ANNUAL REPORT & ACCOUNTS YEAR TO 31 MARCH 2008

Dairy Farmers of Britain

A BUSINESS THAT WORKS FOR ALL

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Dairy Farmers of Britain®

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Dairy Farmers of Britain (DFB) is a dynamic and forward-looking co-operative governed by dairy farmers for the benefit of dairy farmers.

With a turnover in 2008 of £562 million, the Group employs over 2,400 people across the country in dairy logistics and the manufacture and marketing of value-added dairy products, including DFB's own brands.

> *"Now, in 2008, Dairy Farmers of Britain stands on the threshold of a new and successful era as the hard work of the last six years opens up new and exciting opportunities."*

This Annual Report looks at the many challenges which govern the company's strategic thinking and the impact on the co-operative's financial performance.

The primary aim of DFB is to maximise the returns delivered to its 2,300-plus farmer members through a combination of effective manufacturing, marketing and optimised financial management.

Dairy Sector Issues

Everybody connected with the dairy industry will be conscious of the challenging market conditions we had to contend with during the course of 2007.

Triggered by many global factors, as well as domestic influences, we had to deal with a seismic shift in the supply and demand balance, and all its consequences.

The positive news being that for the first time in a significant period, our product value is now finally being realistically recognised by customers and consumers alike.

Our Results

Set against this market place, Dairy Farmers of Britain (DFB) has worked diligently against the business plan and development programme that has been set by the Board. Short-term pressures to deviate from our planned strategy have largely been resisted as not being in the best long-term interests of our membership, staff and customers. I can report that for 2007/08 we have delivered a performance better than that envisaged in our three year plan. This has resulted in DFB reporting a post tax loss of £3.5m (2007: £2.6m). This loss was expected and enabled us to return a more competitive milk price to our members. Revenues were slightly higher at £562.0m (2007: £557.8m) despite the closure of the Whitby Dairy. All bank covenants have been met in full.

This year, for the first time, the Annual Report and Accounts of DFB have been prepared in accordance with International Financial Reporting Standards (IFRS). This adoption was voluntary but underlines our firm commitment to maintaining 'plc' standards across the business.

The foundations meticulously put in place will see significant benefits in 2009 and beyond. One notable highlight has been the exciting development of *'localchoice'* milk with the country's leading retailer, Tesco. Our regional dairy estate and the dedication of our staff are ensuring that a strong and mutually beneficial partnership has emerged and this will yield enormous benefits in future years.

Our dairies continue to see significant investment, as do our creameries. Since the acquisition of Associated Co-operative Creameries (ACC) in 2004, we have invested over £33m in our infrastructure, helping us to maximise efficiencies and maintain the highest of standards required by the customers we endeavour to supply. The new facilities at Bridgend and Llandyrnog bear testament to our aim of being able to offer our customers best-in-class facilities.

With our continued growth comes responsibility. Corporate social responsibility (CSR) is a very important requirement in the eyes of customers large and small. DFB has responded with a newly prepared CSR policy document which brings together such diverse issues as environmental concerns, and health and safety policies, in one easy to understand publication.

These values are closely aligned with our strategic aims and cover issues such as reducing the *'carbon footprint'* in our manufacturing and distribution activities, never forgetting that *'food miles'* is a large consumer concern, hence our success with *'localchoice'*.

Risk management in all its forms is also at the top of our agenda and we are now confident of the systems we have in place to meet the new challenges of the years ahead.

Looking forward, we are determined to keep our attention on the strategies that have guided us since our inception, namely to be *'the professional farmer-owned business of choice'*, first choice for members, customers, consumers and staff.

We will continue to achieve against this by continually investing in our estate, people and brands, in order that we can deliver for our membership the stability and returns they need in order to plan their own businesses. During this time of investment our milk price paid to members increased from 17p to 25p, a 47% increase.

As a result of DFB's continuing evolution, 70% of members will be free from obligatory capital retentions within the next milk year. We have also taken the decision to pay, in cash, interest to committed members on their Member Investment Accounts at the rate of 7.50%, rather than accrue interest which has been our historical practice. This can only benefit our members going forward as they move from being net contributors to net beneficiaries.

> *"The global environment, particularly oil and oil-related items, will continue to be challenging, yet I remain totally confident that we are equipped to handle these new paradigms."*

Following the closure of our financial year 31 March 2008, and in accordance with our three-year business plan, the Board has confirmed a programme of business re-alignment, designed to meet the challenges of the next two years.

Trading Outlook

Phase one of our plans has now been successfully achieved and we have now turned our attention to phases two and three. Phase two will deliver a year of break-even with phase three moving into substantial profits.

The Board's composition now needs to reflect the changing dynamics and to that end, it has now been agreed that a Board with fewer directors, concentrating on our strategic priorities and delivery of phases two and three, is more appropriate.

Therefore, Richard Fisher (non-farmer director), Mark Heywood and Wendy Radley (farmer directors) have relinquished their directorships. Also, since the year end, Norman Coward an adviser to the Board has retired.

Moving forward, the Board's composition will be: three non-farmer directors, (including Chairman), and four farmer directors (including Vice-Chairman) supported by a Company Secretariat.

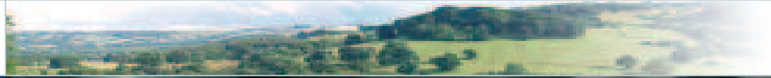
I would like to take this opportunity to thank Richard, Mark, Wendy and Norman for their dedication, contribution and great efforts during their time serving our company.

The global environment, particularly oil and oil-related items, will continue to be challenging as this plays out in consumer uncertainty, yet I remain totally confident that we are equipped to handle these new paradigms. The prospects for DFB are very promising indeed. We have a business model that is capable of sustainable growth, driven by advantaged positions with emerging customers as well as our key relationships with our existing estate and we will maintain a relentless focus on costs and efficiencies, thereby improving our margins in line with business plan expectations.

I would like to thank the Board of Directors, the Executive, our employees and Member Council, for their outstanding contributions in helping DFB achieve its business objectives.

Rob Knight *Chairman*

CHAIRMAN'S STATEMENT



DFB make a wide range of own-label dairy products for supermarkets as well as a growing range of own-brand products (currently numbering more than 600 product lines).

Members are dairy farmers who supply DFB with milk. They vote in the election of farmer representatives for the Member Council (which amongst other things elects the Board).

The Board and Executive are 100% accountable to the Members who have contributed to the financing of the co-operative through capital retention.

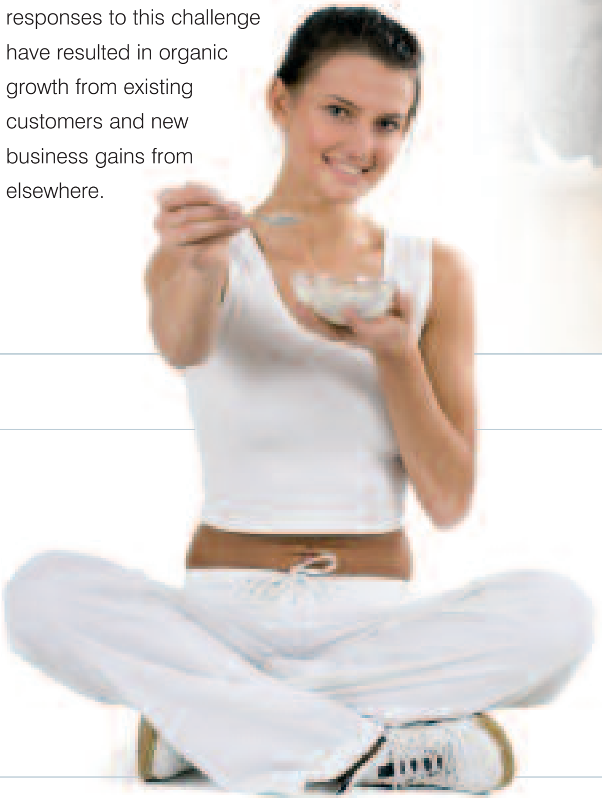
> *"Dairy Farmers of Britain is a forward-looking co-operative focused on delivering maximum financial returns for its 2,300-plus farmer members."*

DFB is one of the leading vertically-integrated co-operatives in the UK, with a market share of 11.50% managing over 1.5 billion litres of raw milk. Group turnover is broadly similar to last year whilst overall performance is in line with the business plan. The expectation is to break even in 2009 and move into significant surplus from 2010.

Central to this long-term thinking is the major capital investment across all processing plants as well as considerable amounts of time spent on building supply chain relationships with major retail multiples.

The increasingly competitive farm-gate prices paid by DFB reflect its focus on supplying high quality retail customers who want high quality products. DFB has invested heavily in its processing plants to significantly increase both efficiency and output and meet the growing demand for its products. Ever-improving facilities and more efficient operations are a direct response to what is a highly competitive marketplace set against a backdrop of continually increasing costs.

End-consumers - and DFB customers in the retail sector - quite rightly expect high quality produce at the best possible prices. DFB's responses to this challenge have resulted in organic growth from existing customers and new business gains from elsewhere.



OUR BUSINESS

The market in the last 12 months has been in a state of considerable fluidity. Acknowledging this, DFB has avoided any knee-jerk responses to short-term shifts. Instead, the Group will continue to pursue a strategy of consolidating its position as one of the UK's top producers of value-added milk-based products - while taking account of real and sustainable market trends.

2,300-PLUS FARMER MEMBERS
EMPLOY 2,400 ACROSS ENGLAND AND WALES
RUN 8 SEPARATE UK PROCESSING SITES
RUN **50 DISTRIBUTION DEPOTS** ACROSS THE UK
HAVE **OVER 600** DAIRY PRODUCT LINES
£562 MILLION ANNUAL TURNOVER
11.5% MARKET SHARE
MANAGE OVER **1.5 BILLION LITRES** OF RAW MILK

DFB QUICK FACTS

BUSINESS EVOLUTION & TIMELINES

DFB is approaching a transitional stage in its evolution. Since its inception in 2002, the co-operative has developed largely through member financing. This has brought the beginnings of financial benefits to the membership as well as the many support services which DFB provides.

> *"Exciting times at DFB continue with its evolution into a self-financing business which retains the core values of serving and supporting its Membership"*

From 2008, DFB will no longer be looking to its members for development funding. This could best be described as the *'consolidation phase'* where the business's initial strategic aims have been realised in accordance with its earlier business plans.

Looking forward, members will continue to benefit from competitive prices for their milk and optimum returns on their investments.

Start-up Phase

- The co-operative was established in 2002 with the business merger of Zenith Milk and The Milk Group. Key strategies and core values provided the guiding principles for subsequent Group development.

Funding Phase

- Funds raised directly from DFB members enabled the business to develop in line with the key strategic decision to grow the co-operative through both acquisitions and organically.
- In 2004, the company acquired ACC from the Co-operative Group. During 2005, DFB acquired the Lincolnshire Co-operative Society's dairy business and in 2006, DFB acquired the Bridgend Dairy.

Consolidation Phase

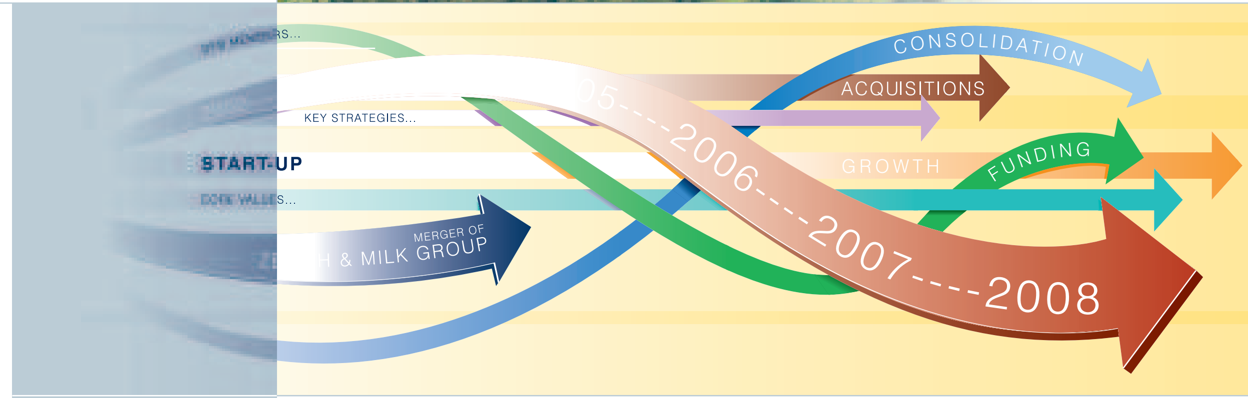
- DFB is currently ending the transitional phase between heavy investment in the business, with its inevitable financial pressures, and the planned growth phase.
- Business assets, including production and distribution operations, are being rationalised to create efficient and profitable units.

In addition, any diminution in members' funds will be addressed and 7.50% interest will be paid in cash on Member Investment Accounts in 2008/09.

- Members who have signed the new Supply Contract no longer provide a Member Financial Guarantee.

Growth Phase

- In the future, DFB will move into strong, sustainable returns delivered to members through milk price and returns on investments. This represents a watershed in the Group's development.
- Achieving this sustainable level of funding for the business will see the capital structure evolve to provide strong support for members as they move from being net contributors to net beneficiaries.
- This structure will help to drive long-term growth.



KEY ASPECTS OF OUR ACTIVITIES

The Strategy

The DFB Group has taken several measures to increase its competitiveness in all key markets. The capital investment programme, for example, aims to improve production efficiencies and contain rising costs.

Likewise, DFB continues to rationalise its logistics operations, not only to minimise costs, but also to reduce its *'carbon footprint'* and the *'food miles'* travelled by DFB products.

In addition, brand development and the launch of innovative and value-added products are key elements in the strategic transformation into a brand-led marketing organisation. As ever, the driving force behind this activity is to improve the financial and service benefits provided for members.

The past year has seen revenue levels stabilise against a backdrop of falling national milk supplies

An ongoing dairy and depot rationalisation programme has identified loss-making areas of the business and appropriate efficiency initiatives have been taken

Cash flow has remained strong throughout the recent investment period

£33.4million

£33.4 million has been invested in our asset base since the acquisition of ACC in 2004, following a steady, upward trend

PASTPRESENTFUTURE

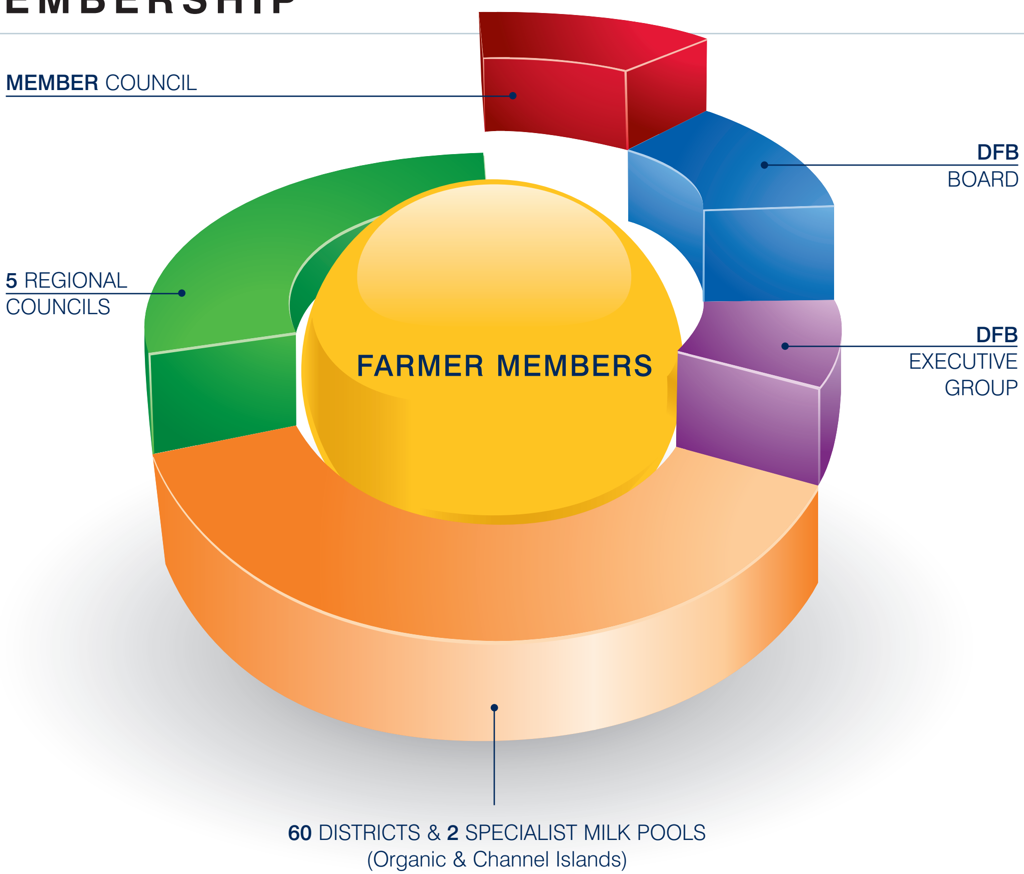
DFB - STRUCTURED TO ACHIEVE

Ensuring that DFB has the most efficient organisational structure is a vital part of delivering the returns members expect.

Responsibility for co-ordinating the activities of the co-operative rests with the Board and Executive of the company. They report directly to the Membership - who, in addition to being farmer businessmen, are also shareholders and key stakeholders in the business.

Stakeholder representation comprises a Member Council, five Regional Councils, 60 Districts and two specialist milk pools - *'Channel Islands'* and *'Organic'*. A new Council, restructured around fewer districts, will be in place from September 2008.

MEMBERSHIP



COMMUNICATION

DFB is run entirely for the benefit of the members to enhance current and future return from their milk production.

> *"In every way, communication between DFB and its members is a two-way process whose single focus is on forging successful long-term links."*

DFB has a very democratic structure where the views of every member matter and where the Directors and Senior Executives are readily accessible by all.

The essence of a co-operative is its membership. Communication channels are therefore in place to highlight industry issues which impact on dairy farmers and the infrastructure that is in place to support our members.

Communication channels include the DFB member website, the member business centre, various meetings held throughout the year and a new initiative introduced in November 2007 - the members' weekly update.

This covers three main aspects of the relationship between DFB and the membership:

- Trading (prices paid for milk etc)
- Investments and *'ownership'* of the DFB business
- Governance

In all cases, the emphasis is on communication being a two-way process.

RECENT CHANGES TO DFB'S CAPITAL STRUCTURE

It is intended to refocus Members Investment Accounts (MIA) to become the 'core' capital of DFB.

From 1 April 2008 instead of DFB having a maximum investment or *'cap'*, a minimum funding was introduced based upon the level of funds held by members in their MIA's. This level has been initially set at 4p per litre and based upon a member's *'base annual production'*, which in turn will reflect their production for the 2007/08 milk year.

However, individual members should they wish, may invest more than their minimum funding requirement. The ongoing retention rate will remain at 0.5ppl for members who have yet to reach their minimum funding requirement.

In future if a member expands or contracts their production away from their base figure the minimum funding requirement will remain unaltered, providing some encouragement for members to expand their production volumes.

For the next financial year (2008/09) the return on investment on MIAs will be 7.50% compared with the previous year (2007/08) of 4.75% and will be paid out twice yearly in cash.

These important changes have been positively welcomed by members who recognise that DFB has moved into a new phase of development, where members are increasingly beneficiaries of and not contributors to the capital structure.

OVERVIEW OF UK/EUROPEAN DAIRY INDUSTRY MARKET

The UK market consists of 60 million consumers who spend on average £45 a year on milk and £32 on cheese, making it a £4.6bn market.

> *"A steady and strategic response to rapidly evolving market conditions in the UK and Europe is delivering financial and non-financial rewards for Dairy Farmers of Britain."*

The dairy market is dominated by milk (51% volume) and cheese (28% volume).

The residual raw milk volume is processed into yogurt, cream, skimmed milk powder, butter and ingredients.

Since the Spring of 2007 there have been significant and rapid structural changes in both the UK and European dairy markets.

In 2007 the market saw a huge improvement to farmgate prices, increases of around 47% were achieved by DFB over the 12-month period to March 2008, giving a farmgate price of 25ppl from December 2007.

Demand for dairy products has seen big changes. UK milk consumption, for example, is falling at a rate of 1% per year (50 million litres).

Price structures have also seen massive changes as demand ebbs away from liquid milk into other commodities such as cheese and butter. Likewise, competitor activity among both dairy industry processors and the retail sector has also had a bearing on DFB's market performance.

Traditionally the dairy industry has suffered from a lack of dynamic branding activity and shown little product innovation. DFB's commercial strategy however has been to move away from sole reliance on volume driven commodity products and to promote DFB branded products into niche value-added premium markets.

Retailers have bought into DFB's strategy which positions it as one of the largest farmer co-operative's supplying and processing fresh milk.

DFB's core consumer brand focuses on the provenance and quality of farmer produced fresh food with its commercial proposition based on the key strengths of being farmer owned, flexibility and regionality.

DFB has created the brand 'Dairy Farmers of Britain' to enhance its market position with values focused on its milk supply from members who are dedicated to using traditional methods to bring real, good food to consumers.

COMMERCIAL

Hence the promise *'Food straight from the Farm'* leaving consumers in no doubt where it's made.

In addition to a range of branded cheeses, a full range of regional milks is also produced and the expansion of these specialist milks as niche market products is a key part of DFB's strategy.

THE IMPACT OF HIGHER COMMODITY PRICES

On Farmers? Not surprisingly, the growing awareness among farmers that higher milk prices are not always on their doorstep has led to a less settled market. Some farmers have followed this trend and attempted to establish independent milk brokerages.

On DFB? Volatile commodity prices for dairy produce presents an ongoing challenge for all dairy processors. DFB has made transitional moves into the manufacture and marketing of niche brands such as Cadog cheese which will begin to alleviate a risk of over-reliance on commodity markets with their associated uncertainties. Also, moves among retailers to take a more pro-active stance in the market represent another area where future market share and margins could be eroded.

On Supermarkets? Higher milk prices have seen most major retailers enter directly into the raw milk market. In 2007, it was Tesco and Sainsbury's. This followed earlier initiatives by M&S, Waitrose and Asda who all initiated their own direct supply pools within the farmer groups associated with their processing partners.

OVERVIEW OF DFB PRODUCTS, SERVICES AND MARKET ACTIVITY

DFB is moving away from its corporate monoculture of commodity reliance. The co-operative has already entered a more sophisticated era where we are building on core strengths such as milk brokerage to deliver added value through the development of the 600-plus product lines in our brands portfolio.

"DFB is entering a new phase in its development where the foundations are in place to expand both the scope and direction of its manufacturing and product development, brand portfolio and marketing initiatives."

Currently, DFB's major brands include:

DAIRY FARMERS OF BRITAIN - This is DFB's flagship brand launched in 2005 which has a rapidly expanding presence in UK retail outlets, currently estimated to have an annual retail sales value of £162m. The range includes milk, cheese and cream.

MILK - Whole, semi-skimmed and skimmed is produced at five dairies in the UK in a variety of pack formats.

CHEESE - DFB produces a range of award-winning cheeses including Mild, Mature and Extra Mature Cheddar; mellow Red Leicester; and buttery Double Gloucester.

CREAM - DFB's own-brand top quality cream is available across the UK as single, double and flavoured creams.

CADOG - A premium range of milk, cheese and butter made from quality milk supplied predominantly by Welsh dairy farmers. There's no doubt that Cadog's provenance and authenticity is an important part of the brand's success.

FRESH MILK - Available in standard, semi-skimmed and skimmed formats at retailers across Britain.

CHEDDAR CHEESE - Made using traditional methods to create four distinctive cheeses ranging from delicately flavoured Mild Cheddar to the richer Medium Cheddar, full-flavoured Mature Cheddar and the world-class Vintage Cheddar.

BUTTER - is an award-winning product made from an ancient recipe and often described as *'Wales' favourite butter'*.

"...to deliver added value through the development of the 600-plus product lines in our brands portfolio."

SOMERSET BRIE - An authentic-tasting and naturally ripening Brie produced at the Lubborn creamery in Somerset. Available in all major supermarkets.

CHANNEL ISLANDS BRIE - Uses milk from DFB's Guernsey and Jersey herds. The finest quality Brie.

CAPRICORN - A full-flavoured goat's cheese, traditionally crafted at DFB's Somerset creamery. Widely available at major multiple retailers and delicatessens.

CLAREYS - This luxury ice-cream is made from high quality natural ingredients in five flavours. Acclaimed by top chefs including Albert Roux and Phil Vickery.

NEW PRODUCT DEVELOPMENT

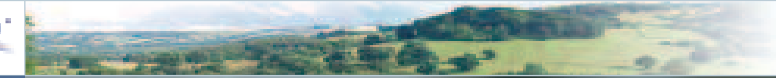
As part of the co-operative's strategic shift from the commodity-based milk brokerage marketplace, New Product Development, led by the Innovation Team, is playing a major role in ensuring that DFB has a winning portfolio of products.

DFB is utilising its milk pools to branch out into a variety of areas, including product development for healthy and luxurious yogurt ranges. Channel Island and Organic milk will be used across a number of dairy categories to ensure service demand for premium products is met.

The strong Welsh heritage associated with the Cadog brand means further dairy sectors are being explored. These include yogurts, new cheese recipes, butters and creams. All of these product innovations will tap into consumer demand for regional provenance.

The Innovation Team has partnered with the Food Technology College in Llangefni and is working on a cheese brief which includes both packaging and flavour innovations.

In addition, DFB is working in partnership with a college investigating the benefits of adding functional health ingredients to milk.



Commercial Assessment

Commercial relationships have progressed over the year and the outlook is favourable in the near term:

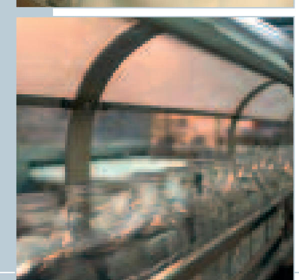
- DFB secured a partnership with Tesco in May 2007 in the form of *'localchoice'* milk. The relationship was secured upon DFB's unique selling point of its regional processing capabilities together with our status as a co-operative and our ability to offer management of the entire supply chain. This provides consumers with a regional milk option whilst supporting small family farms across the country. DFB intends to grow the successful *'localchoice'* concept with Tesco and build on their business relationship.
- In 2007, DFB maintained strong growth in the convenience sector for milk. This is a key sector where the company wants to grow its market share. DFB will therefore be intensifying efforts in this area.
- DFB is working closely with its biggest customer the Co-operative Retail Trading Group (CRTG) to maintain strong milk sales and develop business volumes in other areas.

Significant investment at the Llandyrnog cheese plant and an ongoing focus on innovative new products (such as the Premium Channel Island Brie) are clear signals that DFB aims to grow its customer base in the cheese sector. This will be achieved through developing existing relationships with the major multiples as well as pro-active brand marketing activities to grow new business.

Market Activity

DFB customers range from household doorstep deliveries, wholesalers and institutions through to retailers of all sizes including the majority of the larger supermarkets. Major customers include: *Co-operative Retail Trading Group, Tesco, Morrisons, Sainsbury's, Asda* and *Waitrose*.

DFB is supported by a nationwide distribution network and the household division employs more than 800 people to service more than 15 million doorstep deliveries each year.



> *"Diversification into new product areas is an important part of DFB's overall business strategy to maximise returns for its 2,300-plus farmer members."*

AT DFB, EVERYTHING WORKS TOGETHER

The company's infrastructure comprises a regional network of dairies, creameries and distribution depots across the UK.

DFB remains active in two significant areas relating to the bulk supply of liquid milk and dairy product manufacturing and processing and the segmental results are reported in note 4 to the accounts.

DAIRY PRODUCT MANUFACTURING AND PROCESSING

This operating division concentrates on the manufacture and marketing of value-added products such as cheese, cream, crème fraiche, yogurt, ice-cream and flavoured milk drinks.

Key operations are undertaken at the following UK sites:

Llandyrnog Creamery - This North Wales creamery produced 20,000 tons of traditional Cheddar and Territorial-type cheeses. It is the fourth largest cheese factory in the UK accounting for 9% of domestic Cheddar production. It's the home of the successful Cadog cheese range.

Lubborn Creamery in Somerset - DFB's Lubborn Creamery processes around 10 million litres of milk per year into a range of continental, soft-style cheeses. These include premium Brie-style cheeses (Somerset Brie, Channel Island Brie and Somerset Rustic), together with Somerset Camembert and Capricorn Goats Cheese.

Nene Valley Foods - This purpose-built plant dairy at Peterborough produces flavoured milk for major multiples and specialist milk and ingredients products, especially for the ready-meals market.

OPERATIONS

DFB's national network of dairies produces a wide range of products including milk, cream and ice-cream.

The liquid milk business operates through regional dairy operations at Blaydon, Fole, Bridgend, Portsmouth and Lincoln.

Blaydon Dairy - Located close to the A1, the site has a capacity of 200 million litres per annum.

Portsmouth Dairy - This dairy processes around 165 million litres of milk per year. Fresh milk and cream are produced in non-returnable containers and pergals.

Fole Dairy - Conveniently located to the South-East of Stoke-on-Trent, Fole processes around 165 million litres of milk per year.

Fresh cream and milk are produced in non-returnable containers and portion packs.

Bridgend Dairy - Acquired from Golden Vale in 2006, we have invested in this 165 million litre capacity site which produces fresh milk and cream in glass and plastic bottles. Located in South Wales, it is the home of Cadog Welsh milk.

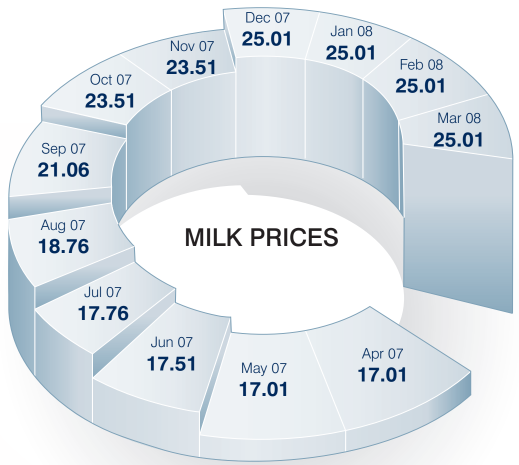
Lincoln Dairy - With 100 million litres of milk processed per year - producing fresh milk and cream in non-returnable containers - this dairy is the home of Clarey's ice-cream.

BULK SUPPLY OF LIQUID MILK

The dual function of this division is the collection of raw milk from the co-operative's 2,300-plus members and its delivery to DFB processing plants and third party customers.

This year has seen continuing efficiencies in reducing haulage costs and other overheads, allied to a strategic decision to process more of the company's own milk and further develop customer relationships.

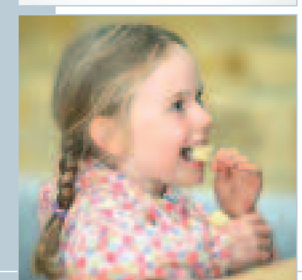
On the positive side, 61% of the Group's milk volume is sold to its own processing sites. As the company's brand-led marketing initiatives gather momentum, this percentage figure will continue to increase. In addition, strong commercial relationships with established customers such as Cadbury, Arla and Milk Link will provide support for total revenues.



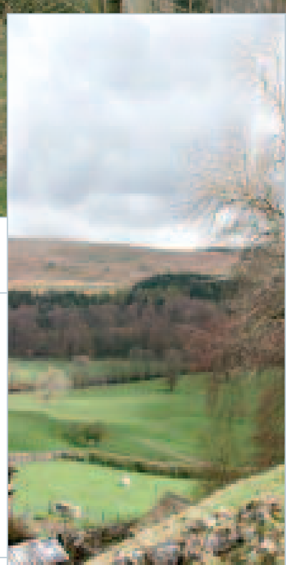
Percentage of 'own' milk processed

MILKSUPPLY-THE FACTS

Milk Managed	Third party turnover	Percentage of own milk processed
1.5 billion litres of milk per year	**£168.1** million (2007: £183.7m)	**61%** (2007: 59%)



"...a strategic decision to process more of the company's own milk and further develop customer relationships."



NEW LAUND FARM HODDER VALLEY

"I've quite literally bought in to the Dairy Farmers co-operative ethos."

CASESTUDY

As an upland farmer in Lancashire, John Alpe has successfully weathered his fair share of difficult conditions over the years, yet the decision to join Dairy Farmers of Britain from the beginning didn't tax him at all.

The family business farm of 800 acres nestling in the beautiful Hodder Valley, produces amongst other things high grade organic milk from its dairy herd, and is run in conjunction with their environmental stewardship schemes. Whilst John was happy with the business as a whole, the vagaries of the commodity market frustrated him.

'I realised I was looking for something more, and the thought of getting personally involved in the ownership and development of a range of high quality dairy related brands was very attractive'.

Says John, *'The co-operative ethos also appealed to me, so joining DFB seemed a natural thing to do.*

This is a business positioning itself at the top end of the market with items like Tesco 'localchoice' and branded soft and hard cheeses. It really is a business that's owned and run for the benefit of the members.'

'What I also recognised was that DFB had good people in the right positions to take the business forward and to get the brands in the right places. That gave me confidence.'

Indeed so much confidence, that John, who now sits on DFB's Member Council, has seen fit to quite literally buy into the DFB ethos by investing in its Loan Stock purchasing facility.

'I see both my membership, MIA, and the loan stock I've purchased as a solid investment now and particularly in the long-term. I think the industry as a whole is pretty buoyant, Dairy Farmers of Britain is now in an excellent position to take advantage of that, and I'm optimistic for the future.'

FARMER CASE STUDY

OVERVIEW

Set in the context of a challenging macro-economic situation, Dairy Farmers of Britain has delivered a performance in 2007/08 which is both in line with expectations, and sets the foundations for the future success of the business.

The year has been one of significant change, not only for DFB, but also the industry at large.

During the year the Group has;

- Increased the price it pays to its members by 8ppl (47%), excluding the returns it also pays on their investments.
- Increased its annual asset investment in 2008 to £12.7m (2007: £9.4m).
- Continued to improve both the quality and utilisation of its asset base, as evidenced by the completion of the closure of the Whitby Dairy site and the consolidation of Cardiff Dairy into Bridgend Dairy.
- Successfully retained the CRTG liquid milk contract, with the two businesses continuing to work together to mutual benefit.
- Successfully launched *'localchoice'* milk in partnership with Tesco. The product's continuing volume growth shows that DFB is delivering quality, differentiated products to the consumer, at the expense of those of a more commodity based nature.
- Reached an agreement with its Westbury Dairies Ltd joint venture partners as to its continued involvement. This agreement will realise significant savings for the Group.
- Taken the positive decision, in line with our commitment to maintaining 'plc' standards where appropriate, to voluntarily adopt IFRS.
- Seen national raw milk supplies continue to decline. The Group's volume for 2007/08 declined 8% from 1.694bn litres to 1.558bn litres.
- Seen milk and dairy product prices rise at unprecedented rates through the period. These price rises were led by commodities, however since year end, commodities have weakened.
- Experienced exceptional inflationary pressures, particularly in the form of oil and oil-related products. This has seen a number of the Group's costs rise well in excess of the Government's published indices.
- Towards the latter part of the year, monitored closely the potential impacts of the global credit crunch on the UK economy.

Looking forwards the Group believes that the uncertainty surrounding oil prices, inflation in general, and the global credit crunch will continue for some considerable time.

As such the Group believes that the actions taken historically and those that it is planning now, will allow the Group to continue to deliver its strategy.

FINANCIAL REVIEW

Summary

- Turnover increased to £562m
- Operating profit before exceptional items £3.96m
- Interest accrued to members up 35% to £3.5m
- One-off exceptional costs of £3.97m, relating to re-organisation costs to streamline business operations

- The loss after tax in the year reported was £3.55m (2007: £2.58m)
- Average milk price paid to members up by 8ppl to 25ppl
- 28% of Membership at, or above, 4ppl minimum investment

Turnover

In the year to 31 March 2008 Dairy Farmers of Britain grew turnover to £562.0m (2007: £557.8m), an increase of around one per cent. This increase was largely as a result of increases in commodity dairy prices and the knock-on impact across all dairy revenues.

The increase was against the background of the closure of Whitby Dairy and a rationalisation of the Group's customer base and falling volumes of milk across the industry.

Operating result

Dairy Farmers of Britain delivered an operating profit before exceptional items of £3.96m. This result was in line with that budgeted for within the Group's three year business plan and all bank covenants have been met in full. Continuing operational improvements in the year have enabled further cost savings which have helped mitigate some of the huge impacts of higher fuel, energy and packaging costs in the year. These savings combined with improved selling prices have meant that the Group has been able to increase the price it pays to members by 8ppl.

Exceptional items

As part of the planned second phase of the ongoing business improvement programme, the year saw a wide-ranging reorganisation with cost reductions being achieved through depot disposals and corporate restructuring. Overheads have been cut and business processes streamlined. This has resulted in a one-off charge to exceptional items of £3.97m which includes £0.75m relating to the provisions against the balances with the associate Westbury Dairies Limited and the joint venture Quality Dairy Ingredients Limited from which the Group has made a strategic exit. The Group will benefit from these changes as it moves forward

Finance costs

The Group incurred interest charges in the twelve months to 31 March 2008 of £7.65m (2007: £6.91). Interest payable to banks has remained broadly static at £3.98m (2007: £3.81m) with the increase in interest charges relating predominantly to the increased returns being paid to members on their investments. Member interest paid in the period increased by 35% to £3.5m (2007: £2.6m) reflecting income paid to members over and above their monthly milk cheque. These returns on investments continue not to be recognised in any Dairy Industry comparative milk price league tables.

Taxation

The income tax credit for the year was £3.92m (2007: £0.19m). The tax credit is higher than the nominal rate, due to the effect of prior period adjustments, see note 6 to the accounts. With effect from 1 April 2008 the standard rate of UK corporation tax will reduce from 30% to 28% and as a result will reduce the underlying rate in the financial year ending 31 March 2009.

Debt re-financing

On 22 August 2007, the Group completed an interim re-financing package. This included the full repayment of the outstanding revolving credit facility and term loan. The new £70 million largely asset-backed finance package was initially for a 12 month period, but since the year end this facility has been increased and extended for a further 3 years. This gives the Group a strong platform to build on for the future, and shows continued confidence and support from our banking partners.

Cash flow

Operating activities excluding exceptional items generated £12.13m (2007: £32.56m) of cash and cash equivalents. Operating cash flows are healthy and the Group is progressing with its ability to generate cash within the business. Investing activities resulted in net outflows of £8.30m (2007: £16.40m) during the period. The £0.35m net cash inflow from financing activities (2007: £17.78m outflow) resulted in an overall net increase in cash and cash equivalents of £0.96m (2007: £3.54m decrease) for the period.

The positive cash flow position continues to underline the progress the business is making.

Capital expenditure

Capital expenditure increased in the year to £12.70m (2007: £9.39m). This included over £3.0m on the Bridgend Dairy which now has a processing capacity of over 165m litres.

Both during the year, and especially going forwards, DFB will increasingly benefit from the £33.4m of investments made since the acquisition of ACC into its regional dairies. These investments have been wide ranging, covering, for example; Facilities; Quality; Shelf Life; Chill Chain; and Customer Product Development.

Balance sheet

The balance sheet demonstrates the increase in the Groups assets in the year rising from £169.4m to £176.7m partially funded by the continuing support of members, with member funds increasing to £52.2m (2007: £48.6m). In the future, the announcement of the 4ppl cap, will enable members to become beneficiaries from returns on their investments within the Group, rather than the historic situation whereby members have been contributors to the capital of the Group. It is expected that by the end of the 2008/09 financial year some 70% of the membership will be at, or above the minimum 4ppl investment threshold.

Pensions

DFB contributes to two defined benefit schemes;

• For a very limited number of employees who commenced service prior to 30 June 2002, the Group continues to participate in The Milk Pension Fund.

• On the acquisition of Bridgend Dairy, Dairy Farmers of Britain took on responsibility for the Golden Vale Dairies Retirement Benefit Scheme.

The Group undertakes ongoing reviews of the risks and costs associated with these funds. The findings of these reviews are discussed with the pension trustees to ensure that the Group maintains appropriate risk management in place.

As at year end, the Group reported a small pension surplus. This surplus has been generated as a result of market movements and the effects of an increase in the pension contribution rates made by the Group.

It should be noted that the reported pension surplus is sensitive to the underlying assumptions in the actuarial valuations.

This can result in year-on-year volatility in the reported pension surplus or deficit.

For all other employees, following a qualifying period of employment, the Group offers participation in defined contribution schemes.

Accounting standards

The Group has trailed IFRS and the ongoing convergence of UK GAAP to International Standards for a number of years.

During the year to 31 March 2008 the Board of DFB decided to adopt the International Financial Reporting Standards (IFRS) for the preparation of the Group's statutory accounts. This has been a voluntary adoption to follow 'plc' standards. This decision puts DFB's reporting standards in line with comparator plc's in the industry.

As a result of this decision the primary statements are shown within this report in a new format that complies with the requirements of these standards. The comparative figures for 2007 have been restated accordingly.

The main impact on the Consolidated Income Statement relates to changes in the treatment of goodwill amortisation. Under IFRS, goodwill is no longer amortised, but is instead subject to an annual impairment review. As a result, for 2007 £4.21m of goodwill amortisation that would have been charged to the Income Statement under UK GAAP has not been charged in the Consolidated Income Statement. Full details of all the changes that result from adoption of IFRS are shown in note 27 to the accounts.

FINANCIAL KPIs

Performance criteria used by DFB include analyses of actual financial performance; those economic factors which affect the dairy industry as a whole; and a breakdown of working capital and borrowings trends.

In a volatile market - and within a developing business which is switching its emphasis from milk broking and commodity-based products to its own value-added consumer brands - it is imperative to track market trends, performance enhancers and cost drivers in order to assess potential financial outcomes.

FINANCIAL RISKS

Oil Price and Power Trends

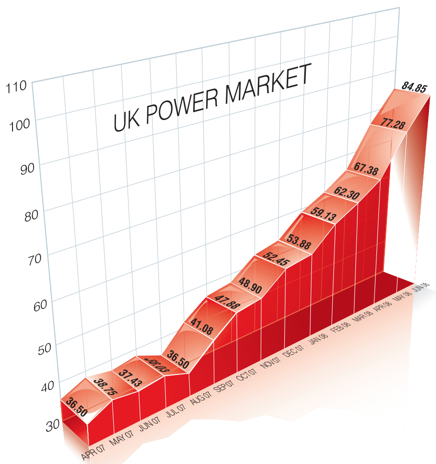
With oil prices at historically high levels, this will have significant financial effects on DFB's collection, manufacturing and distribution activities in the near term.

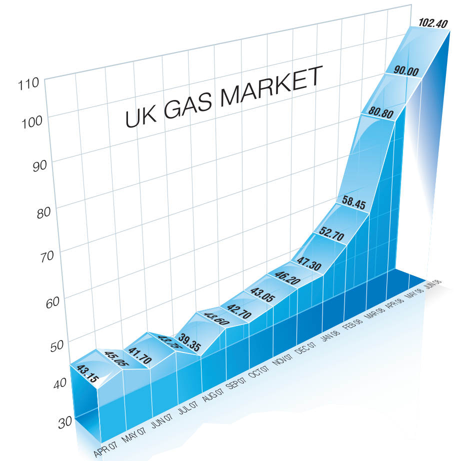
Price volatility also impacts on packaging costs and is an area which DFB monitors closely as part of its product pricing strategy.

Credit Risk

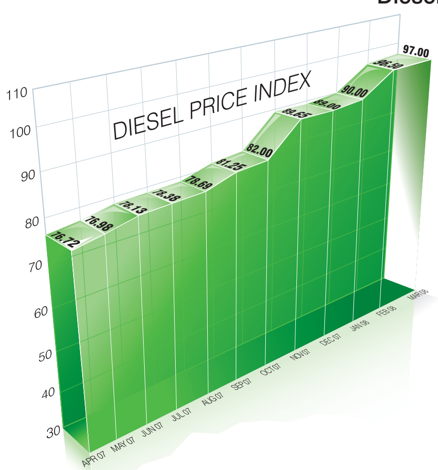
Exposure to bad debt risk arises primarily from the sale of goods into the consumer retail sector and the direct sales to household consumers. Our risk is managed by use of credit ratings and credit insurance where available and through constant monitoring of outstanding debt profiles and levels by individual customer.

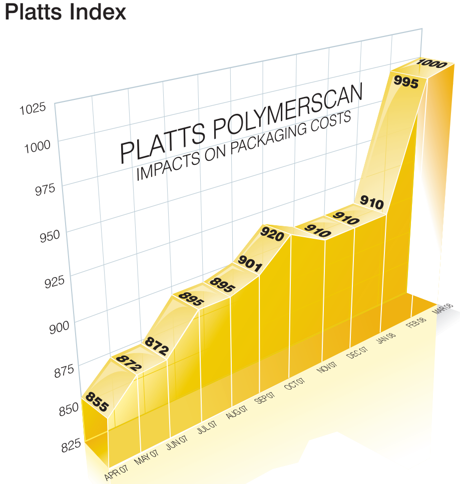
Electricity and Gas Prices





Diesel Prices and Platts Index





FINANCIAL RISKS

Liquidity Risk

DFB mitigates liquidity risk by managing the cash generated by business operations and applying cash collection targets throughout the Group.

Our ongoing investment programme is carefully managed with authorisation limits operating up to the Group Board level. Our funding strategy continues to be maintenance of a balance between short and long term borrowings including members' funds, overdrafts, bank loans and finance leases.

Our ongoing requirements are regularly re-assessed through a schedule of cash flow forecasts and updated business plans.

Bank of England Base Rates

Most commentators agree that 2008 is seeing the economy and world events pulling base rates in opposite directions. Base rate changes impact on DFB's business model in several ways and contingency plans are in place to enable the Group to respond accordingly.

Interest Rate Risk Management

This is managed centrally by the Group Finance function. The Group's interest rate policy is to have fixed interest rate debt on approximately 50% of its total net indebtedness over the medium term in order to provide a balance between the certainties of cost whilst still benefiting from floating rates. In 2008 47% (2007: 44%) of the Group's total net indebtedness was fixed. Member Funds interest rates are at the discretion of the Council.

CORPORATE SOCIAL RESPONSIBILITY

Companies don't operate in a vacuum. The guiding principle behind Corporate Social Responsibility (CSR) is respecting the fact that every activity undertaken by a business has a wider impact on people, places and communities.

> *"DFB recognises that the long-term success of its business operations relies on a CSR policy, which covers all aspects of its corporate and commercial activities."*

DFB recognises that the long-term success of its business operations relies on a CSR policy, which covers all aspects of its corporate and commercial activities and respects the interests of its stakeholders.

From farmer members to employees, from DFB's customers to the communities where the business operates, DFB takes positive steps to act responsibly and respectfully.

Environmental Impact

As a company, DFB strives to protect the environment and minimise pollution through a programme of improved environmental performance and monitoring.

All the company's sites are developing Environmental Management Systems (EMS) which are part of the international quality management system, ISO 14001.

The programme sets out policies and procedures that will help minimise the environmental impact involving key areas of water usage, waste management, energy, transport and resource efficiency.

There is also a Group-wide initiative in place to reduce the *'carbon footprint'* created by the company's operational and distribution activities. Where possible, joint initiatives with local authorities and other local businesses are pursued.

Examples of Environmental Initiatives

• DFB policy is to minimise the miles driven by tankers. This is achieved using sophisticated routing software. Reducing *'food miles'* is a sensitive national issue which DFB is addressing.

CORPORATE

Community Impact

The company wants to contribute to the communities in which it operates. DFB also recognises its wider responsibilities as corporate citizens to enable others to benefit from the prosperity generated by the business.

DFB encourages and supports local community initiatives. The funding criteria applied focus on whether the initiatives will benefit the local community.

HEALTH & SAFETY AT WORK

DFB regards the Health & Safety of its employees as being of paramount importance.

More specifically, the company's aim is to reduce the incident rate of work-related accidents to below the sector average; to reduce ill-health; and to protect the wellbeing of employees and others who may be affected by the company's operations.

This creates benefits to the business by ensuring DFB is a supplier of choice to customers; and the employer of choice for those wanting to work in the dairy sector. It also provides due diligence to protect the company reputation.

THE COMPANY POLICY IS TO INCREASE AWARENESS OF HEALTH AND SAFETY MANAGEMENT THROUGHOUT THE BUSINESS

ETHICAL TRADING

DFB's Ethical Trading Policy has been developed to ensure that customers who buy from the company can be confident they are buying goods produced in a socially responsible manner, without exploitation and in acceptable working conditions.

The Ethical Trading Policy overlaps with issues of respecting Human Rights. Compliance with this policy is regularly audited, with sanctions applied against those who disregard it.

> *"The company wants to contribute to the communities in which it operates. DFB also recognises its wider responsibilities as corporate citizens."*

HUMAN RESOURCES

Attracting and retaining high quality staff within a professional and progressive business environment is the essence of DFB's Human Resources activity.

The KPIs used to monitor the effectiveness of this strategy reflect the Group's commitment to its 2,400 employees. Stability of staff retention, absences and overall staff numbers are indicative of how effective DFB's investment of resources has been.

This applies not only to competitive wage rates/salary levels, pension schemes and other benefits, but also to other areas such as individual training and development and career opportunities within the Group, in addition to excellent internal communications, which actively encourage employees to embrace the DFB team concept.

RISK APPETITE

Strategic Risk

In an evolving business involved with multiple activities such as New Product Development, Research & Development, Mergers & Acquisitions and Joint Ventures, DFB's *'risk appetite'* is to take and accept risk - following a detailed understanding of the consequences and application of appropriate risk management measures.

Operational Risks

These relate to day-to-day issues, not only the operational function which processes, manufactures and distributes products. DFB's move towards a more entrepreneurial culture means that control which stifles growth must be minimised. The operational *'risk appetite'* is to take and accept risk, whilst ensuring that everything is being done to minimise the impact of any adverse outcomes.

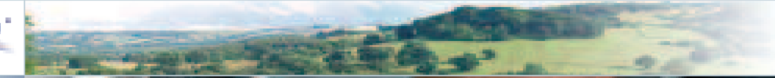
Compliance Risks

This relates to all legislation and regulation which affects the company. DFB is committed to meeting all requirements of legislation, regulation, minimising the threats to employees, consumers and the environment. In this area, DFB is risk averse, with high levels of control and monitoring in place.

Knowledge Risks

Knowledge management relates to people and systems involved in production, protection and communication of knowledge. It includes authorisation; abuse of intellectual authority; loss of key staff; succession; training and systems failure - all of which need appropriate levels of control.

Knowledge management is a crucial facilitator of operational and commercial activity and must therefore be innovative in its application. DFB's appetite for knowledge risk combines a risk-averse approach to threats with an acceptance of minimal risk-taking where potential opportunities can be reliably evaluated.



Financial Risks

The ability to manage financial risk underpins DFB's primary commitment to safeguarding members' financial investment in the business. It is also essential to the future profitability of the business and the continuing ability to maintain and increase sources of finance.

Potential financial risks exist in DFB's relationships with members, financial institutions, customers, suppliers and employees as well as dealing with large amounts of cash on a daily basis. The company is therefore *'risk averse'* to financial risk, with high levels of control and monitoring in place.

HOW IS DFB MANAGING RISK?

The Group Executive is responsible for managing business opportunity - and also the threats that go with it. Ultimately, however, the Board is responsible for DFB's approach to risk.

The effectiveness of risk management activity - and the steps taken to minimise risks - is monitored on behalf of the Board by the Audit and Risk Committee. On a day-to-day basis, every department and function at DFB is involved in the risk management process. Shortcomings in this area are reported to the Head of Risk Management and, where possible, corrective action is taken.

FUTURE OUTLOOK

WHAT DOES THE FUTURE HOLD FOR DFB?

Looking ahead, DFB will be looking to build on its dairy portfolio and commercial strengths. The Group's obvious strengths are the DFB brand and reputation which extends to the growing range of high quality dairy products. The company will also be consolidating its position as a milk brokerage by improving operational efficiencies and its logistics expertise.

Opportunities created by these activities are ongoing and already benefiting the business. DFB works with its existing strong customer base which includes a significant number of national retailers including the Co-operative Retail Trading Group, Sainsbury's, Morrisons, Waitrose and Asda. The Group is committed to maintaining these relationships whilst developing an expanded customer portfolio which together with the further development of the 'localchoice' milk initiative and our developing partnership with Tesco are seen as key to future success.

Nationally Tesco sells 1.4 billion litres of milk per annum accounting for 40% of consumer sales in the UK and as such represents a significant business opportunity for DFB.

Contributing to this, *'localchoice'* has been a success. Volumes have grown as consumers have recognised it as a high quality product with good *'green'* credentials.

'localchoice' has created a virtuous circle, benefiting farmers, retailers, consumers and the environment alike, and as volumes increase to the levels budgeted for 2008 and 2009 the benefits will spread across a wider number of DFB members.

To maximise this volume growth, a series of key strategic marketing initiatives will be implemented.

Improvements to labelling are already completed, designed to engage the customer more directly and this will be complemented in store by a more effective merchandising package, increasing visibility.

'Direct to Store' has been executed across the majority of the country excluding within the M25 loop and retail price promotions will be run periodically.

Complementing these initiatives will be substantial press and broadcast advertising in addition to strategic store events around the country.

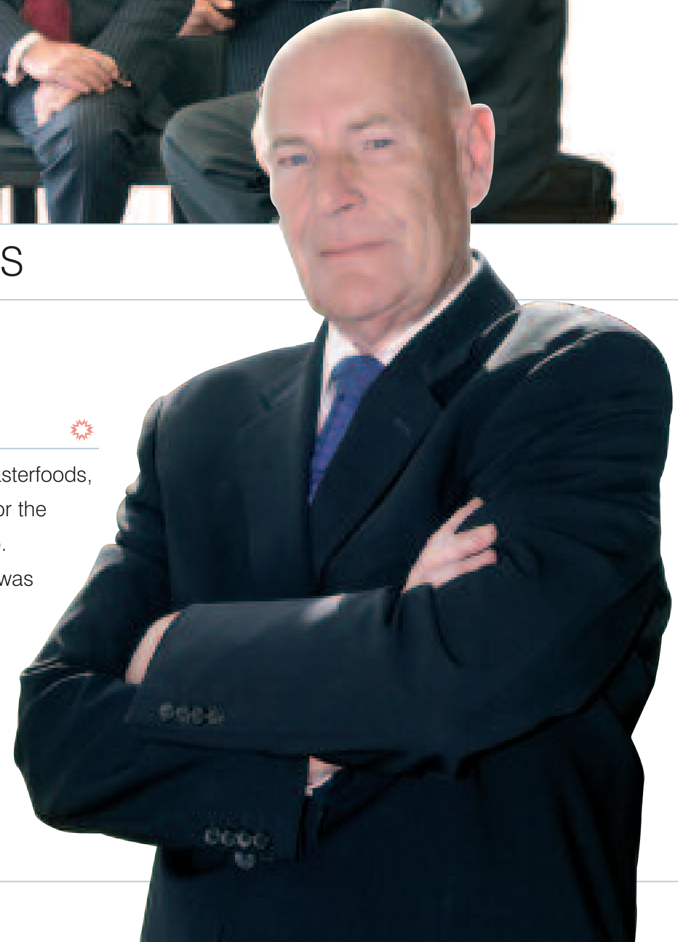
Tesco have already committed significant funding to *'localchoice'* and this is expected to continue throughout 2008/09. Finally, field sales representation is being increased throughout the country and will boost the important interface with Tesco staff.

Partnership is a natural extension of the co-operative concept and DFB will be looking to nurture this aspect of the business with potential synergies which could derive from suitable trading, processing and strategic links.

As with any business, changing market conditions and the dynamics of the market itself - in the UK and overseas - could have significant financial effects. DFB is aware of these threats and imbalances and has contingency plans in place to offset their effects.

There are also uncertainties surrounding market and commodity pricing and the potential effects this could have on membership numbers. As a member owned co-operative, DFB knows that our members are of critical importance to the future success of the business.

DFB has improved its communications processes with the membership, ensuring that its policy of delivering maximum returns continues and grows.



BOARD OF DIRECTORS

1 ROB KNIGHT *Chairman*

Rob has held directorships for Pedigree Petfoods and Masterfoods, with responsibility for a multi-million pound budget and for the strategic development of a global brand-leading portfolio. Previously, he has held a directorship with Mars UK and was chairman of the Institute of Grocery Distribution from 1997-2003. Rob has recently been appointed to the Council of the Royal Agricultural Society of England (RASE).

2 DAVID WILKINSON *Vice Chairman*

David Wilkinson farms with his family in Preston, Lancashire. Following the merger in 2002, David was elected Vice-Chairman of the Dairy Farmers of Britain Member Council, a position he held until his election to the Board. Following DFB's merger in 2002, David was elected Vice-Chairman of the Board.

3 ROBERT CLARKE *Director*

Robert is married with two children and farms in partnership with his parents near Preston in Lancashire. As well as managing his family business, Robert has an interest in an agricultural plastics recycling company. He has been a DFB Director since its formation and has had boardroom responsibilities for member payments, audit and acquisitions.

4 JOHN GRANTCHESTER *Director*

John runs a 550 acre dairy farm in Cheshire with a 500 head pedigree herd winning many awards. He has served as President of the RABDF, County Chairman of the CLA and a Board member of various Littlewoods' companies. He is a member of the House of Lords, Director of Cheshire and Warrington Economic Alliance and Trustee of the Foundation for Sports and the Arts.

5 PHILIP MOODY *Director*

Philip is a leading corporate finance professional with over 20 years experience. He has advised farmer-controlled businesses since the mid-eighties and has acted as lead advisor on many mergers and acquisitions in the sector, including the merger to form Dairy Farmers of Britain. He is also a Director of Centaur Grain and the English Farming & Food Partnership.

6 MICHAEL OAKES *Director*

Michael Oakes is the rural representative on the Board of Advantage West Midlands and is a dairy farmer from Worcestershire. Michael has extensive involvement in the NFU serving as the Worcestershire delegate for the NFU National Council having previously been Chairman of the Worcestershire NFU and the West Midlands Board. Michael is Chairman and founder member of the Worcestershire Rural Hub Ltd and is the Sustainable food and farming champion for the West Midlands. Additionally Michael sits on the Board of the Rural West Midlands Regeneration Zone and the Rural Affairs Forum.

7 DAVID FELWICK CBE *Director*

David is Chairman of the Leckford Estate, part of the John Lewis Partnership, and has formerly held positions as Deputy Chairman of the John Lewis Partnership, Managing Director of Waitrose, President of the British Retail Consortium and President of the National Grocer's Benevolent Fund "Caravan". He is also the senior non-executive Director with Premier Foods and Chairman of Product of the Year (UK) Ltd.

KEY TO COMMITTEE MEMBERS

- Finance Committee
- Membership Steering Group
- Remuneration Committee
- Audit and Risk Committee

Denotes Chairman of Committee

EXECUTIVE MANAGEMENT TEAM

1 **ANDREW COOKSEY** *Chief Executive*

Andrew has spent the last 25 years working in the food industry and has extensive commercial, transactional and operational experience. Before joining DFB he was group managing director of Humber VHB, the fresh produce division of Hazelwood Foods plc, and was a managing director of Melton Foods a Samworth Brothers company. His first Board appointments were with Bowyers and subsequently Eden Vale then both Northern Foods businesses. Andrew is a member of the Board of Dairy UK.

2 **MARK STRICKLAND** *Chief Financial Officer*

Mark has spent 10 years in the food industry and is an experienced finance executive with Board level operational and commercial experience gained in the UK, North America and Europe. He has extensive corporate and transactional experience of acquisitions, disposals and mergers. Mark was formerly Chief Financial Officer with The Milk Group and prior to that held senior positions in Alfred McAlpine plc and Monsanto Chemicals plc. Mark was awarded an MBA in 1997.

3 **DAVID POTTS** *Group Commercial Director*

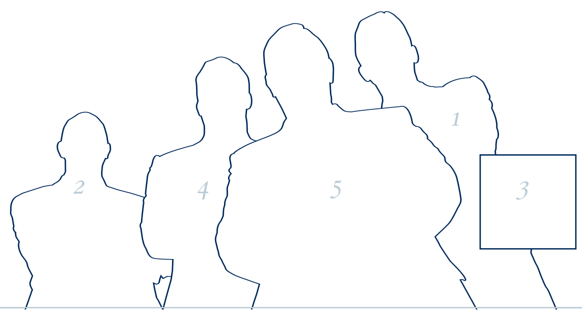
David joined Dairy Farmers of Britain from Muller where he was Sales Director for 15 years. He has significant commercial experience within the dairy sector and is responsible for delivering sales growth and increasing DFB's added-value product portfolio.

4 **MARTIN ARMSTRONG** *Group Supply Chain Director*

Martin has extensive management experience in operations, sales and logistics within the dairy sector. He was formerly General Manager (Sales and Logistics) with Zenith Milk Ltd., and has previously held senior management positions within Milk Marque as head of supplies management and within the MMB as head of milk allocation.

5 **GERRY SMITH** *Group Operations Director*

Gerry has more than 30 years experience in the UK food industry having held Board positions with Hazlewood Foods, Campbells Soups, the Albert Fisher Group and Rowats Foods. He joined DFB from the Greencore Group where he was Chief Executive of their ambient and frozen foods businesses, with specific responsibility for its grocery, mineral water, cakes and bread, desserts and frozen savoury operations.



Group Directors' Report

The Directors present their report and audited financial statements for the year ended 31 March 2008.

Principal Activities

The principal activities of the parent Company and its subsidiaries are the bulk supply of milk and the processing and manufacture of dairy products.

Business Review

The Directors set out in this report a fair review of the business of the Group during the financial year ended 31 March 2008 including an analysis of the position of the Group at the end of the financial year, and a description of how the risks facing the Group are managed (known as a 'Business Review').

The information that forms the Business review can be found in the following sections of the Annual report which are incorporated into this report by reference:

- Chairman's statement (page 2 - 3)
- Business Review (pages 4 -35)
- Statement of Corporate Governance (pages 44 - 46)
- Remuneration Report (pages 46 - 47)

The Board

Since 31 March 2008 the Board has been restructured and biographical details of the current Directors are given on pages 36 - 37.

Norman Coward continued to act as an adviser to the Board during the year and retired from this position on 31 May 2008.

DIRECTORS' REPORT

Directors' Indemnities

The Company maintains Directors' and officers' liability insurance which gives appropriate cover for any legal action brought against any of its Directors. In addition, the Company has granted an indemnity in favour of Directors and officers of companies within the Group. Copies of the indemnity are available for inspection at the Company's registered office.

Directors' Interest

The beneficial and non-beneficial interests of the Directors and connected persons in the Company and details of directors' remuneration are shown in note 24 to the accounts.

Employee Involvement

The Group's policy is to consult and discuss with employees matters likely to affect employees' interests. Information on matters of concern to employees is given through information bulletins and reports.

Disabled Employees

It is our policy that people with disabilities should have full and fair consideration for all vacancies. In the event of employees becoming disabled, every effort is made to maintain them in employment with appropriate retraining being arranged if necessary. It is the Group's policy that disabled persons should as far as possible be given the same opportunities for training, career development and promotion as other employees.

Charitable and Political Contributions

During the year, the Group made charitable donations of £1,425 (2007: £230).

No political donations were made during the year (2007: nil).

Creditor Payment Policy

Whilst no formal code or standard payment practice is followed, the Group policy is to settle terms of payment with creditors when agreeing the terms of each transaction and abide by the agreed terms of payment. There are no creditors subject to special arrangements outside of suppliers' terms and conditions. The Group has complied with this policy during the year.

The Group's average credit payment period at 31 March 2008 was 27 days (2007: 27 days).

Going Concern

After making enquiries, the directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Market Value of Properties

The directors believe that the open market value of the Group properties exceeds the net book value as set out in note 7 to the accounts.

Events after the Balance Sheet date

After the financial year ended 31 March 2008 DFB has agreed with the other investors in Westbury Dairies Limited to exit the joint venture agreement with them. See note 9 for further details. On 15 July 2008 DFB refinanced the business with an £82m facility for the following three years.

Disclosure of Information to Auditors

The directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

By order of the Board

Paddy Gregan
Company Secretary
31 July 2008

Industrial and Provident Society Law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In the preparation of those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

"...the Directors are required to make judgements and estimates that are reasonable and prudent."

STATEMENT OF DIRECTORS' RESPONSIBILITIES

David Johnson of Greenhills Farm near Warrington considers that joining Dairy Farmers of Britain from its beginning was an obvious decision to make.

Having qualified as a valuer and auctioneer before returning to the 200 acre farm, which was farmed by his father and grandfather before him, he knew that in order to take advantage of market opportunities he had to move away from just traditional commodity production.

'After years of stability in dairying it was clear to me that markets would fluctuate and become more volatile, I wanted firm foundations on which to invest in the farm business and ultimately build a more dynamic position.'

'Creating a point of difference was important to me, yet I was reluctant to strike out on my own. I didn't feel I had the requisite skills, wasn't prepared to risk excessive capital, and saw Dairy Farmers of Britain as the ideal opportunity to align my efforts with others and become a part owner of a major business.'

'Broadening out from commodity production, into part ownership of a range of branded products has given me the dynamic platform that I was looking for and whilst there are always risks in a free market, they're skillfully managed by professionals. With an excellent team in place I can see things getting even better - I'm very positive about my future.'

It's not just future benefits for David however, as DFB's Seasonality Adjustment on his milk production allows him to take advantage of Summer calving to ensure a competitive milk price throughout the year - no mean ongoing benefit.

A DFB council member, David has recently seen his 'future' arrive and now has two children under two, so juggling the demands of the farm, young family and council duties takes some doing.

Says David, *'Looking back and particularly looking forward, it has been a very good decision to join DFB, and I would advise any farmer who wants to manage risk and be positive about taking their business forward to seriously consider joining and getting involved - as it's run totally for the farmers' benefit and they can all play a part.'*

GREENHILLS FARM LOWER WHITLEY

CASE**STUDY**

> *"...and saw Dairy Farmers as the ideal opportunity to align my efforts with others and become a part owner of a major business."*

CORPORATE GOVERNANCE

The Board

The Board is accountable to the Member Council for providing high standards of corporate governance. Although compliance with the combined code (the 'Code') is not mandatory for an Industrial & Provident Society, the Group believes it is appropriate to comply wherever practical to do so in order to maintain the high standards the Group aims to achieve. This statement describes how the principles of corporate governance are applied to the Group and the Group's compliance with the provisions set out in the revised Code on Corporate Governance published by the Financial Reporting Council in June 2006. The Directors are committed to the Code and believe that an effective system of corporate governance supports the enhancement of member value.

A Statement on how the Group has applied the principles of the Code and an explanation of the extent to which the provisions of the Code have been complied with, appears below.

Board of Directors

The Board comprises of 7 elected non-executive Directors which currently comprise 4 farmer Directors and 3 non-farmer Directors. Whilst the Group does not therefore comply with code provision A.3, the Board consider the current constituents of the Board to be appropriate to the size and nature of the Group.

The Board has appointed a Chairman and a Vice Chairman. There is no senior independent Director as the Board is wholly made up of non-executive Directors. It is the Board's view that this role is not appropriate given the Group's constitution and the Boards composition. David Felwick is considered to be an independent non-executive Director. In accordance with the code, it is for the Board to consider whether a Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement.

On appointment, Directors undertake an induction programme, designed to develop their knowledge and understanding of the Group and their responsibilities as Directors'. The induction is appropriately tailored to their experience and background and includes an overview of the Group, together with the role of the Board and the matters reserved for its decision. Directors also receive information on the principal Board and management committees; and the powers delegated to those committees, the Group's corporate governance practices and procedures, including the powers reserved to Executive members, and the latest financial information.

The Board receives regular presentations from management at its meetings to increase Directors' understanding of the business, the sectors in which the Group operates and the regulatory environment. Briefing sessions on the strategy and performance of the Group's core business areas are also held with key members of the Executive. Throughout their period in office, Directors are continually updated on the competitive and regulatory environments in which the Group operates, social responsibility matters and other changes affecting the Group and the industry in which it operates, by written briefings and meetings with members of the Executive. Directors are also advised of their legal and other duties and obligations as a director, both in writing and in face-to-face meetings with the Company Secretary. As a result of these procedures no specific performance evaluation of the Board, Committee's or individual Board members is undertaken.

"The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters."

The Board has a formal schedule of matters reserved to it and meets on a monthly basis, although additional meetings are held if considered appropriate.

It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the Group and its subsidiaries, their code of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes.

The Board also oversees employee issues, remuneration policy and key appointments. It ensures that all Directors receive appropriate training on appointment and then subsequently as appropriate.

The Executive

The Board has delegated responsibility for management of the business to an Executive Committee, headed by the Group Chief Executive. It is the responsibility of the Executive Committee to implement the strategic objectives as agreed by the Board. The Executive Committee normally meets at least every month and its decisions are communicated throughout the Group on a regular basis. The Executive Committee of the Group is set out on page 38.

	Board	Finance Committee	Audit & Risk Committee	Membership Steering Group	Remuneration Committee
Total number of meetings	12	8	6	8	8
Rob Knight (Chairman)	12	8	-	-	-
David Wilkinson	12	-	-	8	8
Robert Clarke	12	8	-	8	-
Lord J Grantchester	12	-	6	8	-
Philip Moody	12	7	-	-	-
Michael Oakes	10	-	5	8	-
Mark Heywood*	12	-	4	8	-
Wendy Radley*	12	-	-	8	-
Richard Fisher•	11	-	-	-	-
David Felwick	11	-	-	-	8

• Richard Fisher resigned from the board on 22 April 2008.
** Mark Heywood and Wendy Radley resigned on 26 June 2008.*

Board Committees

The Board operates four permanent committees, the Finance Committee, the Audit and Risk Committee, the Membership Steering Group and the Remuneration Committee.These operate within defined terms of reference, which are reviewed by the Board annually and are available by requesting a copy in writing from the Company Secretary.

The Finance Committee, under the chairmanship of Robert Clarke, has two other non-executive Director members. It considers all financial matters relating to the affairs of the Group.

These matters include, but are not restricted to:

- a review of financial results
- treasury policy decisions
- budget and forecast

The Audit and Risk Committee consists of three non-executive Directors and is chaired by Lord Grantchester. The Committee is advised by Pat Loftus, a partner at Deloitte & Touche LLP. Its duties include the review of the published accounts before their submission to the Board, monitoring the internal controls, which are in force to ensure the integrity of the information reported to the members. The Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors.

The Remuneration Committee, chaired by David Wilkinson, comprises two of the non-executive Directors. It is responsible for determining and agreeing with the Board the framework of broad policy for the remuneration of the Company's Directors, Company Secretary and other members of the Group executive management. Further remuneration information is contained within the Remuneration Report on pages 46 to 47.

The Group places considerable importance on communications with its members and responds to them on a wide range of issues. The Membership Steering Group considers all member communication issues and matters of interest to members. The Steering Group comprises the four farmer Directors, chaired by David Wilkinson.

Internal Controls and Risk Management

The Group has in place an ongoing process for identifying, evaluation and managing the significant risks it faces. The Board regularly reviews the process through the risk committee structure and confirms that it complies with the 'Internal Control: Revised Guidance for Directors on the Combined Code' published by the Financial Reporting Council.

The Board of the Company is ultimately responsible for the Group's systems of internal controls and for reviewing their effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, as no business can be successful without taking some risk. They can thus provide reasonable but not absolute assurance against material mis-statement or loss.

The Board has conducted an annual review of the effectiveness of the Group's systems of internal controls and risk management.

The Company's Audit and Risk Committee has also received:

• a review of the operation of the Group's risk management framework

• a report from the Group's internal audit function of the framework's effectiveness; *and*

• assurances that the risk committees within the operating subsidiaries have reviewed the effectiveness of the internal controls and risk management activities within their respective remits.

These reports commented on the controls that had operated during the year under review and where any significant failings or weaknesses were identified, actions have been taken or are being taken to remedy them. Through this process, the Audit and Risk Committee was able to recommend to the Board the approval of the statements concerning internal controls and risk management statements.

By order of the Board

Paddy Gregan
Company Secretary
31 July 2008

REMUNERATION REPORT

As a Company that prepares annual reports in accordance with the Industrial and Provident Societies Act 1965, DFB is not required to comply with the Directors' Remuneration Report Regulations 2002. The disclosures contained within this report are, therefore, made on a voluntary basis and in keeping with the Board's commitment to best practice.

The Remuneration Committee

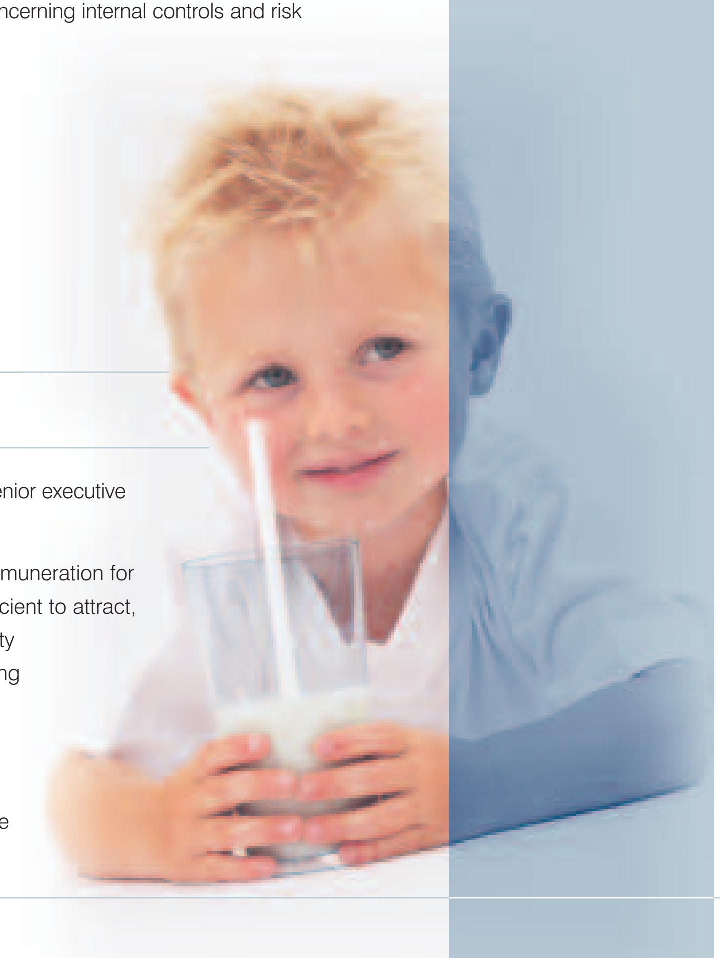
a) Purpose and terms of reference of the Committee

The Committee:

• Recommends to the Board the broad policy in respect of non-executive directors and senior executive remuneration;

• Ensures that the levels of remuneration for the senior executives are sufficient to attract, retain and motivate high quality executives capable of achieving the Group's objectives and enhancing member value;

• Sets the remuneration for all non-executive directors and the Chairman.



b) Membership

The Members of the Committee are:

• David Wilkinson (Chairman)
• David Felwick
• Norman Coward (adviser to the Board)

c) Advisers

During the year, the Committee was assisted by Deloitte & Touche LLP to provide independent advice on remuneration matters and to ensure policy was appropriate.

Remuneration Policy

The remuneration policy aims to achieve a structured and balanced remuneration package, with an emphasis on linking rewards to corporate and individual performance.

Non-Executive Directors

	Elected	Due For Re-election
Rob Knight (Chairman)	3 October 2006	3 October 2009
David Wilkinson*	1 September 2005	31 August 2008
Robert Clarke	3 October 2007	3 October 2010
Lord J Grantchester	3 October 2007	3 October 2010
Philip Moody	3 October 2007	3 October 2010
Michael Oakes	3 October 2006	3 October 2009
Mark Heywood	1 September 2005	n/a
Wendy Radley	3 October 2006	n/a
Richard Fisher	18 July 2006	n/a
David Felwick	18 July 2006	18 August 2009

* David Wilkinson will seek re-election at the forthcoming AGM. As a non-executive director David Wilkinson has a service contract with the Company. Biographical details of the Director standing for re-election is given on page 37.

Richard Fisher resigned from the Board on 22 April 2008 and Mark Heywood and Wendy Radley resigned on 26 June 2008.

Non-executive Directors Contracts

• Non-executive Directors are appointed for between 1 to 3 years and must seek re-election at the expiry of the term;

• Non-executive contracts are for services and not employment contracts;

• Termination by either by Dairy Farmers of Britain or the non-executive director is only in accordance with the Rules of the Society;

Non-Executive Directors Remuneration

	2008 (£,000)	**2007** (£,000)
Rob Knight (Chairman)	299	409
David Wilkinson	41	43
Robert Clarke	22	23
Lord J Grantchester	20	23
Philip Moody	59	88
Michael Oakes	22	29
Mark Heywood	20	23
Wendy Radley	21	24
Richard Fisher	58	18
David Felwick	40	30
George Risley	-	10
TOTAL	**602**	**720**

Fees in respect of Philip Moody are paid to Smith and Williamson Corporate Finance Limited and to Oh! Surprising Solutions Limited for Richard Fisher.

George Risley stepped down from the Board on 15 May 2006

Approved by the Board and signed on its behalf by:

Paddy Gregan
Company Secretary
31 July 2008

AUDITOR'S REPORT

TO THE MEMBERS OF DAIRY FARMERS OF BRITAIN LIMITED

We have audited the Group financial statements of Dairy Farmers of Britain Limited for the year ended 31 March 2008 which comprise Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 27. These group financial statements have been prepared under the accounting policies set out therein.

We report separately on the individual financial statements of Dairy Farmers of Britain Limited for the year ended 31 March 2008.

This report is made solely to the Society, as a body, in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors & Auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS), as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, if the Society has not kept proper books of account in accordance with the requirements of section 1(1)(a) of the Friendly and Industrial and Provident Societies Act 1968, if the Society has not maintained a satisfactory system of control over its transactions in accordance with the requirements of section 1(1)(b) of the Friendly and Industrial and Provident Societies Act 1968 or if the income statement and balance sheet are not in agreement with the books of account of the Society.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, Business Review, the Board of Directors and Executive section, Directors' Report, Statement of Directors' Responsibilities, Corporate and Social Responsibility Statement, Statement of Corporate Governance, Remuneration Report and Company Information.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements.

Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

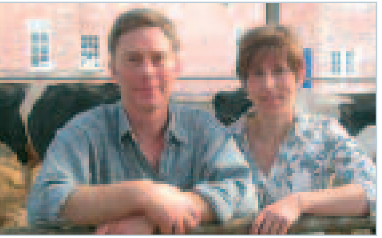
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its loss for the year then ended and;
- the group financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969.

Ernst & Young LLP
Registered Auditor
Manchester
31 July 2008

INDEPENDENT AUDITOR'S REPORT

When Neil and Jane Dyson returned to farming - in partnership with Jane's parents - they had made a clear business decision. After a number of years pursuing other interests, they'd decided to refocus on farming and concentrate their efforts into growing the family business and becoming a specialised dairy producer.



Holly Green Farm in the Vale of Aylesbury, in the family for a hundred years, now has a herd of over 450 with an annual output of around 4 million litres. Neil and Jane have re-invested steadily over the years in cows, quota and facilities with an eye to sustainability for the future.

Says Neil, *'Our expansion has been achieved on the back of a Co-operative milk price, and indeed DFB has provided for us a sustainable route to market over the years.'*

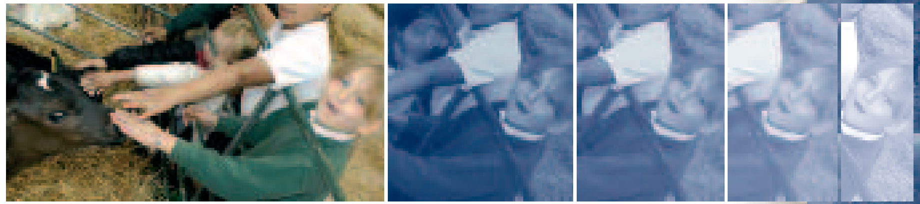
With Dairy Farmers of Britain from its formation, Jane who is Council Vice-Chairman supports the co-operative principle wholeheartedly, *'It's a business that's there for the benefits of the members, not outside shareholders, and they have our long-term interests at heart. In addition they understand what kind of milk supply the market wants.'*

As Jane illustrates, *'Holly Green Farm benefits directly from DFB's approach to milk marketing and particularly its pricing structure. We calve in summer, which suits us and DFB's Seasonality Scheme gives us substantial premiums in the autumn and a significant overall boost to our milk price.'*

Whilst Neil and Jane are proud of being part of a successful business that has a growing range of premium branded dairy products, they feel that whilst branding is important it's essential that the core products are also regarded with importance as they provide the mainstay of the business.

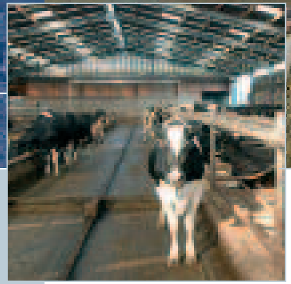
'Although we've almost got a micro economic climate here in the UK because of our large liquid milk market, we can and have learned from some of the successful co-operatives in Europe, it's important we have a balanced portfolio of products.'

As Jane adds, *'I'm positive about the direction the business is going in and optimistic about milk demand versus supply trends in the next few years. It can only be good for members.'*



HOLLY GREEN FARM VALE OF AYLESBURY

CASE**STUDY**



"We're with Dairy Farmers because they have their members' long-term interests at heart."

FARMER CASE STUDY

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Continuing operations:			
Revenue	*4*	561,989	557,784
Cost of sales		(525,646)	(517,414)
Gross profit		**36,343**	**40,370**
Administrative expenses		(37,162)	(36,334)
Other income	*5.1*	807	93
Operating (loss)/profit		**(12)**	**4,129**
Analysed as:			
Operating profit before exceptional items		3,956	6,043
Other exceptional items	*5.6*	(3,968)	(1,914)
Operating (loss)/profit		**(12)**	**4,129**
Finance revenue	*5.2*	99	7
Finance costs	*5.3*	(7,649)	(6,912)
Share of post tax profit of associate and joint venture		93	11
Loss before tax		**(7,469)**	**(2,765)**
Income tax credit	*6*	3,922	188
Loss for the year		**(3,547)**	**(2,577)**
Attributable to:			
Members		(3,583)	(2,588)
Minority interests		36	11
Loss for the year		**(3,547)**	**(2,577)**

CONSOLIDATED BALANCE SHEET

as at 31 March 2008

	Notes	2008 £'000	2007 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	47,046	44,041
Intangible assets	*8*	38,959	39,115
Investments in joint ventures	*9*	24	172
Investments in associates	*9*	-	459
Trade and other receivables	*12*	1,100	1,700
Defined benefit pension plan surplus	*18*	200	-
		87,329	**85,487**
Current assets			
Inventories	*11*	28,916	26,189
Trade and other receivables	*12*	56,090	53,236
Cash and cash equivalents	*13*	4,354	4,522
		89,360	**83,947**
Total assets		**176,689**	**169,434**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	*14, 23*	12	13
Other capital reserves	*23*	16	15
Retained earnings	*23*	(7,487)	(6,205)
Equity shareholders' deficit		**(7,459)**	**(6,177)**
Minority interest		59	23
Total equity		**(7,400)**	**(6,154)**
Non-current liabilities			
Funds provided by members	*15*	52,235	48,599
Borrowings	*16*	14,593	1,636
Other financial liabilities including amounts due to former members and non-members	*17*	18,486	14,948
Deferred tax liabilities	*6*	391	2,929
Government grants	*20*	1,593	928
Provisions	*19*	952	1,146
Defined benefit pension plan deficit	*18*	17	3,099
		88,267	**73,285**
Current liabilities			
Trade and other payables	*21*	60,310	59,788
Borrowings	*16*	32,715	37,555
Other financial liabilities including amounts due to former members and non-members	*17*	2,154	3,053
Government grants	*20*	128	82
Provisions	*19*	515	1,825
		95,822	**102,303**
Total liabilities		**184,089**	**175,588**
Total equities and liabilities		**176,689**	**169,434**

Approved on behalf of the Board on 31 July 2008 by:

R. Knight
Chairman

P. Moody
Director

P. Gregan
Company Secretary

With the exception of the ordinary shares, the funds provided by members do not meet the definition of equity; instead they meet the definition of liabilities. However, these liabilities (with the exception of unsecured loan stock) are repayable only after the members (who are all equity shareholders) have retired or resigned from the business. For full details of repayment terms relating to the various categories of funds provided by members, see note 15. After members have retired or resigned, any amounts still owing to them are disclosed within other financial liabilities including amounts due to former members and non-members.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Actuarial gains/(losses) on defined benefit schemes	18	3,282	(1,257)
UK deferred tax attributable to defined benefit (losses)/gains	6	(981)	377
Net income recognised directly in equity		**2,301**	**(880)**
Loss for the year		**(3,547)**	**(2,577)**
Total recognised income and expense for the year		**(1,246)**	**(3,457)**
Attributable to:			
Members		(1,282)	(3,468)
Minority interests		36	11
Loss for the year		**(1,246)**	**(3,457)**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Operating activities			
Loss before tax from continuing operations		(7,469)	(2,765)
Adjustment to reconcile loss before tax to net cash flows			
Finance revenue		(99)	(7)
Finance costs		7,649	6,912
Share of net profit of associate and joint venture		(93)	(11)
Non-cash:			
Depreciation of property, plant and equipment	7	8,075	7,351
Amortisation of intangible assets	8	549	171
Allocation to Member Investment Accounts	23	7,004	8,002
Profit on sale of property, plant and equipment	5.1	(558)	(11)
Non-cash exceptional items	5.6	750	-
Movements in provisions		(1,504)	2,394
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		(2,854)	9,510
(Increase)/decrease in inventories		(2,727)	4,088
Increase/(decrease) in trade and other payables		187	(5,560)
Income tax received		-	571
Net cash flows from operating activities	*	**8,910**	**30,645**
Investing activities			
Proceeds from sale of property, plant and equipment		2,175	480
Purchase of property, plant and equipment		(11,689)	(8,855)
Proceeds from sale of intangible assets		156	493
Purchase of intangible assets		(549)	(395)
Acquisition of a subsidiary, including cash equivalents acquired		-	(8,715)
Interest received	5.2	99	7
Receipt of long term funding loans to associate and joint venture	9	550	300
Receipt of government grants	20	960	278
Net cash flows used in investing activities		**(8,298)**	**(16,407)**
Financing activities			
Redemption of preference shares		(25)	(96)
Payment of finance lease liabilities		(713)	(307)
Proceeds from borrowings		54,700	6,000
Repayment of borrowings		(46,995)	(12,712)
Repayment of funds provided by members, non-members, loanstock and loan notes		(1,980)	(6,734)
Interest paid		(4,640)	(3,926)
Net cash flows used in financing activities		**347**	**(17,775)**
Net increase/(decrease) in cash and cash equivalents		**959**	**(3,537)**
Cash and cash equivalents at 1 April 2007	13	3,395	6,932
Cash and cash equivalents at 31 March 2008	13	**4,354**	**3,395**

* Net cash flows from operating activities includes one-off exceptional items of £3,218,000 (2007: £1,914,000). Below we show the net cash flow from operating activities excluding these costs.

	2008	2007
Net cash flows from operating activities	**8,910**	**30,645**
Cash flows relating to exceptional items	3,218	1,914
Net cash flows from operating activities excluding exceptional items	**12,128**	**32,559**

1. Corporate information

Dairy Farmers of Britain Limited is a co-operative established under the Industrial and Provident Societies Act 1965 and domiciled in the UK. The Registered Office address is given on the inside of the back cover of this Annual Report. The principle activities of the parent company and its subsidiaries are the bulk supply of milk and the processing and manufacturing of dairy products. The financial information comprises the results of Dairy Farmers of Britain Limited and its subsidiaries ('Group') and the Group's interests in its associate and joint venture.

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis. The Group Financial Statements are presented in sterling, and all values are recorded to the nearest thousand pounds (£'000) except where otherwise indicated.

Statement of compliance

The consolidated financial statements of Dairy Farmers of Britain Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements for the year ended 31 March 2008.

The financial statements for the year ended 31 March 2008 are the first to be prepared under IFRS. Additional details of the adoption of IFRS and the financial implications of the transition can be found in note 27.

First-time adoption of IFRS

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. year to 31 March 2007).

The Group has elected to take the following key exemptions:

(i) IFRS 3 - Business combinations
The Group has elected not to apply IFRS 'Business Combinations' retrospectively to acquisitions that took place before the date of transition.

(ii) IAS 19 - Employee benefits
The Group has elected to recognise all cumulative actuarial gains and losses at the date of transition.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Dairy Farmers of Britain Limited and its subsidiaries as at 31 March each year. No separate information is supplied for Dairy Farmers of Britain Limited as an individual entity due to differing accounting policies, but are available by request from the Registered Office on the inside of the back cover.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from members' funds. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

2.2 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The key sources of estimation uncertainty are:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, the expected future cash flows from the asset or cash generating unit are estimated and a suitable discount rate determined in order to calculate the present value of those cash flows. The total value of goodwill and other intangible assets at 31 March 2008 is £38,959,000 (2007: £39,115,000). Further details, including a sensitivity analysis of key assumptions, are given in Note 10.

Pension Benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee asset at 31 March 2008 is £183,000 (2007: £3,099,000 liability). Further details are given in Note 18.

Property provisions

The Group occupies leasehold properties for which a provision is made for dilapidations or other future expenditure commitments including onerous leases. At 31 March 2008 the provisions are £1,146,000 (2007: £1,171,000). These provisions reflect conditions existing at the year end, and are judgmental by their nature.

Inventory impairment provisions

The Group make provision for inventory deemed to be impaired. This provision is established on a specific product by product basis based on management's prior experience and their assessment of the present value of estimated future cash flows. The provision made in 2008 was £25,000 (2007: £684,000).

Receivables impairment provisions

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the present value of estimated future cash flows. At 31 March 2008 the provisions are £3,023,000 (2007: £3,464,000).

The key source of management judgment is as follows:

Classification of leases

The Group utilises assets subject to operating and finance leases. The classification of these leases is based on a number of factors such as risk and reward, length of use and the fair value of minimum lease payments. Lease classification is made at the inception of the lease.

2.3 Summary of significant accounting policies

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Interest in a joint venture

The Group has a contractual arrangement with other parties which represent a joint venture. This takes the form of agreements to share control over other entities.

The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group income statement reflects the share of the jointly controlled entity's results after tax.

NOTES TO THE FINANCIAL STATEMENTS

as at 31 March 2008

2.3 Summary of significant accounting policies *(continued)*

Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of recognised income and expense. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and provisions for impairments.

Properties in the course of construction are held at cost less any recognised impairment loss. Cost includes any directly attributable costs.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

- Freehold buildings and leasehold properties - 10 to 50 years (or the lease term if shorter)
- Plant and equipment - 3 to 10 years

Land and buildings under construction and non-current assets held for sale are not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Business combinations

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill arising on Business Combinations that occurred before 1 April 2006 has not been restated from UK GAAP, which was recognised as an asset and amortised over its useful life.

b) Other intangibles

Software which forms an integral part of the related hardware is capitalised with that hardware and included within property, plant and equipment.

Acquired intangible assets include software licences, customer relationships and bottled milk rounds. These assets are capitalised on acquisition and amortised over their expected useful economic lives which range from 3 to 10 years.

A summary of the policies applied to the Group's intangible assets is as follows:

Goodwill	- No amortisation
Software licences	- Over the length of the licence
Customer relationships	- Over 10 years
Bottled milk rounds	- Over 3 years

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators.

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

2.3 Summary of significant accounting policies *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials - purchase cost on a first in, first out basis.

Finished goods and work in progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Loans and receivables shall be measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, these balances are shown net of outstanding bank overdrafts.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated as at fair value through profit or loss.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Members and non-members funds

Members and non-members funds are held as financial liabilities. They are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Pensions

The Group operates defined contribution and defined benefit pension plans.

Defined contribution schemes

Payments to defined contribution pension plans are charged as an expense to the income statement, as incurred, when the related employee service is rendered. The Group has no further legal or constructive payment obligations once the contributions have been made.

Defined benefits schemes

DFB operates two defined benefit pension schemes. For employees who commenced employment before 30 June 2002, DFB participates in a defined benefit scheme, The Milk Pension Fund. The Group also participates in the Golden Vale Dairies Retirement Benefit Scheme. This defined benefit scheme was established in 2003 to offer retirement and death benefits to employees of Golden Vale Dairies Limited. The scheme was closed to future accruals at 31 March 2006.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance revenue or cost.

The group has applied the option in IAS 19 to recognise actuarial gains and losses in full in the statement of recognised income and expense in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

NOTES TO THE FINANCIAL STATEMENTS as at 31 March 2008

2.3 Summary of significant accounting policies *(continued)*

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 April 2006, the date of inception is deemed to be 1 April 2006.

Group as a leassee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Preference shares

Preference shares are non-convertible and are only held by active members. Retirees are paid out at par in two equal instalments on the first and second anniversary of the end of the milk year in which the member retired. Resigners are repaid at par two years after leaving. Preference shares are disclosed as non-current liabilities in member funds until they retire/resign when they transfer to other financial liabilities including amounts due to former members and non-members.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

Revenue is recognised as interest accrues (using the effective interest rate, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow members to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal annual amounts over the expected useful life of the related asset.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.4 Standards and interpretations issued but not yet effective

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will not have a material impact on the financial position or performance of the Group.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for the financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interest.

IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separated owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents al items of income and expense recognised in profit or loss, together with all other single items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IFRS 8 Operating Segments

IFRS 8 is effective for accounting periods on or after 1 January 2009. IFRS 8 relates to disclosures of segmental information. The Group is evaluating the likely impact of the standard with any changes likely to increase the extent of segmental disclosures.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

Amendment to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group is evaluating whether this amendment will have a material impact.

Improvements to IFRSs

In May 2008 the IASB issued 'Improvements to IFRSs', a standard setting out amendment to existing standards, which is effective for accounting period beginning on or after 1 January 2009. It is not expected that this standard will have a material impact.

3. Nature and extent of risks arising from financial instruments

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, shares, finance leases, trade payables and loans given. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, fair value risk, liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group has approximately 47% (2007: 44%) of its borrowings at fixed rates of interest. The Group reviews interest rates regularly to evaluate if additional policies are required to minimise potential risk.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax and equity (through the impact on floating rate borrowings).

	Increase/decrease in basis points	Effect on profit before tax and equity £,000
2008	+25	(161)
	-15	97
2007	+15	(87)
	-10	58

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3. Nature and extent of risks arising from financial instruments *(continued)*

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, credit insurance is taken out on all receivable balances and are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The credit limit authorisation procedure has built in safeguards to limit the Group's exposure to bad debts. This includes authorisation levels for all credit limits with any limit over £500,000 to be sanctioned only by the Finance Committee.

Liquidity risk

DFB mitigates liquidity risk by managing the cash generated by business operations and applying cash collection targets throughout the Group. Our ongoing investment programme is carefully managed with authorisation limits operating up to the Group Board level. Our funding strategy continues to be maintenance of a balance between short and long-term borrowings including members' funds, overdrafts, bank loans and finance leases.The Group monitors its risk to a shortage of funds by reviewing on a monthly basis projected cash flows and evaluating the headroom under current borrowing facilities. The Group also prepares forecast cash flows covering two year periods.

Liquidity risk table

The following table summarises the maturity profile of the Group's financial liabilities at 31 March 2008 based on contractual undiscounted payments. This assumes that payments on an undiscounted basis, including interest payments, are made at the earliest point allowed by the contractual arrangement.

	On demand	Less than 3 mths	3 to 12 mths	1 to 5 years	More than 5 years	Total
Year ended 31 March 2008	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	37,561	-	-	-	-	37,561
Funds provided by members	-	-	-	13,464	63,093	76,557
Interest bearing loans and borrowings	29,186	702	2,183	14,922	-	46,993
Obligations under finance leases	-	195	610	2,283	-	3,088
Amounts due to former members	-	-	2,269	9,727	16,705	28,701
	66,747	**897**	**5,062**	**40,396**	**79,798**	**192,900**
Year ended 31 March 2007						
Trade and other payables	38,162	-	-	-	-	38,162
Funds provided by members	-	-	-	18,960	63,753	82,713
Interest bearing loans and borrowings	36,829	-	-	-	-	36,829
Obligations under finance leases	-	185	579	1,973	-	2,737
Amounts due to former members	-	-	3,139	8,818	12,995	24,952
Other financial liabilities	-	-	115	-	-	115
	74,991	**185**	**3,833**	**29,751**	**76,748**	**185,508**

The Group's policy on managing its liquidity risk is set out in the Financial Review section of the Business Review.

The Group aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group Board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains sufficient funding to support the business.

The two main constituents of the Group's capital structure is member funding and bank loans and other borrowings.

Members funds of £44,776,000 (2007: £42,422,000) are interest bearing and have varying terms, see notes 15 and 23 for further information. Bank loans and other borrowings are as set out in note 16 and at 31 March 2008 these totalled £47,308,000 (2007: £39,191,000).

Bank loans are managed by the Group within the confines of the banking covenants. The two key elements of the banking covenants relating to capital management are capital expenditure and financial indebtedness. Management maintains the Group's capital structure and makes adjustments to it in light of changes in business performance. The Group's capital is regulated within the criteria of the covenants to support its business and maximise the members' funds value.

4. Segmental information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- Bulk supply of liquid milk
- Dairy product manufacturing and processing

Transfer prices between operating segments are on an 'arm's length' basis in a manner similar to transactions with third parties.

Turnover originates entirely in the United Kingdom and assets and liabilities are located in the United Kingdom and therefore no geographical segment disclosures have been made.

	Bulk supply of liquid milk	Dairy product manufacturing and processing	Eliminations	Consolidated
Year ended 31 March 2008	**£'000**	**£'000**	**£'000**	**£'000**
Revenue				
Sales of goods to external customers	168,085	393,904	-	561,989
Inter segmental ①	218,820	-	(218,820)	-
Total revenue	**386,905**	**393,904**	**(218,820)**	**561,989**
Results				
Depreciation and amortisation	940	7,684	-	8,624
Segment profit/(loss)	**2,493**	**(2,505)**	**-**	**(12)**
Share of profit of associate and joint venture	-	93	-	93
Finance revenue				99
Finance costs				(7,649)
Loss before tax				**(7,469)**
Income tax credit				3,922
Loss for the year				**(3,547)**
Assets				
Capital expenditure ②	663	12,583	-	13,246
Segment assets	**20,254**	**151,693**	**-**	**171,947**
Investment in associate/joint venture	-	24	-	24
Unallocated assets ③				4,718
Total assets				**176,689**
Liabilities				
Segment liabilities	**39,992**	**23,852**	**-**	**63,844**
Unallocated liabilities ④				120,245
Total liabilities				**184,089**

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as at 31 March 2008

4. Segmental information *(continued)*

	Bulk supply of liquid milk	Dairy product manufacturing and processing	Eliminations	Consolidated
Year ended 31 March 2007	**£'000**	**£'000**	**£'000**	**£'000**
Revenue				
Sales of goods to external customers	183,695	374,089	-	557,784
Inter segmental ①	178,325	-	(178,325)	-
Total revenue	**362,020**	**374,089**	**(178,325)**	**557,784**
Results				
Depreciation and amortisation	1,014	6,508	-	7,522
Segment (loss)/profit	**(781)**	**4,910**	**-**	**4,129**
Share of profit of associate and joint venture	-	11	-	11
Finance revenue				7
Finance costs				(6,912)
Loss before tax				**(2,765)**
Income tax credit				188
Loss for the year				**(2,577)**
Assets				
Capital expenditure ②	590	9,193	-	9,783
Segment assets	**21,271**	**143,010**	**-**	**164,281**
Investment in associate/joint venture	-	631	-	631
Unallocated assets ③				4,522
Total assets				**169,434**
Liabilities				
Segment liabilities	**32,981**	**34,593**	**-**	**67,574**
Unallocated liabilities ④				108,014
Total liabilities				**175,588**

① Inter-segmental revenues are eliminated on consolidation.

② Capital expenditure consists of additions of property, plant and equipment and does not include business acquisitions.

③ Unallocated assets includes cash and cash equivalents and corporation tax debtor.

④ Unallocated liabilities include funds provided by members, amounts due to former members, bank loans, finance leases and deferred tax liabilities.

During the year revenue sales to the Co-operative Retail Trading Group amounted to £89,000,000 (2007: £91,000,000) which exceeded 10% of the total Group revenue. All of this revenue related to the dairy product manufacturing and processing segment.

5. Other revenue and expenses

5.1 Other income	2008 £'000	2007 £'000
Government grants *(see note 20)*	249	82
Profit on sale of property, plant and equipment	558	11
	807	**93**

5.2 Finance revenue	2008 £'000	2007 £'000
Bank interest	99	6
Other interest income	-	1
	99	**7**

5. Other revenues and expenses *(continued)*

5.3 Finance costs	2008 £'000	2007 £'000
Loan stock interest	(1,104)	(747)
Bank overdraft interest	(11)	(164)
Long-term loan and finance charges	(3,983)	(3,816)
Interest on finance leases	(204)	(107)
Other interest	(2,347)	(2,078)
	(7,649)	**(6,912)**

Amortisation of loan issue costs of £548,000 (2007: £826,000) are included within long-term loan interest and finance charges.

Other interest includes interest payable on member investment accounts, member capital accounts, member liability loans and preference share interest.

5.4 Depreciation, amortisation and costs of inventories included in the consolidated income statement	2008 £'000	2007 £'000
Depreciation	8,075	7,351
Amortisation: licences	163	81
: other intangibles	386	90
Operating lease rentals	4,103	4,653
Cost of inventories recognised as an expense	514,115	495,860

5.5 Auditor's remuneration	2008 £'000	2007 £'000
Audit services	234	216
Tax services - advisory services and compliance	546	368
Other services - other costs	40	77
	820	**661**

Amounts payable to Ernst & Young LLP and their associates in respect of both audit and non-audit services.

5.6 Exceptional costs	2008 £'000	2007 £'000
Re-organisation costs	3,218	1,914
Provisions against investments in and balances with associate and joint venture	750	-
	3,968	**1,914**

Re-organisation costs for the year ended 31 March 2008 of £3,218,000 (2007: £1,914,000) have been charged against operating profit. This represents £668,000 re-organisational costs at Llandyrnog, £165,000 closure costs at Llangadog, Whitby re-organisational costs of £1,323,000 and head office restructuring of £1,062,000. The comparable costs in 2007 related to the consolidation of existing dairy operations from the Cardiff site to the acquired site at Bridgend.

Provisions against investments in and balances with associate and joint venture includes the group provision against the remaining unpaid long term loan from Quality Dairy Ingredients Limited of £50,000 (2007: £nil) and has also written off the initial £100,000 investment made by Dairy Farmers of Britain Limited. Also included is the provision of £600,000 in relation to its strategic exit from Westbury Dairy Limited. This relates to £400,000 for the initial investment made by Dairy Farmers of Britain Limited and £200,000 of its 40% share of the operating profit since the initial investment.

NOTES TO THE FINANCIAL STATEMENTS as at 31 March 2008

5. Other revenues and expenses *(continued)*

5.7 Employee costs	2008 £'000	2007 £'000
Wages and salaries	58,762	60,001
Social security costs	5,781	5,664
Pension costs *(note 18)*	2,310	2,318
	66,853	**67,983**

5.8 Employee numbers	2008	2007
Average monthly number of people		
Production	2,008	2,184
Administration	485	540
	2,493	**2,724**

6. Income tax

6.1 Tax on loss on ordinary activities

The major components of income tax expenses for the years ended 31 March 2008 and 2007 are:

	2008 £'000	2007 £'000
Consolidated income statement		
Current income tax:		
Current income tax credit	(94)	(41)
Adjustment in respect of current income tax of previous year	(310)	45
	(404)	**4**
Deferred income tax:		
Origination and reversal of temporary differences	(3,481)	(192)
Impact of change in deferred tax rate (30% to 28%)	(37)	-
Total deferred tax	(3,518)	(192)
Income tax credit reported in the income statement	**(3,922)**	**(188)**
Consolidated statement of recognised income and expense		
Deferred income tax related to items charged or credited directly to equity:		
Deferred tax attributable to defined benefit gains or losses	981	(377)
Income tax credit/(charge) reported in equity	**981**	**(377)**

6.2 Reconciliation of the total tax charge

The tax credit in the income statement for the year is higher than the standard rate of corporation tax in the UK of 30% (2007: 30%). The differences are reconciled below:

	2008 £'000	2007 £'000
Accounting loss before income tax	(7,469)	(2,765)
Accounting loss multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	(2,241)	(830)
Expenses not deductible for tax purposes	81	893
Adjustments in respect of prior period	(1,725)	(176)
Impact of change in deferred tax rate (30% to 28%)	(37)	-
Unrecognised deferred tax	-	(72)
Other temporary differences	-	(3)
Total tax credit reported in the income statement	**(3,922)**	**(188)**

6. Income tax *(continued)*

6.2 Reconciliation of the total tax charge *(continued)*

The adjustments in respect of the prior period relates to trading losses arising upon submission of the prior period tax computations available for offset against future taxable profits.

6.3 Unrecognised deferred tax assets

The Group has unrecognised capital losses which arose in the UK of £95,500 (2007: £95,500) that are available indefinitely for offset against the companies in which those assets arose. Deferred tax assets have not been recognised in respect of these losses as it is not expected that the companies to which these losses related will have future gains against which these losses can be offset.

6.4 Change of Corporation Tax rate

The UK Corporation tax rate will decrease from 30% to 28% from 1 April 2008. The deferred tax balance has been adjusted in the current year to reflect this change.

6.5 Deferred tax

The deferred tax included in the balance sheet is as follows:

	Consolidated balance sheet	
	2008 £'000	2007 £'000
Deferred tax liability		
Accelerated capital allowances	(1,285)	(1,255)
Other temporary differences	(4,490)	(4,103)
Defined benefit pension *(note 18)*	(56)	-
Net deferred tax liability	**(5,831)**	**(5,358)**
Deferred tax assets		
Accelerated depreciation	2,592	1,300
Other temporary differences	199	199
Tax losses carried forward	2,644	-
Defined benefit pension *(note 18)*	5	930
Deferred income tax income	**5,440**	**2,429**
Deferred tax liabilities net	**(391)**	**(2,929)**

The Group has tax losses which arose in the UK of £9,439,000 (2007: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have been recognised in respect of these losses as the Directors believe that sufficient taxable profits will arise in the foreseeable future to offset against the losses.

The other temporary differences deferred tax liability relates to deferred tax of £1,679,000 (2007: £1,079,000) arising on the recognition of intangible assets and of £2,811,000 (2007: £3,024,000) in respect of non-qualifying buildings acquired by the Group as part of a business combination.

	Consolidated income statement	
The deferred tax included in the income statement:	2008 £'000	2007 £'000
Accelerated depreciation	(1,616)	(339)
Other temporary differences	713	398
Tax losses carried forward	(1,167)	-
Impact of change in deferred tax rate (30% to 28%)	(37)	-
Defined benefit pension *(note 18)*	4	(30)
Adjustments in respect of prior period	(1,415)	(221)
Deferred tax income credit	**(3,518)**	**(192)**

NOTES TO THE FINANCIAL STATEMENTS as at 31 March 2008

7 Property, plant and equipment	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost:			
At 1 April 2006	18,738	37,178	55,916
Acquisition of a subsidiary *(note 8)*	1,093	566	1,659
Additions	1,182	8,206	9,388
Disposals	(76)	(4,401)	(4,477)
At 31 March 2007	20,937	41,549	62,486
Additions	1,981	10,716	12,697
Disposals	(1,135)	(9,184)	(10,319)
At 31 March 2008	**21,783**	**43,081**	**64,864**
Depreciation:			
At 1 April 2006	1,670	13,617	15,287
Charge for the year	840	6,511	7,351
Disposals	(6)	(4,187)	(4,193)
At 31 March 2007	2,504	15,941	18,445
Charge for the year	823	7,252	8,075
Disposals	(383)	(8,319)	(8,702)
At 31 March 2008	**2,944**	**14,874**	**17,818**
Net book value:			
At 31 March 2008	**18,839**	**28,207**	**47,046**
At 31 March 2007	18,433	25,608	44,041
At 1 April 2006	17,068	23,561	40,629

Included within plant and equipment is processing plant and machinery with a net book value of £1,668,000 (2007: £2,236,000) which were acquired under finance leases. Additions in the year include £46,000 (2007: £593,000) plant and equipment held under finance leases.

Included in land and buildings are leasehold buildings of £2,880,000 (2007: £1,165,000) and freehold land and buildings of £15,959,000 (2007: £17,177,000).

Land with a cost of £1,219,000 (2007: £1,284,000) and assets under the course of construction of £930,000 (2007: £1,765,000) are not currently being depreciated. During the year assets with a total cost of £1,568,000 (2007: £190,000) were completed and depreciation charged from the date the assets were brought into use.

8. Intangible assets

	Goodwill £'000	Licences £'000	Other intangibles £'000	Total £'000
Cost:				
At 1 April 2006	31,581	213	277	32,071
Acquisition of a subsidiary	6,470	-	1,130	7,600
Additions	-	167	228	395
Disposals	(493)	-	-	(493)
At 31 March 2007	**37,558**	**380**	**1,635**	**39,573**
Additions	-	136	413	549
Disposals	(156)	(2)	-	(158)
At 31 March 2008	**37,402**	**514**	**2,048**	**39,964**
Amortisation:				
At 1 April 2006	-	48	239	287
Charge for the year	-	81	90	171
Disposals	-	-	-	-
At 31 March 2007	**-**	**129**	**329**	**458**
Charge for the year	-	163	386	549
Disposals	-	(2)	-	(2)
At 31 March 2008	**-**	**290**	**715**	**1,005**
Net book value:				
At 31 March 2008	**37,402**	**224**	**1,333**	**38,959**
At 31 March 2007	37,558	251	1,306	39,115
At 1 April 2006	31,581	165	38	31,784

Other intangible assets include customer relationships and bottled milk rounds acquired by Dairy Farmers of Britain Limited.

Other intangible additions are in relation to the purchase of bottled milk rounds of £413,000 (2007: £228,000). In 2007 other intangible additions also included £1,130,000 of customer relationships from the Freshgrass Investments (UK) Limited acquisition in October 2006.

Disposals of goodwill relates to the sale of part of the southern distribution network of depots in 2008. In 2007 the disposal related to the sale of the Bradford depot and associated household rounds.

Details of the goodwill impairment testing are disclosed in note 10.

Acquisitions in 2007

In October 2006 Dairy Farmers of Britain Limited purchased 100% of the voting shares of Freshgrass Investments (UK) Limited along with its principal trading company Golden Vale Dairies Limited. Post-acquisition Golden Vale Dairies Limited formally changed its name to Dairy Farmers of Britain (Bridgend) Limited.

The assets acquired as part of the acquisition of Freshgrass Investments (UK) Limited and subsidiary, are set out in the table below:

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Property, plant and equipment	1,672	(13)	1,659
Intangible assets	-	1,130	1,130
Inventories	335	(46)	289
Trade receivables	3,285	(391)	2,894
Deferred tax assets	36	-	36
Total assets	**5,328**	**680**	**6,008**

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as at 31 March 2008

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as at 31 March 2008

8. Intangible assets *(continued)*

	Book Value £'000	Fair Value Adjustments £'000	Provisional Fair Value £'000
Bank overdraft	1,248	-	1,248
Trade payables	2,067	-	2,067
Other payables and accruals	1,232	-	1,232
Deferred tax liability	-	365	365
Defined benefit pension scheme	99	-	99
Total liabilities	**4,646**	**365**	**5,011**
Net assets	**682**	**315**	**997**

Fair value adjustments on acquisition were made to correct the acquired companies accounting treatments and policies and align them with those applicable to the Group. In the 2007 Accounts, the fair value was stated as provisional subject to a post-acquisition review. Following this review no further amendments to the fair value acquired were deemed necessary, however following the adoption of IFRS, additional assets to the value of £1,130,000 have been recognised corresponding to customer relationships which are not recognisable under UK GAAP and a £365,000 deferred tax liability was also recognised, thus increasing the goodwill previously recognised by the same amount.

The table below shows consideration and the goodwill arising on acquisition of Freshgrass Investments (UK) Limited in Bridgend and associated companies:

	£'000
Consideration - cash	7,000
Consideration - acquisition expenses	467
Total consideration	**7,467**
Fair value of total net assets acquired	**997**
Goodwill arising on acquisition	**6,470**

From the acquisition date of 26 October 2006 to 31 March 2007, Dairy Farmers of Britain (Bridgend) Limited contributed £112,000 to the profit and loss of the Group for the year ended 31 March 2007.

Included in the £6,470,000 of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies and an assembled workforce.

9. Interest in a joint venture and an associate

Joint venture

Dairy Farmers of Britain Limited has a 50% interest in Quality Dairy Ingredients Limited (QDI), a jointly controlled entity which is involved in selling processed dairy products.

	2008 £'000	2007 £'000
Share of net assets:		
At 1 April 2007	172	175
Share of the loss for the year	(48)	(3)
Impairment of investment	(100)	-
Investments in joint venture	**24**	**172**
Long-term funding loan (note 12):		
At 1 April 2007	400	400
Repaid in the year	(350)	-
Impairment of funding loan	(50)	-
Long-term funding loan	**-**	**400**

9. Interest in a joint venture and an associate *(continued)*

QDI ceased trading on 31 March 2007. During the year QDI made no sales and only incurred closure costs. Dairy Farmers of Britain had £100,000 share capital representing a 50% share in QDI, at 31 March 2008 a provision was made for impairment of the investment in QDI for £100,000.

At 31 March 2007 DFB had a long term funding loan of £400,000 invested in QDI. During the year ended 31 March 2008 £350,000 was repaid and a provision was made for the remaining £50,000 due to doubt over the recoverability.

Associate

Dairy Farmers of Britain Limited has a 40% interest in Westbury Dairies Limited.	2008 £'000	2007 £'000
Share of net assets:		
At 1 April 2007	459	445
Share of the profit for the year	141	14
Impairment of investment	(600)	-
Investments in associate	**-**	**459**
Long-term funding loan (note 12):		
At 1 April 2007	1,300	1,600
Repaid in the year	(200)	(300)
Long-term funding loan	**1,100**	**1,300**

On 30 April 2008 Dairy Farmers of Britain announced its exit from the joint venture agreement in Westbury Dairies Limited. As part of this agreement Dairy Farmers of Britain has surrendered its entire shareholding of £400,000 in Westbury Dairies Limited for nil value, and therefore also surrendered its share of the net profits of £200,000. These amounts have been impaired in the table above as these balances were not considered recoverable at the balance sheet date.

At 31 March 2007 DFB had a long term funding loan of £1,300,000 invested in Westbury Dairies Limited. During the year £200,000 was repaid. As part of the above agreement the remaining £1,100,000 long term funding loan will now be repaid in four equal annual payments, the first such annual payment to be made on the 25 April 2010.

10. Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to individual cash-generating units as follows:	2008 £'000	2007 £'000
Liquid processing	33,493	33,649
Dairy Farmers of Britain Processing Group	3,909	3,909
Investments in joint venture	**37,402**	**37,558**

The CGU's differ from the segments reported in note 4 to the accounts because the goodwill has arisen from the acquisitions of The Milk Group in 2002, Associated Co-operative Creameries in 2005, Lincoln Co-operative in 2006 and Freshgrass Investments (UK) Limited in 2007. The subsequent trade and assets of each acquisition are attributable to both segments reported in note 4, but for impairment testing, cash flows are apportioned to the original cash generating units acquired.

Liquid processing

The recoverable amount of Liquid processing has been determined based on a value in use calculation using cash flow projections from financial plans approved by the Board covering a two-year period. Years three into perpetuity are extrapolated from the year two projections. The pre-tax discount rate applied to the cash flow projections is 8.65% (2007: 10.00%). The decrease in the discount rate applied primarily results from the continued successful evolution of the business and the Directors' resultant view that the risk profile of the business going forward has reduced. The growth rate used to extrapolate the cash flows is 2.25% (2007: 2.00%).

Dairy Farmers of Britain Processing Group

The recoverable amount of Dairy Farmers of Britain Processing Group has also been determined based on a value in use calculation using cash flow projections from financial plans approved by the Board covering a two-year period. Years three into perpetuity are extrapolated from year two projections. The pre-tax discount rate applied to the cash flow projections is 8.65% (2007: 10.00%). The growth rate used to extrapolate the cash flows is 2.25% (2007: 2.00%) as for liquid processing.

NOTES TO THE FINANCIAL STATEMENTS as at 31 March 2008

10. Impairment testing of goodwill *(continued)*

Key assumptions used in value in use calculations

The calculation of value in use for both units is most sensitive to the following assumptions:

• *Discount factor* - Discount rates reflect an estimate of the risks specific to each unit. This is the benchmark used to assess operating performance and to evaluate future investment proposals. In determining the appropriate discount factor for each unit, regard has been given to the weighted average cost of capital of the unit at the beginning of the budgeted year.

• *Perpetuity growth factor* - Estimates are derived from published indices as well as data relating to specific commodities.

• *Future cash flows* - Cash flows are derived from the Group budget and short-term business plans as approved by the Board. These are based on past experience adjusted to reflect forecast sales growth based on current initiatives and the estimated impact of increasing cost pressures. No benefit has been assumed from initiatives to improve cash flows that were not in place at the balance sheet date, in accordance with IFRS.

The Directors consider the assumptions to be appropriate and consistent with historical performance and realistically achieveable in light of economic forecasts.

Sensitivity to changes in assumptions

For the Liquid processing cash generating unit, there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The actual recoverable amount of the Liquid processing unit exceeds its carrying amount by £3,098,000. The implications of the key assumptions on the recoverable amount are discussed below.

• *Discount factor* - If there was an increase of 0.25%, the unit's value in use would be reduced to its carrying value.

• *Perpetuity growth factor* - The perpetuity growth factor may be subject to impact from the continuing uncertainty in the dairy industry. A reduction of 0.25% in the growth factor would give a value in use equal to the carrying amount of the unit.

• *Future cash flows* - It is estimated that for each adverse change in value of future cash flows of £500k in the budget year 2008/09 there would be a reduction in the excess carrying value of approximately £460k.

For the Dairy Farmers of Britain Processing Group cash generating unit, there are no reasonably possible changes in any of the above key assumptions which could cause the carrying value of the unit materially to exceed its recoverable amount.

11. Inventories	2008 £'000	2007 £'000
Raw materials	4,753	4,643
Work in progress	278	260
Finished goods	23,885	21,286
Total inventories	**28,916**	**26,189**

The amount of write-down of inventories recognised as an expense is £25,000 (2007: £684,000) which is recognised in cost of sales

12. Trade and other receivables	2008 £'000	2007 £'000
Trade receivables	52,703	49,591
Other receivables	1,966	2,400
Prepayments	1,421	1,245
Loans to related parties *(notes 9 & 24)*	1,100	1,700
	57,190	**54,936**
Less non-current portion: loans to related parties	(1,100)	(1,700)
	56,090	**53,236**

Trade receivables are non-interest bearing and are generally on 30-60 days terms. As at 31 March 2008, trade receivables at nominal value of £3,023,000 (2007: £3,464,000) were impaired and fully provided for.

12. Trade and other receivables *(continued)*

Movements in the provision for impairment of receivables were as follows:	Total £'000
At 1 April 2006	3,529
Charge for the year	229
Utilised	(294)
At 31 March 2007	3,464
Released during the year	(514)
Charge for the year	249
Utilised	(176)
At 31 March 2008	**3,023**

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The age profile of the net trade receivables for the Group at the year end was as follows:

2008			Debt age - Past due but not impaired			
	Current	0-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables						
Value (£'000)	43,287	6,894	2,097	342	83	52,703
%	82.13	13.08	3.98	0.65	0.16	100.00

2007			Debt age - Past due but not impaired			
	Current	0-30 days	31-60 days	61-90 days	90+ days	Total
Trade receivables						
Value (£'000)	44,762	2,974	1,468	120	267	49,591
%	90.26	6.00	2.96	0.24	0.54	100.00

The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

13. Cash and cash equivalents	2008 £'000	2007 £'000
Cash at bank and on hand	4,273	4,446
Short-term deposits	81	76
	4,354	4,522

Cash at bank earns interest at floating rates on daily bank deposit rates. Short-term deposits earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £4,354,000 (2007: £4,522,000)

At 31 March 2008, the Group had available £12,952,000 (2007: £21,824,000) of undrawn committed borrowing facilities.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 March 2008:

	2008 £'000	2007 £'000
Cash at bank and on hand	4,273	4,446
Short-term deposits	81	76
	4,354	4,522
Bank overdrafts *(note 16)*	-	(1,127)
	4,354	3,395

NOTES TO THE FINANCIAL STATEMENTS as at 31 March 2008

14. Share capital	2008 No.	2008 £'000	2007 No.	2007 £'000
Authorised				
Ordinary £5 shares	unlimited	unlimited	unlimited	unlimited
£1 A preference shares	75,000,000	75,000	75,000,000	75,000
£1 B preference shares	25,000,000	25,000	25,000,000	25,000
Allotted, called up and fully paid				
Ordinary £5 shares	2,308	12	2,516	13
£1 A preference shares	552,000	552	603,000	603

Movement in share capital	Ordinary Shares No.	A Preference Share No.
Balance at 1 April 2006	2,772	710
Cancellation of ordinary shares	(281)	-
Ordinary shares issued	25	-
Redemption against capital accounts	-	(79)
Transfer to payables	-	(28)
Balance at 31 March 2007	**2,516**	**603**
Cancellation of ordinary shares	(245)	-
Ordinary shares issued	37	-
Redemption against capital accounts	-	(37)
Transfer to payables	-	(14)
Balance at 31 March 2008	**2,308**	**552**

Dairy Farmers of Britain Limited is a co-operative established under the Industrial and Provident Societies Act 1965. Its rules require all members, on joining, to purchase a £5 ordinary share, fully paid up. Upon retirement or resignation, their share is cancelled. Under Dairy Farmers of Britain rules, the number of authorised ordinary shares is unlimited. The number of shares cancelled and retained as capital during the year was 245 (2007: 281). The amount in relation to cancelled shares has been transferred to other reserves. During the year 37 (2007: 25) ordinary shares of £5 each were issued at a cost of £185 (2007: £125).

The Preference Shares are non-voting and do not give entitlement to attendance at any general meeting of the Society in respect of their holdings of Preference Shares. The A Preference shares carry interest at a rate of BOE Base rate + 2.00% payable on 1 May and 1 November of each year. During the year £14,000 (2007:£28,000) of Preference shares have been cancelled on retirement or resignation of members and £37,000 (2007:£79,000) have been redeemed. The rules of the Industrial and Provident Societies Act restrict share ownership to £20,000, therefore the maximum preference shares that a Dairy Farmers of Britain member could subscribe for is £19,995. The A Preference Shares are subject to cancellation at their nominal value on the termination of the membership of the holder. The method of cancellation and the nature of the consideration payable will be at the discretion of the Board. The company may at any time, upon giving 10 days notice in writing to the holders of the A Preference shares, cancel all or any of the Preference shares. For members retiring or resigning from membership during the year, an amount equal to 50% of the nominal value of the A Preference Shares held is payable on the first anniversary of the date on which the membership ceases and the balance on the second anniversary.

Preference B shares carry interest at such a rate as the Board shall specify as being no greater than necessary to attract and retain long-term capital, but should not exceed LIBOR + 3.00% on the previous interest payment date. No Preference B Shares have been issued in the year.

Payment of interest to holders of Preference Shares is in priority to any payment to the holders of ordinary shares in respect of their holdings of ordinary shares. On distribution of assets on dissolution of the Society or other return of capital, the Preference Shareholders have a right to receive in preference to any payments to the ordinary shareholders, £1 nominal value per share plus any accrued dividends. The Preference Shares shall not entitle the holders thereof to any further or other right of participation in the assets of the Society.

15. Funds provided by members	Actual interest rate%	2008 £'000	2007 £'000
Non-current			
Member unsecured loan stock	BOE Base rate + 2.00%	766	1,093
Member liability loans	BOE Base rate	261	1,158
Member capital accounts	3.75%	4,049	5,403
Member investment accounts	7.50%	46,607	40,342
Preference shares	BOE Base rate + 2.00%	552	603
At 31 March 2008		**52,235**	**48,599**

BOE Base rate = Bank of England Base Rate

Member Unsecured Loan Stock (LS)

Unsecured LS bears interest at BOE Base rate + 2.00% payable six monthly in arrears. Of the £766,000 (2007: £1,093,000) £732,000 (2007: £1,059,000) relates to LS 2012, £34,000 (2007: £34,000) LS 2014,2015 and 2016. Members transferred £98,000 (2007: £nil) into MIA in the year. The debt is subordinated to the claims of other creditors but ranks ahead of MCA, MIA and MLL. Stockholders who are participating members may, within four months after the end of any milk year, apply to the Board for payment of an amount of principal and accrued interest of the Stock, not exceeding the amount of distribution transferred into MCA and MIA for the financial year.

Member Liability Loans (MLL)

MLL are loans that were made by members on signing the Members Financial Agreement as an alternative to providing guarantees. MLL rank alongside MCA and MIA but behind all other creditors. In 2006/07 DFB introduced a new Member Milk Supply Agreement and members who signed this contract can have their MLL repaid or transferred into their MIA. Members who have signed the new agreement have transferred £152,000 (2007: £154,000) into MIA and had £747,000 (2007: £2,183,000) repaid in the year. For members who do not sign the new Member Milk Supply Agreement interest, together with the principal of the loan, is only repayable on retirement or resignation by two equal instalments on the first and second anniversary of the end of the milk year in which the member retired or resigned.

Members Capital Accounts (MCA)

MCA are specific to each member who signed up to the original Member Financial Agreement and are repayable by two equal instalments on the first and second anniversary of the end of the milk year in which the member retires or resigns. Allocations to MCA are as approved by the Council. MCA rank alongside MIA, MLL and behind all other creditors. Members who have signed the new agreement have transferred £1,206,000 (2007: £nil) to MIA in the year.

Member Investment Accounts (MIA)

At the Member Council Meeting held on 23 January 2008 it was agreed to pay 7.50% interest from 1 April 2008 for the next financial year (2007: 4.75%) on MIAs in cash. On resigning Members have their MIA converted to a 10 year bond (at the end of the milk year in which they leave), upon which they receive interest at 4.75%. On retiring, Members have their MIA repaid on the 3rd, 4th and 5th anniversary of the end of the milk year in which they leave. MIA rank alongside MCA and MLL and behind all other creditors.

Preference shares

Preference shares are only held by active members. Retirees are paid out at par in two equal instalments on the first and second anniversary of the end of the milk year in which the member retired. Resigners are repaid at par two years after leaving.

Member Financial Guarantees

When DFB was formed members were asked to sign the Members Financial Agreement, and for any new members this was a condition of joining. Under the Member Financial Agreement members provided a guarantee to DFB equivalent to 5ppl based on their annual milk production. In 2006/07 DFB introduced a New Milk Supply Agreement. Members who sign this contract are released from their Member Guarantee or can have their MLL repaid or transferred into MIA. For members who have yet to sign the new Member Milk Supply Agreement these guarantees, subject to the rules of the Members Financial Agreement, remain in place until the member retires or resigns. Upon retirement or resignation any guarantees would be released in two equal amounts on the first and second anniversary of the end of the milk year in which the member retired or resigned. At 31 March 2008, the amount of Member Financial Guarantees was £22,667,000 (2007: £31,334,000).

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16. Interest-bearing loans and borrowings	Actual interest rate%	Maturity	2008 £'000	2007 £'000
Current				
Obligations under finance leases *(note 22)*		31 March 2009	765	726
Bank overdrafts		On demand	-	1,127
Other loans:				
Asset loan agreement	LIBOR + 1.75%	31 March 2009	993	-
Revolving credit facility			-	29,702
Invoice financing agreement	LIBOR + 1.75% up to £31,000,000 and LIBOR + 2.00% thereafter	On demand	15,886	-
Commercial mortgage	LIBOR + 1.75%	1 August 2008	1,771	-
Term fund loan			-	6,000
Cheese stocks loan	LIBOR + 2.00%	On demand	13,300	-
At 31 March 2008			**32,715**	**37,555**
Non-current				
Obligations under finance leases *(note 22)*		2009-2014	1,893	1,636
Other loans:				
Asset loan agreement	LIBOR + 1.75%	2009-2013	5,351	-
Commercial mortgage	LIBOR + 1.75%	2009-2014	7,349	-
At 31 March 2008			**14,593**	**1,636**

On 22 August 2007 a refinancing package was completed. The £50,000,000 revolving credit facility and a £6,000,000 term loan facility were fully repaid and the following facilities are now being utilised:

Asset loan agreement

The loan has been drawn down under a four year facility. The loan is repayable by quarterly instalments with the first repayment made in November 2007. The facility is secured by a first charge over certain plant and equipment of the Group, with a net book value of £7,169,000.

Invoice financing agreement

The loan is a revolving credit facility based upon 85% of approved trade receivable balances. The loan is repayable upon demand. The facility is secured by trade receivable balances of £18,689,000.

Commercial mortgage

The loan has been drawn down under a five-year term loan facility. The loan is repayable by 36 monthly instalments with the first repayment due in August 2008. The facility is secured by a first charge over certain land and buildings of the Group, with a net book value of £13,512,000.

Cheese stocks loan

The loan is a revolving credit facility based upon a minimum cheese stock valuation of £20,000,000. The loan is repayable upon demand. The facility is secured against the minimum cheese stock valuation of £20,000,000.

17. Other financial liabilities including amounts due to former members and non-members

	Actual interest rate%	Maturity	2008 £'000	2007 £'000
Current				
Amounts due to former members				
Preference shares	BOE base rate + 2.00%	2009	231	212
Members Capital Accounts (MCA)	BOE base rate	2009	1,278	1,751
Member Liability Loans (MLL)	BOE base rate	2009	645	982
Other financial liabilities				
Amounts due on other loans and loan notes			-	108
At 31 March 2008			**2,154**	**3,053**
Non-current				
Accruals			329	706
Amounts due to former members				
Preference shares	BOE base rate + 2.00%		30	60
Members Capital Accounts (MCA)	BOE base rate	2010	250	309
Member Liability Loans (MLL)	BOE base rate	2010	108	280
Member Investment Account (MIA)	4.75%	2018	4,066	3,611
Loan Stock 2012	BOE base rate + 2.00%	2012	3,290	3,206
Loan Stock 2014	BOE base rate + 2.00%	2014	337	337
Loan Stock 2015	BOE base rate + 2.00%	2015	1,736	1,736
Loan Stock 2016	BOE base rate + 2.00%	2016	4,729	4,703
Loan stock 2017	BOE base rate + 2.00%	2017	3,611	-
At 31 March 2008			**18,486**	**14,948**

BOE Base rate = Bank of England Base Rate

18. Defined benefit and defined contribution pension plans

Defined contribution pension plans:

The contributions payable for defined contribution schemes of £2,083,000 (2007: £1,969,000) were made in the current year. The unpaid contributions at 31 March 2008 were £18,000 (2007: £221,000).

Defined benefit pension plans:

The Group has two defined benefit pension plans:

For employees who commenced employment prior to 30 June 2002, Dairy Farmers of Britain Limited participates in a defined benefits scheme, The Milk Pension Fund. The trustees of The Milk Pension Fund are currently in discussions with a view to sectionalisation. For all other employees (who choose to be part of a pension scheme), ex Milk Group Limited staff and new employees post 1 July 2002, defined contributions are made to personal pension plans.

As part of the acquisition of Freshgrass Investments (UK) Limited in October 2006 along with its principal trading company Golden Vale Dairies Limited, Dairy Farmers of Britain Limited took control of a defined benefit pension scheme for some of the employees' of Golden Vale Dairies Limited. The Scheme was closed to future accruals from 31 March 2006.

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the balance sheet for the respective plans:

Net benefit expense (recognised in administrative costs)	The Milk Pension Fund 2008 £'000	Golden Vale Dairies Ltd Pension Scheme 2008 £'000	Total 2008 £'000
Current service cost	200	-	200
Interest cost on benefit obligation	1,400	44	1,444
Expected return on plan assets	(1,400)	(17)	(1,417)
Net benefit expense	**200**	**27**	**227**
Actual return on plan assets	200	-	200

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18. Defined benefit pension plan *(continued)*

Net benefit expense (recognised in administrative costs)	The Milk Pension Fund 2007 £'000	Golden Vale Dairies Ltd Pension Scheme 2007 £'000	Total 2007 £'000
Current service cost	301	59	360
Interest cost on benefit obligation	1,400	37	1,437
Expected return on plan assets	(1,400)	(15)	(1,415)
Gains on settlements and curtailments	-	(33)	(33)
Net benefit expense	**301**	**48**	**349**
Actual return on plan assets	400	-	400

Benefit asset/(liability)	The Milk Pension Fund 2008 £'000	Golden Vale Dairies Ltd Pension Scheme 2008 £'000	Total 2008 £'000
Defined benefit obligation	(23,200)	(833)	(24,033)
Fair value of plan assets	23,400	816	24,216
	200	(17)	183
Unrecognised actuarial (gains)/losses	-	-	-
Unrecognised past service cost	-	-	-
Benefit asset/(liability)	**200**	**(17)**	**183**

Benefit liability	The Milk Pension Fund 2007 £'000	Golden Vale Dairies Ltd Pension Scheme 2007 £'000	Total 2007 £'000
Defined benefit obligation	(26,600)	(835)	(27,435)
Fair value of plan assets	23,600	736	24,336
	(3,000)	(99)	(3,099)
Unrecognised actuarial (gains)/losses	-	-	-
Unrecognised past service cost	-	-	-
Benefit liability	**(3,000)**	**(99)**	**(3,099)**

Changes in the present value of the defined benefit obligation are as follows:	The Milk Pension Fund £'000	Golden Vale Dairies Ltd Pension Scheme £'000	Total £'000
Defined benefit obligation at 1 April 2006	25,400	-	25,400
Acquisition of Golden Vale Dairies Ltd	-	920	920
Interest cost	1,300	46	1,346
Current service cost	400	-	400
Member contributions	100	-	100
Benefits paid	(1,099)	-	(1,099)
Actuarial losses/(gains) on obligation	499	(131)	368
Defined benefit obligation at 31 March 2007	26,600	835	27,435
Interest cost	1,400	44	1,444
Current service cost	200	-	200
Member contributions	100	-	100
Benefits paid	(665)	(10)	(675)
Actuarial losses on obligation	(4,435)	(36)	(4,471)
Defined benefit obligation at 31 March 2008	**23,200**	**833**	**24,033**

18. Defined benefit pension plan *(continued)*

Changes in the fair value of the plans assets are as follows:	The Milk Pension Fund	Golden Vale Dairies Ltd Pension Scheme	Total
	£'000	£'000	£'000
Fair value of plan assets at 1 April 2006	23,600	-	23,600
Acquisition of Golden Vale Dairies Ltd	-	648	648
Expected return	1,300	15	1,315
Contributions by employer	300	62	362
Member contributions	100	-	100
Benefits paid	(800)	-	(800)
Actuarial (losses)/gains	(900)	11	(889)
Fair value of plan assets at 31 March 2007	23,600	736	24,336
Expected return	1,400	36	1,436
Contributions by employer	300	43	343
Member contributions	100	-	100
Benefits paid	(800)	(10)	(810)
Actuarial (losses)/gains	(1,200)	11	(1,189)
Fair value of plan assets at 31 March 2008	**23,400**	**816**	**24,216**

Total amount recognised in the statement of recognised income and expense (SORIE):	The Milk Pension Fund	Golden Vale Dairies Ltd Pension Scheme	Total
	2008	2008	2008
	£'000	£'000	£'000
Actuarial gains on defined benefit schemes	3,200	82	3,282
UK deferred tax attributable to defined benefit gains	(956)	(25)	(981)
Actuarial gains recognised in SORIE	2,244	57	2,301
Cumulative actuarial gains recognised in SORIE	**1,370**	**51**	**1,421**

Total amount recognised in the statement of recognised income and expense (SORIE):	The Milk Pension Fund	Golden Vale Dairies Ltd Pension Scheme	Total
	2007	2007	2007
	£'000	£'000	£'000
Actuarial losses on defined benefit schemes	(1,248)	(9)	(1,257)
UK deferred tax attributable to defined benefit losses	374	3	377
Actuarial losses recognised in SORIE	(874)	(6)	(880)
Cumulative actuarial losses recognised in SORIE	**(874)**	**(6)**	**(880)**

The Group expects to contribute £343,000 to its defined benefit pension plans in year ending 31 March 2009. Cumulative actuarial gains/(losses) recognised in the SORIE shown above are from the date of transition to IFRS (1 April 2006).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Pension plans	The Milk Pension Fund 2008 (%)	Golden Vale Dairies Ltd Pension Scheme 2008 (%)	The Milk Pension Fund 2007 (%)	Golden Vale Dairies Ltd Pension Scheme 2007 (%)
Equities	44	-	44	-
Index linked gifts	46	-	45	-
Fixed interest gifts	1	-	3	-
Corporate bonds (including overseas)	8	-	7	-
Cash	1	100	1	100

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

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18. Defined benefit pension plan *(continued)*

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	The Milk Pension Fund 2008 (%)	Golden Vale Dairies Ltd Pension Scheme 2008 (%)	The Milk Pension Fund 2007 (%)	Golden Vale Dairies Ltd Pension Scheme 2007 (%)
Discount rate:	6.70	6.40	5.25	5.50
Expected rate of return on assets:	6.40	2.70	6.10	2.20
Future salary increases:	4.60	n/a	4.10	n/a
Price inflation	3.60	3.60	3.10	3.20
Future pension increases				
Pension accrued before 2006	3.50	3.60	3.10	3.20
Pension accrued after 2006	2.40	3.60	2.30	3.20
Post retirement mortality:	*1	*2	*1	*2

*1 PMA92/PFA92 tables, birth year, with medium cohort improvements and mortality rates at all ages increased by 25%.

*2 PA92 (C2025) long cohort +1 (2007: PA92 (C2020)).

Amounts for the current and previous period are as follows:

The Milk Pension Fund	2008	2007
	£'000	£'000
Defined benefit obligation	(23,200)	(26,600)
Plan assets	23,400	23,600
Surplus/(deficit)	200	(3,000)
Experience adjustments on plan liabilities	4,300	(300)
Experience adjustments on plan assets	(1,200)	(800)

Golden Vale Dairies Ltd Pension Scheme	2008	2007
	£'000	£'000
Defined benefit obligation	(833)	(835)
	816	736
Plan assets	(17)	(99)
Deficit	(10)	(131)
Experience adjustments on plan liabilities	11	11
Experience adjustments on plan assets		

19. Provisions for liabilities and charges	Other provision	Property provision	Total
	£'000	£'000	£'000
At 1 April 2007	1,800	1,171	2,971
Utilised	(1,479)	(25)	(1,504)
At 31 March 2008	**321**	**1,146**	**1,467**
Current 2008	321	194	515
Non-current 2008	-	952	952
	321	**1,146**	**1,467**
Current 2007	1,800	25	1,825
Non-current 2007	-	1,146	1,146
	1,800	**1,171**	**2,971**

Property provision

The property provision relates to provisions for dilapidation of properties. The cash outflows in respect of the property provision are expected to occur at the earlier of the landlord request and the end of the lease term, however the majority of the cash outflows in respect of the property provision are expected to occur within 5 years.

Other provision

Other provisions relate to the closure of Cardiff dairy and are expected to be utilised during the year.

20. Government grants

	2008 £'000	2007 £'000
At 1 April 2007	1,010	814
Received during the year	960	278
Released to the income statement	(249)	(82)
At 31 March 2008	**1,721**	**1,010**
Current	128	82
Non-current	1,593	928
	1,721	**1,010**

Government grant additions in the year relate to Welsh Assembly Grants in respect to the Bridgend Dairy improvements.

21. Trade and other payables (current)

	2008 £'000	2007 £'000
Trade payables	27,345	24,272
Amounts due to members - trade	10,216	13,890
Social security and other taxes	2,155	1,959
Other liabilities	5,201	3,328
Accrued expenses	15,393	16,339
	60,310	**59,788**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally settled within 30-60 day terms
- Amounts due to members are settled within 30 day terms
- Other liabilities and accrued expenses are non-interest bearing

22. Commitments and contingencies

Operating lease commitments

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
In respect of land and buildings:		
- Within one year	2,369	2,204
- In two to five years	4,746	4,294
- In over five years	5,620	5,501
	12,735	**11,999**
In respect of plant and equipment:		
- Within one year	1,098	1,407
- In two to five years	1,239	2,092
- In over five years	3	36
	2,340	**3,535**

The Group has entered into commercial leases on certain properties, plant and equipment. The leases for plant and equipment have an average duration of between 3 and 5 years. The Group leases various offices, depots and dairies under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed upon the lessee by entering into these leases.

The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options.

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22. Commitments and contingencies *(continued)*

Finance lease commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2008 £'000	2007 £'000
Future minimum payments due:		
Within one year	916	793
After one year but not more than five years	1,532	1,721
After five years	4,747	836
Total minimum lease payments	7,195	3,350
Less amounts representing finance charges	(4,537)	(988)
Present value of minimum lease payments	**2,658**	**2,362**
The present value of minimum lease payments is analysed as follows:		
Within one year	765	726
After one year but not more than five years	1,088	1,494
After five years	805	142
Total minimum lease payments	**2,658**	**2,362**

Capital Commitments

As at 31 March 2008, the Group had entered into contracts of £422,000 (2007: £3,103,000) for future capital expenditure not provided for in the financial statements.

23. Reconciliation of movement in equity and funds provided by members

Reconciliation of movement in equity

	Ordinary share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity shareholders' deficit £'000	Minority interest £'000	Total £'000
At 1 April 2007	**13**	**15**	**(6,205)**	**(6,177)**	**23**	**(6,154)**
(Loss)/profit for the year	-	-	(3,583)	(3,583)	36	(3,547)
Actuarial gains on defined benefit pension schemes	-	-	3,282	3,282	-	3,282
Deferred tax loss from defined benefit scheme	-	-	(981)	(981)	-	(981)
Movement on cancellation of ordinary shares	(1)	1	-	-	-	-
At 31 March 2008	**12**	**16**	**(7,487)**	**(7,459)**	**59**	**(7,400)**

23. Reconciliation of movement in equity and funds provided by members *(continued)*

	Ordinary share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity shareholders' deficit £'000	Minority interest £'000	Total £'000
At 1 April 2006	**14**	**13**	**(2,737)**	**(2,710)**	**12**	**(2,698)**
(Loss)/profit for the year	-	-	(2,588)	(2,588)	11	(2,577)
Actuarial losses on defined benefit pension schemes	-	-	(1,257)	(1,257)	-	(1,257)
Deferred tax gain from defined benefit scheme	-	-	377	377	-	377
Movement on cancellation of ordinary shares	(1)	2	-	1	-	1
At 31 March 2007	**13**	**15**	**(6,205)**	**(6,177)**	**23**	**(6,154)**

Other reserves

Upon a member retirement or resignation, the member ordinary share is cancelled and the balance is transferred to other reserves. The number of shares cancelled and retained as capital during the year was 245 (2007: 281).

Changes in funds provided by members

	2008 £'000	2007 £'000
Funds provided by members at 1 April	**48,599**	**45,993**
Amount due to former members	(4,766)	(4,619)
Allocation to Member Investment Accounts	7,004	8,002
Repayments to members	(920)	(2,496)
Interest on member funds	2,318	1,719
Funds provided by members at 31 March	**52,235**	**48,599**
Total equity shareholders' deficit at 31 March	(7,459)	(6,177)
Total	**44,776**	**42,422**

24. Related party disclosures

As at the year ended 31 March 2008 there were four Directors who were non-member Directors, the remaining directors were farmer members.

Member Directors, who are milk producers, supply milk to the organisation on the same terms as all other members. They are also entitled to avail themselves of any other Dairy Farmers of Britain services on the same terms as other members.

With the exception of P. Moody, R. Knight, R. Fisher and D. Felwick each Director in office as at 31 March 2008 holds one ordinary share in Dairy Farmers of Britain.

Directors' interests in the business

As at 31 March 2008, the Directors had the following interests in the unsecured Loan Stock, and Preference Shares of Dairy Farmers of Britain Limited:

	Loan Stock		Preference Shares	
	2008 £	2007 £	2008 £	2007 £
R. Clarke	-	1,087	-	-
Lord J. Grantchester	1,745	1,745	-	-
M. Heywood	11,740	11,740	-	-
R. Knight	-	-	-	-
P. Moody	-	-	-	-
M. Oakes	5,417	5,417	-	-
W. Radley	-	-	-	-
D. Wilkinson	2,050	2,050	-	5,500
R. Fisher	-	-	-	-
D. Felwick	-	-	-	-

See Directors' Report for date of appointment and resignation of non-executive Directors

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24. Related party disclosures *(continued)*

As at 31 March 2008, the amounts held by Directors on Members Capital Accounts was £19,000 (2007:£36,000) and the amount held on Member Investment Accounts was £321,000 (2007:£251,000). Member Guarantee Accounts entered into by Directors were £nil (2007:£97,000) Member Liability Loans held by Directors amounted to £nil (2007 : £nil).

The financial statements include the financial statements of Dairy Farmers of Britain Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	Equity interest % 2008	Equity interest % 2007
Dairy Farmers of Britain Processing Limited	UK	97	97
Nene Valley Foods Limited	UK	97	97
Lubborn Limited	UK	97	97
Westbury Dairies Limited	UK	40	40
Quality Dairy Ingredients Limited	UK	50	50
Associated Co-operative Creameries Limited	UK	100	100
Freshgrass Investments (UK) Limited	UK	100	100
Dairy Farmers of Britain (Bridgend) Limited	UK	100	100

Dairy Farmers of Britain Limited is the ultimate parent entity.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances at 31 March 2008 and 2007.

		Sales to related party £'000	Purchase from related party £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Associate:					
Westbury Dairies Limited	**2008**	35	6,318	-	247
	2007	177	12,766	57	748
Joint venture:					
Quality Dairy Ingredients Limited	**2008**	-	-	-	-
	2007	33,847	-	2,168	-
Key management personnel of the Group					
Other Directors interests	**2008**	-	489	-	167
	2007	-	875	-	29
Milk purchases	**2008**	-	1,935	-	184
	2007	-	1,707	-	144

	2008 £'000	2007 £'000
Loans to related parties:		
Loans to joint venture		
At 1 April 2007	400	400
Loan repayment received	(350)	-
Amounts written off in the year	(50)	-
At 31 March 2008	**-**	**400**
Loans to associate:		
At 1 April 2007	1,300	1,600
Loan repayment received	(200)	(300)
At 31 March 2008	**1,100**	**1,300**

Both long-term funding loans are non-interest bearing

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24. Related party disclosures *(continued)*

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party receivables or term funding loans and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2008, the Group has recorded an impairment of £50,000 (2007: £nil) relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other Directors' interests

During both 2008 and 2007, purchases at normal market price were made by the group with the following related parties:

P Moody, a Director throughout the year ended 31 March 2008, is a partner with Smith & Williamson. R Fisher, a Director throughout the year ended 31 March 2008, is a Managing Director of Oh! (Surprising Solutions) Limited, a consultancy company. All of these transactions were incurred in the normal course of business and on an 'arm's length' basis.

Loan to related parties

As at 31 March 2008 Dairy Farmers of Britain had a loan of £1,100,000 (2007 £1,300,000) invested in Westbury Dairies Limited, £200,000 was repaid by Westbury Dairies Limited during the year. After the agreement signed on 25 April 2008, the long-term funding loan will be repaid in four annual instalments, the first being on 25 April 2010.

The long-term funding loan in Quality Dairy Ingredients Limited at 31st March 2008 was £nil, £350,000 has been received in the year and the remaining balance has been written off in the year.

Compensation of key management personnel of the Group	**2008 £'000**	**2007 £'000**
Short-term employee benefits	**602**	**720**

The 'key management personnel' are those persons having authority and responsibility for the planning, directing and control of the activities of the Group. At Dairy Farmers of Britain Limited this relates to the non-executive Directors of the Board. There were no pension contributions paid in the year for Directors.

NOTES TO THE FINANCIAL STATEMENTS
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25. Financial instruments

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all the Group's financial instruments.

	Carrying amounts		Fair value	
	2008 £'000	**2007 £'000**	**2008 £'000**	**2007 £'000**
Financial assets				
Trade and other receivables	54,669	51,991	54,669	51,991
Cash and cash equivalents *(note 13)*	4,354	4,522	4,354	4,522
Loans to related parties *(notes 12)*	1,100	*1,700*	1,100	1,700
	60,123	**58,213**	**60,123**	**58,213**
Financial liabilities				
Bank overdraft *(note 13)*	-	1,127	-	1,127
Trade and other payables (including trade payable to members)	37,561	38,162	37,561	38,162
Interest-bearing loans and borrowings:				
Obligation under finance leases *(note 22)*	2,658	2,362	2,658	2,362
Floating rate borrowings *(note 16)*	44,650	35,702	44,650	35,702
Funds provided by members *(note 15)*	52,235	48,599	52,235	48,599
Amounts due to former members *(note 17)*	20,311	17,187	20,311	17,187
Other financial liabilities *(note 17)*	-	108	-	108
	157,415	**143,247**	**157,415**	**143,247**

Financial assets

Loans to related parties fair value is calculated by utilising an effective interest rate of 7.06%, being Dairy Farmers of Britain's weighted average cost of capital. The carrying value of trade receivables and cash and cash equivalents are assumed to approximate their fair value.

Financial liabilities

The fair value of derivative instruments is determined using quoted prices. The fair value of derivatives, where quoted prices are not available, and the fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets has been calculated using the market interest rates. The carrying value of trade payables are assumed to approximate their fair value.

26. Events after the balance sheet date

Post year end the company has announced a new agreement with First Milk and Milk Link regarding Westbury Dairies.

From this year the group's involvement in the joint venture will be replaced with a long-term supply agreement to use Westbury for the limited additional balancing capacity the group may still require.

Subsequent to the year end the Group's finance facilities, which were entered into in August 2007, were successfully rolled over in July 2008. The package has been expanded providing DFB access to additional funding and has been put in place for a three year period securing significant resources to facilitate the next stage of DFB's development. The total facility is £82m.

27. Restatement from UK GAAP to IFRS

The Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 April 2007 as described in the accounting policies. In preparing these financial statements, the Group opening balance sheet was prepared as at 1 April 2006, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 April 2006 and its previously published UK GAAP financial statements for the year ended 31 March 2007. Details of the exemptions taken by the Group in transitioning to IFRS are shown in note 2 to the accounts.

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as at 31 March 2008

27. Restatement from UK GAAP to IFRS *(continued)*

Consolidated reconciliation of equity as at 1 April 2006 (date of transition to IFRS)

	Notes	UK GAAP £'000	Reclassifications £'000	Remeasurements £'000	IFRS £'000
ASSETS					
Non-current assets					
Property, plant and equipment	A,B	40,059	(165)	735	40,629
Intangible assets	B	31,619	165	-	31,784
Investments in joint ventures	C	575	(400)	-	175
Investments in associates	C	2,045	(1,600)	-	445
Trade and other receivables	C	-	2,000	-	2,000
		74,298	**-**	**735**	**75,033**
Current assets					
Inventories		29,988	-	-	29,988
Trade and other receivables		60,888	-	-	60,888
Cash and cash equivalents		6,932	-	-	6,932
		97,808	**-**	**-**	**97,808**
Total assets		**172,106**	**-**	**735**	**172,841**
EQUITY AND LIABILITIES					
Capital and reserves					
Issued capital		14	-	-	14
Other capital reserves		13	-	-	13
Retained earnings	A,E	535	-	(3,272)	(2,737)
Equity shareholders' deficit		**562**	**-**	**(3,272)**	**(2,710)**
Minority interest		12	-	-	12
Total equity		**574**	**-**	**(3,272)**	**(2,698)**
Non-current liabilities					
Funds provided by members		45,993	-	-	45,993
Borrowings	A	26,909	-	493	27,402
Other financial liabilities including amounts due to former members and non-members		12,195	-	-	12,195
Deferred tax liabilities	E,F	-	(283)	3,270	2,987
Government grants	I	-	732	-	732
Provisions	E,I	1,201	(323)	-	878
Defined benefit pension deficit	F	1,260	540	-	1,800
		87,558	**666**	**3,763**	**91,987**
Current liabilities					
Trade and other payables	I	66,455	(814)	-	65,641
Borrowings	A	15,944	-	244	16,188
Other financial liabilities including amounts due to former members and non-members		1,575	-	-	1,575
Government grants	I	-	82	-	82
Provisions	I	-	66	-	66
		83,974	**(666)**	**244**	**83,552**
Total liabilities		**171,532**	**-**	**4,007**	**175,539**
Total equities and liabilities		**172,106**	**-**	**735**	**172,841**

27. Restatement from UK GAAP to IFRS *(continued)*

Consolidated reconciliation of equity as at 31 March 2007

ASSETS	Notes	UK GAAP £'000	Reclassifications £'000	Remeasurements £'000	IFRS £'000
Non-current assets					
Property, plant and equipment	A,B	43,761	(251)	531	44,041
Intangible assets	B,D,E	34,375	251	4,489	39,115
Investments in joint ventures	C	572	(400)	-	172
Investments in associates	C	1,759	(1,300)	-	459
Trade and other receivables	C	-	1,700	-	1,700
		80,467	**-**	**5,020**	**85,487**
Current assets					
Inventories		26,189	-	-	26,189
Trade and other receivables	E	53,479	(243)	-	53,236
Cash and cash equivalents		4,522	-	-	4,522
		84,190	**(243)**	**-**	**83,947**
Total assets		**164,657**	**(243)**	**5,020**	**169,434**
EQUITY AND LIABILITIES					
Capital and reserves					
Issued capital		13	-	-	13
Other capital reserves		15	-	-	15
Retained earnings	A,D,E	(6,588)	-	383	(6,205)
Equity shareholders' deficit		**(6,560)**	**-**	**383**	**(6,177)**
Minority interest		23	-	-	23
Total equity		**(6,537)**	**-**	**383**	**(6,154)**
Non-current liabilities					
Funds provided by members		48,599	-	-	48,599
Borrowings	A	1,292	-	344	1,636
Other financial liabilities including amounts due to former members	I	15,876	(928)	-	14,948
Deferred tax liabilities	E,F	-	(1,173)	4,102	2,929
Government grants	I	-	928	-	928
Provisions	I	2,971	(1,825)	-	1,146
Defined benefit pension deficit	F	2,169	930	-	3,099
		70,907	**(2,068)**	**4,446**	**73,285**
Current liabilities					
Trade and other payables		59,788	-	-	59,788
Borrowings	A	37,364	-	191	37,555
Other financial liabilities including amounts due to former members	I	3,135	(82)	-	3,053
Government grants	I	-	82	-	82
Provisions	I	-	1,825	-	1,825
		100,287	**1,825**	**191**	**102,303**
Total liabilities		**171,194**	**(243)**	**4,637**	**175,588**
Total equities and liabilities		**164,657**	**(243)**	**5,020**	**169,434**

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as at 31 March 2008

NOTES TO THE FINANCIAL STATEMENTS

as at 31 March 2008

27. Restatement from UK GAAP to IFRS *(continued)*

Consolidated reconciliation of profit and loss for the year ended 31 March 2007

	Notes	UK GAAP £'000	Reclassifications £'000	Remeasurements £'000	IFRS £'000
Continuing operations					
Revenue		557,784	-	-	557,784
Cost of sales		(517,414)	-	-	(517,414)
Gross profit		**40,370**	**-**	**-**	**40,370**
Administrative expenses	D,I	(38,633)	(1,743)	4,135	(36,241)
Operating profit		**1,737**	**(1,743)**	**4,135**	**4,129**
Analysed as:					
Operating profit before exceptional items		1,908	-	4,135	6,043
Other exceptional items		(171)	(1,743)	-	(1,914)
Operating profit		**1,737**	**(1,743)**	**4,135**	**4,129**
Finance revenue		7	-	-	7
Finance costs	A	(6,899)	-	(13)	(6,912)
Share of post tax profit of associate and joint venture	E	15	(4)	-	11
Exceptional items	D	(1,743)	1,743	-	-
Profit before tax		**(6,883)**	**(4)**	**4,122**	**(2,765)**
Income tax credit	E	651	4	(467)	188
Loss for the period		**(6,232)**	**-**	**3,655**	**(2,577)**
Attributable to:					
Members		(6,243)	-	3,655	(2,588)
Minority interests		11	-	-	11
Loss for the period		**(6,232)**	**-**	**3,655**	**(2,577)**

Notes to the reconciliation of equity as at 1 April 2006 and 31 March 2007:

A ***IAS 17 - Finance leases***

Under IFRS some operating leases as reported under UK GAAP need to be restated as finance leases with the corresponding income statement and balance sheet adjustments, including an increased depreciation charge. The effect of these adjustments was to reduce retained earnings for 2007 by £2,000 (2006: £2,000). The balance sheet impact is to increase property, plant and equipment in 2007 by £531,000 (2006: £735,000), to increase current borrowings in 2007 £191,000 (2006: £244,000) and to increase non-current borrowings in 2007 £344,000 (2006: £493,000).

B ***IAS 16 - Computer Software and licences***

Under UK GAAP, software was included within tangible fixed assets. Under IFRS, software is reclassified from tangible fixed assets and recorded within intangible assets. The balance sheet reclassification amounts to £165,000 at the date of transition 1 April 2006 and £251,000 at 31 March 2007. There is no income statement impact.

C ***IAS 28 - Long term funding loans***

Loans to associates and joint ventures are not treated as part of the investment under IFRS and are disclosed as trade and other receivables. This decreases investments in joint ventures by £400,000 in 2007 (2006: £400,000), decreases investments in associates by £1,300,000 in 2007 (2006: £1,600,000) and increases non-current trade receivables by £1,700,000 in 2007 (2006: £2,000,000). Under UK GAAP operating profit/(loss) and interest received/(payable) is shown separately on the face of the profit and loss account.

27. Restatement from UK GAAP to IFRS *(continued)*

Notes to the reconciliation of equity as at 1 April 2006 and 31 March 2007 (continued):

D *IAS 36 - Goodwill*
Under IFRS goodwill is no longer amortised. IAS 36 requires goodwill to be carried at cost with annual impairment reviews.

The Group has elected to take advantage of the exemption under IFRS 1 not to restate all business combinations prior to 1 April 2006. The impact of IFRS 3 and IFRS 1 on the Group's accounting for goodwill in 2007 is as follows:

- the value of goodwill reported under UK GAAP at 1 April 2006 is frozen; and
- the goodwill amortisation charge in 2007 (£4,214,000) under UK GAAP has been reversed. This balance is credited to retained earnings.

E *IAS 12 - Income tax*
Due to the revised treatment of temporary differences on non-qualifying assets which were not previously recognised under UK GAAP. This has resulted in an additional recognition of a deferred tax liability of £3,270,000 not previously shown under UK GAAP and this changes to £3,737,000 in 2007. These impact retained earnings by £467,000 in 2007 (2006: £3,270,000).

F *IAS 19 - Employee benefits*

Under IFRS the deferred pension deficit/asset must be shown gross, not incorporating the relevant deferred tax asset/liability as previously shown under UK GAAP. This resulted in the defined pension deficit increasing by £930,000 in 2007 and the deferred tax liability decreasing by the same amount. The amount at 1 April 2006 was £540,000.

G *IAS 7 - Cash flow statement*
The transition from UK GAAP to IFRS has not had a material impact on the cash flow statement. The transition from UK GAAP to IFRS has no effect upon the reported cash flows generated by the Group. However, the IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities: operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

In preparing the cash flow statement under IFRS, cash and cash equivalents include cash at bank and in hand and bank overdrafts.

H *IFRS 3 - Business combinations*
Under IFRS 3, the identification of assets and liabilities acquired businesses includes intangible assets not previously recognised under UK GAAP. In the Group's case, the principal intangible assets recognised separately from goodwill on an acquisition are customer relationships. These intangible assets are valued for each acquisition after 1 April 2006 and amortised over their estimated economic lives.

The acquisition in 2007 was Freshgrass Investments (UK) Limited. The value of the customer relationships for this business, the valuation of which was carried out by external independent valuers, amounted to £1,130,000, with an economic life of 10 years. The amortisation of the intangible asset for 2007 is £47,000.

I *IAS 1 - Presentation of financial statements*
Under IAS 1 Government grants may be disclosed separately on the face of the consolidated balance sheet. Previously these were included within accruals and deferred income. The reclassification to non-current government grants in 2007 was £928,000 (2006: £732,000), current government grants increased in 2007 by £82,000 (2006: £82,000).

Under IFRS provisions must be separated between those expected to reverse in less than and more than one year. This resulted in £1,825,000 in 2007 (2006: £66,000) being transferred from non-current to current provisions.

Under IFRS deferred tax assets and liabilities must be disclosed separately. This results in £257,000 in 2006 being transferred from provisions. In 2007 £243,000 was transferred from current trade receivables to deferred tax assets.

Previously non-operating exceptionals were shown after reporting operating profit. Under IAS 1 these items must be shown before calculating operating profit. The Group has disclosed exceptional items on the face of the income statement because of the nature and expected infrequency of the events giving rise to them, meriting separate presentation to allow members to understand better the elements of financial performance in the year.

Dairy Farmers of Britain®

A BUSINESS THAT WORKS FOR ALL

COMPANY INFORMATION

Company's Registered Office:

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Company Registration No:

29004R

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R. Knight

Other Directors:

D. Wilkinson (Vice Chairman)

R. Clarke, D. Felwick, Lord Grantchester, P. Moody, M. Oakes

Company Secretary:

P. Gregan

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Solicitors:

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