



Clover is the brand leader in the dairy spreads sector.



Dairy Crest is the leading supplier of mature cheddar in the UK. Cathedral City is the biggest brand in the natural cheese market.



Friji is the brand leader in the fresh flavoured milk drinks market.

Growing leading market positions

Dairy Crest's strategic objective is to deliver attractive shareholder value by establishing it as the leading branded and added value UK dairy company with efficient manufacturing scale for dairy commodities.

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The company is a leading supplier of fresh dairy products through the Yoplait Dairy Crest joint venture, with its brands Petits Filous and Frubes.



Dairy Crest is the leading UK producer of dairy ingredients such as butter, skimmed milk powder and whey based products.



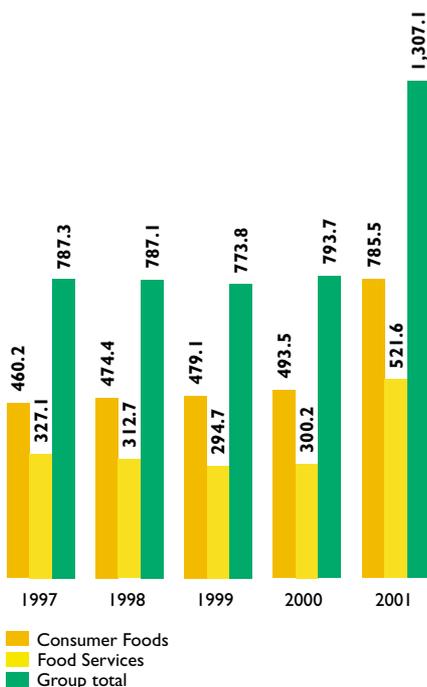
Dairy Crest is a leading supplier of retail liquid milk and doorstep deliveries in Southern England.

Financial highlights

- Adjusted profit before tax up 29% to £57.0 million (2000 – £44.3 million)
- Adjusted earnings per share up 22% to 35.4 pence (2000 – 29.1 pence)
- Final dividend declared of 9.6 pence – total for the year up 8% to 14.1 pence (2000 – 13.0 pence)
- Strong cash flow from operating activities of £106.6 million
- Synergies from Unigate acquisition on target
- £54 million being invested in two new 'super dairies'
- Strong growth by added value products

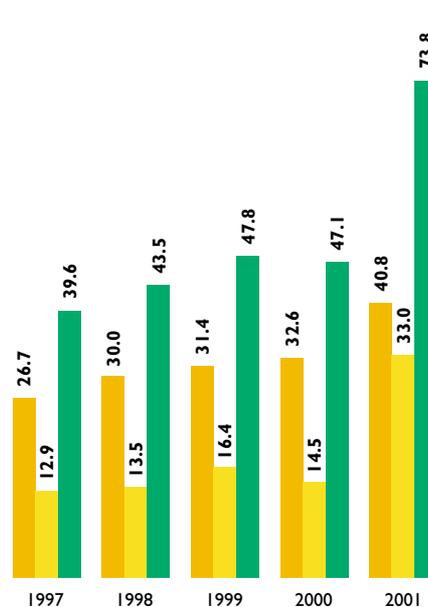
Turnover

(including share of joint ventures)
Continuing operations £m



Operating profit

(excluding operating exceptional items and goodwill amortisation)
Continuing operations £m



Chairman's statement

Optimising growth potential of added value business

"I firmly believe that following the acquisition of Unigate's dairy and cheese business Dairy Crest is well placed to optimise its position as the UK's leading dairy company."



I am pleased to have become the Chairman at such an exciting time in the Group's history. Dairy Crest continues to benefit from its ongoing strategy to add value, build brands and pursue competitive advantage in commodity sectors. The successful acquisition and integration of Unigate's dairy and cheese business has transformed Dairy Crest. In particular, we have now established the platform from which we can build the industry's most efficient liquid milk operations and thereby secure long term growth and a satisfactory financial return.

This is a good, strong set of results delivering an attractive increase in both adjusted Group profit before tax and adjusted earnings per share. The Group's adjusted profit before tax was £57.0 million compared with £44.3 million last year. Adjusted earnings per share increased to 35.4 pence from 29.1 pence. The directors recommend a final dividend of 9.6 pence making total dividends for the year 14.1 pence, an increase of over 8% which I believe will be welcomed by shareholders.

As the UK's largest buyer of raw milk the Group retains great flexibility to meet its commercial and financial objectives by prioritising the available raw milk supply across its wide product range. This carefully developed position has been valuable in the year to March 2001, when the raw milk supply has been disrupted by continued poor weather and the outbreak of foot and mouth disease. Dairy Crest is particularly well placed to deal with the industry uncertainties in sourcing raw milk over the coming

twelve months. We fully understand the difficulties encountered by dairy farmers and are actively seeking to build a secure future for the dairy industry and we are enjoying an increasingly positive dialogue with those milk producer representatives who share our view that discussion and co-operation is the way ahead.

The integration of Unigate's dairy and cheese business has been achieved successfully to a very demanding timescale. I have been impressed by the vision and hard work shown by the two teams as they have come together to restructure the combined business. I have appreciated the commitment shown by the staff during the year to tackle this important challenge.

Dairy Crest continues to make substantial investments to ensure that our manufacturing and distribution operations are highly efficient and able to compete effectively with domestic and international competitors. The Group also continues to invest heavily in the development of added value dairy products, which we firmly believe will provide the best return for our Company and ensure fair returns for milk producers. We have implemented significant price increases to raw milk suppliers since October 2000 which were justified by increases in selling prices for dairy products in the market.

I would like to thank my colleague Richard Fletcher for his contribution to Dairy Crest's progress. Richard will be retiring as a non-executive director at the AGM in July.

Our staff have worked hard throughout the year in achieving these

good results. This hard work and commitment at all levels has been greatly appreciated. I believe that we now have in place a strong management team who can be relied upon to drive the business forward to achieve its full potential.

A handwritten signature in blue ink, which appears to read "S M D Oliver". The signature is stylized and cursive.

S M D Oliver, Chairman
4 June 2001

Chief executive's review

"We are confident that our brands and added value business will continue to demonstrate attractive growth. The acquisition of Unigate's dairy and cheese business underpins our added value strategy and provides the opportunity to increase shareholder returns."



I am pleased to report a considerable increase in the Group's results, with Dairy Crest benefiting from the completion of the Unigate dairy and cheese acquisition, strong progress by our leading brands and added value business and the determination and commitment of a strong management team. The results show a 29% increase in adjusted Group profit before tax (before operating exceptional items and goodwill amortisation) and a 22% increase in adjusted earnings per share.

I am also pleased to confirm that we are on target to achieve the identified £11 million synergies in 2001/02 and the annual £25 million from 2002/03 identified at the time of the acquisition.

Our strategy to establish Dairy Crest as the UK's leading branded and added value dairy company, whilst being the lowest cost operator in commodity processing, continues to generate attractive growth and provides confidence for future development. During the year the Group's brands, Clover, Cathedral City, Friij and the Yoplait brands have all strengthened their position as leading brands performing ahead of their market sectors.

The operating financial results for the year to March 2001 reflect the material impact of the acquisition of Unigate's dairy and cheese business in July 2000. Group turnover, including the share of the joint ventures' turnover, has increased by 65% to £1.3 billion and Group operating profit, before operating exceptional items and goodwill amortisation, has increased by 57% to £73.8 million.

The Group's adjusted profit before tax was £57.0 million compared with £44.3 million last year and adjusted earnings per share increased to 35.4 pence from 29.1 pence. The directors recommend a final dividend of 9.6 pence increasing the total dividend for the year by over 8% to 14.1 pence.

The acquisition of Unigate's dairy and cheese business has enabled Dairy Crest to pursue aggressively its objective to achieve sustainable competitive advantage and industry leading efficiency standards across its operations. Our commitment to achieve the highest levels of efficiency is underlined by our £54 million investment to create what we believe will be the two largest and most efficient 'super dairies' in the UK, at Severnside (£39 million) and Chadwell Heath (£15 million).

The breadth of Dairy Crest's activities has been fundamental to helping the Group deliver these results against a backdrop where the dairy sector has seen the impact of excess competitive capacity in liquid milk as the industry enters the final phase of reconstruction. Inevitably trading conditions in individual markets become increasingly challenging, but our confidence in the business is underpinned by the fact that Dairy Crest is a broadly based dairy company with leading positions in every dairy sector – cheese, fresh dairy products, ingredients, liquid milk and spreads – and has important partnerships with all major retailers.

The year 2000/01 has been the first year since industry deregulation that the UK raw milk production has

been below quota. Appreciating the considerable difficulties this has brought to dairy farmers and acknowledging the critical role that milk producers have to play to help to deliver a profitable and healthy future for the industry, prices to farmers have increased significantly since October 2000. We are working increasingly closely with our direct milk producers and the leading dairy co-ops to identify areas such as the reduction in milk collection costs, which will help to deliver much needed enhanced returns. As a result of recent difficulties, we anticipate that milk supply in 2001/02 may again fall short of quota. However, we believe Dairy Crest will secure sufficient milk to serve its customers in its chosen markets as well as deliver its financial objectives.

Prospects

Our leading brands continue to perform well and we derive material competitive advantage from our position as the UK's only broadly based dairy company. The synergies arising from the Unigate acquisition are being delivered in full and on time. We have made a good start to the year and we remain confident that Dairy Crest will continue to deliver the expected attractive financial performance necessary to drive enhanced shareholder returns.

John Houlston.

W J Houlston, Chief Executive
4 June 2001

Operational review

Consumer Foods

The Consumer Foods division reflects Dairy Crest's business with retailers including our share of the Yoplait Dairy Crest and Cotteswold joint ventures. This division has continued to benefit from the ongoing growth of Dairy Crest's branded and added value business as well as the inclusion of the acquired cheese, packet butter, retail liquid milk, cream and juice businesses for nine months of the year.

Turnover increased by 59%

from £494 million to £785 million. Operating profit increased by 25% from £32.6 million to £40.8 million and Consumer Foods operating margin was 5.2% for the year. The reduction in margin resulted from the inclusion of Unigate's retail liquid milk operations whose margin was below that achieved by Dairy Crest's existing Consumer Foods businesses. However, we expect the margin to increase as the synergy benefits are progressively realised.

Dairy spreads

The dairy spreads sector is worth some £200 million and represents just under a quarter of the total butter and spreads market of around £920 million. Clover strengthened its position as the leading brand in the sector despite vigorous competitive pressures. The brand benefited from the continued investment in marketing and promotional activity to generate another impressive financial performance.

Willow maintained its improved position following the successful relaunch at the start of the previous year and further increased its brand

share during 2000/01. The acquired packet butter operations include Unigate's share of Country Life, the leading UK manufactured butter brand. We believe this provides Dairy Crest with good opportunities to develop the potential of the brand's premium position in the competitive retail packet butter market. Country Life Spreadable has now achieved wide distribution and is developing its position in the rapidly growing spreadable butter sector, which is now valued at just over £100 million.

In January 2001 we announced our intention to create a centre of excellence for the production of Dairy Crest's range of retail dairy spreads, packet and speciality butters at our facility in Crudgington, Shropshire. The relocation of packet butter production from Chard, Somerset, was completed in April 2001.

We are pleased with the robust performance achieved by the brands during the year and are encouraged by the effectiveness of the marketing programme. This helped to ensure the spreads business continued to provide a significant contribution to Dairy Crest's overall financial performance.

Willow is ideal for spreading, cooking and baking.



taste good

Making brand loyalty

COUNT



Country Life confirmed its position as a leading brand with the launch of Country Life Spreadable. The Country Life brand is the registered trade mark of the English Butter Marketing Company Limited.



Clover

loved all over

Clover's continued investment in its successful TV campaign ensured that more families now enjoy the taste of the UK's leading dairy spread brand.

Operational review continued



Cheese

Dairy Crest's leading cheddar brands, Cathedral City and Davidstow, achieved outstanding progress with combined annual sales volume ahead by over 20%. During the year, a successful media campaign for Cathedral City brought encouraging consumer results focused on building prepack sales volume which increased by around 50%. The Davidstow brand also benefited from an enhanced promotional programme, which generated substantial volume uplift, and sales of prepack Davidstow increased by over 60%.

During the year the retail cheese market showed a volume increase of around 1.5%. The shortfall in raw milk reduced the availability of UK produced cheese stock and resulted in firmer selling prices in the second half of the financial year.

The addition of the Wexford brand of cheese, produced in Ireland, has increased the mature cheddar portfolio and we believe that it has considerable development potential. The integration plan was developed to utilise our processing and prepacking facilities more effectively and to enhance Dairy Crest's standards of quality, service and efficiency. In November 2000, we announced a reduction in surplus cheese manufacturing capacity with the closure of two small cheese manufacturing plants at Fermanagh

in Northern Ireland and Sturminster Newton in Dorset, which was completed by December 2000.

Over recent years, Dairy Crest has invested over £10 million at Maelor, Wrexham to develop what we believe to be the largest and most advanced cheese prepacking centre in the UK. This investment enables us to consolidate prepacking production at Maelor and Frome, Somerset. As a result the Carmarthen cheese prepack facility will be closed by October 2001.

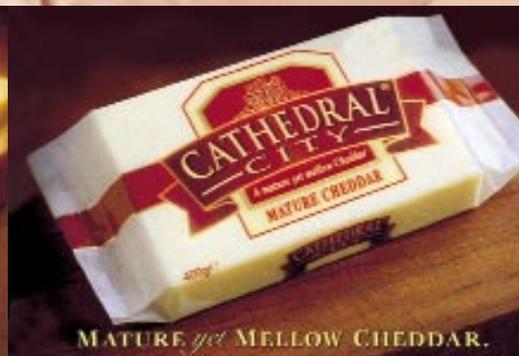
During the year Dairy Crest completed a £10 million development to expand its Stilton and blue cheese manufacturing capacity at Hartington, Derbyshire. Following this major investment, Hartington is now the largest blue cheese manufacturing site in the UK. We supply around half of the Stilton market and have a growing business supplying cheese with additives. The completion of the investment resulted in the closure of the Harby Stilton plant in Leicestershire in April 2001.

We believe there are considerable opportunities to expand the branded and added value cheese sectors which offer attractive returns. We are determined to develop our position as the UK's leading cheese supplier and believe we are particularly well placed to drive additional growth from this market.

AT THE

best bit

Over 4.5 million households have bought Cathedral City in the past year.



Operational review continued

Fresh dairy products

The Yoplait Dairy Crest joint venture faced a challenging market environment during the year. The company's investment to support the branded range of fresh dairy products generated valuable benefit, with the Yoplait brands achieving another year of strong growth. Branded volumes increased by over 25% against a market which showed a volume increase of around 7%.

Yoplait Dairy Crest is the leading supplier to the children's sector where additional gains increased its sector share above 30%. There were particularly strong performances by the Petits Filous range, including Frubes, and from the introduction of the Pokémon range of yogurt and fromage

frais for children. In the adult categories, the Weight Watchers from Heinz range of products enjoyed another year of strong growth.

However, market conditions in the retailer branded sector have been extremely demanding. In response to the pressures created by excess processing capacity in the UK and Europe, Yoplait Dairy Crest closed its Wantage facility in October 2000.

Yoplait Dairy Crest's financial performance reflects the impact of the highly competitive retailer branded sector which more than offset the strong performance of the branded business. Dairy Crest's share of the joint venture's sales reduced by 4% to £74 million and operating profit

declined by £1.9 million to £3.8 million.

We are disappointed at the current financial returns available for Yoplait Dairy Crest from the fresh dairy products market. The trading pressures in the retailer branded sector are clearly diluting the ongoing strong growth of the Yoplait brands. The business will continue to mitigate the impact of this pressure by seeking increased operating efficiency and reduced costs within the business. However, we believe that the fresh dairy products market continues to offer excellent growth prospects and that Yoplait Dairy Crest's broad portfolio of branded and added value fresh dairy products provides confidence that the financial results will improve in the medium term.



Yoplait Dairy Crest continues to focus on product development and innovation. January saw the launch of Yoplait Best there is! This luxurious low fat yogurt with large fruit chunks and whole fruit, sets a new standard in adult premium yogurts.

Frijj

the hot favourite

Frijj has maintained its position as the clear number one in the fresh flavoured milk market, helped by the successful introduction of the Frijj one litre bottle and development of the Frijj Extreme variants which helped grow the market more than any other brand or activity last year.





Doubling our energies in **milk** production

The UK retail grocery market for liquid milk is estimated to be worth £1 billion of retail value.

Liquid products

For many years the retail liquid milk sector in England and Wales has been characterised by an excess of production capacity, numerous suppliers competing for key multiple retail contracts and comparatively low financial returns. During the year the multiple retail sector sales volumes increased by just over 1% and now represents around 58% of the fresh liquid milk market.

Against this background, the acquisition of Unigate's retail liquid milk business was a significant move towards achieving necessary industry consolidation. The acquisition more than doubled Dairy Crest's existing retail liquid milk activities.

In November 2000 and January 2001 we set out the detailed investment and integration plans to position the business as the long term market leader in the retail liquid milk sector.

Dairy Crest is investing £15 million at Chadwell Heath in London and £39 million at Severnside in Gloucestershire to create two 'super dairies' which will provide industry leading standards for efficiency, cost and service. They will be the largest and most efficient in the UK, giving Dairy Crest a position of competitive advantage which it has not

previously enjoyed. Chadwell Heath will be fully operational by November 2001 and Severnside will be completed by September 2002. This transformation is being achieved without a material expansion in overall processing capacity or the need to gain additional volume.

The process of creating two 'super dairies' will result in the transfer of production from four smaller processing plants at Kidlington in Oxfordshire, Marshfield in South Glamorgan, Thornbury in South Gloucestershire and Westway in London. Chadwell Heath and Severnside are both capable of further expansion at a future date if market conditions justify additional investment.

Dairy Crest continues to invest to secure added value opportunities in the retail liquid milk market. In March 2001 Dairy Crest completed its £2.8 million acquisition of Somerset & Wilts Dairy Limited. This acquisition gives Dairy Crest a 40% share of the attractive organic fresh milk sector which enjoys premium pricing and grew by around 50% in the year.

Frijj, Dairy Crest's market leading fresh flavoured milk drink brand produced another strong performance

supported by an effective marketing programme. Frijj remains the leading brand with over 70% of the fresh flavoured milk drink market, valued at around £30 million. Frijj Extreme showed strong volume growth in the year and, together with the successful introduction of the new one litre bottle, helped to drive Frijj volumes ahead by some 24% during the year against a market which increased by around 7%.

The acquisition of Unigate's liquid milk business has given Dairy Crest the opportunity to develop an operational capability which gives it genuine competitive advantage. The completion of the two 'super dairies' at Chadwell Heath and Severnside, supported by investment at Totnes and Fenstanton, will give Dairy Crest the platform to secure its position as the country's leading supplier of milk to multiples in England and Wales. There has been considerable progress towards industry consolidation over recent years. However until this process is completed, trading conditions will remain very challenging. We are now confident that our business can be successfully managed to deliver long term growth and that, over time, financial returns will be satisfactory.



Dairy Crest's Farm Services team works very closely with producers to ensure that our customers receive the best quality milk in the UK.

Operational review

Food Services

The Food Services division includes Dairy Crest's household milk business and ingredients operations. This division has been greatly affected by the Unigate acquisition. The Unigate household business was around twice the size of the existing Dairy Crest operation and the ingredients business was around half the size of Dairy Crest's operation.

Turnover increased by 74% to £522 million. Operating profit more than doubled from £14.5 million to £33.0 million and Food Services' operating margin was 6.3% for the year.

Ingredients

The ingredients business faced demanding market conditions during the year. The first half year saw strong prices, particularly for skimmed milk powder, but during the second half of the year these returned to more normal levels. The business was affected by a reduction in the volume of milk available for processing. Milk production in the UK fell 2.5% below quota. This was the first time that UK milk production had fallen below quota since 1994, when the industry was deregulated.

The Unigate acquisition also

included ingredients operations which have been integrated with Dairy Crest's existing business. The ingredients business provides an essential function in a broadly based dairy business to balance the variable milk flows arising from the liquid milk business. At the same time we add value to our raw milk supply through product differentiation, quality and service. Dairy Crest's food ingredients products are supplied to a quality customer base including leading UK and European food manufacturers.

The increased scale provides operating efficiencies and has enabled us to establish Chard in Somerset as a dedicated dairy ingredients site focused on the efficient manufacture of bulk butter and skimmed milk powder. Production of bulk butter and skimmed milk powder transferred to Chard from Crudington in April 2001.

Under its strategy to concentrate on building brands and adding value, the Company directs its raw milk supply to those products and markets which provide the most attractive returns. This policy means that any variability in raw milk supply tends to be managed through the ingredients business, which is experienced at optimising the balance between variable market demand conditions and available raw milk supply.

Household

The acquisition of Unigate's household milk business has given Dairy Crest the opportunity to deliver substantial synergies driven by greater efficiencies, operational rationalisation, reduced administration and cost control. We have already completed extensive post integration restructuring leading to improved operating efficiencies.

The household delivery market accounts for 28% of the fresh liquid milk market in Great Britain. The combined doorstep business now serves 1.8 million homes across the South of England. However, the market continues to decline and Dairy Crest's sales volumes reduced by around 10% from the previous year.

The middle ground business, servicing small retail and catering establishments, represents the remaining 14% of the fresh liquid milk market. This market has grown by around 1% during the year. The Unigate acquisition strengthened Dairy Crest's position in this competitive sector and the business benefits from the enhanced scale and efficiency.

Dairy Crest's household business is being managed to deliver significant levels of profit and cash to invest in the further development of our added value business.



REST

Delivering more than the



The household business serves 1.8 million homes across the South of England by operating 2,800 doorstep rounds and 300 wholesale rounds.



to success

Dairy Crest Ingredients is the largest ingredients business in the UK and the number one dairy ingredients exporter.

Major projects strengthen retail partnerships

CHADWELL HEATH

November 2000 £15 million 'super dairy' investment announced.
Capable of handling 400 million litres per year.

February 2001 Work to upgrade the site commenced – this includes expansion of milk processing and filling activities and new cold store area with automated handling.

September 2001 Fully operational – phased transfer to be completed in November.

SEVERNSIDE

January 2001 £39 million investment announced – £23 million to expand capacity for retail liquid milk and £16 million to create a dedicated facility for added value retail milk products – organic, regional milks, fresh flavoured milk drinks, milk shakes and potted cream.

September 2002 Fully operational – capable of processing 500 million litres.

CHARD/CRUDGINGTON

January 2001 Announcement of transfer of packet butter from Chard to Crudgington and transfer of ingredients from Crudgington to Chard.

April 2001 – Completed.

MAELOR

January 2001 Announcement of consolidation of cheese prepacking in Wales.
Completion in September 2001.

HARTINGTON

March 2001 £10 million investment completed. Premier blue cheese site in the UK.



Dairy Crest continues to develop significant partnerships with the UK's leading retailers, by providing a wide range of retailer branded dairy products.

Care in the community

Dairy Crest staff are dedicated to supporting charities which benefit children.

NCH

Dairy Crest depot employees and roundsmen have raised over £200,000 in the last three years. This contribution has helped fund NCH's (previously the National Children's Home) projects throughout England, Wales and Scotland. The Group continues to support the NCH Willow Bakeathon with celebrity backing from Antony Worrall Thompson. This year the campaign was given an award by NCH for the Best Marketing Initiative for 2000.

Children With Leukaemia

In its three year relationship Clover, supported by Dairy Crest staff, has raised over £200,000.

Last year, Clover, through a pack promotion, pledged to raise £75,000 for Children With Leukaemia, and the

money was put towards the Lifeline Trust to develop a revolutionary new stem cell centre based at Southmeads hospital in Bristol.

For the third year running Clover supported the Amazing Great Children's party in Battersea Park, London which was attended by over 6,000 children.

In May 2000 ten members of staff from Crudgington, Davidstow, and Head Office completed a 260 mile bike ride from Holyhead to Southmeads hospital in Bristol.

Also, a number of fundraising events were held at the Nantwich International cheese show in July to raise further funds for the charity.

Sponsorship

Frijj sponsored a Laser 400 racing boat which was sailed by Dairy Crest staff member Jason Kirk and crew Scott Dawson. With Frijj branding on the boat, TV coverage was achieved on Sky Sports Broadcast.

Ian Anderson, a line technician at Chadwell Heath Dairy, completed the London Triathlon, for Children With Leukaemia.



Financial Review



Summary

The financial results for the year ended March 2001 reflect the successful acquisition of Unigate's dairy and cheese business. The original Dairy Crest business has approximately doubled in size as a result of the transaction. The acquired business has been included in the Group results for 9 months since July 2000 and has been integrated from October onwards. Where we have identified separate results attributable to the acquired activities these are estimates.

Turnover

Group turnover, including our share of joint ventures' turnover, increased by 65% to £1,307 million reflecting the benefit of the acquisition. We estimate that the acquisition contributed £500 million for the nine months ended 31 March 2001. Turnover for the ongoing Dairy Crest business increased by 2% to £807 million reflecting increased sales of branded and added value products partially offset by reductions in ingredients sales, due to reduced raw milk availability, and the continuing impact of the doorstep decline.

Operating profit

Operating profit increased by 57% to £73.8 million. Operating profit where referred to in this report is stated before operating exceptional items and goodwill amortisation. We estimate that the acquired business contributed £28 million for the nine months. Operating profits for ongoing Dairy Crest business declined by 3% to £45.8 million reflecting a shortfall in the contribution from Yoplait Dairy Crest and competitive trading conditions in the commodity areas of the business offset by a strong performance in added value, particularly cheese.

The addition of Unigate's retail liquid milk and cheese business has increased the operating profit of the Consumer Foods segment by 25% to £40.8 million. This inclusion of

Unigate's retail liquid milk has reduced the overall margin of Consumer Foods from 6.6% to 5.2%. This will increase as synergy benefits come through. Food Services incorporates the household milk delivery and ingredients businesses. Its operating profit has more than doubled to £33.0 million. The Foods Services margin has risen from 4.8% to 6.3%.

Operating exceptional items and goodwill amortisation

The integration of the acquired business is proceeding well and is accompanied by significant rationalisation activities as we reduce the number of processing plants required to service the business' needs. During the year we have closed Fermanagh and Sturminster Newton creameries, transferred packet butter production from Chard to Crudgington with skimmed milk powder and bulk butter production going in the opposite direction, integrated the two household businesses eliminating overlapping management and administrative activities and rationalised the corporate functions. This has resulted in a one-off cost of almost £20 million, £12.9 million of which related to redundancy and business integration costs and £6.8 million to non-cash asset and stock write offs.

These costs are broadly in line with our expectations at the time of the acquisition. Further amounts are expected over the next two years as the rationalisation plan is completed.

In addition to the costs of integrating the acquired business into the Group, as noted at the time of our interim statement, £1.8 million of start-up costs at the Nuneaton Distribution Centre was incurred in the period following its opening and a charge of £0.4 million has been recognised as our share of Yoplait Dairy Crest's costs in closing its Wantage site and reorganising its activities.

Goodwill amortisation amounts to

£1.5 million, £1.1 million of which relates to the acquisition of Unigate's dairy and cheese business and £0.4 million to other acquisitions. Goodwill amortisation in 2001/02 will amount to £2.1 million before the impact of acquisitions, if any, next year.

Operating profit after operating exceptional items and goodwill amortisation increased by 8% to £50.4 million reflecting the significant integration costs.

Interest

The acquisition of Unigate's dairy and cheese business cost £245.5 million, £233.9 million of which was debt financed and £11.6 million was settled by the issue of 6.3 million shares.

This increase in debt has resulted in a significant increase in the Group's interest charge to £16.8 million. This interest charge includes £0.8 million (2000 – £0.8 million) in respect of our share of Yoplait Dairy Crest's interest and is stated after capitalising interest of £0.3 million (2000 – £1.6 million) on major projects. Interest cover calculated before operating exceptional items and goodwill amortisation was 4.4 times.

Taxation

The Group's effective tax rate on profits excluding operating exceptional items and goodwill amortisation was 28.4% (2000 – 28.0%). The tax credit on the operating exceptional items of £21.9 million was £6.0 million, a rate of 27.4%. Overall, excluding goodwill amortisation, the Group's tax rate was 29.1% (2000 – 28.0%).

Earnings per share

The Group's adjusted earnings per share increased by 22% to 35.4p. Basic earnings per share, which incorporates the impact of operating exceptional items and goodwill amortisation, declined by 30% to 20.2p per share.

The weighted average number of shares increased by approximately 5

million. As noted above the Company issued 6.3 million shares to finance the acquisition and this increased the weighted average number of shares by 4.7 million.

Dividends

The proposed final dividend of 9.6p per share, together with the interim dividend of 4.5p per share, gives a total of 14.1p per share for the full year. This represents an increase of over 8% from the dividend declared for 1999/2000. The final dividend will be paid on 9 August 2001 to shareholders on the register on 15 June 2001.

Dividend cover, calculated as profit for the year after minority interests, excluding operating exceptional items and goodwill amortisation, divided by dividends payable, was 2.5 times (2000 – 2.2 times).

Cash flow

The cash inflow from operating activities was £106.6 million (2000 – £52.3 million). This reflected a working capital inflow of £17.6 million, the majority of which has resulted from a reduction in stocks of the acquired business from July 2000, when stocks are normally at a higher level than at the year end, and a reduction in the tonnage of maturing cheese stocks following the integration of the two businesses.

Depreciation amounted to £35.3 million (2000 – £17.3 million) and goodwill amortisation amounted to £1.5 million (2000 – £0.3 million) both of which were impacted by the acquisition.

Expenditure on exceptional items amounted to £14.7 million and primarily represented redundancy and business integration costs.

Interest payments amounted to £16.2 million and include the cash costs of raising the £425 million facility to finance the acquisition. The group is currently borrowing at a margin, excluding fees, of 80 basis

points over the relevant interbank rate.

Tax payments were £11.3 million (2000 – £9.9 million) and include settlement of liabilities relating to the pre-acquisition period for the business acquired.

Capital expenditure was £28.6 million with significant amounts being incurred at Hartington and Maelor. The major cash outflows in respect of the creation of the two 'super dairies' at Chadwell Heath and Severnside will be incurred in the first half of 2001/02. At present both projects are proceeding to plan.

Purchase of businesses amounted to £236.8 million, £233.9 million of which related to the Unigate acquisition. In addition £2.1 million of loan notes were issued in respect of the acquisition of Somerset & Wilts Dairy Limited.

Net debt at the year end increased by £198.4 million to £246.3 million and gearing was just over 120%.

Shareholders' funds

Shareholders' funds at 31 March 2001 were £199.7 million including goodwill of £38.6 million, £27.8 million of which related to the Unigate acquisition. The Group's balance sheet is strong with stocks of £192.4 million, including £146.5 million of maturing cheese stocks and tangible assets of £318.8 million. The Group has 19 creameries and dairies and around 150 household depots, the majority of which are freehold.

Treasury policies

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

Financial review continued

are prohibited. The Group's treasury activities are governed by policies approved and monitored by the Board. These policies are summarised below.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of facilities with a range of maturity dates. The Group is funded by a £425 million credit facility arranged with Rabobank International and The Royal Bank of Scotland 'RBS' (formerly National Westminster Bank) to fund the acquisition of Unigate's dairy and cheese business. The facility consists of a 5 year term loan facility of £200 million repayable in seven semi-annual instalments from May 2002 to May 2005 and a £225 million 5 year multi-currency revolving credit facility repayable at maturity in May 2005. This facility replaced the £100 million multi-currency facility held at 31 March 2000 which was cancelled.

Short-term funding requirements are met through uncommitted overdraft facilities amounting to over £28 million.

All borrowings are through banks with AA long-term credit ratings or better.

Funds temporarily surplus to business requirements are invested overnight through deposit accounts with RBS or other commercial banks with a credit rating of AA or better. We do not place deposits for longer periods. Counterparty risk is considered to be low, due to the level of funds placed on deposit.

Foreign currency risk

Translation exposures arise on the earnings and net assets of our overseas subsidiary, Wexford Creamery Limited. Our policy is to hedge the net asset exposure through borrowings in the relevant foreign currency. At present, our only translation exposure is in euros.

The majority of the Group's transactions are carried out in sterling and so transaction exposures are limited. The Group trades skimmed milk products and bulk butter mainly to customers in Europe and in Central and South America. The Group's policy requires traded foreign currency sales and purchases to be hedged by foreign exchange contracts once the transaction is committed so that the margin on the transaction can be fixed. The Group also exports its own skimmed milk products, bulk butter, Stilton and other branded products.

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

Interest rate risk

The Group's interest rate exposure management policy is aimed at reducing the exposure of the business to changes in interest rates. The Group's strategy is to borrow at floating rates of interest and use interest rate swaps or forward rate agreements to limit the exposure to movements in sterling LIBOR, although interest rate caps may also be used. The policy is to fix or cap between one third and two thirds of the interest cost on outstanding debt, although a higher percentage may be fixed within a 12-month horizon.

Net borrowings

The group had £246.3 million of net borrowings at the end of the year compared with borrowings of £47.9 million at the beginning of the year. The substantial increase during the course of the year was primarily as a result of the expenditure of £233.9 million on the acquisition of Unigate's dairy and cheese business. Net borrowings include drawdowns of £246.4 million under the Group's long-term facility. At 31 March 2001

gearing was 123% (2000 – 26%).

Going concern

The financial statements on pages 28 to 46 have been prepared on a going concern basis as the directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future. In making this statement, the directors have reviewed the Group's budget and available facilities and made such other enquiries as they considered appropriate.

Implementation of the euro

We continue to monitor the impact of the euro on our business and we are prepared to take appropriate action in respect of its implementation in line with the requirements of our trading partners. Any costs are not expected to be material in the context of the Group.



I C Laurie, Finance Director
4 June 2001

Directors and Advisers



‡‡ **Simon Oliver, Chairman (60)** – was appointed as a Non-Executive Director in 1997 and became Chairman in July 2000. He farms 670 acres of cereals in Cornwall and has many years' experience in the dairy industry. He was Chairman of Mendip Foods Limited prior to its acquisition by Dairy Crest in 1995. He is Chairman of Private Investor Capital Limited.



John Houlston, Chief Executive (58) – was appointed Chief Executive in 1991 after joining the Dairy Crest Board in 1990 as deputy Chief Executive. He was formerly Managing Director of UB (Ross Young's) Ltd. He was appointed President of The Dairy Industry Federation in April 1999.



Peter Allanson-Bailey, Executive Managing Director (60) – was appointed in July 2000 following the completion of the acquisition of Unigate's dairy and cheese business. He joined Unigate Dairies in 1964 and was appointed Managing Director of St Ivel Provisions in 1986 on the merger of Unigate Foods with St Ivel Limited.



Bill Brown, Executive Managing Director (56) – joined Dairy Crest in 1992 as Director of Distribution and was appointed to the Board in 1995. He was formerly Chief Executive of Fitch Lovell plc.



*‡ **Richard Fletcher, Non-Executive Director (65)** – was appointed in 1993, a position he previously held between 1987 and 1989. He farms 825 acres in the West Midlands.



† **Gerry Grimstone, Non-Executive Director (51)** – was appointed in 1999. He is a Non-Executive Director of Candover Investments plc and Aggregate Industries PLC. He held a number of senior positions at Schroders, the investment bank, where he worked for fourteen years.



Drummond Hall, Executive Managing Director (51) – was appointed 1991. He joined from HP Bulmer Holdings plc where he was Managing Director, Cider and Beer Division. He was formerly Marketing Director with Pepsi Cola Northern Europe.



*‡ **Tom Jones, Non-Executive Director (52)** – was appointed in 1993. He farms 100 acres, mainly grassland, in Anglesey and has a dairy herd of 70 cows.



Ian Laurie, Finance Director (54) – was appointed in 1995. He joined Dairy Crest from Ocean Group plc, where he was Group Finance Director for eight years. He was formerly Finance Director of Asda Stores Ltd.



*‡ **Paul Lewis, Senior Non-Executive Director (64)** – was appointed in 1993. He was Deputy Chairman and previously Group Finance Director of Tate & Lyle plc until his retirement in February 1998. He is also a Non-Executive Director of Federal Mogul Corporation, Southfield, Michigan, USA.



Chris Roberts, Executive Managing Director (45) – was appointed in July 2000 following the completion of the acquisition of Unigate's dairy and cheese business. He joined Unigate in 1977 and was appointed as Managing Director of Unigate Dairies in 1995.



Roger Newton, Company Secretary (52) – joined Dairy Crest in February 1992. He is a Solicitor and Chartered Secretary.

Auditors
Ernst & Young

Financial Adviser
Merrill Lynch International

Solicitors
Clifford Chance LLP
Wedlake Bell

Principal Bankers
The Royal Bank of Scotland Plc
Rabobank, London Branch
Westdeutsche Landesbank
Girozentrale

Except for Simon Oliver, Peter Allanson-Bailey, Gerry Grimstone and Chris Roberts dates of appointment refer to the year when the director was appointed to the Board of Dairy Crest Limited. John Houlston and Ian Laurie were appointed to the Board of Dairy Crest Group plc on 24 June 1996 and the other directors were appointed to the Board on 4 July 1996.

Registered Office
Dairy Crest House,
Portsmouth Road,
Surbiton, Surrey KT6 5QL

Registered in England No.
3162897

* Members of the Audit Committee
‡ Members of the Nomination Committee
† Members of the Remuneration Committee