approval at AGM (not recognised as a liability at 31 March)		
Equity dividends on ordinary shares:		
Final dividend for 2017: 16.3 pence (2016: 16.0 pence)	22.8	22.3

10 Remuneration of employees and key management personnel

Number of employees (continuing operations) – Group	2017 number	2016 number
Average number of employees:		
Production	668	620
Sales, distribution and administration	455	560
Total employees	1,123	1,180

There were no employees in relation to the discontinued operation (2016: 2,708).

Remuneration of employees, including key management personnel

Continuing operations	2017 £m	2016 £m
Wages and salaries	41.2	44.3
Social security costs	4.9	4.7
Equity settled share-based payments expense (Note 27)	1.2	1.4
Pension costs (Note 21)	2.0	2.1
	49.3	52.5

The above costs include amounts paid to the Company's Executive and Non-executive Directors.

Discontinued operations	2017 £m	2016 £m
Wages and salaries	-	64.7
Social security costs	-	6.7
Equity settled share-based payments expense (Note 27)	-	0.8
Pension costs (Note 21)	-	2.9
	-	75.1

Key management compensation

Key management is represented by the Company's Executive and Non-executive Directors.

Directors	2017 £000	2016 £000
Salaries and benefits	1,371	1,058
Bonuses	194	373
Fees and benefits to Non-executive Directors	308	289
Emoluments	1,873	1,720
Employer payments to defined contribution pension scheme	2	16

The Executive Directors did not exercise any options during the year. Aggregate gains made by the Directors on the exercise of share options in 2016 were £9,830. The amount of the gain relating to highest paid director was £nil (2016: £9,830).

Highest paid director	2017 £000	2016 £000
Salary and benefits	703	675
Bonus	102	235
Emoluments	805	910

Further information relating to Directors' remuneration for the year ended 31 March 2017 is provided in the Directors' Remuneration Report on pages 41 to 61.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 Property, plant and equipment

	Land and buildings £m	Vehicles, plant and equipment £m	Assets in the course of construction £m	Total £m
Consolidated 2017				
Cost				
At 1 April 2016	82.0	197.9	96.2	376.1
Additions	4.9	9.3	12.2	26.4
Disposals	(1.3)	(44.8)	–	(46.1)
Transfers and reclassifications	4.0	91.0	(95.0)	–
Transfer to non-current assets held for sale	(14.6)	(0.5)	–	(15.1)
At 31 March 2017	75.0	252.9	13.4	341.3
Accumulated depreciation				
At 1 April 2016	30.3	111.9	–	142.2
Charge for the year – continuing	2.6	12.3	–	14.9
Disposals	–	(6.7)	–	(6.7)
Transfer to non-current assets held for sale	(7.3)	(0.4)	–	(7.7)
At 31 March 2017	25.6	117.1	–	142.7
Net book amount at 31 March 2017	49.4	135.8	13.4	198.6
Consolidated 2016				
Cost				
At 1 April 2015	171.7	310.0	74.9	556.6
Additions	7.0	12.8	44.4	64.2
Disposals	(5.0)	–	–	(5.0)
Disposal of Dairies operations (Note 30)	(92.4)	(147.3)	–	(239.7)
Transfers and reclassifications	0.7	22.4	(23.1)	–
At 31 March 2016	82.0	197.9	96.2	376.1
Accumulated depreciation				
At 1 April 2015	68.6	159.5	–	228.1
Charge for the year – continuing	2.0	14.5	–	16.5
Charge for the year – discontinued operations	1.8	5.1	–	6.9
Asset impairments – discontinued operations	–	1.6	–	1.6
Disposals	(3.4)	–	–	(3.4)
Disposal of Dairies operations (Note 30)	(38.7)	(68.8)	–	(107.5)
At 31 March 2016	30.3	111.9	–	142.2
Net book amount at 31 March 2016	51.7	86.0	96.2	233.9

2017

On 31 March 2017, £7.3 million of land and buildings and £0.1 million of plant and equipment was transferred to non-current assets held for sale (see Note 19).

During the year, the Group disposed of £37.9 million of plant and equipment under two sale and leaseback agreements with Lombard Business Leasing Limited. The sale and leaseback was for certain plant and equipment relating to the Demineralised Whey and GOS facility at Davidstow (see Note 28).

2016

In the year ending 31 March 2016, £1.6 million of exceptional accelerated depreciation was charged in relation to Hanworth prior to the disposal of the Dairies operation (see Note 7).

	2017 £m	2016 £m
Capitalised leases included in vehicles, plant and equipment comprise:		
Cost	28.0	28.9
Accumulated depreciation	(21.7)	(19.8)
Net book amount	6.3	9.1

12 Goodwill

	£m
Cost	
At 31 March 2015	145.6
Acquisition of Promovita Ingredients Limited (Note 30)	12.0
Disposal of discontinued operations (Note 30)	(70.7)
At 31 March 2016 and 31 March 2017	86.9
Accumulated impairment	
At 31 March 2015	(71.3)
Disposal of discontinued operations (Note 30)	70.7
At 31 March 2016 and 31 March 2017	(0.6)
Net book amount at 31 March 2016 and 31 March 2017	86.3

During the year ended 31 March 2016, the Group acquired the remaining share capital of Promovita Ingredients Limited leading to the recognition of £12.0 million of goodwill (see Note 30) and disposed of its Dairies operation leading to the disposal of £70.7 million of goodwill which was fully written down during the year ended 31 March 2012.

Impairment testing of goodwill

Acquired goodwill has been allocated for impairment testing purposes to three groups of cash-generating units ('CGUs'): Butters and Spreads, MH Foods and Cheese and Functional Ingredients. Goodwill recognised on the acquisition of Promovita Ingredients Limited is included in the Cheese and Functional Ingredients CGU as the business is directly linked to the Cheese and Functional Ingredients product group with a number of shared overheads.

All groups of CGUs with goodwill are tested for impairment annually by comparing the carrying amount of that CGU with its recoverable amount. Recoverable amount is determined based on a value-in-use calculation using cash flow projections based on financial budgets and strategic plans approved by senior management covering a three-year period and appropriate growth rates beyond that. The discount rate applied to the projections was 6.5% for Butters and Spreads, MH Foods and Cheese and Functional Ingredients (2016: 6.0%).

The growth rate used to extrapolate cash flows beyond the three-year period for Butters and Spreads, MH Foods and Cheese and Functional Ingredients is nil (2016: nil).

The carrying amount of goodwill allocated to groups of CGUs at 31 March 2017 is:

MH Foods	£6.7 million	(2016: £6.7 million)
Butters and Spreads	£65.5 million	(2016: £65.5 million)
Cheese and Functional Ingredients	£14.1 million	(2016: £14.1 million)

Key assumptions on which management has based its cash flow projections

Gross margin – budgeted gross margins are based initially on actual margins achieved in the preceding year further adjusted for projected input and output price changes, volume changes, initiatives implemented and associated efficiency improvements. The budgeted margins form the basis for strategic plans, which incorporate longer-term market trends.

Discount rates – Discount rates are pre-tax and calculated by reference to average industry gearing levels, the cost of debt and the cost of equity based on the capital asset pricing model and CGU-specific risk factors.

Raw materials prices – budgets are prepared using the most up to date price and forecast price data available. This is based on forward prices in the market place adjusted for any contracted prices at the time of forecast. The key resources are milk, vegetable oils, fuel oil, diesel, gas and electricity and packaging costs.

Growth rate estimates – for periods beyond the length of the strategic plans, growth estimates are based upon published industry research adjusted downwards to reflect the risk of extrapolating growth beyond a three-year time frame.

The Directors consider the assumptions used to be consistent with the historical performance of each CGU where appropriate and to be realistically achievable in the light of economic and industry measures and forecasts.

2017 and 2016

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the Butters and Spreads, MH Foods and Cheese and Functional Ingredients CGUs, management believes that no reasonably possible change in the above key assumptions would cause the carrying value of those units to exceed their recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 Intangible assets

	Assets in the course of construction £m	Internally generated £m	Acquired intangibles £m	Total £m
Cost				
At 31 March 2015	1.4	35.6	8.7	45.7
Additions	3.5	–	–	3.5
Disposals	(0.4)	(31.2)	–	(31.6)
Transfers and reclassifications	(1.0)	1.0	–	–
At 31 March 2016	3.5	5.4	8.7	17.6
Additions	4.2	–	–	4.2
Disposals	–	(3.5)	–	(3.5)
Transfers and reclassifications	(3.5)	6.1	(2.6)	–
At 31 March 2017	4.2	8.0	6.1	18.3
Accumulated amortisation				
At 31 March 2015	–	16.2	3.9	20.1
Amortisation for the year – continuing	–	1.1	0.4	1.5
Amortisation for the year – discontinued operations	–	0.9	–	0.9
Disposals	–	(16.0)	–	(16.0)
At 31 March 2016	–	2.2	4.3	6.5
Amortisation for the year – continuing	–	0.5	0.4	0.9
Amortisation for the year – discontinued operations	–	–	–	–
Disposals	–	(3.5)	–	(3.5)
Transfers and reclassifications	–	2.3	(2.3)	–
At 31 March 2017	–	1.5	2.4	3.9
Net book amount at 31 March 2017	4.2	6.5	3.7	14.4
Net book amount at 31 March 2016	3.5	3.2	4.4	11.1

In the year ending 31 March 2017, additions to assets in the course of construction of £4.2 million comprised third party system support costs relating to a new enterprise planning system of £3.7 million (2016: £nil) and product development costs of £0.5 million (2016: £nil). In the prior year, the assets in the course of construction of £3.5 million comprised third party systems and set-up support costs relating to the demineralised whey powder and GOS projects at Davidstow.

Internally generated intangible assets comprise software development and implementation costs across manufacturing sites and Head Office and product development where the future recoverability can be reasonably assured under IAS 38 'Intangible Assets'.

Acquired intangibles comprise predominantly brands acquired with the acquisition of businesses. The largest component within acquired intangibles is the 'Frylight' brand acquired with the acquisition of Morehands Limited (MH Foods Limited) in June 2011. A useful life of 15 years has been assumed for this brand, with 9 years remaining. The carrying value of the Frylight brand at 31 March 2017 is £3.7 million (2016: £4.1 million).

14 Investments

Consolidated

A charge of £0.5 million was incurred during the year ended 31 March 2017 following an impairment of the investment in HEICO Limited. This investment related to the Dairies operation and the charge has therefore been recognised within discontinued operations.

In the prior year, the Group acquired the outstanding share capital of Promovita Ingredients Limited ('Promovita') for a cash consideration of £6.0 million. Promovita was established in 2014 as a joint venture between the Group and Fayrefield Foods Limited to develop and produce galacto-oligosaccharide, a prebiotic for use in infant formula. (see Note 30).

14 Investments continued

Company

	Share grants awarded in subsidiaries £m	Shares in subsidiary undertakings £m	Total £m
Cost			
At 1 April 2015	14.7	468.1	482.8
Share-based payment charge in subsidiary companies	1.5	–	1.5
At 31 March 2016	16.2	468.1	484.3
Share-based payment charge in subsidiary companies	0.4	–	0.4
Disposal of shares	(16.2)	(239.2)	(255.4)
At 31 March 2017	0.4	228.9	229.3

Shares in subsidiary undertakings comprise an investment in Dairy Crest UK Limited of £228.9 million. During the year the shares held in Dairy Crest Limited of £255.4 million (including £16.2 million of share grants awarded in subsidiaries) were sold to Dairy Crest UK Limited for a consideration of £450.0 million.

Share grants awarded in subsidiaries represent the cumulative cost of the Company's grant of equity instruments, under share-based payment awards, to employees of subsidiary undertakings.

At 31 March 2017 the subsidiary undertakings were:

	Parent	Business	Percentage of ordinary share capital held
All Subsidiary undertakings:			
Dairy Crest UK Limited	Dairy Crest Group plc	Holding Company	100%
Dairy Crest France Holdings 1 Limited	Dairy Crest Limited	Holding Company	100%
Dairy Crest (Jersey) Limited	Dairy Crest Limited	Holding Company	100%
Dairy Crest (Services) Limited	Dairy Crest France Holdings 1 Limited	Holding Company	100%
Trading:			
Dairy Crest Limited	Dairy Crest UK Limited	Manufacture of dairy products	100%
MH Foods Limited	Dairy Crest Limited	Manufacture of cooking oils	100%
Promovita Ingredients Limited	Dairy Crest Limited	Development and sales of galacto-oligosaccharide	100%
Non-Trading:			
Dairy Crest Dairy Products Limited	Dairy Crest Limited	Non-Trading	100%
DC Quest Trustees Limited	Dairy Crest Group plc	Non-Trading	100%
Dairy Crest Facilities Limited	Dairy Crest UK Limited	Non-Trading	100%
Coombe Farm Dairies Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest (Foston) Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest Food Ingredients Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest Investments Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest Pension Trustees Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest Share Trustees Limited	Dairy Crest Limited	Non-Trading	100%
Dairy Crest France Holdings 2 Limited	Dairy Crest France Holdings 1 Limited	Non-Trading	95%
	Dairy Crest (Services) Limited	Non-Trading	5%
Unigate Dairies Limited	Dairy Crest (Jersey) Limited	Non-Trading	100%
Cressdene Limited	Dairy Crest (Jersey) Limited	Non-Trading	100%
Morehands IP Limited	MH Foods Limited	Non-Trading	100%
Being Dissolved:			
Morehands Limited	Magnuss & Usher Limited	Dormant	100%
Magnuss & Usher Limited	Dairy Crest Limited	Holding Company	100%

The principal place of operation and country of incorporation of all subsidiary undertakings is England and Wales except Dairy Crest (Jersey) Limited whose country of incorporation is Jersey.

The registered office of all subsidiary undertakings incorporated in England and Wales is Claygate House, Littleworth Road, Esher, Surrey, KT10 9PN. The registered office of Dairy Crest (Jersey) Limited is 44 Esplanade, St Helier, Jersey, JE4 9WG.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 Inventories

	Consolidated	
	2017 £m	2016 £m
Raw materials and consumables	13.0	12.5
Finished goods	141.2	139.6
	154.2	152.1

Cheese inventories at 31 March 2017 totalled £123.8 million (2016: £129.6 million). This matures over an average of 11 months, and up to a maximum of 50 months.

During the year ended 31 March 2017, £7.3 million of product produced during commissioning of demineralised whey and GOS was written off (2016: £0.4 million). At 31 March 2017 a provision for impairment has been made of £3.8 million (2016: £0.6 million) against product with a carrying value of £7.6 million (2016: £1.0 million) where the expected net realisable value of the product was below carrying value.

In April 2014, the Group granted the Trustee of the Dairy Crest Group Pension Fund a floating charge over maturing cheese inventories with a maximum realisable value of £60 million.

16 Trade and other receivables

	Consolidated		Parent Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	27.4	30.4	–	–
Amounts owed by subsidiary undertakings	–	–	391.3	10.1
Other receivables	1.5	9.2	–	0.4
Prepayments and accrued income	4.5	3.6	–	–
	33.4	43.2	391.3	10.5

All amounts above, with the exception of prepayments and accrued income, are financial assets.

Trade receivables are denominated in the following currencies:

	Consolidated	
	2017 £m	2016 £m
Sterling	25.7	29.4
Euro	1.7	1.0
US Dollar	–	–
Swiss Franc	–	–
	27.4	30.4

There are no material concentrations of credit risk.

Trade receivables are non interest bearing and are generally on 30-90 days' terms and are shown net of a provision for impairment. As at 31 March 2017, no trade receivables have been impaired and provided for (2016: £6.2 million). The prior year figure included an impairment of £4.3 million in relation to Quadra Foods Limited that was charged to the income statement in the year ended 31 March 2012. This has been utilised in the period as part of the full and final settlement of liabilities between the Group, Quadra Foods Limited and Farmright Limited (see Note 4).

At 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £m	Neither past due nor impaired £m	Past due, not impaired		
			30 – 60 days £m	60 – 90 days £m	> 90 days £m
31 March 2017	27.4	22.6	4.3	0.5	–
31 March 2016	30.4	26.2	2.3	1.0	0.9

The credit quality of trade receivables is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

17 Financial assets

Derivative financial instruments

Consolidated	Note	2017 £m	2016 £m
Current			
Cross currency swaps (cash flow hedges)	31	–	16.0
Non-current			
Cross currency swaps (cash flow hedges)	31	12.3	2.3
Company	Note	2017 £m	2016 £m
Current			
Cross currency swaps (cash flow hedges)	31	–	16.0
Non-current			
Cross currency swaps (cash flow hedges)	31	12.3	2.3

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 13 'Fair Value Measurement', namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

18 Cash and short-term deposits

	Consolidated		Parent Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash and short-term deposits	20.9	100.3	0.1	40.1

Cash and short-term deposits earn interest at floating rates based on daily bank deposit rates.

Counterparty risk and the Group's policy for managing deposits are described in Note 31.

19 Non-current assets held for sale

	Consolidated		Parent Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets held for sale	7.4	–	–	–

Non-current assets held for sale of £7.4 million represent properties owned by the Group, comprising closed depots and closed production facilities, that management has committed to sell and where the completion of the sale within twelve months of the classification date is highly probable. The held for sale value represents the lower of carrying value and fair value less costs to sell. Any future profit on disposal of the closed depots will be recognised as Other Income – property within the Income Statement. Any future profit on disposal of the closed production facilities will be recognised under exceptional items within the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 Financial liabilities

Consolidated	Note	2017 £m	2016 £m
Current			
Obligations under finance leases	32	1.5	1.5
Loan notes (at amortised cost)	32	11.9	95.6
Debt issuance costs		(0.6)	(0.6)
Financial liabilities – Borrowings		12.8	96.5
Cross currency swaps (cash flow hedges)		0.1	–
Forward currency contracts (at fair value: cash flow hedge)	32	0.2	–
Financial liabilities – Derivative financial instruments		0.3	–
Current financial liabilities		13.1	96.5
Non-current			
Obligations under finance leases	32	1.0	2.4
Loan notes (at amortised cost)	32	146.0	144.2
Bank loans (at amortised cost)	32	128.0	105.0
Debt issuance costs		(0.8)	(1.3)
Financial liabilities – Borrowings		274.2	250.3
Cross currency swaps (cash flow hedges)		–	1.3
Financial liabilities – Derivative financial instruments		–	1.3
Non-current financial liabilities		274.2	251.6

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 13 'Fair Value Measurement', namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

Interest bearing loans and borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

	Maturity	2017 £m	Effective Interest rate at March 2017	2016 £m	Effective Interest rate at March 2016
Current					
Loan notes:					
US\$ swapped into £	April 2016	–	–	85.6	5.31%
Sterling	April 2016	–	–	10.0	5.27%
Euro swapped into £	April 2017	9.1	5.53%	–	–
Sterling	April 2017	2.8	5.84%	–	–
Finance leases		1.5	3.61%	1.5	3.61%
Debt issuance costs		(0.6)		(0.6)	
		12.8		96.5	
Non-current					
Revolving credit facilities:					
Sterling floating	October 2018	80.0	LIBOR + 150bps	53.0	LIBOR + 160bps
Sterling floating	October 2020	48.0	LIBOR + 170bps	52.0	LIBOR + 190bps
Loan notes:					
Euro swapped into £	April 2017	–	5.53%	8.5	5.53%
Sterling	April 2017	–	5.84%	2.8	5.84%
US\$ swapped into £	November 2018	20.0	3.87%	17.4	3.87%
US\$ swapped into £	November 2021	45.0	4.52%	39.2	4.52%
US\$ swapped into £	March 2023	36.0	3.33%	31.3	3.33%
Sterling	March 2026	45.0	3.34%	45.0	3.34%
Finance Leases		1.0	3.61%	2.4	3.61%
Debt issuance costs		(0.8)		(1.3)	
		274.2		250.3	

20 Financial liabilities continued

On 4 April 2016, the Group repaid \$123 million (£70.2 million) and £10 million of 2006 fixed coupon loan notes on maturity. To fund the repayment, on 23 March 2016, the Group raised £45 million and \$45 million (£31.1 million) of fixed coupon loan notes. The Sterling loan notes have a maturity of 10 years and an interest rate of 3.34%. The US Dollar loan notes have a maturity of seven years. The principal and the interest cash flows have been swapped into Sterling at an exchange rate of 1.4471 and an interest rate of 3.23%. Upfront debt issuance costs amounted to £0.4 million and these are being charged to the consolidated income statement over the term of the loan notes.

On 6 October 2015, the Group refinanced its revolving credit facility. The £170 million plus €90 million revolving credit facility which was due to expire in October 2016 was cancelled and replaced by a £240 million facility, of which £80 million will expire on 6 October 2018 and £160 million will expire on 6 October 2020. Upfront debt issuance costs amounted to £1.6 million and these are being charged to the consolidated income statement over the expected life of the facility. There were no debt issuance costs charged to the income statement relating to the cancelled facility in the prior year.

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify a maximum net debt to EBITDA ratio of 3.5 times and minimum interest cover ratio of 3.0 times. No covenants were contravened in the year ended 31 March 2017 (2016: None).

Details of the Group's interest rate management strategy and interest rate swaps are included in Notes 31 and 32.

Company	2017 £m	2016 £m
Current		
Loan notes (at amortised cost)	11.9	95.6
Financial liabilities – Borrowings	11.9	95.6
Cross currency swaps (cash flow hedges)	0.1	–
Financial liabilities – Derivative financial instruments	0.1	–
Current financial liabilities	12.0	95.6
Non-current		
Loan notes (at amortised cost)	146.0	144.2
Financial liabilities – Borrowings	146.0	144.2
Cross currency swaps (cash flow hedges)	–	1.3
Financial liabilities – Derivative financial instruments	–	1.3
Non-current financial liabilities	146.0	145.5

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 13 'Fair Value Measurement', namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

Interest bearing loans and borrowings

The effective interest rates on loans and borrowings at the balance sheet date were as follows:

		Maturity	2017 £m	Effective interest rate at March 2017	2016 £m	Effective interest rate at March 2016
Current						
Loan notes:	US\$ swapped into £	April 2016	–	–	85.6	5.31%
	Sterling	April 2016	–	–	10.0	5.27%
	Euro swapped into £	April 2017	9.1	5.53%	–	–
	Sterling	April 2017	2.8	5.84%	–	–
			11.9		95.6	
Non-current						
Loan notes:	Euro swapped into £	April 2017	–	–	8.5	5.53%
	Sterling	April 2017	–	–	2.8	5.84%
	US\$ swapped into £	November 2018	20.0	3.87%	17.4	3.87%
	US\$ swapped into £	November 2021	45.0	4.52%	39.2	4.52%
	US\$ swapped into £	March 2023	36.0	3.33%	31.3	3.33%
	Sterling	March 2026	45.0	3.34%	45.0	3.34%
			146.0		144.2	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Retirement benefit obligations

The Group has a defined benefit pension scheme (Dairy Crest Group Pension Fund), which is closed to future service accrual and a defined contribution scheme (Dairy Crest Group defined contribution scheme).

Defined Benefit Pension Scheme

The Dairy Crest Group Pension Fund ('the Fund') is a final salary defined benefit pension scheme, which was closed to future service accrual from 1 April 2010 and had been closed to new joiners from 30 June 2006. This pension scheme is a final salary scheme.

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

The Company and Trustee have agreed a long-term strategy for reducing investment risk as and where appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets which perform in line with the liabilities of the plan so as to protect against inflation being higher than expected. In December 2008 and June 2009, certain obligations relating to retired members were hedged by the purchase of annuity contracts.

During the financial year, a Flexible Retirement Option ('FRO') exercise was carried out. An offer enabling deferred pensioners aged 55 and over to take cash equivalent transfer values (or trivial commutation lump sums, where applicable), with financial advice paid for by the company. Transfer values totalling £16.7 million and trivial commutation lump sums totalling £0.1 million were accepted. This resulted in a settlement gain before costs of £2.0 million, representing IAS19 liabilities extinguished of £18.8 million less amounts paid of £16.8 million.

UK legislation requires that pension schemes are funded prudently. The most recent full actuarial valuation of the Fund was carried out as at 31 March 2013 by the Fund's independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially. This valuation resulted in a deficit of £145.0 million compared to the IAS19 deficit of £56.3 million reported at that date. The next full actuarial valuation is currently being carried out on the 31 March 2016 position. We expect the results of the valuation in the first half of 2017/18.

Under the latest schedule of contributions, which was signed in March 2014, the level of contributions is £13 million per annum from April 2014 to March 2016, then £16 million per annum until March 2017 and then £20 million per annum until March 2020. Until June 2018, these contributions included £2.8 million per annum of rental payments for land and buildings that were subject to a sale and leaseback arrangement between the Group and the Fund as part of the final schedule of contributions. The Group bought back the land and buildings for £8.3 million in November 2015 with rental payments ceasing from this date. This reduced contributions payable to £11.8 million per annum to March 2016, £13.2 million per annum from April 2016 to March 2017, £17.2 million per annum from April 2017 until June 2018 and then £20 million per annum until March 2020.

A new schedule of contributions will be agreed with the Trustee following the next actuarial review as at 31 March 2016.

The Fund duration is an indicator of the weighted-average time until benefit payments are made. For the Fund as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation (including insured pensioners) between deferred members (duration of 27 years), current non-insured pensioners (duration of 15 years) and insured pensioners (duration of 11 years).

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

Asset Volatility

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

Changes in Bond Yields

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

Inflation Risk

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

Longevity Risk

The majority of the Fund's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in liabilities.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension ('GMP'). The UK Government intends to implement legislation which could result in higher benefits for some members. This would increase the defined benefit obligation of the Fund. At this stage, it is not possible to quantify the impact of this change.

21 Retirement benefit obligations continued

The following tables summarise the components recognised in the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income.

	2017 £m	2016 £m
Defined benefit obligation		
Fair value of scheme assets: – Equities	–	43.7
– Bonds and cash	747.0	592.9
– Equity return swaps valuation*	18.6	1.9
– Property and other	115.5	114.6
– Insured retirement obligations	310.6	291.3
	1,191.7	1,044.4
Defined benefit obligation: – Uninsured retirement obligations**	(994.0)	(786.8)
– Insured retirement obligations	(307.3)	(288.0)
Total defined benefit obligation	(1,301.3)	(1,074.8)
Recognition of liability for unrecoverable notional surplus	–	(12.1)
	(1,301.3)	(1,086.9)
Net liability recognised in the balance sheet	(109.6)	(42.5)
Related deferred tax asset	18.6	12.5
Net pension liability	(91.0)	(30.0)

* Comprises a positive synthetic equity exposure of £157.5 million (2016: £107.7 million) and a negative LIBOR exposure of £138.9 million (2016: £105.8 million).

** Includes obligations to deferred members of £676.9 million (2016: £541.9 million) and non-insured members of £317.1 million (2016: £244.9 million).

The Group is entitled to any surplus on winding up of the Fund albeit refunds are subject to tax deductions of 35% at source. Based on the present value of committed cash contributions at 31 March 2017 and the IAS 19 valuation at that date of £109.6 million, there would be nothing deducted from any notional surplus returned to the Group (2016: £12.1 million). In the prior year this was recognised as an additional liability in accordance with IFRIC 14. It should be noted that cash contributions are determined by reference to the triennial actuarial valuation, not the IAS 19 valuation. The actuarial deficit is greater than that recognised under IAS 19 since liabilities are discounted by reference to gilt yields rather than high quality corporate bond yields.

	2017 £m	2016 £m
Amounts recognised in consolidated income statement		
Administration expenses	(1.0)	(0.8)
Settlement gain	2.0	–
Other finance costs – pensions	(0.8)	(0.6)
Loss before tax	0.2	(1.4)
Deferred tax	(0.3)	0.3
Loss for the year	(0.1)	(1.1)

	2017 £m	2016 £m
Amounts recognised in other comprehensive income		
Return on plan assets (excluding amounts included in net interest)	152.5	(44.0)
Experience gains arising on scheme liabilities	30.6	14.1
Actuarial (losses)/gains due to changes in the financial assumptions	(275.6)	4.6
Net actuarial loss	(92.5)	(25.3)
Movement in liability for unrecoverable notional surplus	12.1	4.8
Recognised in other comprehensive income	(80.4)	(20.5)
Related tax	10.7	1.0
Net actuarial loss recognised in other comprehensive income	(69.7)	(19.5)

Actual returns on plan assets were £188.4 million (2016: £(8.0) million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Retirement benefit obligations continued

Movement in the present value of the defined benefit obligations are as follows:	2017 £m	2016 £m
Opening defined benefit obligation	(1,074.8)	(1,093.7)
Interest cost	(36.7)	(36.6)
Actuarial (losses)/gains arising from changes in financial assumptions	(275.6)	4.6
Actuarial gains arising from experience	30.6	14.1
Benefits paid	53.2	36.8
Settlement gains	2.0	–
Closing defined benefit obligation	(1,301.3)	(1,074.8)

Movement in the fair value of fund assets are as follows:	2017 £m	2016 £m
Opening fair value of fund assets	1,044.4	1,069.2
Interest income on fund assets	35.9	36.0
Remeasurement gains/(losses) on fund assets	152.5	(44.0)
Contributions by employer	13.1	20.8
Administration costs incurred	(1.0)	(0.8)
Benefits paid out	(53.2)	(36.8)
Closing fair value of fund assets	1,191.7	1,044.4

The Fund's assets are invested in the following asset classes (all assets have a quoted market value in an active market with the exception of property, annuity policy and cash).

Assets	2017 £m	2016 £m	2015 £m
Equities:			
United Kingdom	42.8	35.0	49.9
North America	62.4	46.3	65.9
Europe (ex UK)	22.8	17.9	26.4
Japan	17.9	12.2	17.1
Asia (ex Japan)	11.6	8.5	9.2
Emerging Markets	–	15.4	23.7
Global Small Cap	–	16.1	16.2
Cash/LIBOR Synthetic Equity	(138.9)	(105.8)	(144.6)
Emerging Market Debt*	55.0	52.3	54.0
Multi Asset Credit**	69.1	62.0	62.5
Insurance Linked Securities***	37.6	31.7	29.4
Absolute Return Bonds****	33.5	32.5	33.1
Bonds:			
Corporate Bonds	203.9	123.8	118.1
Liability Driven Investments*****	305.9	225.3	224.6
Annuity Policy	310.6	291.3	306.8
Property	77.9	82.9	76.6
Cash	79.6	97.0	100.3
Total	1,191.7	1,044.4	1,069.2

Equities are a combination of physical equities of £nil (2016: £43.7 million), a positive synthetic equity exposure of £157.5 million (2016: £107.7 million) and a negative LIBOR exposure of £138.9 million (2016: £105.8 million).

21 Retirement benefit obligations continued

The Group does not use any of the pension fund assets.

- * This is debt issued by emerging market countries denominated in the emerging market's domestic currency. The debt is almost entirely issued by governments and not by corporations. Investors benefit from higher yields on the bonds due to the additional risks of investing in emerging market countries, compared to developed countries and it is also expected that emerging market currencies will appreciate over time relative to developed countries.
- ** Multi Asset Credit strategies invest globally in a wide range of credit-based asset classes which include bank loans, high yield bonds, securitised debt, emerging market debt and distressed debt of non-investment grade. The investment strategies will also allocate amounts in investment grade credit, sovereign bonds and cash for defensive reasons. The strategies are opportunistic and allocate dynamically to the best opportunities within the credit market from an asset allocation and individual security selection perspective.
- *** Insurance linked securities are event-linked investments which allow investors outside the insurance industry to access insurance premiums for assuming various forms and degrees of insurance risk. The underlying risk premium is a type of investment risk where the event is linked to natural or man-made catastrophes. The premium paid to the investor represents compensation for the "expected loss" due to the uncertainty around the size and timing of the insured event.
- **** Absolute Return Bond strategies are designed to deliver a positive return in all market environments and will take advantage of numerous alpha opportunities within the fixed income universe. The objective of the strategy is to capture returns from active management in a number of areas within fixed income including interest rates, currencies, asset allocation and security selection. The strategy will have long and short positions and employ a degree of leverage. The strategies tend to have low sensitivity to the direction of interest rates and credit.
- ***** Insight have been appointed to manage the Liability Driven Investment ('LDI') portfolio for the Fund. The objective is to hedge a proportion of the Fund's liabilities against changes in interest rates and inflation expectations by investing in assets that are similarly sensitive to changes in interest rates and inflation expectations. Insight will seek to add interest and inflation exposure to the LDI portfolio over time in line with parameters that have been set by the Trustees. Insight are permitted to use a range of swaps and gilt based derivative instruments as well as physical bonds to structure the liability hedge for the Fund. In addition, Insight are responsible for monitoring market yields against a number of pre-set yield triggers and will increase the level of hedging as and when the triggers are met.

The principal assumptions used in determining retirement benefit obligations for the Fund are shown below:

	2017 %	2016 %	2015 %
Key assumptions:			
Price inflation (RPI)	3.3	3.2	3.1
Price inflation (CPI)	2.2	2.1	2.0
Pension increases (Pre 1993 – RPI to 7%/annum)	3.3	3.2	3.1
Pension increases (1993 to 2006 – RPI to 5%/annum)	3.2	3.1	3.0
Pension increases (Post 2006 – RPI to 4%/annum)	3.0	2.9	2.8
Life expectancy at 65 for a male currently aged 50 (years)	24.1	24.0	23.9
Average expected remaining life of a 65 year old retired male (years)	22.5	22.4	22.4
Life expectancy at 65 for a female currently aged 50 (years)	27.0	26.9	26.8
Average expected remaining life of a 65 year old retired female (years)	24.8	24.7	24.6
Discount rate	2.4	3.5	3.4

The financial assumptions reflect the nature and term of the Fund's liabilities. The mortality assumptions are based on analysis of the Fund members, and allow for expected future improvements in mortality rates. It has been assumed that members exchange 25% of their pension for a cash lump sum at retirement and 30% of deferred members take the Pension Increase Exchange option at retirement.

Sensitivity to changes in assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

	Expected Expense for 2017/18			March 2017 Deficit £m
	Service Cost £m	Net Interest £m	Total P&L Charge £m	
Current Figures	1.0	2.4	3.4	(109.6)
Effect of a 0.1% decrease in the discount rate	–	0.4	0.4	(22.9)
Recalculated value	1.0	2.8	3.8	(132.5)
Effect of a 0.1% increase in the inflation assumption	–	0.5	0.5	(20.3)
Recalculated value	1.0	2.9	3.9	(129.9)
Effect of a 1 year increase in life expectancy	–	1.0	1.0	(41.6)
Recalculated value	1.0	3.4	4.4	(151.2)

The above sensitivities assume that, with the exception of the annuity contracts, the Fund's assets remain unchanged due to changes in assumptions, but in practice changes in market interest and inflation rates will also affect the value of the Fund's assets. The Company and Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Retirement benefit obligations continued

which aims to reduce the volatility of the funding level of the Fund by investing in assets which perform in line with the liabilities of the Fund. In December 2008 and June 2009, certain obligations relating to retired members were fully hedged by the purchase of annuity contracts. The Fund's other investments include matching assets which protect against changes in bond yields and against inflation risk. The respective interest rate and inflation hedge ratios for these assets as at 31 March 2017 were both 36% of those obligations not covered by annuity contracts.

The Company recognises no liabilities on its balance sheet, or charges or credits in its income statement or statement of recognised income and expense in relation to the Fund. The legal sponsor of the Fund is Dairy Crest Limited.

Defined Contribution Pension Scheme

The Group has charged £2.0 million in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2017 (2016: £2.1 million). The Company has made no charge in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2017 (2016: nil).

22 Trade and other payables

	Consolidated		Parent Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade payables*	45.8	50.2	–	–
Amounts due to subsidiary undertakings	–	–	–	–
Other tax and social security	1.2	1.3	0.1	–
Other creditors*	6.4	32.4	–	–
Accruals*	25.7	36.4	1.1	3.2
	79.1	120.3	1.2	3.2

* Financial liabilities at amortised cost.

Included within accruals is £7.6 million in relation to promotional funding which is subject to a degree of estimation uncertainty (2016: £13.0 million). The accruals relating to promotional funding are calculated based on an estimated redemption rate of the promotion. The customer will claim the funding retrospectively based on the performance of the promotion. There has been a reduction in accruals relating to promotional funding in the period reflecting a growing trend towards off-invoice promotional funding from retrospective promotional funding.

23 Deferred income

Current	2017 £m	2016 £m
Grants	1.5	1.6
Non-current		
Grants	3.0	4.5

In 2010/11 two new biomass boilers were installed at the Davidstow cheese manufacturing site. Capital expenditure amounted to £3.9 million and we received cash grants of £0.8 million during the year ended 31 March 2011 and £0.2 million during the year ended 31 March 2012 from the South West of England Regional Development Agency.

During 2012/13 the Group received a grant of £5.3 million under the Regional Growth Fund from the Department of Business, Innovation and Skills in relation to the consolidation of the spreads manufacturing into a single site at Kirkby, Liverpool. This grant is conditional upon certain conditions over a five year term, principally the project being completed and the creation or safeguarding of an agreed number of jobs.

24 Provisions

	Site restructuring and rationalisation £m	Dairies disposal provision £m	Dilapidation provision £m	Total £m
As at 1 April 2016	5.0	3.0	2.0	10.0
Utilised during the year	(2.7)	(2.8)	–	(5.5)
Charged during the year	–	–	0.2	0.2
At 31 March 2017	2.3	0.2	2.2	4.7
Current	2.3	0.2	0.2	2.7
Non-Current	–	–	2.0	2.0
At 1 April 2015	3.1	–	–	3.1
Utilised during the year	(2.4)	–	–	(2.4)
Charged during the year	4.3	3.0	2.0	9.3
At 31 March 2016	5.0	3.0	2.0	10.0
Current	5.0	3.0	2.0	10.0
Non-Current	–	–	–	–

Restructuring and rationalisation of operating sites

In the prior year, the Group provided through exceptional operating items, decommissioning and demolition costs in relation to the closure of the Chard site of £4.3 million. The Group has paid £2.7 million of these costs in the year ending 31 March 2017 (2016: £2.4 million) and expects the remaining provision to be utilised in the year ending 31 March 2018.

Dairies disposal provision

At 31 March 2016, the Group held a provision of £3.0 million for future expected costs in relation to the disposal of the Dairies operation to Muller UK & Ireland Group LLP on 26 December 2015. The Group has paid £2.8 million of these costs in the year ending 31 March 2017 and expects the remainder of this provision to be utilised in the year ending 31 March 2018.

Dilapidation provision

At 31 March 2017, the Group held a provision relating to leasehold property dilapidation liabilities on properties where the Group considers there to be a high likelihood of exiting when the lease term expires. The payment of this provision would occur following vacation of the respective properties. A provision of £0.2 million relates to vacated properties and therefore may become payable in the year ending 31 March 2018. The remaining £2.0 million relates to properties where the lease term expires in the year ending 31 March 2020 and as such the provision has been re-classified as non-current in the Group's financial statements. The prior year has not been re-stated.

25 Share capital

Authorised	2017 Thousands	2016 Thousands
Ordinary shares of 25 pence each	240,000	240,000
Issued and fully paid	Thousands	£m
At 31 March 2015	137,725	34.4
Issued for cash on exercise of share options	1,766	0.5
Issued to ESOP at par for nil consideration	1,200	0.3
At 31 March 2016	140,691	35.2
Issued for cash on exercise of share options	380	0.1
At 31 March 2017	141,071	35.3

During the year ended 31 March 2017 380,281 shares were issued at a premium of £1.3 million for an aggregate consideration of £1.4 million (2016: 2,965,762 shares at a premium of £4.5 million for an aggregate consideration of £5.0 million). Exercises of management share options are fulfilled by the transfer of existing shares from The Dairy Crest Employees' Share Ownership Plan Trust ('ESOP') – see Note 27.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 Notes to statement of changes in equity

Consolidated

The shares held by the ESOP are available to satisfy awards under the Company's management share option schemes (see Note 27).

At 31 March 2017 the ESOP held 1,132,532 shares (2016: 1,203,367 shares) in the Company at a cost of £0.3 million (2016: £0.3 million). The ESOP was established in August 1996 to acquire shares in the Company in order to hedge certain future obligations of the Group including shares awarded under the Company's management share option schemes. During the year the Trustee of the ESOP transferred 71,035 (2016: 87,401) shares following exercises of options and subscribed for 200 shares at 25 pence per share. The market value of the shares held by the ESOP, which are listed on the London Stock Exchange was £6.3 million at 31 March 2017 (2016: £7.4 million).

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m
At 31 March 2016	55.9	(3.8)	(1.5)	50.6
Total recognised in other comprehensive income	–	(2.3)	–	(2.3)
At 31 March 2017	55.9	(6.1)	(1.5)	48.3
At 31 March 2015	55.9	(3.0)	(1.5)	51.4
Total recognised in other comprehensive income	–	(0.8)	–	(0.8)
At 31 March 2016	55.9	(3.8)	(1.5)	50.6

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 (2016: £86.8 million). The reserve is not distributable.

The hedging reserve records the gains and losses on hedging instruments, to the extent that they are effective cash flow hedges. Any gains and losses previously recorded in the hedging reserve are reclassified in profit and loss when the underlying hedged item affects profit and loss.

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 designated to hedge the net investment in foreign subsidiaries.

Parent Company

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The profit for the year dealt with in the accounts of the Company is £196.9 million (2016: £34.5 million), this included a profit on the sale of shares held in Dairy Crest Limited of £194.6 million and dividends received from subsidiary companies of £nil (2016: £34.5 million). Dividends paid amounted to £31.1 million (2016: £30.0 million) which, along with a debit for share-based payments of £0.8 million (2016: £0.8 million) and a transfer between reserves of £158.9 million resulted in a £325.5 million increase in retained earnings (2016: £5.7 million). Not all the retained earnings are distributable at this point as this is dependent on the proceeds for the sale being settled in cash, as is the Company's intention in the future.

In 1996 the Company acquired the entire issued share capital of Dairy Crest Limited. Consideration was in the form of cash and the issue of 109.8 million ordinary shares of 25 pence each. The fair value of the shares issued was estimated as £170.2 million. The capital reserve of £142.7 million, shown in the statement of changes in equity, represents the difference between the fair value of shares issued and their nominal value of £27.5 million. During the year these shares were sold to Dairy Crest UK Limited.

27 Share based payment plans

Consolidated

The Group has five share option schemes in operation.

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

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

The Transformational Incentive Award ('TIA')

The TIA was granted, under the rules of the LTISP, in December 2014. The TIA is a nil price option to acquire ordinary shares subject to certain performance objectives being met in addition to continuing employment. The performance objectives relate to three categories detailed below:

- 1) managing the competition approval process relating to the proposed Dairies operation disposal;
- 2) appropriate reshaping of the Group, taking into account the competition approval process; and
- 3) establishing a successful future business, by reference to the development of the Group, including delivering value to shareholders.

The vesting period is three years from the date of grant. There are no cash settlement alternatives.

27 Share based payment plans continued

Deferred Bonus Plan ('DBP')

Any bonus in excess of 50% of basic annual salary is deferred in share options with a vesting period of 3 years. The only vesting condition is continuing employment. The cost of these share options is based on the number of shares issued and the share price at the date of grant, spread over the vesting period. During the year ended 31 March 2017, no deferred shares were awarded in relation to the year ended 31 March 2016 (2016: none).

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

This is a long-term incentive scheme under which awards are made to Directors and senior managers consisting of the right to acquire shares for a nominal price subject to the achievement of financial targets based on (i) total shareholder returns ('TSR') over a three year period versus comparator companies and (ii) growth in adjusted basic earnings per share. The TSR element represents 60% of the awards granted. The vesting period for grants made under this scheme is 3 years with an exercise period of 7 years. There were no awards granted in the year ended 31 March 2017 (2016: nil). There are no cash settlement alternatives. The LTISP was replaced by the LTAP in the year ended 31 March 2014.

Dairy Crest Sharesave Scheme

All employees are eligible to join the Dairy Crest Sharesave Scheme, which allows employees to use regular monthly savings to purchase shares. Options are granted at a discount of up to 20% of the market value of the shares. No financial performance criteria are attached to these options and they vest three years from the date of grant with an exercise period of six months. During the current year 629,639 options were granted at 463 pence (2016: none). There are no cash settlement alternatives.

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

	LTAP*	TIA*	DBP*	LTISP*	Sharesave Scheme	
	number	number	number	number	number	weighted average exercise price (pence)
Options outstanding at 1 April 2016	877,831	252,558	71,123	131,569	991,800	367.8
Options granted during the year	216,927	–	–	–	629,639	463.0
Reinvested dividends	40,077	9,816	2,410	6,218	–	–
Options exercised during the year	(63,641)	–	–	(7,394)	(380,281)	358.1
Options forfeited during the year	–	–	–	–	(300,022)	381.5
Options outstanding at 31 March 2017	1,071,194	262,374	73,533	130,393	941,136	431.1
Exercisable at 31 March 2017	–	–	2,875	130,393	–	–
Options outstanding at 1 April 2015	716,937	240,623	68,934	196,737	3,119,443	319.3
Options granted during the year	264,779	–	–	–	–	–
Reinvested dividends	38,490	11,935	2,189	8,902	–	–
Options exercised during the year	–	–	–	(71,738)	(1,771,686)	285.9
Options forfeited during the year	(142,375)	–	–	(2,332)	(355,957)	351.9
Options outstanding at 31 March 2016	877,831	252,558	71,123	131,569	991,800	367.8
Exercisable at 31 March 2016	63,640	–	–	131,569	579,195	–

* LTAP, TIA, DBP and LTISP options are nil cost options. The weighted average exercise price during the year under LTAP and LTISP was 562.8 pence and 565.0 pence respectively.

LTAP options are exercisable at varying dates up to June 2026 (March 2016: May 2025). TIA options are exercisable up to December 2024 (March 2016: December 2024). DBP options are exercisable at varying dates up to December 2024 (March 2016: December 2024). LTISP options are exercisable at varying dates up to July 2022 (March 2016: July 2022). Sharesave scheme options are exercisable up to February 2020 at prices ranging from 376 pence to 463 pence (March 2016: exercisable up to February 2018 at prices ranging from 281 pence to 376 pence).

The remaining weighted average contractual life of options outstanding at March 2017 is 7.8 years for the LTAP, 7.7 years for the TIA, 7.7 years for the DBP, 5.1 years for the LTISP and 2.2 years for the Sharesave Scheme (2016: LTAP 8.4 years, TIA 8.7 years, DBP 8.6 years, LTISP 6.1 years and Sharesave Scheme 1.8 years).

The fair value factor of the Sharesave Scheme options issued in May 2016 was 19.0% giving a fair value of £1.06 per option granted. This has been computed using a Black-Scholes option pricing model. The key assumptions used in the valuation model were expected share price volatility 24%, risk free rate of interest 0.61% and dividend yield 3.57%. The volatility assumption is based on the historical volatility of the Dairy Crest Group plc share price over a period commensurate with the expected option life, ending on the grant date of option.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 Share based payment plans continued

The fair value of TIA options issued on 23 December 2014 was £4.91 per option granted. This has been computed using a Black-Scholes option pricing model. The key assumptions used in the valuation model were expected share price volatility 24% and a risk free rate of interest 0.85%. The volatility assumption is based on the historical volatility of the Dairy Crest Group plc share price over a period commensurate with the expected option life, ending on the grant date of option.

The Group expense arising from share option plans for continuing operations for the year ended 31 March 2017 was £1.2 million (2016: £1.4 million). The Group expense related to discontinued operations was £nil (2016: £0.8 million). See Note 10.

Company

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

	LTAP	TIA	DBP	LTISP	Sharesave Scheme	weighted average exercise price (pence)
	number	number	number	number	number	
Options outstanding at 1 April 2016	424,375	252,558	52,251	50,859	12,775	352.2
Options granted during the year	118,668	–	–	–	3,886	463.0
Reinvested dividends	23,452	9,816	1,743	1,976	–	–
Adjustment for change of director during the year	60,375	–	–	–	4,336	–
Options exercised during the year	–	–	–	–	(3,202)	–
Options forfeited during the year	–	–	–	–	–	–
Options outstanding at 31 March 2017	626,870	262,374	53,994	52,835	17,795	404.5
Exercisable at 31 March 2017	–	–	2,875	52,835	–	–
Options outstanding at 1 April 2015	392,313	240,623	68,934	73,355	21,572	333.7
Options granted during the year	128,741	–	–	–	–	–
Reinvested dividends	20,221	11,935	2,189	3,638	–	–
Adjustment for change of director during the year	(24,020)	–	(18,872)	(26,134)	(5,595)	–
Options exercised during the year	–	–	–	–	(3,202)	–
Options forfeited during the year	(92,880)	–	–	–	–	–
Options outstanding at 31 March 2016	424,375	252,558	52,251	50,859	12,775	352.2
Exercisable at 31 March 2016	–	–	–	50,859	–	–

LTAP options are exercisable at varying dates up to June 2026 (March 2016: May 2025). TIA options are exercisable up to December 2024 (March 2016: December 2024). DBP options are exercisable at varying dates up to December 2024 (March 2016: December 2024). LTISP options are exercisable at varying dates up to July 2022 (March 2016: July 2022). Sharesave Scheme options are exercisable up to February 2020 at prices ranging from 376 pence to 463 pence (March 2016: exercisable up to February 2018 at prices ranging from 281 pence to 376 pence).

The remaining weighted average contractual life of options outstanding at March 2017 is 7.8 years for the LTAP, 7.7 years for the TIA, 7.7 years for the DBP, 5.3 years for the LTISP and 1.6 years for the Sharesave Scheme (2016: LTAP 8.4 years, TIA 8.7 years, DBP 8.6 years, LTISP 7.3 years and Sharesave Scheme 1.5 years).

The Company expense arising from share option plans for the year ended 31 March 2017 was £0.8 million (2016: £0.8 million).

28 Commitments and contingencies

Operating Leases

The Group has entered into commercial leases on certain land and buildings, vehicles and equipment. There are no material renewal options, escalation clauses or purchase options included in the lease contracts. There are no contingent rentals or operating leases or material sub-leases. There are no significant restrictions placed upon the lessee by entering into these leases. Excluding land and buildings, these leases have an average life of between three and seven years.

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

	2017 £m	2016 £m
Within one year	7.5	2.6
After one year but not more than five years	25.3	3.7
More than five years	8.0	–

During the year, the Group entered into two sale and leaseback agreements with Lombard Business Leasing Limited. The sale and leaseback was for certain plant and equipment relating to the Demineralised Whey and GOS facility at Davidstow. The future minimum rentals at 31 March 2017 in respect of these operating lease agreements was £34.6 million.

Finance leases

On 23 June 2015 the Group recognised a finance lease for certain assets at Nuneaton. The lease term is for 3.75 years. Future minimum payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2017		2016	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
Within one year	1.6	1.5	1.5	1.5
After one year but not more than five years	1.0	1.0	2.6	2.4
More than five years	–	–	–	–
Total minimum lease payments	2.6	2.5	4.1	3.9
Less: amounts representing finance charges	(0.1)	–	(0.2)	–
Present value of minimum lease payments	2.5	2.5	3.9	3.9

Guarantees

The Company has provided guarantees and indemnities to Lombard Business Leasing Limited in relation to the obligations of Dairy Crest Limited under two lease agreements that were taken out during the year. The future lease rentals payable under these agreements at 31 March 2017 were £34.6 million and the maximum amount payable by the Company under these guarantees is capped at £76.0 million plus interest. There were no guarantees and indemnities in the prior year.

Capital commitments

	Consolidated	
	2017 £m	2016 £m
Future capital expenditure contracted on property, plant and equipment	13.0	13.1

Contingent liabilities

Dilapidations liability of Chadwell Heath

Under the terms of the sale and purchase agreement of the Dairies operation, the Group has a potential dilapidations liability to 26 December 2015 in relation to the Chadwell Heath site. The lease does not end until July 2032, with break clauses in July 2022 and July 2027. Muller UK & Ireland Group LLP have announced they intend to close the site in 2018, however any obligations are dependent on the intentions of the landlord in respect of the site. The Directors are not quantifying the potential liability in respect of this obligation because to do so may be prejudicial to the interests of the Group as the matter may be subject to negotiation or judicial proceedings.

Litigation in relation to the capital project at Davidstow

There are a number of contractual disputes in respect of the demineralised whey and GOS capital project at Davidstow which remain outstanding as of 31 March 2017. In a number of instances, claims have been made by the Group, and in others, claims made against the Group. To the extent that claims are being made by the Group, including the most significant ongoing dispute, the status of the resolution of these matters does not support recognition of an asset. The Group has rebutted all claims against it, but nonetheless has accrued for professional fees on these claims.

In the case of both the claims made by the Group and those made against it, the Group is not disclosing detail of the claims due to the legal sensitivity of the matter. In each instance, it is anticipated that the case will be resolved in the next financial year. It is the opinion of the Directors that there is no significant financial liability that would require being provided for as at 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 Related party transactions

The Group had no significant related parties.

Compensation of key management personnel of the Group and Company	2017 £m	2016 £m
Short-term employee benefits	2.0	1.9
Share-based payments	0.8	0.8
Total compensation paid to key management personnel*	2.8	2.7

* Further details relating to compensation of key management personnel are set out in the Directors' Remuneration Report. This includes a description of pension arrangements and any cash supplements paid.

Key management personnel comprise Executive and Non-executive Directors of Dairy Crest Group plc. The senior management team is small and all key decisions are made by either the three Executive Directors or by the Group Board which meets regularly.

Company

Dairy Crest Limited, a subsidiary company, incurred costs of £2.0 million (2016: £1.9 million) from the Company for the provision of management and administrative services carried out on its behalf. Dairy Crest Limited received £1.9 million (2016: £1.8 million) for the remuneration of the Company's employees which had been paid by Dairy Crest Limited.

Interest charges of £2.5 million (2016: £4.0 million) were incurred by the Company from Dairy Crest Limited on loans reflecting an interest rate of LIBOR+100 basis points. Interest income of £5.7 million (2016: £11.5 million) was received by the Company from Dairy Crest Limited on loans reflecting an interest rate of 4.5% (2016: 5.3%) and a further £5.4 million was received by the Company from Dairy Crest UK Limited on floating rate loans paying LIBOR plus margin (2016: £0.4 million). The Company paid no interest (2016: £nil) to Dairy Crest Limited on cross-currency swaps paying LIBOR and receiving EURIBOR.

30 Business combinations and disposals

(i) Disposal of Discontinued Operations

On 26 December 2015, the Group completed the disposal of its Dairies operation to Muller UK & Ireland Group LLP ('Müller'). The Dairies operation has therefore been classified as discontinued operations.

The disposal resulted in a post tax loss of £108.0 million which is analysed below. The final consideration of £23.5 million comprised £54.5 million received in cash during the prior year net of £25.9 million which was provided for in the prior year but repaid to Müller in 2017. The final consideration adjustment of £2.5 million was agreed in the current year. The disposal resulted in a net cash outflow in the current year of £28.4 million (2016: £49.0 million inflow, after £5.5 million of professional fees).

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Property, plant and equipment	-	(132.2)
Intangible assets	-	(15.6)
Inventories	-	(33.0)
Trade and other receivables	-	(9.0)
Trade and other payables	-	29.4
Net assets and liabilities disposed	-	(160.4)
Consideration	(2.5)	28.6
Disposal costs	-	(5.5)
Loss on disposal before tax	(2.5)	(137.3)
Attributable tax	5.2	26.6
Profit/(loss) on disposal of discontinued operations	2.7	(110.7)

(ii) Acquisitions

There were no business acquisitions during the year.

In the prior year, the Group acquired the outstanding share capital of Promovita Ingredients Limited ('Promovita') for a cash consideration of £6.0 million bringing its shareholding to 100%. Promovita was established in 2014 as a joint venture between the Group and Fayrefield Foods Limited to develop and produce GOS, a prebiotic for use in infant formula. In accordance with IFRS 3 (Revised) 'Business Combinations', the value of the previously held 50% shareholding has been restated to fair value at the acquisition date. The difference between the fair value of the equity owned prior to acquisition of £6.0 million and the book value of the original investment of £nil was recognised in the consolidated income statement, with the gain of £6.0 million reported in exceptional items under continuing operations.

30 Business combinations and disposals continued

The fair value of the original shareholding has been calculated based on the principles of IFRS 13 'Fair Value Measurement' under Hierarchy Level 2, with the fair value being equal to the amount paid for Fayrefield Foods Limited's 50% share.

	Book and provisional fair value £m
Net assets acquired:	
Trade and other receivables	0.8
Trade and other payables	(0.8)
	–
Gain on remeasurement to fair value	(6.0)
Goodwill	12.0
Total consideration satisfied by cash	6.0

The goodwill of £12.0 million arising on acquisition represents future opportunities in relation to the use of GOS in infant formula and other products. None of the goodwill is expected to be deductible for corporate income tax purposes.

31 Financial risk management objectives and policies

The objective of the treasury function, which is accountable to the Board, is to manage the Group's and Company's financial risk, secure cost-effective funding for the Group's operations and to minimise the effects of fluctuations in interest rates and exchange rates on the value of the Group's and Company's financial assets and liabilities, on reported profitability and on cash flows.

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

The Group also enters into derivative transactions; principally cross currency swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout 2016 and 2017, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign currency risk, price risk and credit risk. Information on how these risks arise is set out below, as are the objectives, policies and processes agreed by the Board for their management and the methods used to measure each risk. Derivative instruments are used to change the economic characteristics of financial instruments in accordance with the Group's treasury policies. The Group's accounting policies in relation to derivatives are set out in the Accounting Policies note.

Liquidity risk

The Group's objectives are:

- to ensure that forecast peak net borrowings, plus a prudent operating headroom are covered by committed facilities which mature after at least 12 months;
- to ensure that prudent headroom versus bank and loan note covenant ratios are forecast for the next three years;
- to maintain flexibility of funding by employing diverse sources of funds (eg use of non-bank markets such as private placements); and
- to avoid a concentration of facility maturities in any particular year.

The maturity analysis of Group borrowings is set out in Note 20. At 31 March 2017 the Group's total credit facilities amounted to £397.9 million (2016: £479.8 million) excluding finance leases of £2.5 million (2016: £3.9 million) and the impact of cross-currency swaps on US Dollar and Euro loan notes of £12.2 million (2016: £19.4 million). The facilities at 31 March 2017 and 31 March 2016 consisted of:

March 2017

- £240 million revolving credit facility of which £80 million will expire on 6 October 2018 and £160 million on 6 October 2020.
- loan notes totalling £157.9 million repayable between April 2017 and March 2026.

March 2016

- £240 million revolving credit facility of which £80 million will expire on 6 October 2018 and £160 million on 6 October 2020.
- loan notes totalling £239.8 million repayable between April 2016 and March 2026.

Undrawn revolving credit facilities at 31 March 2017 amounted to £112.0 million (2016: £135.0 million). Effective headroom including cash and short-term deposits amounted to £132.9 million (2016: £235.3 million).

The Group aims to mitigate liquidity risk by closely managing cash generation by its operating businesses and by monitoring performance to budgets and forecasts. Capital investment is carefully controlled, with detailed authorisation limits in place up to Executive level and cash payback criteria considered as part of the investment appraisal process. Short-term and long-term cash and debt forecasts are constantly reviewed and there are regular treasury updates to the Executive highlighting facility headroom and net debt performance.

Day-to-day cash management utilises undrawn revolving credit facilities, overdraft facilities and occasionally short-term money market deposits if there is excess cash.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 Financial risk management objectives and policies continued

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's long-term strategy is to keep between one third and three quarters of its borrowings at fixed rates of interest in the medium term. To manage this mix in a cost-efficient manner, the Group has issued fixed coupon loan notes and also enters into interest rate swaps from time to time on a portion of its floating bank borrowings, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt interest cash flow obligations. In the short-term the proportion of fixed and floating rate borrowings can go outside the long-term range.

At 31 March 2017, 55% of the Group's borrowings were at a fixed rate of interest (2016: 70%). On 23 March 2016, the Group raised £76.1 million sterling equivalent by way of fixed coupon loan notes and on 4 April 2016 the Group repaid £80.2 million sterling equivalent of fixed coupon loan notes. *This resulted in a high percentage of fixed interest rate debt as at 31 March 2016. In the medium term we expect the fixed proportion of borrowings to continue to be in the target range.*

The Group's borrowing facilities require minimum interest cover of 3.0 times.

The Group's exposure to interest rate risk is shown (by way of a sensitivity analysis) in Note 32.

Foreign currency risk

The Group has no significant operations outside the UK. However it buys and sells a small amount of goods in currencies other than Sterling. As a result the value of the Group's non-Sterling revenues, purchases, assets, liabilities and cash flows can be affected by movements in exchange rates – predominantly Euro/Sterling. *The Group's exposure to Euro/Sterling is increasing due to the investment in demineralised whey production which is sold in Euros. The Group's policy is to match foreign currency transaction exposures where possible and where appropriate the Group will use financial instruments in the form of forward foreign currency contracts to hedge future transaction and cash flows denominated in currencies other than Sterling.*

The majority of the Group's transactions are carried out in the relevant entity's functional currency and therefore transaction exposures are currently limited. It can be seen in Note 16 that the only significant non-Sterling trade receivables are in Euros. In 2016/17, the Group began trading demineralised whey products in Euros resulting in an increase in trade receivables denominated in Euros from £1.0 million at 31 March 2016 to £2.3 million at 31 March 2017. We expect this to increase further in 2017/18.

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

In 2007, 2011 and 2016 the Group issued loan notes denominated either in \$US, € or £. Cross-currency swaps were implemented as required to hedge the interest and principal repayment cash flows. These have the effect of fixing the liability and coupon in Sterling. The principal amount and interest and principal payment dates on these swaps match those on the loan notes exactly and all swaps are with counterparties with strong credit ratings. There is no profit and loss exposure in relation to \$US or € note debts as any retranslation impact on the profit and loss account is offset by reclassification of amounts from other comprehensive income into profit and loss.

Price risk

The Group is exposed to price risk related to certain commodities and their by-products used by the Group's businesses. The principal non-milk commodities that affect input prices for the Group are vegetable oils, gas, electricity, diesel, heavy fuel oil and crude oil by-products (used in packaging).

The Group monitors prices on an ongoing basis in order to assess the impact that movements have on profitability and to assess whether the amount of forward cover is appropriate. This includes vegetable oil contracts and energy, which is generally contracted one season in advance for both summer and winter energy but with some requirement contracted at more regular intervals.

The Group regularly reviews relevant commodity markets and levels of future cover. Fixed price contracts are only entered into with the approval of the Commodity Risk Committee comprising senior operational and finance management and external advisers.

Credit risk

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

Debtor days outstanding are closely monitored throughout the year and action is taken promptly when payment terms are breached.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, trade and other debtors (excludes prepayments) and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The maximum exposure for the Group is equal to the carrying amount of these financial assets of £62.1 million (2016: £158.2 million).

All revolving credit facility borrowings are through banks with long-term credit ratings of A or above. Funds temporarily surplus to business requirements are invested through deposit accounts with mainstream UK commercial banks with a credit rating of A or better. The Group currently has no requirement to place deposits for long periods, accordingly counterparty risk is considered to be acceptable. Derivative financial instruments are contracted with a range of banks with long-term credit ratings of A or above to avoid excessive concentration of financial instruments with one counterparty.

31 Financial risk management objectives and policies continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains an appropriate level of gearing in order to support its business and maximise shareholder value. In addition, the Group monitors its forecast net debt to EBITDA ratios in order that they are comfortably within its banking covenant requirements. The maximum net debt to EBITDA ratio for the purposes of bank covenants is 3.5 times though the Directors target a ratio of below 2 times. At 31 March 2017 the ratio of net debt to EBITDA was 2.94 times (March 2016: 2.69 times).

The Group monitors its capital structure and makes adjustments to it in the light of changes in economic conditions or changes in Group structure. Possible mechanisms for changing capital structure include adjusting the level of dividends, issuance of new shares or returning capital to shareholders. No significant changes in capital structure have been implemented in the year ended 31 March 2017 or the prior year.

The Group monitors capital using a gearing ratio, which is net debt divided by shareholders' funds. The analysis of net debt is included in Note 34. The gearing ratio at 31 March 2017 and 31 March 2016 can be analysed as follows:

	2017 £m	2016 £m
Net debt	249.8	229.0
Shareholders' funds	71.9	134.2
Gearing ratio	347%	171%

Dividends

Details of dividends paid and proposed during the year are given in Note 9. The dividend policy is to maintain a progressive dividend whilst seeking to maintain a level of dividend cover between 1.5 and 2.5 times. The final proposed dividend in respect of the year ended 31 March 2017 is 16.3 pence, up 0.3 pence from last year (2016: 16.0 pence). Total dividends paid and proposed in respect of the year ended 31 March 2017 amount to 22.5 pence (2016: 22.1 pence).

32 Financial instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies is set out in the discussion of Treasury policies in Note 31.

Consolidated

Interest rate maturity profile of financial assets and liabilities

The following table sets out the carrying amount, by maturity of the Group's financial assets and liabilities that are exposed to interest rate risk. No other financial assets and liabilities, other than those shown below, are exposed directly to interest rate risk.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	Total £m
At 31 March 2017							
Fixed rate							
Loan notes*	(11.9)	(20.0)	–	–	(45.0)	(81.0)	(157.9)
Forward currency contracts	(0.2)	–	–	–	–	–	(0.2)
Finance leases	(1.5)	(1.0)	–	–	–	–	(2.5)
Cross currency swaps	(0.1)	3.6	–	–	6.2	2.5	12.2
Floating rate							
Bank loans	–	(80.0)	–	(48.0)	–	–	(128.0)
Cash at bank and in hand	20.9	–	–	–	–	–	20.9
At 31 March 2016							
Fixed rate							
Loan notes*	(95.6)	(11.3)	(17.4)	–	–	(115.5)	(239.8)
Finance leases	–	–	(3.9)	–	–	–	(3.9)
Cross currency swaps	16.0	(0.7)	1.0	–	–	0.7	17.0
Floating rate							
Bank loans	–	–	(53.0)	–	(52.0)	–	(105.0)
Cash at bank and in hand	100.2	–	–	–	–	–	100.2

* Classified as fixed rate after taking into account the effect of interest rate swaps.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32 Financial instruments continued

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings. There is no material impact on the Group's equity resulting from movements in interest rates other than in relation to the \$US/GBP and EUR/GBP cross-currency swaps used as a cash flow hedge on \$US and EUR loan notes. The impact on equity is nil over the life of the instruments as these swaps comprise an effective hedge. At 31 March 2017, 55% of Group borrowings were at fixed rates of interest (2016: 70%) (see Note 30).

The sensitivity analysis below excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes non-derivative floating rate financial instruments except those where interest rate swaps have been used as cash flow hedges. This is due to the fact that gains and losses on the hedging instrument offset losses and gains on the non-derivative floating rate financial instrument which are subject to the hedge and are matched in both profit and loss and cash terms. No non-derivative fixed rate financial instruments have profit and loss exposure due to floating rates as a result of interest rate swaps.

The 2017 analysis below reflects lower reasonably possible changes in interest rates to 2016 – upside LIBOR expectations assumed last year were not realised and the assumption is that base rates will increase less than anticipated at March 2016.

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2017			
Sterling	+100	1.5	–
Sterling	–50	(0.7)	–
2016			
Sterling	+100	1.1	–
Sterling	–50	(0.5)	–

Equity price risk

The Group holds no listed equity investments and is not subject to equity price risk other than through the pension scheme (see Note 21).

Credit risk

There are no significant concentrations of credit risk within the Group unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date (see Note 31).

Liquidity risk

The Group's policy on managing its liquidity risk is set out in Note 31. The table below summarises the maturity profile of the Group's financial liabilities at 31 March 2017 and 2016 based on contractual undiscounted payments of interest and principal.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	Total £m
At 31 March 2017							
Loan notes	(17.1)	(24.8)	(4.5)	(4.5)	(48.6)	(88.2)	(187.6)
Cross-currency swaps (on loan notes):							
payment leg	(12.4)	(19.0)	(2.6)	(2.6)	(37.9)	(32.1)	(106.7)
receipt leg	12.7	23.3	3.0	3.0	47.1	37.2	126.3
Bank loans	–	(80.0)	–	(48.0)	–	–	(128.0)
Finance leases	(1.5)	(1.0)	–	–	–	–	(2.5)
At 31 March 2016					Restated*	Restated*	Restated*
Loan notes	(100.9)	(33.0)	(4.1)	(4.1)	(4.1)	(125.9)	(272.1)
Cross-currency swaps (on loan notes):							
payment leg	(74.0)	(28.1)	(2.6)	(2.6)	(2.6)	(70.0)	(179.9)
receipt leg	89.2	28.7	2.6	2.6	2.6	73.4	199.1
Bank loans	–	–	(53.0)	–	(52.0)	–	(105.0)
Finance leases	(1.5)	(1.5)	(1.1)	–	–	–	(4.1)

* Comparative period restated to reflect the loan notes payable in November 2021 as payable in > 5 years

Short-term payables all mature within one year.

32 Financial instruments continued

Fair values of financial assets and financial liabilities

The carrying amounts and the fair values of all of the Group's financial instruments that are carried in the financial statements are the same, with the exception of the loan notes. The carrying amount of the loan notes was £157.9 million (2016: £239.8 million) and the fair value was £156.4 million (2016: £231.0 million). The fair value of borrowings has been calculated based on the principles of IFRS 13 'Fair Value Measurement' under Hierarchy Level 2, by discounting the expected future cash flows at prevailing interest rates.

Gross currency swaps

The notional principal amount of the outstanding \$US/GBP cross currency swap contracts at 31 March 2017 was \$126.3 million (£101.0 million) (2016: \$249.4 million (£173.5 million)). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2017 the fixed interest rates varied from 3.227% to 4.516% (2016: 3.227% to 5.305%). Any gains/losses arising from fair value adjustments deferred in equity will reverse in the income statement (finance costs) during the next six years (being the life of the swaps).

The notional principal amount of the outstanding EUR/GBP cross currency swap contracts at 31 March 2017 was €10.7 million (£9.2 million) (2016: €10.7 million (£8.5 million)). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2017 the fixed interest rates varied from 5.47% to 5.60% (2016: 5.47% to 5.60%). The loss deferred in equity will reverse in the income statement (finance costs) during the next year (being the life of the swaps).

Forward currency contracts

The Group enters into certain forward currency contracts in order to hedge the Sterling cost of currency-denominated future purchases and receipts. The forward currency purchases in place at 31 March 2017 do not meet the criteria for hedge accounting and the loss in respect of these has been recognised within the income statement.

Borrowing facilities

The Group has undrawn committed long-term borrowing facilities available at 31 March 2017 of £112.0 million (2016: £135.0 million) in respect of which all conditions precedent had been met at that date. Undrawn facilities expire on 6 October 2018 (£nil) and 6 October 2020 (£112.0 million).

Company

Interest rate maturity profile of financial assets and liabilities

The following table sets out the carrying amount, by maturity of the Company's financial assets and liabilities that are exposed to interest rate risk. No other financial assets and liabilities, other than those shown below, are exposed directly to interest rate risk.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	Total £m
At 31 March 2017							
Fixed rate							
Loan notes*	(11.9)	(20.0)	–	–	(45.0)	(81.0)	(157.9)
Intercompany receivables	152.9	–	–	–	–	–	152.9
Intercompany payables	(48.8)	–	–	–	–	–	(48.8)
Cross currency swaps	(0.1)	3.6	–	–	6.2	2.5	12.2
Floating rate							
Intercompany receivables	456.4	–	–	–	–	–	456.4
Intercompany payables	(169.2)	–	–	–	–	–	(169.2)
At 31 March 2016 restated**							
Fixed rate							
Loan notes*	(95.6)	(11.3)	(17.4)	–	–	(115.5)	(239.8)
Intercompany receivables	238.7	–	–	–	–	–	238.7
Intercompany payables	(48.6)	–	–	–	–	–	(48.6)
Cross currency swaps	16.0	(0.7)	1.0	–	–	0.7	17.0
Floating rate							
Intercompany receivables	35.4	–	–	–	–	–	35.4
Intercompany payables	(215.4)	–	–	–	–	–	(215.4)

* These have been classified as fixed rate after taking into account the effect of interest rate swaps.

** The comparative figures have been restated to report intercompany receivables and intercompany payables separately within fixed and floating rate.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax through the impact on floating rate borrowings. There is no impact on the Company's equity resulting from movements in interest rates other than in relation to the \$US/GBP and EUR/GBP cross-currency swaps used as a cash flow hedge on \$US and EUR loan notes. The impact on equity is nil over the life of the instruments as these swaps comprise an effective hedge.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32 Financial instruments continued

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes non-derivative floating rate financial instruments except those where interest rate swaps have been used as cash flow hedges. This is due to the fact that gains and losses on the hedging instrument offset losses and gains on the non-derivative floating rate financial instrument which are subject to the hedge are matched in both profit and loss and cash terms. No non-derivative fixed rate financial instruments have profit and loss exposure due to floating rates as a result of interest rate swaps.

The 2017 analysis below reflects lower reasonably possible changes in interest rates to 2016 – upside LIBOR expectations assumed last year were not realised and the assumption is that base rates will increase less than anticipated at March 2016.

	Increase/ decrease in basis points	Effect on profit before tax £m	Effect on equity £m
2017			
Sterling	+100	–	–
Sterling	–50	–	–
2016			
Sterling	+100	–	–
Sterling	–50	–	–

Equity price risk

The Company holds no listed equity investments and is not subject to equity price risk.

Credit risk

The maximum exposure to credit risk is the carrying amount of financial assets.

Liquidity risk

The Company's policy on managing its liquidity risk is set out in Note 31. The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2017 and 2016 based on contractual undiscounted payments of interest and principal.

	< 1 year £m	>1 <2 years £m	>2 <3 years £m	>3 <4 years £m	>4 <5 years £m	> 5 years £m	Total £m
At 31 March 2017							
Loan notes	(17.1)	(24.8)	(4.5)	(4.5)	(48.6)	(88.2)	(187.6)
Cross-currency swaps (on loan notes):							
payment leg	(12.4)	(19.0)	(2.6)	(2.6)	(37.9)	(32.1)	(106.7)
receipt leg	12.7	23.3	3.0	3.0	47.1	37.2	126.3
At 31 March 2016					Restated*	Restated*	Restated*
Loan notes	(100.9)	(33.0)	(4.1)	(4.1)	(4.1)	(125.9)	(272.1)
Cross-currency swaps (on loan notes):							
payment leg	(74.0)	(28.1)	(2.6)	(2.6)	(2.6)	(70.0)	(179.9)
receipt leg	89.2	28.7	2.6	2.6	2.6	73.4	199.1

* Comparative period restated to reflect the loan notes payable in November 2021 as payable in > 5 years

Fair values of financial assets and financial liabilities

The carrying amounts and the fair values of all of the Company's financial instruments that are carried in the financial statements are the same, with the exception of the loan notes. The carrying amount of the loan notes was £157.9 million (2016: £239.8 million) and the fair value was £156.4 million (2016: £231.0 million). The fair value of borrowings has been calculated based on the principles of IFRS 13 'Fair Value Measurement' under Hierarchy Level 2, by discounting the expected future cash flows at prevailing interest rates.

Cross currency swaps

External

The notional principal amount of the outstanding \$US/GBP cross currency swap contracts at 31 March 2017 was \$126.3 million (£101.0 million) (2016: \$249.4 million (£173.5 million)). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2017 the fixed interest rates varied from 3.227% to 4.516% (2016: 3.227% to 5.305%). Any gains/losses arising from fair value adjustments deferred in equity will reverse in the income statement (finance costs) during the next one to six years (being the life of the swaps).

The notional principal amount of the outstanding EUR/GBP cross currency swap contracts at 31 March 2017 was €10.7 million (£9.2 million) (2016: €10.7 million (£8.5 million)). These cross currency swaps have both legs at fixed interest rates, are designated as cash flow hedges and meet the criteria for hedge accounting. At 31 March 2017 the fixed interest rates varied from 5.47% to 5.60% (2016: 5.47% to 5.60%). The loss deferred in equity will reverse in the income statement (finance costs) during the next year (being the life of the swaps).

32 Financial instruments continued

Borrowing facilities

The Company has undrawn committed long-term borrowing facilities available at 31 March 2017 of £112.0 million (2016: £135.0 million) in respect of which all conditions precedent had been met at that date. Undrawn facilities expire on 6 October 2018 (£nil) and 6 October 2020 (£112.0 million).

33 Cashflow from operating activities

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Profit before taxation – continuing operations	40.3	45.4
Loss before taxation – discontinued operations	(4.6)	(187.2)
Finance costs and other finance income – continuing operations	8.5	8.9
Loss on disposal of Dairies operation	2.5	137.3
Profit on operations	46.7	4.4
Depreciation	14.9	23.4
Amortisation of internally generated intangible assets	0.5	2.0
Amortisation of acquired intangible assets	0.4	0.4
Impairment of investment	0.5	–
Difference between cash outflow on exceptional items and amounts recognised in the income statement (excluding disposal of Dairies operation)	(6.5)	10.3
Release of grants	(1.6)	(1.7)
Share-based payments	1.2	2.2
Profit on disposal of depots	(3.0)	(3.7)
Difference between pension contributions paid and amounts recognised in the income statement	(14.1)	(20.0)
R&D tax credits	(0.1)	–
(Increase)/decrease in inventories	(10.5)	13.8
Decrease in receivables	9.3	44.2
Decrease in payables	(4.9)	(44.0)
Cash generated from operations	32.8	31.3

No cash was generated from operations for the Company in the year ended 31 March 2017 (2016: nil).

The numbers

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34 Analysis of net debt

	At 1 April 2016 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2017 £m
Consolidated					
Cash and cash equivalents	100.3	(79.4)	–	–	20.9
Borrowings (current)**	(95.6)	95.6	(11.3)	(0.6)	(11.9)
Borrowings (non-current)	(249.2)	(23.0)	11.3	(13.1)	(274.0)
Finance leases***	(3.9)	1.5	(0.1)	–	(2.5)
Debt issuance costs	1.9	0.4	(0.9)	–	1.4
	(246.5)	(4.9)	(1.0)	(13.7)	(266.1)
Debt issuance costs excluded	(1.9)	(0.4)	0.9	–	(1.4)
Impact of cross-currency swaps*	19.4	(15.4)	–	13.7	17.7
Net debt	(229.0)	(20.7)	(0.1)	–	(249.8)
	At 1 April 2015 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2016 £m
Cash and cash equivalents	50.6	49.7	–	–	100.3
Borrowings (current)**	–	–	(92.9)	(2.7)	(95.6)
Borrowings (non-current)	(263.2)	(76.3)	92.9	(2.6)	(249.2)
Finance leases***	–	1.5	(5.4)	–	(3.9)
Debt issuance costs	0.2	1.6	0.1	–	1.9
	(212.4)	(23.5)	(5.3)	(5.3)	(246.5)
Debt issuance costs excluded	(0.2)	(1.6)	(0.1)	–	(1.9)
Impact of cross-currency swaps*	13.9	0.2	–	5.3	19.4
Net debt	(198.7)	(24.9)	(5.4)	–	(229.0)

* The Group has \$126.3 million and €10.7 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (March 2016: \$249.4 million and €10.7 million). 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 £17.7 million adjustment included in the above (March 2016: £19.4 million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£110.1 million (March 2016: £182.0 million)) to the fixed Sterling liability of £92.3 million (March 2016: £162.6 million).

** During the year the Group repaid \$123.0 million (£70.2 million) and £10.0 million of 2006 fixed coupon loan notes on maturity. The £80.2 million cash flow in respect of the repayment is reflected in the table under borrowings (current) of £95.6 million and the impact of cross-currency swaps of £15.4 million.

*** Finance lease non-cash movement relates to the recognition of the agreement of a secondary lease term for assets at Nuneaton.

On 4 April 2017 there was a natural maturity of €10.7 million (£9.2 million) and £2.8 million of 2007 fixed coupon loan notes.

34 Analysis of net debt continued

Company	At 1 April 2016 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2017 £m
Cash and cash equivalents	40.1	(40.0)	–	–	0.1
Borrowings (current)	(95.6)	95.6	(11.3)	(0.6)	(11.9)
Borrowings (non-current)	(144.2)	–	11.3	(13.1)	(146.0)
	(199.7)	55.6	–	(13.7)	(157.8)
Borrowings (non-current) – impact of cross-currency swaps	19.4	(15.4)	–	13.7	17.7
Net debt	(180.3)	40.2	–	–	(140.1)

	At 1 April 2016 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2016 £m
Cash and cash equivalents	0.2	39.9	–	–	40.1
Borrowings (current)	–	–	(92.9)	(2.7)	(95.6)
Borrowings (non-current)	(158.2)	(76.3)	92.9	(2.6)	(144.2)
	(158.0)	(36.4)	–	(5.3)	(199.7)
Borrowings (non-current) – impact of cross-currency swaps	13.9	0.2	–	5.3	19.4
Net debt	(144.1)	(36.2)	–	–	(180.3)

35 Post balance sheet events

Maturity of Fixed Coupon Loan Notes

On 4 April 2017, the Group repaid €10.7 million (£9.2 million) and £2.8 million of 2007 fixed coupon loan notes on maturity.

36 Corporate information

The consolidated accounts of Dairy Crest Group plc for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the Directors on 17 May 2017 and the consolidated and Company balance sheets were signed on the Board's behalf by Mr M Allen and Mr T Atherton. Dairy Crest Group plc is a limited company incorporated in England and Wales and domiciled in the United Kingdom whose shares are publicly traded on the London Stock Exchange.

GROUP FINANCIAL HISTORY

	Restated 2013 £m	Restated 2014 £m	Restated 2015 £m	2016 £m	2017 £m
Consolidated income statement summary – continuing operations					
Product group revenue					
Cheese and Functional Ingredients	231.3	264.6	274.4	263.7	254.8
Butters, Spreads and Oils	194.5	177.4	170.0	152.6	150.7
Other	4.2	4.2	3.8	6.0	11.1
Group	430.0	446.2	448.2	422.3	416.6
Product group profit*					
Cheese and Functional Ingredients	33.1	39.3	33.1	36.4	42.8
Butters, Spreads and Oils	25.5	16.8	33.8	29.6	25.5
Associate	–	0.3	–	–	–
Total product group profit – continuing operations	58.6	56.4	66.9	66.0	68.3
Finance costs	(18.7)	(9.9)	(8.1)	(8.3)	(7.7)
Adjusted profit before tax – continuing operations**	39.9	46.5	58.8	57.7	60.6
Amortisation of acquired intangibles	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Exceptional items	(26.0)	(8.4)	(19.8)	(11.3)	(19.1)
Other finance expense – pensions	(3.5)	(0.3)	(1.8)	(0.6)	(0.8)
Group profit before tax – continuing operations	10.0	37.4	36.8	45.4	40.3
Balance sheet summary					
Property, plant & equipment, goodwill, intangibles and investments	375.9	391.9	428.9	331.8	299.3
Inventories, receivables, payables, deferred income, deferred tax asset and provisions	74.1	109.6	116.2	80.1	132.3
Total operating assets	450.0	501.5	545.1	411.9	431.6
Financial instruments excluding amounts included in net debt	1.5	2.8	(1.3)	(2.4)	(0.3)
Tax	(17.2)	(15.0)	(13.9)	(3.8)	–
Retirement obligations	(67.2)	(57.7)	(41.4)	(42.5)	(109.6)
Net debt	(59.7)	(142.2)	(198.7)	(229.0)	(249.8)
Shareholders' equity	307.4	289.4	289.8	134.2	71.9
Cash flow summary					
Generated from/(used in) operations	19.1	(13.8)	35.3	31.3	32.8
Fixed asset investments (net of grants)	(46.0)	(58.8)	(80.1)	(66.8)	(25.6)
	(26.9)	(72.6)	(44.8)	(35.5)	7.2
Interest paid	(18.0)	(14.0)	(10.5)	(12.8)	(12.2)
Taxation repaid/(paid)	(4.7)	2.1	–	–	–
Dividends paid	(27.4)	(28.5)	(29.2)	(30.0)	(31.1)
Purchase of businesses and investments	(0.6)	–	(0.1)	(6.0)	–
Other items (principally business and asset disposals)	354.3	30.5	28.1	54.0	15.3
Movement in net debt	276.7	(82.5)	(56.5)	(30.3)	(20.8)

* Profit on operations before exceptional items and amortisation of acquired intangibles.

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

The Consolidated Income Statement Summary – Continuing Operations has been restated in all years to reclassify the results of the sold Dairies operation to discontinued operations.

SHAREHOLDERS' INFORMATION

Company Registrar and Shareholder Enquiries

If you have administrative enquiries concerning your shareholdings in the Company, such as the loss of share certificates, change of address, dividend payment arrangements or amalgamation of accounts, please contact the Company's registrar by writing to, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by telephone on 0371 664 9266.

Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK are charged at the applicable international rate. Lines are open 9.00am to 5.30pm Monday to Friday.

Capita Asset Services also provides online facilities for shareholders to check their holdings and update their details. Registering is easy, and there is no fee involved, simply access www.dairycrestshares.com

Payment of dividends

Shareholders may arrange to have their dividends paid directly into a bank or building society account using the Bankers Automated Clearing System (BACS). Bank mandate forms are available from Capita Asset Services whose details appear above or you can register your mandate details online at www.dairycrestshares.com

Low cost share dealing service

If you do not have share dealing arrangements in place, Dairy Crest has a low cost share dealing service arranged by Capita Share Dealing Services. Shareholders wishing to use the service should either visit the Capita Share Dealing website at www.capitadeal.com or call 0371 664 0445. Calls are charged at the standard geographical rate and will vary by provider. Calls from outside the UK are charged at the applicable international rate. Lines are open 8.00am to 4.30pm Monday to Friday.

Gifting shares to charity

Shareholders who have a small holding of shares on the register whereby their value makes them uneconomic to sell, may donate these shares to charity under the Sharegift Scheme – administered by the Orr Mackintosh Foundation – a registered charity. Information can be found at www.sharegift.org or telephone: 020 7930 3737.

Analysis of ordinary shareholders at 17 May 2017				
Category	Holders number	%	Shares	%
Individuals and other holders	16,580	88.34	27,535,434	19.52
Insurance companies, pension funds, banks, nominees and limited companies	2,189	11.66	113,536,863	80.48
	18,769	100.00	141,072,297	100.00
Size of holdings				
Up to 5,000 shares	17,381	92.61	23,427,965	16.61
5,001 – 20,000 shares	1,155	6.15	8,638,028	6.12
20,001 – 100,000 shares	117	0.62	5,470,230	3.88
Over 100,000 shares	116	0.62	103,536,074	73.39
	18,769	100.00	141,072,297	100.00

General information

General information about Dairy Crest can be found on our corporate website, www.dairycrest.co.uk
Investors who have questions relating to the Group's business activities should contact:
Investor Relations, Dairy Crest Group plc, Claygate House, Littleworth Road, Esher, Surrey KT10 9PN.
Telephone: 01372 472200
e-mail: investorrelations@dairycrest.co.uk

Financial calendar

Dividends	Final
Ex-dividend	Thursday 6 July 2017
Record date	Friday 7 July 2017
Payment date	Friday 11 August 2017

Group results (Anticipated)

Half Year (Interims)	November 2017
Preliminary Announcement of 2017/18 results	May 2018
2017/18 Report and Accounts circulation	June 2018

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**Visit our website at
www.dairycrest.co.uk
<http://www.dairycrest.co.uk/investors>**