7 November 2018

Dairy Crest Group plc ("Dairy Crest")

Interim results announcement for the six months ended 30 September 2018

Highlights

- Revenue up 2% to £224.9m
- Adjusted profit before tax* up 13% to £22.7m; reported profit before tax of £17.8m
- Cathedral City and Clover deliver strong revenue growth of +7% and +9% respectively
- New product innovation across the business
- Pension surplus increased by £87m on an accounting basis since September 2017
- Cash generated from operations up 71% to £18.5m
- Net debt* reduced to £221.4m following the May 2018 share placing; 21% lower than September 2017
- Proposed interim dividend up 2% to 6.4 pence
- Full year expectations remain unchanged

Financial summary

	Half year ended 30 September		
	2018	**2017**	**Change**
Revenue	**£224.9m**	£220.1m	+2%
Adjusted profit before tax*	**£22.7m**	£20.0m	+13%
Profit before tax[1]	**£17.8m**	£151.4m	-88%
Adjusted basic earnings per share*	**12.3p**	11.6p	+6%
Basic earnings per share[1]	**9.7p**	87.6p	-89%
Pension surplus	**£126.9m**	£39.9m	+218%
Net debt*[2]	**£221.4m**	£281.4m	-21%
Interim dividend	**6.4p**	6.3p	+2%

*Alternative performance measures:
The Group uses alternative performance measures (APMs) as key financial performance indicators to assess the underlying performance of the Group. The APMs are widely used industry measures and form the measurement basis of key targets. Definitions of the APMs discussed throughout this document and a reconciliation to the equivalent reported measure are detailed in Note 13.

[1] Including an exceptional cost of £4.9m (2017: exceptional gain of £131.4m recognised primarily for the reduction in pension scheme liabilities).
[2] For a reconciliation of net debt, refer to note 9 of the interim financial statements.

All comparative figures in the interim results announcement relate to the six months ended 30 September 2017.

Mark Allen, Chief Executive, said:

"We have delivered a good first half performance driven by our two largest brands, Cathedral City and Clover. Demand for our Functional Ingredients continues to grow.

"Innovation continues to shape the business and we have recently launched exciting new products in all of our categories. We understand the importance of staying ahead of the market and ensuring we are meeting consumers' needs. Food provenance, health and wellbeing are core themes which we will continue to focus on.

"Our investment at Davidstow is progressing as planned. We are pursuing a number of opportunities to take Cathedral City into new international markets as well as deepen its penetration into existing domestic channels, capitalising on its status as one of the UK's top ten brands according to YouGov. We are confident in delivering our expectations for the full year."

For further information:

Investors/Analysts		
Tom Atherton	Dairy Crest	01372 472264
Kate Goode	Dairy Crest	01372 472236
Media		
Tim Danaher/Alison Lea	Brunswick	020 7404 5959

A video interview with Mark Allen, Chief Executive, and Tom Atherton, Deputy Chief Executive and Group Finance Director, will be available from 07:00 (UK time) from the investor section of the Group's website ***www.dairycrest.co.uk.***

There will be an analyst and investor meeting at 09.00 (UK time) today at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED. An audiocast of the presentation will be available on the Group's website later today.

Operating review

A high quality British business

Dairy Crest is a leading British dairy company built on a passion to create exceptional food, loved by every generation.

Fundamental to our business is the high quality milk which is supplied by approximately 330 farmers in the South West who supply exclusively to us and with whom we have a close working relationship. Our exacting standards ensure that we consistently produce outstanding cheese and whey.

Our production, packaging and distribution facilities in Davidstow and Nuneaton are the most advanced of their kind, enabling us to deliver unrivalled quality and consistency. We have a track record of investing in manufacturing excellence, exemplified by our recent announcement to expand production capacity and improve our environmental credentials at our creamery in Cornwall. We recognise that superior facilities deliver significant operational benefits.

Cost advantages achieved through an efficient supply chain and the high quality and consistency achieved by our operating facilities allow us to invest in innovation, marketing and promotional activity to create leading brands like Cathedral City.

The strength of our business model enables us to deliver a world class cheese business with unrivalled, stable operating margins in spite of fluctuating dairy markets.

Key brand performance

Brand	Market	Volume growth*	Revenue growth*
Cathedral City	Cheese	-3%	+7%
Clover	Spreads	+8%	+9%
Country Life	Butters	-16%	-4%
Frylight	Oil	-23%	-22%
Total		**-2%**	**+4%**

* Dairy Crest volume and revenue 6 months to 30 September 2018 vs. 6 months to 30 September 2017

Combined revenue of our four key brands grew by 4% in the first half of 2018/19 compared to last year, driven by the strong performance of our two largest brands, Cathedral City and Clover.

Davidstow expansion project

In May 2018 we announced our intention to expand capacity at the Davidstow creamery from 54,000 tonnes of cheese per annum up to 77,000 tonnes to accommodate the long-term growth of Cathedral City in both the UK and abroad. Approximately half of the additional capacity is earmarked for the UK where we have the opportunity to increase our share of the sliced, grated and snacking categories. The remainder is targeted for export, primarily into Germany, China and the US, where we are confident there is demand for high quality cheddar.

The project will also position the creamery for a sustainable future, moving towards self-sufficiency in water usage and greater energy resilience. The £85 million expansion will take place in phases over the next four to five years and is expected to deliver a return on invested capital of at least 20% at the end of the project.

In the current financial year we are undertaking enabling works for the increase in cheese capacity. We will place orders for two new water-heated vats and commence investment in site resilience. The expected capital outlay for 2018/19 will be around £6 million, followed by approximately £20 million per annum in the four years thereafter.

Cathedral City – continued innovation

We took the decision at the end of our last financial year to focus on increasing prices in a market where milk input costs were high. Revenues of Cathedral City benefitted from these price increases and were positive, despite small volume declines in both the second half of 2017/18 and the first half of this financial year. Volumes are already improving in the second half of 2018/19 as promotional activity picks up and new products are rolled out.

In the first half of the financial year Cathedral City generated revenue growth of 7%. Volumes were consequently somewhat weaker at -3% against strong volumes a year ago. IRI Kantar data[1] for the 24 weeks ended 8 September 2018 shows that revenue for the Everyday Cheese market grew by 2% compared to the same period last year while volumes contracted by 1%.

Cathedral City has cemented its position as the ‘Nation’s Favourite’ cheese. It was recently voted one of the top 10 brands by UK consumers in YouGov’s Annual Brand Health Rankings, based on consumers' perceptions of quality, value, satisfaction and reputation. It was also voted number one in the chilled/frozen foods category.

Healthy eating and snacking continue to influence consumer purchases. We have developed a number of product innovations to benefit from these trends. Firstly, in mid-October, we launched a Caramelised Onion and a Sweet Chilli variant of the Cathedral City snack bar, both of which have toasted pumpkin seeds for added texture. Each bar contains less than 100 calories. The adult cheese snacking market is currently small but growing at over 30% per annum. We have a significant opportunity to develop our distribution in the ‘food to go’ areas at the front of supermarkets, as well as expanding beyond traditional food retailers into travel hubs, sandwich shops and high street channels.

Last month we also unveiled a Cathedral City Lactose Free range. According to figures from Mintel, around four in ten adults now regularly buy ‘Free From’ food and drink, and within this group 16% buy Lactose Free products. This presents another opportunity to broaden our customer base.

Finally, we have revamped our Cathedral City Kids Snacking range. The range now uses 30% less fat ‘Mild Lighter’ cheese in response to the Public Health England Change4Life 100 calorie snacks campaign. The kids’ cheese snacking market is worth over £220 million in the UK but is dominated

[1] IRI is a market research organisation which gathers Electronic Point of Sale (EPOS) data directly from retailers. Kantar Worldpanel is a representative panel of 30,000 British households which collects information on shopping habits using barcode scanners in the home.

by processed varieties so we expect our products to resonate with the current trend to eat more natural, healthy food. We have also launched a new on-pack partnership with Nickelodeon.

Cathedral City accounts for more than 55% of all branded cheddar sold by UK retailers and more than 20% of total sales. There is headroom for growth. The sliced and grated markets total around £500 million of annual retail sales and are growing at approximately 10% per annum. Dairy Crest has less than 5% market share of these sub-sectors so they, together with snacking, will continue to be growth areas for us.

Spreads brands continue to take market share

Dairy Crest's spreads brands grew revenue by 10% for the six month period, compared to the overall spreads market which grew by 3%, according to IRI Kantar data. As retail butter prices have climbed, consumers have switched to more cost effective alternatives. This has helped to reverse the decline of the spreads market which had been contracting volumes by more than 5% per annum on average over the five years prior.

Clover has been a prime beneficiary of this move away from butter with its buttery taste and no artificial ingredients. Volumes grew by 8% and revenue by 9% over the six month period ended 30 September 2018. It continues to gain market share and now represents almost 21% of the spreads sector based on IRI Kantar data. Building on this success, we launched Clover Light with no artificial ingredients in August 2018. We expect this product will support the continued growth of this brand.

The ongoing growth of the 'Free From' market supports the success of our dairy-free spread, Vitalite, which grew both volumes and revenue by more than 40% over the period. It is the leading dairy-free spread in the UK by a considerable margin. We will shortly be launching a block variety for baking and cooking. Willow's growth also continued as consumers consider it an economical alternative to butter. The brand generated double digit volume and revenue growth.

Butter markets remain challenged

The cream price, which determines the input costs for Country Life butter, fell by 25% over the twelve months to September 2018 since reaching record levels of around £3.00 per litre in August 2017. However, the price was still 25% higher than two years ago during the period which led us to maintain our strategy to reduce investment and marketing in this, our lowest margin product. Volumes fell by 16% over the period while revenue reduced by 4%. We expect an improved performance in the second half of the year, supported by an on-pack promotion with English Heritage.

Frylight returns to growth in second half

Sales volumes and revenue of Frylight, the UK's leading oil brand[2], were down by around 20% for the six months to the end of September 2018 as the summer heatwave led to consumers frying less. In the first half last year there was also a major television advertising campaign backed up by sizeable promotional activity.

Frylight sales are weighted towards the second half of the year, particularly the fourth quarter. Based on strong current trading, we expect to return to year on year growth in the second half.

Kantar data for the 24 weeks ended 7 October 2018 showed volumes and revenue for the whole UK oil market both decreased by 1%, indicating that pouring oil was also impacted but to a lesser extent given its broader usage in both hot foods and salads.

Frylight is stocked in all major retailers and discounters and household penetration of the brand has doubled over the past five years to reach more than 25%. We continue to work with key health influencers and dieticians to promote the health benefits of using Frylight and increase brand awareness.

Broadening the customer base for Functional Ingredients

The customer base for demineralised whey (D90) continues to grow. Demand is expected to exceed supply in 2019. During the period a significant number of audits of the Davidstow facility were completed by infant formula manufacturers. Demand is increasing as customers recognise the premium quality of our D90. Production of galacto-oligosaccharides (GOS) is also ramping up as an increasing number of infant formula manufacturers are purchasing our product.

We are engaging with major feed manufacturers, vet groups, nutritionists and animal producers regarding Nutrabiotic GOS. This is the brand we have developed for use in animal feed. We have conducted a number of academic trials which continue to show that GOS improves weight gain and feed conversion ratios and also reduces the levels of pathogens in the animal. Further academic trials are continuing on poultry, swine, calves and fish as well as companion animals. Commercial trials are also underway with several major feed manufacturers. The results of these trials continue to support the successful discussions we have with a range of customers.

We recently unveiled a GOS 'shot' for consumers which is marketed under the Promovita brand name. The unique prebiotic dietary fibre, which feeds friendly bacteria in the gut, is sold as liquid

[2] Source: Kantar Worldpanel

sachets to be taken daily. We are currently in discussions with a range of different retailers about them launching the product.

Focus on efficiency

Dairy Crest is always looking at ways to improve its cost base and become more efficient. The previously announced extensive programme to replace and simplify our core IT systems is well underway and due to be completed next year. Once the new system is fully rolled out we expect to make annualised cost savings of around £5 million from 2019/20 onwards.

The improvement programme at our butters and spreads facility in Kirkby last year is delivering results, including improved efficiencies and lower wastage. Exceptional costs totalling £1.7 million have been incurred during the current period but we expect to exit this financial year with annualised cost savings of £3 million. This is above our initial £2.5 million projection. We are pursuing the sale of some surplus land on the site for redevelopment which will help to offset the cash impact of this restructuring.

Financial review

Group revenue from operations of £224.9 million represents a 2% increase against the comparative period. Cheese and spreads revenue both increased, driven by strong performances from Cathedral City and Clover, up 7% and 9% respectively. Frylight volumes and revenue were lower than last year when there was a significant advertising campaign supported by promotional activity. Furthermore, the unusually hot summer impacted UK cooking oil consumption. Sales of Country Life, our butter brand, were down reflecting continued high input costs. Functional Ingredients sales were broadly flat as improved demineralised whey pricing offset lower returns from whey butter and cream. Finally, other revenue from providing warehousing for third parties fell, as expected, following the cessation of the distribution agreement with Muller UK & Ireland Group LLP in June 2017 as part of the sale of our Dairies business.

Once again the complementary nature of our portfolio has delivered stable profits in spite of fluctuations within the product groups. Total product group profit[3] increased by 3% to £25.7 million (2017: £24.9 million). This is without the benefit of any property sales which amounted to £0.5 million in the prior year period. Profits in Butters, Spreads and Oils increased by £8.4 million to £11.2 million as the spreads brands continued to perform well and butter margins recovered versus last year when the business had to cope with dramatic input cost inflation. Cheese and Functional

[3] Definitions of the Alternative Performance Measures discussed throughout this document and a reconciliation to the equivalent statutory measure are detailed in Note 13.

Ingredients group profits decreased by £7.6 million to £14.5 million. This was principally due to higher cost of sales reflecting increases in milk input costs during 2017.

Total finance costs include both debt and pension scheme interest and, at £3.0 million, were £1.9 million lower than last year. Debt interest was £0.2 million lower due to reduced borrowings following the share placing in May 2018. Pension interest swung from a cost of £0.4 million in 2017 to income of £1.3 million in 2018, reflecting the scheme moving into a substantial surplus following the change in future indexation of pension payments.

Adjusted profit before tax[3] was £22.7 million, up 13% from £20.0 million in 2017. Product group analysis is included in note 3 to the interim financial statements. We have previously excluded amortisation of acquired intangible items and pension interest from our adjusted profit measure. However, these adjusting items are not material in nature and, in the case of pension interest, resulted in an inconsistent treatment of pension interest and pension administration costs. In order to simplify reporting and reduce the number of reconciliations between reported and adjusted measures, we will in future only report pre-exceptional profit measures as our chosen measure of underlying business performance. This has the benefit of being clearly visible in the consolidated group income statement.

Exceptional costs amounted to £4.9 million. Costs of £3.2 million were incurred in relation to changes to IT systems. A further £1.7 million was incurred in Kirkby to deliver the final site operating model encompassing new shift patterns, equipment investment and revised terms and conditions. The combined annual savings from these projects will be approximately £8 million per annum, once completed. In the prior year exceptional income of £131.4 million was recorded. The principal component of this was £132.4 million which was recognised in relation to the reduction in pension scheme liabilities resulting from the change in the indexation benchmark for pensions in payment from RPI to CPI.

Reported profit before tax for the six months ended 30 September 2018 amounted to £17.8 million. The figure of £151.4 million for the prior year period included an exceptional gain of £132.4 million in relation to the pension fund.

The effective rate of tax was 18.5% (2017: 19.0%) and is representative of the expected rate for the year ending 31 March 2019.

Adjusted basic earnings per share[3] amounted to 12.3 pence (2017: 11.6 pence), an increase of 6%, consistent with higher adjusted profit before tax but more shares in issue following the share placing in May 2018. Basic earnings per share decreased to 9.7 pence (2017: 87.6 pence), reflecting the large exceptional gain recognised in the prior year.

Cash generated from operations in the six months ended 30 September 2018 amounted to £18.5 million compared to £10.8 million in the prior year, an increase of 71%. This increase was underpinned by improved profits and a smaller working capital outflow. In addition, capital expenditure in the first half of 2018 amounted to £13.0 million, £3.8 million less than last year. In May 2018, the Group completed a share placing in order to fund the future expansion of its cheese operations. This placing raised £68 million after fees and, as a result, net debt at 30 September 2018 amounted to £221 million, £60 million lower than September 2017.

At 30 September 2018 the Group had a pension surplus of £126.9 million (2017: £39.9 million surplus). The actuarial valuation, which is more relevant in determining cash contributions, was a deficit of £100 million at the time of the last full valuation in March 2016 but is estimated to be below £40 million at September 2018. The next full actuarial valuation will be as at March 2019 and will determine the levels of cash contributions in the new schedule of contributions. The current schedule of contributions requires £14.2 million of cash payments in the year ending 31 March 2019, of which £6.7 million was paid in the first half of the year.

The principal risks and uncertainties affecting the Group are disclosed on pages 26 to 29 of the 2017/18 Annual Report and Accounts.

The financial statements have been prepared on a going concern basis. In determining whether this is appropriate, we have considered current performance and forecasts, the ability of the Group to meet its bank covenants and the Group’s borrowings. We remain confident in the Group’s ability to operate as a going concern.

Summary and outlook

We have delivered a good first half performance driven by our two largest brands, Cathedral City and Clover. Demand for our Functional Ingredients continues to grow.

Innovation continues to shape the business and we have recently launched exciting new products in all of our categories. We understand the importance of staying ahead of the market and ensuring we are meeting consumers' needs. Food provenance, health and wellbeing are core themes which we will continue to focus on.

Our investment at Davidstow is progressing as planned. We are pursuing a number of opportunities to take Cathedral City into new international markets as well as deepen its penetration into existing domestic channels, capitalising on its status as one of the UK's top ten brands according to YouGov. We are confident in delivering our expectations for the full year.

Mark Allen
Chief Executive
7 November 2018

Consolidated income statement

Audited Year ended 31 March 2018 Before exceptional items £m	Exceptional items £m	Total £m		Note	Unaudited Half year ended 30 September 2018 Before exceptional items £m	Exceptional items £m	Total £m	Unaudited Half year ended 30 September 2017 Before exceptional items £m	Exceptional items £m	Total £m
456.8	-	456.8	**Revenue**	3	**224.9**	**-**	**224.9**	220.1	-	220.1
(387.8)	118.0	(269.8)	Operating costs		**(199.2)**	**(4.9)**	**(204.1)**	(195.7)	131.4	(64.3)
2.4	-	2.4	Other income - property		**-**	**-**	**-**	0.5	-	0.5
71.4	118.0	189.4	**Profit on operations**		**25.7**	**(4.9)**	**20.8**	24.9	131.4	156.3
(9.5)	-	(9.5)	Finance costs		**(4.3)**	**-**	**(4.3)**	(4.5)	-	(4.5)
(0.7)	-	(0.7)	Other finance income / (expense) - pensions		**1.3**	**-**	**1.3**	(0.4)	-	(0.4)
61.2	118.0	179.2	**Profit before tax**	3,4	**22.7**	**(4.9)**	**17.8**	20.0	131.4	151.4
(10.6)	(19.1)	(29.7)	Tax (expense) / credit	5	**(4.2)**	**0.9**	**(3.3)**	(3.8)	(24.9)	(28.7)
50.6	98.9	149.5	**Profit for the period**		**18.5**	**(4.0)**	**14.5**	16.2	106.5	122.7

All amounts are attributable to owners of the parent.
All references to financial results within the interim accounts are in relation to continuing operations.

Year ended 31 March 2018	**Earnings per share**		**Half year ended 30 September 2018**	Half year ended 30 September 2017
106.6p	Basic earnings per share	7	**9.7p**	87.6p
105.6p	Diluted earnings per share	7	**9.6p**	86.8p

A final dividend of £25.2 million (16.3 pence per share) was paid in the period to 30 September 2018 (2017: £22.8 million; 16.3 pence per share). A dividend of £9.9 million (6.4 pence per share) was approved by the Board on 6 November 2018 for payment on 31 January 2019 (2017: £8.8 million; 6.3 pence per share). See Note 6.

Consolidated statement of comprehensive income

Year ended 31 March 2018 Audited £m		Note	Half year ended 30 September **2018** **Unaudited** **£m**	Half year ended 30 September 2017 Unaudited £m
149.5	Profit for the period		**14.5**	122.7
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
(10.2)	Cash flow hedges - reclassification adjustment for gains / (losses) in income statement		**6.8**	6.8
11.0	Cash flow hedges – (losses) / gains recognised in other comprehensive income		**(6.9)**	(4.9)
(0.5)	Tax charge relating to components of other comprehensive income		**-**	(0.7)
0.3			**(0.1)**	1.2
	Other comprehensive income not to be reclassified to profit and loss in subsequent periods:			
61.1	Remeasurements of defined benefit pension plans	10	**25.5**	9.3
(10.3)	Tax (charge) / credit relating to components of other comprehensive income		**(4.3)**	0.5
50.8			**21.2**	9.8
51.1	**Other comprehensive gain for the period, net of tax**		**21.1**	11.0
200.6	**Total comprehensive gain for the period, net of tax**		**35.6**	133.7

All amounts are attributable to owners of the parent.

Consolidated balance sheet

31 March 2018 Audited £m		Note	30 September 2018 Unaudited £m	30 September 2017 Unaudited £m
	Assets			
	Non-current assets			
185.7	Property, plant and equipment		**184.9**	199.9
86.3	Goodwill		**86.3**	86.3
20.5	Intangible assets		**24.7**	17.6
1.4	Financial assets - Derivative financial instruments	11	**5.7**	7.2
-	Deferred tax asset		**-**	1.7
93.9	Retirement benefits surplus	10	**126.9**	39.9
387.8			**428.5**	352.6
	Current assets			
183.5	Inventories		**188.3**	169.5
29.3	Trade and other receivables		**30.9**	38.8
1.6	Financial assets - Derivative financial instruments	11	**3.1**	-
22.6	Cash and short-term deposits	9	**12.2**	7.6
237.0			**234.5**	215.9
3.4	**Non-current assets held for sale**	8	**3.4**	3.9
628.2	**Total assets**		**666.4**	572.4
	Equity and liabilities			
	Non-current liabilities			
(275.5)	Financial liabilities - Long-term borrowings	9	**(228.7)**	(297.8)
(1.0)	- Derivative financial instruments	11	**-**	-
(10.0)	Deferred tax liability		**(17.1)**	-
(2.4)	Deferred income		**(2.4)**	(2.7)
(2.0)	Provisions		**(2.0)**	(2.0)
(290.9)			**(250.2)**	(302.5)
	Current liabilities			
(72.6)	Trade and other payables		**(71.1)**	(80.4)
(18.3)	Financial liabilities - Short-term borrowings	9	**(17.7)**	(0.9)
(0.3)	Current tax liability		**(0.6)**	(0.8)
(0.6)	Deferred income		**(0.3)**	(0.9)
(1.8)	Provisions		**(3.1)**	(2.2)
(93.6)			**(92.8)**	(85.2)
(384.5)	**Total liabilities**		**(343.0)**	(387.7)
	Shareholders' equity			
(35.4)	Ordinary shares		**(38.9)**	(35.3)
(86.8)	Share premium		**(151.7)**	(86.7)
0.5	Interest in ESOP		**0.5**	0.5
(48.6)	Other reserves		**(48.5)**	(49.5)
(73.4)	Retained earnings		**(84.8)**	(13.7)
(243.7)	**Total shareholders' equity**		**(323.4)**	(184.7)
(628.2)	**Total equity and liabilities**		**(666.4)**	(572.4)

The interim results were approved by the directors on 6 November 2018.

Consolidated statement of changes in equity

Half year ended 30 September 2018 (Unaudited)	Ordinary shares £m	Share premium £m	Interest in ESOP £m	Other reserves £m	Retained earnings £m	**Total Equity £m**
At 31 March 2018	35.4	86.8	(0.5)	48.6	73.4	**243.7**
Profit for the period	-	-	-	-	14.5	**14.5**
Other comprehensive (loss) / gain:						
Cash flow hedges	-	-	-	(0.1)	-	**(0.1)**
Remeasurement of defined benefit pension plan	-	-	-	-	25.5	**25.5**
Tax on components of other comprehensive income	-	-	-	-	(4.3)	**(4.3)**
Other comprehensive (loss) / gain	-	-	-	(0.1)	21.2	**21.1**
Total comprehensive (loss) / gain	-	-	-	(0.1)	35.7	**35.6**
Issue of share capital (Note 7)	3.5	64.9	-	-	-	**68.4**
Share-based payments	-	-	-	-	0.9	**0.9**
Equity dividends	-	-	-	-	(25.2)	**(25.2)**
At 30 September 2018	**38.9**	**151.7**	**(0.5)**	**48.5**	**84.8**	**323.4**
Half year ended 30 September 2017 (Unaudited)						
At 31 March 2017	35.3	85.6	(0.5)	48.3	(96.8)	71.9
Profit for the period	-	-	-	-	122.7	122.7
Other comprehensive gain / (loss):						
Cash flow hedges	-	-	-	1.9	-	1.9
Remeasurement of defined benefit pension plan	-	-	-	-	9.3	9.3
Tax on components of other comprehensive income	-	-	-	(0.7)	0.5	(0.2)
Other comprehensive gain	-	-	-	1.2	9.8	11.0
Total comprehensive gain	-	-	-	1.2	132.5	133.7
Issue of share capital	-	1.1	-	-	-	1.1
Share-based payments	-	-	-	-	0.8	0.8
Equity dividends	-	-	-	-	(22.8)	(22.8)
At 30 September 2017	35.3	86.7	(0.5)	49.5	13.7	184.7
Year ended 31 March 2018 (Audited)						
At 31 March 2017	35.3	85.6	(0.5)	48.3	(96.8)	71.9
Profit for the period	-	-	-	-	149.5	149.5
Other comprehensive gain / (loss):						
Cash flow hedges	-	-	-	0.8	-	0.8
Remeasurement of defined benefit pension plan	-	-	-	-	61.1	61.1
Tax on components of other comprehensive income	-	-	-	(0.5)	(10.3)	(10.8)
Other comprehensive gain	-	-	-	0.3	50.8	51.1
Total comprehensive gain	-	-	-	0.3	200.3	200.6
Issue of share capital	0.1	1.2	-	-	-	1.3
Share-based payments	-	-	-	-	1.6	1.6
Tax on share-based payments	-	-	-	-	(0.1)	(0.1)
Equity dividends	-	-	-	-	(31.6)	(31.6)
At 31 March 2018	35.4	86.8	(0.5)	48.6	73.4	243.7

All amounts are attributable to owners of the parent.

Consolidated cash flow statement

Year ended 31 March 2018 Audited £m		Note	Half year ended 30 September 2018 Unaudited £m	Half year ended 30 September 2017 Unaudited £m
	Cash flow from operating activities			
179.2	Profit before tax		**17.8**	151.4
10.2	Finance costs and other finance income - pensions		**3.0**	4.9
189.4	Profit on operations		**20.8**	156.3
17.7	Depreciation		**8.2**	9.2
0.7	Amortisation of internally generated intangible assets		**0.1**	0.4
0.4	Amortisation of acquired intangible assets		**0.2**	0.2
(127.2)	Difference between cash outflow on exceptional items and amounts recognised in the income statement		**1.5**	(134.9)
(1.5)	Release of grants		**(0.3)**	(0.9)
1.6	Share-based payments		**0.9**	0.8
(2.4)	Profit on disposal of depots		**-**	(0.5)
(11.5)	Difference between pension contributions paid and amounts recognised in the income statements		**(6.2)**	(7.9)
(33.5)	Increase in working capital		**(6.7)**	(11.9)
33.7	**Cash generated from operations**		**18.5**	10.8
(9.7)	Interest paid		**(4.3)**	(4.5)
(0.5)	Taxation paid		**(0.1)**	-
23.5	**Net cash inflow from operating activities**		**14.1**	6.3
	Cash flow from investing activities			
(31.2)	Capital expenditure		**(13.0)**	(16.8)
22.1	Proceeds from disposal of property, plant and equipment		**-**	0.5
(9.1)	**Net cash used in investing activities**		**(13.0)**	(16.3)
	Cash flow from financing activities			
(12.0)	Repayment and cancellation of loan notes		**-**	(11.9)
31.0	Net drawdown under revolving credit facilities		**(54.0)**	31.0
(31.6)	Dividends paid		**(25.2)**	(22.8)
1.3	Proceeds from issue of shares (net of issue costs)		**68.4**	1.1
(1.4)	Finance lease repayments		**(0.7)**	(0.7)
(12.7)	**Net cash used in financing activities**		**(11.5)**	(3.3)
1.7	**Net (decrease) / increase in cash and cash equivalents**		**(10.4)**	(13.3)
20.9	Cash and cash equivalents at beginning of period		**22.6**	20.9
22.6	**Cash and cash equivalents at end of period**	9	**12.2**	7.6
(265.7)	**Net debt at end of period**	9	**(221.4)**	(281.4)

Notes to the interim financial statements
(**Unaudited**)

1 General information

Dairy Crest Group plc (the "Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office and principal place of business is Claygate House, Littleworth Road, Esher, Surrey, KT10 9PN. The principal activity of the Company and its subsidiaries (the "Group") in the period was the processing, manufacture and sale of branded dairy products as described in the Group's annual financial statements for the year ended 31 March 2018.

2 Basis of preparation, accounting policies and approval of interim statement

Basis of preparation and approval of interim statement

These condensed interim financial statements comprise the consolidated balance sheet as at 30 September 2018, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flow, consolidated statement of changes in equity and supporting notes (hereinafter referred to as "financial information").

The financial information is not audited and does not constitute statutory financial statements as defined in section 435 of the Companies Act 2006. Comparative figures for the year ended 31 March 2018 have been extracted from the Group's 2017/18 statutory accounts, on which the auditors gave an unqualified opinion, did not include an emphasis of matter reference and did not include a statement under section 498(2) or (3) of the Companies Act 2006.

These sections address whether adequate accounting records have been kept, whether the Company's financial statements are in agreement with those records and whether the auditors have obtained all the information and explanations necessary for the purposes of the audit. The Group's financial statements for the year ended 31 March 2018 have been filed with the Registrar of Companies and can be found on our corporate website, www.dairycrest.co.uk.

The financial information for the period ended 30 September 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The financial information should be read in conjunction with the Group's financial statements for the year ended 31 March 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Group uses a number of alternative performance measures (APMs) to assess the performance of the Group which are not defined under IFRS. The definition of these APMs, their relevance to assessing performance and reconciliation to the IFRS balances are shown in Note 13.

The results from operations for the half year are not necessarily indicative of the results expected for the full year.

This financial information was approved for issue on 6 November 2018.

Going concern

The Directors have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments, for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the interim financial statements.

2 Basis of preparation, accounting policies and approval of interim statement (continued)

Accounting policies and areas of estimation and judgement

The financial information has been prepared in accordance with accounting policies used for the Group's financial statements for the year ended 31 March 2018, with the exception of the adoption of the new standards and interpretations that came into effect in the half year. The Directors' position on the standards and interpretations effective after the date of the interim financial statements remains unchanged from the year ended 31 March 2018. There have been no changes to the areas of estimation and judgement from the year ended 31 March 2018.

New standards, interpretations and amendments

The following accounting standards and interpretations became effective for the current reporting period:
New standard IFRS 9: Financial Instruments
New standard IFRS 15: Revenue from contracts with customers

The adoption of these standards and interpretations does not have a material impact on the Group's interim financial statements in the period.

IFRS 9: Financial Instruments

Classification and measurement of financial assets

The Group has applied IFRS 9 from 1 April 2018. All financial assets within the scope of IFRS 9 are measured at amortised cost, or fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI). The Directors of the Company have reviewed and assessed the Group's financial assets at 1 April 2018 and based on the facts, concluded that the application of IFRS 9 has had the following impact on the Group's financial assets as regard the classification and measurement.

Financial assets classified as trade receivables under IAS 39 'Financial Instruments: Recognition and measurement' continue to be measured at amortised cost under IFRS 9. They are held to collect contractual cash flows which consist only of payments of principal.

Impairment of financial assets

IFRS 9 requires an expected credit loss model, rather than an incurred credit loss model, to be applied. This requires the assessment of the expected credit loss on each class of financial asset at each reporting date. This assessment should take into consideration any changes in credit risk since the initial recognition of the financial asset. At 1 April 2018 and at 30 September 2018, the Directors of the company have reviewed and assessed the existing financial assets, and amounts due from customers using reasonable and supportable information to determine the credit risk of each item and concluded that there is no financial impact on the Group. The main classes of financial asset held by the Group are trade receivables; the expected credit loss is insignificant.

Classification and measurement of financial liabilities

The Group does not hold any financial liabilities which are held at FVTPL and as such, the application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities which are held at amortised cost.

Hedge accounting

In accordance with the allowed accounting policy choice for hedge accounting, the Group has decided to continue to apply the hedge accounting requirements of IAS 39 instead of IFRS 9 to all its derivative financial instruments and cash flow hedges.

IFRS 15: Revenue from contracts with customers

IFRS 15: "Revenue from contracts with customers" has replaced IAS 18 "Revenue" with effect from the accounting period beginning 1 April 2018 and Management has reviewed the impact of this standard on the Group's financial statements. 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.

2 Basis of preparation, accounting policies and approval of interim statement (continued)

Management has considered the impact of the standard against the Group's contracts with customers and has concluded that no changes are required to the way in which the Group accounts for revenue under IFRS 15.

Management continues to assess the impact of standards and disclosures that will apply to financial periods after 31 March 2019. To understand the potential impact, refer to the annual report for the year ended 31 March 2018.

Taxation

Taxes on income before exceptional items in the interim periods are accrued using the effective tax rate that is expected to be applicable to total earnings before exceptional items for the full year based on substantively enacted or enacted tax rates at the interim date.

3 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 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 period, certain assumptions have been made when allocating resources which are centralised at a group level for the continuing business and property income.

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 business included in the financial information are as follows:

Year ended 31 March 2018 £m		Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
	External revenue		
277.2	Cheese and Functional Ingredients	**142.5**	135.3
174.2	Butters, Spreads and Oils	**79.9**	80.9
5.4	Other	**2.5**	3.9
456.8	**Total product group external revenue**	**224.9**	220.1
	Product group profit *		
50.1	Cheese and Functional Ingredients	**14.5**	22.1
21.3	Butters, Spreads and Oils	**11.2**	2.8
71.4	**Total product group profit**	**25.7**	24.9
(9.5)	Finance costs	**(4.3)**	(4.5)
(0.7)	Other finance income / (expense) - pensions	**1.3**	(0.4)
61.2	**Adjusted profit before tax ***	**22.7**	20.0
118.0	Exceptional items (Note 4)	**(4.9)**	131.4
179.2	**Group profit before tax**	**17.8**	151.4

*Denotes alternative performance measures as described in Note 13.

3 Segmental analysis (continued)

Seasonality of results

Certain products experience increased sales around Christmas. Working capital normally increases in the first six months of the year as milk production is higher during the spring and summer. However, this impact can be offset by other factors including levels of cheese sales volumes, promotional activity and milk cost movements. Where required, the Group manages the seasonality of its working capital by drawing down under its revolving credit facility.

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 charged to operating costs are analysed below:

Year ended 31 March 2018 £m		Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
	Operating costs		
(5.4)	Kirkby improvement programme	**(1.7)**	(1.7)
(2.6)	Restructuring costs resulting from changes to IT systems	**(3.2)**	-
0.7	Profit on sale in relation to closed manufacturing sites	**-**	0.7
130.9	Gain on the Group's Pension Fund	**-**	132.4
(5.6)	Demineralised whey powder and GOS projects	**-**	-
118.0		**(4.9)**	131.4
(19.1)	Tax relief / (charge) on exceptional items	**0.9**	(24.9)
98.9		**(4.0)**	106.5

Kirkby improvement programme

In April 2017, the Group commenced a restructuring project to improve the flexibility and efficiency of the Butters and Spreads manufacturing facility in Kirkby, Liverpool. In a challenging UK Butters and Spreads market it is important that the Group's facility is as efficient as it can be. In the six months ending 30 September 2018, costs of £1.7 million have been incurred, largely as a result of headcount restructuring and project management at the site as well as some project consultancy costs. The tax credit in respect of this charge is £0.3 million. Management considers the costs to be exceptional due to the materiality of the costs and the one-off nature of the project and expects further costs of between £0.5 million and £1.0 million to be incurred in the second half of the year. In the medium term, the costs of restructuring should be partly offset by the proceeds from the sale of surplus land on the site. Any future profits resulting from the sale of land will also be treated as an exceptional item.

Restructuring costs resulting from changes to IT systems

In 2016, the Group undertook a project to replace its manufacturing, purchasing and financial systems. The implementation of the new systems began in November 2017 and will be phased gradually throughout 2018 and early 2019. During the six months ended 30 September 2018, costs of £3.2 million have been incurred. Included within this cost, following communication to the impacted employees, the Group has provided £1.5 million in relation to the restructuring of the Business Systems department. A further £0.8 million of restructuring costs have been incurred in the first half of the year in relation to employees who have left the Group as a result of this project. The tax credit in respect of this charge was £0.6 million. Management considers these costs to be exceptional due to the materiality of the costs and the one-off nature of the project to which they relate and expects further costs of between £1.5 million and £2.0 million to be incurred in the second half of the year on the completion of this project.

4 Exceptional items (continued)

Prior Year

Profit on sale in relation to closed manufacturing sites

In the six months ended 30 September 2017, the Group disposed of a closed manufacturing facility in Fenstanton, Cambridgeshire resulting in a profit on disposal of £1.0 million. In addition, the Group impaired two leasehold properties for which Management has determined there to be no future economic benefit, resulting in an impairment of £0.3 million. The net gain has been treated as an exceptional item consistent with the historical closure costs of manufacturing sites which were considered to be exceptional due to the materiality and one-off nature of the costs. The tax in respect of this gain was £nil.

Gain on the Group's Pension Fund

On 31 August 2017, the Group and the Trustee of the Group's Pension Fund ("the Fund") finalised the 31 March 2016 funding valuation. As part of the overall package of funding, the Group and the Trustee formally agreed to change the measurement of inflation used for Fund pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). CPI will therefore apply for Fund pension increases from 25 March 2018 onwards. This has been factored into the IAS19 valuation of the retirement benefit obligation as at 31 March 2018 resulting in an exceptional gain, net of costs, of £130.9 million. The tax charge in respect of this gain is £22.1 million. Management considered this gain to be exceptional due to the materiality and one-off nature of the gain.

Demineralised whey powder and GOS projects

During the year ended 31 March 2017, the Group 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. In the year ended 31 March 2018, £8.5 million of costs were charged to the income statement offset by £2.9 million received in settlement of project related litigation. Costs were incurred in two areas: £3.8 million relating to commissioning production costs and £4.7 million resulting from the write-down of stock. We do not expect further exceptional items in 2018/19. The tax credit relating to this exceptional charge was £0.9 million. For a more detailed breakdown of this prior year exceptional cost, refer to the annual report for the year ended 31 March 2018.

5 Taxation

The tax expense calculation for the half year ended 30 September 2018 is based on the estimated effective tax rate on pre-exceptional profit for the full year of 18.5% (September 2017: 19.0%; March 2018: 17.3%). The tax relief on exceptional items for the half year ended 30 September 2018 was £0.9 million (September 2017: tax charge £24.9 million; year ended 31 March 2018: tax charge £19.1 million).

The deferred tax liability of £17.1 million at 30 September 2018 has increased from £10.0 million at 31 March 2018. This change is partly due to the movement in the valuation of the Group's pension fund asset from £93.9 million at 31 March 2018 to £126.9 million at 30 September 2018.

To understand the comparative results, refer to the annual report for the year ended 31 March 2018 and the interim financial statements for the six months ended 30 September 2017.

6 Dividends

A dividend of £9.9 million (6.4 pence per share) (2017: £8.8 million; 6.3 pence per share) will be payable on 31 January 2019 to shareholders on the register on 4 January 2019. This dividend is not recorded in the balance sheet as a liability at 30 September 2018 because it had not been committed to at the balance sheet date.

7 Earnings per share

The basic earnings per share ("EPS") measures for the period have been calculated by dividing the profit attributable to equity shareholders of the Group by the weighted average 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 shares used for the calculation of diluted EPS. The diluted weighted average number of shares reflects the dilutive impact of share options exercisable under the Group's share option schemes.

To show earnings per share on a consistent basis, adjusted earnings per share have been calculated. The Directors consider this measure to be more appropriate in reflecting the underlying performance of the Group because it excludes exceptional items.

14.1 million 25p ordinary shares were issued for a consideration of £68.4 million (net of fees), following the share placing on 30 May 2018. This resulted in an increase in share capital and share premium of £3.5 million and £64.9 million respectively.

Year ended 31 March 2018 £m		Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
	Profit on operations:		
149.5	Profit attributable to equity shareholders	**14.5**	122.7
(98.9)	Exceptional items (net of tax)	**4.0**	(106.5)
50.6	**Adjusted earnings attributable to equity shareholders**	**18.5**	16.2
149.5	**Total profit attributable to equity shareholders**	**14.5**	122.7
140.2	Weighted average number of shares (million)	**149.9**	140.0
141.5	Diluted weighted average number of shares (million)	**151.4**	141.4
	Earnings per share		
106.6p	Basic earnings per share	**9.7p**	87.6p
105.6p	Diluted earnings per share	**9.6p**	86.8p
36.1p	Adjusted basic earnings per share	**12.3p**	11.6p
35.8p	Adjusted diluted earnings per share	**12.2p**	11.5p

8 Non-current assets held for sale

Non-current assets held for sale of £3.4 million (September 2017: £3.9 million, March 2018 £3.4 million) represent properties owned by the Group and comprised closed manufacturing sites that management has committed to sell and where 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 manufacturing sites will be recognised under exceptional items within the income statement.

9 Analysis of net debt

Year ended 31 March 2018 £m	Closing net debt	Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
17.8	Loans repayable in less than one year	**17.8**	-
1.1	Finance leases repayable within one year	**0.4**	1.5
(0.6)	Debt issuance costs	**(0.5)**	(0.6)
18.3	Short-term borrowings	**17.7**	0.9
276.1	Loans repayable in greater than one year	**229.1**	298.1
-	Finance leases repayable in greater than one year	**-**	0.3
(0.6)	Debt issuance costs	**(0.4)**	(0.6)
275.5	Long-term borrowings	**228.7**	297.8
(22.6)	Cash and short-term deposits	**(12.2)**	(7.6)
271.2	Borrowings and cash - before impact of cross-currency swaps	**234.2**	291.1
1.2	Debt issuance costs excluded	**0.9**	1.2
(6.7)	Impact of cross-currency swaps *	**(13.7)**	(10.9)
265.7	**Net Debt**	**221.4**	281.4

* The Group has US$126.3 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (September 2017: US$126.3 million; March 2018: US$126.3 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 £13.7 million adjustment included above (September 2017: £10.9 million; March 2018: £6.7 million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£96.9 million (September 2017: £94.1 million; March 2018: £89.9 million)) to the fixed Sterling liability of £83.2 million (September 2017: £83.2 million; March 2018: £83.2 million)

Movement in net debt	**Opening balances**	**Cash flow**	**Exchange movement**	**Closing balances**
Six months ended 30 September 2018	**£m**	**£m**	**£m**	**£m**
Cash and short-term deposits	**22.6**	**(10.4)**	**-**	**12.2**
Borrowings	**(293.9)**	**54.0**	**(7.0)**	**(246.9)**
Finance leases	**(1.1)**	**0.7**	**-**	**(0.4)**
Cross-currency swaps	**6.7**	**-**	**7.0**	**13.7**
	(265.7)	**44.3**	**-**	**(221.4)**
Six months ended 30 September 2017				
Cash and short-term deposits	20.9	(13.3)	-	7.6
Borrowings	(285.9)	(19.0)	6.8	(298.1)
Finance leases	(2.5)	0.7	-	(1.8)
Cross-currency swaps	17.7	-	(6.8)	10.9
	(249.8)	(31.6)	-	(281.4)
Year ended 31 March 2018				
Cash and short-term deposits	20.9	1.7	-	22.6
Borrowings	(285.9)	(19.1)	11.1	(293.9)
Finance leases	(2.5)	1.4	-	(1.1)
Cross-currency swaps	17.7	0.1	(11.1)	6.7
	(249.8)	(15.9)	-	(265.7)

10 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).

The net pension asset of the Group's pension fund at 30 September 2018 can be analysed as follows:

31 March 2018 £m			30 September 2018 £m	30 September 2017 £m
779.9	Bonds and cash		**753.3**	762.0
(0.5)	Equity return swaps valuation		**2.8**	4.2
115.4	Property and other		**121.0**	116.2
288.1	Insured retirement obligations		**274.4**	302.1
1,182.9			**1,151.5**	1,184.5
(825.8)	Defined benefit obligation:	Uninsured retirement obligations	**(775.0)**	(869.0)
(263.2)		Insured retirement obligations	**(249.6)**	(275.6)
(1,089.0)	Total defined benefit obligation		**(1,024.6)**	(1,144.6)
93.9	Net surplus recognised in the balance sheet		**126.9**	39.9
(16.0)	Related deferred tax liability		**(21.6)**	(6.8)
77.9	Net pension surplus		**105.3**	33.1
	Analysis of movements in the Group pension fund during the period:			
(109.6)	Opening surplus / (deficit) before recognition of liability for unrecoverable notional surplus		**93.9**	(109.6)
(0.6)	Net interest income / (cost)		**1.3**	(0.4)
1.6	Settlement gain		**-**	-
131.5	Past service cost		**-**	132.7
(1.0)	Administration costs incurred		**(0.5)**	(0.4)
25.9	Actuarial gain arising from changes in demographic assumptions		**-**	-
36.6	Actuarial gain arising from changes in financial assumptions		**51.3**	16.7
(10.9)	Actuarial loss arising from experience		**(0.3)**	(2.9)
9.5	Remeasurement (loss) / gain on Fund assets		**(25.5)**	(4.5)
10.9	Contributions by employer		**6.7**	8.3
93.9	Closing surplus (excluding liability for unrecoverable notional surplus)		**126.9**	39.9

The principal assumptions used in determining the retirement benefit obligations for the Group's pension fund are as follows:

Mar 18		**Sep 18**	Sep 17
3.3	Price inflation - RPI (%)	**3.4**	3.3
2.2	Price inflation - CPI (%)	**2.3**	2.2
23.4	Life expectancy at 65 for a male currently aged 50 (years)	**23.4**	24.1
21.9	Average expected remaining life of a 65 year old retired male (years)	**21.9**	22.5
26.5	Life expectancy at 65 for a female currently aged 50 (years)	**26.5**	27.0
24.5	Average expected remaining life of a 65 year old retired female (years)	**24.5**	24.8
2.6	Discount rate (%)	**2.9**	2.5

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Fund was carried out by a qualified actuary as at 31 March 2016 and showed a deficit of £100 million.

Under the latest schedule of contributions, which was signed in August 2017, the level of contributions payable by the Group to the fund is £15.0 million for 2018/19 and then £20.0 million per annum until March 2022.

10 Retirement benefit obligations (continued)

Risk

The Group 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 Fund 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.

Past service cost

On 31 August 2017, the Group and the Trustee of the Group's pension fund finalised the 31 March 2016 funding valuation. As part of the overall package of funding, the Group and the Trustee formally agreed to change the measurement of inflation used for Fund pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). CPI will therefore apply for Fund pension increases from 25 March 2018 onwards. It was calculated that as at 31 August 2017, the Fund's defined benefit obligation was reduced from £1,323.0 million to £1,190.3 million, a reduction of £132.7 million.

Surplus

The Group has an unconditional right to receive any surplus on winding up of the Fund. As such, management have judged it appropriate to recognise the full surplus under IAS19.

11 Financial Instruments

The following table summarises the Group's financial instruments:

31 March 2018 £m		30 September 2018 £m	30 September 2017 £m
	Financial Assets		
3.0	Cross currency swaps (cash flow hedges)	**8.8**	7.2
3.0		**8.8**	7.2
	Financial Liabilities		
(1.0)	Forward currency contracts	**-**	-
(159.0)	Bank loans (at amortised cost)	**(105.0)**	(159.0)
(134.9)	Loan notes (at amortised cost)	**(141.9)**	(139.1)
(1.1)	Obligations under finance leases	**(0.4)**	(1.8)
1.2	Debt issuance costs	**0.9**	1.2
(294.8)		**(246.4)**	(298.7)

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 value of the loan notes was £141.9 million and the fair value was £140.9 million. The fair value of the loan notes has been calculated by discounting the expected future cash flows at a prevailing interest rate.

Fair value hierarchy

All derivative financial instruments and loan notes 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).

Valuation techniques

The fair values of cross currency swaps and forward currency contracts are measured by the external counterparties to the contracts and verified using present value of future cash flows at discount rates implied by the forward curve. These valuation techniques maximise the use of observable market data where it is available.

The fair value of loan notes has been measured by reference to yields of publicly quoted debt of equivalent duration, coupon and credit-worthiness.

12 Commitments and contingencies

Capital expenditure contracted for but not provided for in the interim financial statements amounts to £5.2 million (September 2017: £3.6 million; March 2018: £10.5 million).

Contingent liabilities

Dilapidation 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 has 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. There has been no change on the Group's position on this contingent liability in the six months to 30 September 2018.

Litigation in relation to the capital project at Davidstow

At 31 March 2018 there was one outstanding claim against the Group. The Group has rebutted this claim but nonetheless accrued for professional fees in respect of it. The Group is not disclosing detail of the claim due to the legal sensitivity of the matter. There has been no change on the Group's position on this contingent liability in the six months to 30 September 2018 and it is the opinion of the Directors that there is no significant liability that would require being provided for as at 30 September 2018.

13 Alternative performance measures

The Group uses a number of alternative performance measures (APMs) to assess the performance of the Group which are not defined under IFRS. The Directors use these performance measures to assess the underlying performance of the Group and they are used to set targets as disclosed in the Directors Remuneration Report contained within Annual Report 2017/18. As such these measures should be considered alongside the IFRS measures. Reconciliations from statutory performance measures to the APMs are shown below.

Adjusted profit before tax

The Group has previously excluded amortisation of acquired intangible items and pension interest when calculating adjusted profit before tax. However, these adjusting items are not material in nature and in order to simplify reporting and reduce the number of reconciliations between reported and adjusted measures, the Group will now only report on pre-exceptional profit. The Directors consider this measure appropriate because it reports the underlying performance of the Group excluding the material values that can be associated with exceptional items. This allows the Directors to measure the longer-term performance of the Group on a comparable basis.

Reconciliation of profit before tax to adjusted profit before tax

Year ended 31 March 2018 £m			Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
179.2	Profit before tax	Face of consolidated income statement	**17.8**	151.4
(118.0)	Adjust for: Exceptional items	Note 4	**4.9**	(131.4)
61.2	Adjusted profit before tax		**22.7**	20.0

13 Alternative performance measures (continued)

Product group profit

Product group profit represents the Group's operating profit or profit from operations, before exceptional items. The Directors consider this an appropriate measure for the Group because it represents the underlying profitability of the Group excluding the impact of any changes to the Group's financing structure thus making it an appropriate measure to communicate internally where the majority of employees are not able to influence decisions around the Group's financing structure or acquisition decisions.

Reconciliation of profit on operations to product group profit

Year ended 31 March 2018 £m			Half year ended 30 September 2018 £m	Half year ended 30 September 2017 £m
189.4	Profit on operations	Face of consolidated income statement	**20.8**	156.3
(118.0)	Adjust for: Exceptional items	Note 4	**4.9**	(131.4)
71.4	Product group profit		**25.7**	24.9

Adjusted earnings per share

Adjusted earnings per share represent the earnings per share adjusted for exceptional items. The Directors consider this measure to be appropriate because it measures the underlying earnings per share of the Group excluding the material values that can be associated with exceptional items. This allows the Directors to measure the longer-term earnings per share on a comparable basis.

A reconciliation of profit on operations to adjusted earnings per share can be found in Note 7.

Net debt

Net debt represents the Group's borrowings and is made up of 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. The Directors consider this to be the key performance measure of the Group's debt position and balance sheet efficiency. The Directors are required to meet net debt targets under their long term incentive plans.

A reconciliation of financial liabilities to net debt can be found in Note 9.

Statement of directors' responsibilities

The directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules. The Board of Directors that served during the six months ended 30 September 2018, and their respective responsibilities, can be found on pages 30 and 31 of the 2017/18 Annual Report and Accounts. Mr Andrew Carr-Locke stood down as a Non-Executive Director at the Annual General Meeting on 17 July 2018.

By order of the Board

M Allen	T Atherton
Chief Executive	Deputy Chief Executive and Group Finance Director
6 November 2018	6 November 2018

Principal risks and uncertainties

The Board considers risk assessment, identification of mitigating actions and internal controls to be fundamental to achieving Dairy Crest's strategic corporate objectives. The principal factors considered when assessing Dairy Crest's ability to achieve its short-term and long-term objectives are:

- Economic, cultural and market conditions which influence consumer and customer behaviour;
- Relationships with dairy farmers and future milk sourcing;
- The impact of increased milk costs and the volatility of ingredients and other commodity markets;
- Investing in our brand portfolio and innovative new product development;
- Attracting and retaining the best people;
- Maintaining high levels of food safety standards and operational performance across the manufacturing base;
- Impact of financial market turmoil on pension scheme assets and future funding requirements;
- Regulatory and legal risks;
- Environmental trends and risks and
- The impact of the UK's withdrawal arrangements for leaving the European Union in March 2019.

There have been no significant changes in the material risks faced by the Group since publication of the 2017/18 Annual Report. The processes by which the Board safeguards shareholder value and the assets of the Group and risks and uncertainties that would have a significant impact on long-term value generation are set out in the 2017/18 Annual Report and Accounts on pages 26 to 29.

INDEPENDENT REVIEW REPORT TO DAIRY CREST GROUP plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises the consolidated income statement, consolidated statement of total comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
6 November 2018