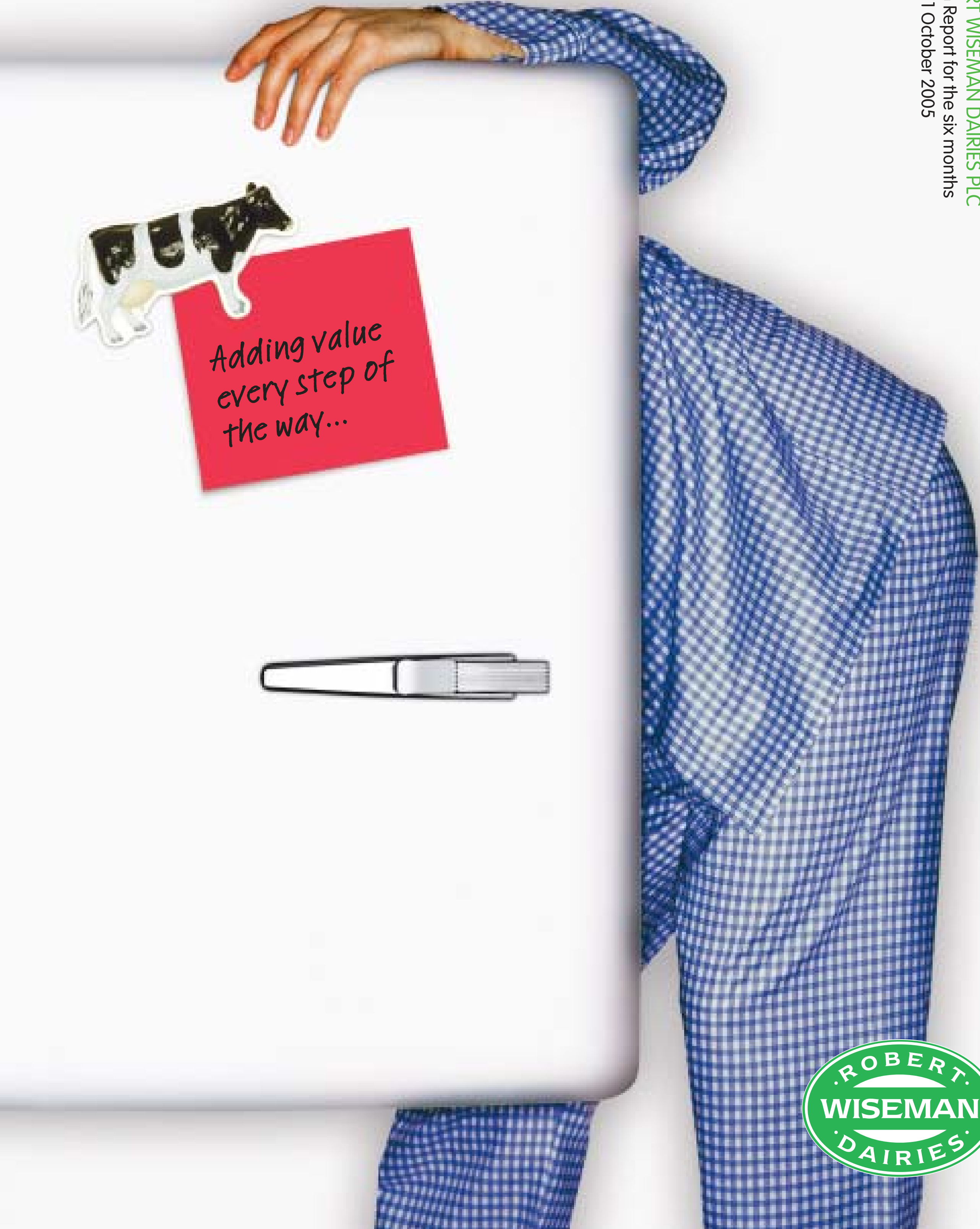
ROBERT WISEMAN DAIRIES PLC

Interim Report for the six months ended 1 October 2005



Robert Wiseman Dairies **procures**, **processes** and **delivers** liquid milk to customers throughout the **UK**.

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Highlights

Financial Highlights

- Record volumes of liquid milk, up 13.2% to 687 million litres (2004: 607 million)
- Results in line with expectations
- Turnover increased by 14.7% to £281.3 million (2004: £245.3 million)
- Gross profit increased by 13.7% to £66.7 million (2004: £58.6 million)
- HDPE resin and energy cost increases are impacting margins
- Operating profit decreased by 17.6% to £12.5 million (2004: £15.1 million)
- Pre-tax profit down by 21.7% to £12.1 million (2004: £15.5 million)
- Earnings per share adjusted for prior year tax credit decreased by 16.5% to 11.35p (2004: 13.59p)
- Basic earnings per share decreased by 40.8% to 11.35p (2004: 19.19p)
- Interim Dividend increase of 9.1% proposed, to 2.4p (2004: 2.2p)
- Strong cash generation from operating activities of £19.3 million (2004: £18.4 million)
- 3.5 million shares bought back at a cost of £9.1 million

Operational Highlights

- All dairies ran at record levels during the first six months
- New supply contracts with Sainsbury's and Tesco more than offset loss of ASDA contract
- Steady progress made in sales to Tesco of our ESL milk "Pure"
- Television campaign for "the One" in the Tyne Tees and Granada regions
- Additional volume of 7 million litres on an annualised basis added to the middle ground market
- Building work on new dairy in Taunton scheduled to start early next year, expanding capacity in the south west
- Northampton depot scheduled to open later this month, improving efficiencies and operating costs

Interim Operating and Financial Review

Alan Wiseman

We achieved record volumes during the period with sales benefiting from new supply contracts with Sainsbury's and Tesco, which more than offset the loss of the ASDA contract.

Results

These results have been prepared and published under International Financial Reporting Standards ("IFRS"). As disclosed in our pre-close Trading Update and IFRS Transition Report on 27 September 2005, the notable change in the first-half income statement has been the treatment of share based awards, which is offset by the cessation of goodwill amortisation under IFRS. In addition, dividends are included in the "reconciliation of shareholder's equity" statement only when they are approved, not proposed, as was the previous practice. The movement in the balance sheet is in line with our previous disclosures.

The results for the six months ended 1 October 2005 are in line with expectations and reflect changes in our customer base occurring during a period where costs have been impacted by significant upward pressures.

Sales volumes are up 13.2% to a record 687 million litres (2004: 607 million litres), benefiting from significantly increased contracts with both Tesco and Sainsbury's. Similarly, turnover also rose by 14.7% to £281.3 million (2004: £245.3 million), with selling prices up on the back of higher milk prices being paid to our suppliers.

The Group showed good progress in terms of gross profit, with an increase of 13.7% to £66.7 million (2004: £58.6 million). However, a 24.5% increase in other operating expenses to £54.2 million (2004: £43.5 million) resulted in a fall in operating profit of 17.6% to £12.5 million (2004: £15.1 million).

In previous statements we highlighted our concerns over costs, principally in distribution, which have been affected by a combination of circumstances. These included complying with the Working Time Directive (WTD), rising oil related costs and coping with significant new contract volumes, particularly in the south of England. In the short-term, this has resulted in us having to service some of our new business on a less efficient basis than our existing business, which will be addressed with the imminent opening of our new Northampton depot.

Finance costs, net of investment income, were £0.3 million compared to a credit of £0.3 million for the same period last year which included the benefit of a £0.5 million release of interest accrued in respect of a prior year tax return.

Profit before tax declined 21.7% to £12.1 million (2004: £15.5 million). After adjusting for the interest credit in the previous period, the like-for-like decrease is 18.9% (£12.1 million compared with £14.9 million in 2004). Earnings per share, before the impact of tax credit, declined 16.5% to 11.35p (2004: 13.59p). Basic earnings per share fell 40.8% to 11.35p (2004: 19.19p).

There was again a strong operating cash flow and our net cash generated from operations was £19.3 million (2004: £18.4 million). Net debt at the end of the period was £10.9 million (2 April 2005: £0.7 million). The main reason for the increase in debt was the purchase of shares under the share buy back programme, which during the period cost £9.1 million.

Interim Operating and Financial Review

Interim Dividend
The Board has declared a dividend of 2.4p per share, an increase of 9.1% over last year. The interim dividend is payable on 9 February 2006 to ordinary shareholders on the register at 13 January 2006.

Operating Review

Commercial
We achieved record volumes during the period. Sales benefited from new supply contracts with Sainsbury's, which commenced in January, and Tesco, which commenced in April. These have more than compensated for the loss of the ASDA contract, which ceased during the second-half of last year. As previously indicated, we terminated supplies of own label milk to Morrisons on 29 October 2005. With all of the major supermarkets having made significant changes over the last twelve months, we now envisage more limited opportunities for picking up major contracts in the short-term. We do continue to identify emerging opportunities and are working at extending listings of our product offer with new and existing customers.

We have during the last six-months won additional pot cream business with Tesco, which has compensated for the loss of supply to both ASDA and Morrisons.

Sales of the Extended Shelf Life ("ESL") milk "Pure", which we supply to Tesco, have continued to progress steadily week-on-week since the launch in June 2005. Plans to roll out sales of ESL own label milk with other retailers are at an advanced stage and are expected to launch in Spring 2006. We are also considering a "Wiseman" brand ESL milk to supply other multiples and middle ground customers.

Similarly, sales of "the One", our one percent fat milk product, are still growing and television campaigns recently ran in the Tyne Tees and Granada regions.

The Group has continued to hold its share of the very competitive middle ground market. We recently added around 7 million litres per annum to middle ground sales at our Manchester depot following the closure of Longslow's operations in that area.

It was disappointing to have to withdraw from acquiring the middle ground business of Scottish Milk Dairies, but the added expense of dealing with a Competition Commission Inquiry could not be justified for such a small acquisition.

Bulk cream prices, which declined during the first-half in comparison to last year, are showing further weakness in our forward projections for the second-half of this year.

Robert Wiseman

Operations

Dairies

All dairies within the Group have been running at record levels during the first six months, with our facilities in England processing over 450 million litres during the period. The impact of the loss of the Morrisons contract on our processing capacity was disclosed in our Trading Update in September 2005. Through natural wastage we have managed to further reduce the number of redundancies to thirty-five staff and, as a result, the estimated restructuring charge has reduced from an initial estimate of £300,000 to £200,000.

The rationale for expanding the Group's production capacity by building a new dairy in the south-west of England has already been outlined and is primarily about processing milk for our customers in the south-west on a more efficient basis. Progress continues in line with our expectations and we have recently agreed Heads of Terms for the acquisition of the site near Taunton, with building work expected to commence early next year.

There have been further steep price increases in HDPE resin, which is used for the manufacture of our milk containers, with last month alone seeing a record increase of over £200 per tonne to £860 per tonne. If this level were to remain, the additional cost to the Group for the second half year would be approximately £2.2 million, assuming no recovery of increased costs in our selling prices.

Interim Operating and Financial Review

Billy Keane

There are similar concerns with regard to energy costs. We are about to renew contracts in the second-half year and anticipate increases of around fifty percent, which would add over £1 million to our annual energy costs.

Distribution

The cost of complying with the WTD during the first six-months has already been noted along with higher derv costs, which have remained at record high levels in recent weeks. These have added considerably to our distribution costs.

Our new £7.5 million depot in Northampton is on schedule to open later this month. Once open, we will transfer the rounds currently operating from our temporary depot at Peterborough, along with rounds from our other depots, which will further improve service levels, increase efficiencies and lower operating costs.

Milk Procurement

Milk prices, which increased by 1p per litre in March and April 2005, were reduced in July and September 2005 by a cumulative 0.6p per litre. This still leaves our direct price standing at a significant premium over our major competitors. We have guaranteed our milk price until January 2006. However, given the competitive market place in which we operate, the current level of premium cannot be maintained and we will be seeking to narrow the gap in early 2006.

Office of Fair Trading

In September 2005 the Competition Appeals Tribunal ("CAT") concluded the appeal by Arla Foods plc in respect of the OFT investigation of Wiseman under Chapter II of the Competition Act. While the CAT decided to set aside the OFT's decision, they declined to grant Arla's request for an order that the OFT re-open the investigation. Given this, we believe that this matter should now be considered closed.

The OFT investigation into the supply of fresh processed milk to middle ground retailers in Scotland under Chapter I of the Competition Act 1998 (that commenced in June 2000, closed in October 2002 and re-opened in August 2003) remains outstanding. We look forward to this matter being resolved.

We have also become subject to an OFT Inquiry under Chapter I of the Competition Act 1998 in relation to "retail price initiatives", being initiatives from retailers to increase the revenue of farmers. We are unaware of what, if any, other parties are involved in this Inquiry. We will continue to assist the OFT in this Inquiry and to address any concerns they may have.

Staff

The number of major contract changes over the last year has had a significant impact on all aspects of the business. The response from staff has been magnificent, with plaudits from our customers on how we have coped with business both won and lost over the last twelve months. We are very grateful to our staff for their commitment and performance.

Outlook

As mentioned previously, we now envisage that there are unlikely to be significant changes in major supermarket contracts in the short-term. We have concerns over rising plastic, energy and oil related costs at a time when margins are under pressure and have been affected by the major changes that have taken place within the last twelve months.

The outlook for the year as a whole will be influenced by oil, energy and plastic costs during the second-half and the extent to which we can make recovery of these increased costs. Our target is to re-build margins in the period ahead, but higher costs clearly make this more difficult. The business is in good shape and we remain confident about our long-term prospects.

ALAN W WISEMAN
Chairman

ROBERT T WISEMAN
Chief Executive

WILLIAM G KEANE
Group Finance Director

W G Keane

9 November 2005

Independent review report to the members of Robert Wiseman Dairies PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 1 October 2005 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 17. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in note 2, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the directors intend to use in the annual financial statements.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 1 October 2005.

Deloitte & Touche LLP
Chartered Accountants
Glasgow
9 November 2005

Consolidated Income Statement
for the six months ended 1 October 2005

	Notes	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Continuing Operations				
Revenue	7	**281,277**	245,283	489,168
Cost of sales		**(214,622)**	(186,641)	(373,400)
Gross profit		**66,655**	58,642	115,768
Other operating expenses (net)	8	**(54,190)**	(43,523)	(90,691)
Operating profit		**12,465**	15,119	25,077
Investment income		**(11)**	278	422
Finance costs		**(343)**	70	(278)
Profit before tax		**12,111**	15,467	25,221
Tax	9	**(3,760)**	(688)	(3,670)
Profit for the period from continuing operations		**8,351**	14,779	21,551
Basic earnings per share		**11.35p**	19.19p	28.38p
Diluted earnings per share		**11.07p**	18.61p	27.32p

Consolidated Statement of Recognised Income and Expense
for the six months ended 1 October 2005

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Profit for the period	**8,351**	14,779	21,551
Actuarial losses on defined benefit plans	**–**	–	(27)
Tax on items taken directly to equity	**(259)**	(771)	(504)
Total recognised income and expense for the period	**8,092**	14,008	21,020

Consolidated Balance Sheet

as at 1 October 2005

	Notes	1 October 2005 £000	2 October 2004 £000	2 April 2005 £000
Non current assets				
Property, plant and equipment		**150,217**	142,461	146,228
Goodwill		**2,804**	2,676	2,797
		153,021	145,137	149,025
Current assets				
Inventories		**6,256**	6,219	6,826
Trade and other receivables		**54,292**	44,974	34,708
Cash and cash equivalents		**5,840**	9,125	8,317
		66,388	60,318	49,851
Non-current assets classified as held for sale		**600**	–	600
Total assets		**220,009**	205,455	199,476
Current liabilities				
Trade and other payables		**(73,628)**	(65,563)	(58,309)
Borrowings and interest rate swaps		**(16,040)**	(6,740)	(2,374)
Current tax liabilities		**(7,815)**	(7,264)	(7,206)
		(97,483)	(79,567)	(67,889)
Non-current liabilities				
Borrowings and interest rate swaps		**(822)**	(2,973)	(6,678)
Retirement benefit obligation		**(1,048)**	(1,081)	(1,048)
Deferred tax liabilities		**(10,159)**	(9,799)	(9,792)
Provisions		**(209)**	(5)	–
		(12,238)	(13,858)	(17,518)
Total liabilities		**(109,721)**	(93,425)	(85,407)
Net assets		**110,288**	112,030	114,069
Equity				
Called-up share capital	12	**7,213**	7,554	7,492
Share premium account	13	**24,256**	18,912	22,503
Special reserve	13	**4,062**	4,062	4,062
Merger reserve arising on consolidation	13	**(3,872)**	(3,872)	(3,872)
Capital redemption reserve	13	**1,731**	1,169	1,382
ESOP reserve	13	**(310)**	(933)	(560)
Retained earnings	13	**77,208**	85,138	83,062
Total equity	14	**110,288**	112,030	114,069

Consolidated Cash Flow Statement

for the six months ended 1 October 2005

	Notes	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Operating activities				
Cash generated from operations	15	**19,350**	18,400	38,476
Interest paid		**(333)**	(362)	(646)
Income taxes paid		**(3,207)**	(3,372)	(6,406)
Net cash from operating activities		**15,810**	14,666	31,424
Investing activities				
Interest received		**22**	241	369
Purchase of property, plant and equipment		**(13,917)**	(9,312)	(20,919)
Purchase of a business		**(7)**	(170)	(291)
Proceeds from sale of property, plant and equipment		**186**	1,675	1,864
Proceeds from disposal of intangible assets		**6**	24	24
Net cash used in investing activities		**(13,710)**	(7,542)	(18,953)
Financing activities				
Issue of ordinary share capital		**983**	648	2,542
Purchase of own shares		**(9,098)**	(8,657)	(14,391)
Dividends paid		**(4,240)**	(3,941)	(5,610)
New loans		**–**	–	5,000
Repayment of loans		**(5,858)**	(2,480)	(8,011)
Capital element of finance lease payment		**–**	–	(115)
Increase in bank overdrafts		**13,636**	–	–
Net cash used in financing activities		**(4,577)**	(14,430)	(20,585)
Net decrease in cash and cash equivalents		**(2,477)**	(7,306)	(8,114)
Cash and cash equivalents at start of period		**8,317**	16,431	16,431
Cash and cash equivalents at end of financial period		**5,840**	9,125	8,317

The consolidated statement of cash flows prepared in accordance with FRS 1 'Cash flow statements' presented substantially the same information as that required under IFRS. Under IFRS, however, there are certain differences from UK GAAP with regard to the classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under UK GAAP, cash flows were presented separately for operating activities, dividends received from joint ventures and associates, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources and financing. Under IFRS, only three categories of cash flow activity are reported: operating activities, investing activities and financing activities.

Notes to Interim Financial Information

1 GENERAL INFORMATION

The information for the six months ended 1 October 2005 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985 and has not been audited. No statutory accounts for the period have been delivered to the Registrar of Companies.

The financial information in respect of the year ended 2 April 2005 has been produced using extracts from the statutory accounts under UK GAAP for this period and amended by adjustments arising from the implementation of International Financial Reporting Standards (IFRS). Consequently, this does not constitute the statutory information for the year ended 2 April 2005 which was audited.The statutory accounts for this period have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Sections (2) or (3) of the Companies Act 1985.

2 ACCOUNTING POLICIES

The interim financial information has been prepared in accordance with IFRS and International Accounting Standards (IAS) for the first time. The disclosures required by IFRS 1 "First time adoption of IFRS" concerning the transition from UK GAAP to IFRS for the opening balance sheet as at 4 April 2004 are given in note 3. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS for the year ended 2 April 2005 are given in note 4. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS for the six month period ended 2 October 2004 are given in note 5. The Group has opted not to prepare the interim financial information under IAS 34 "Interim Financial Reporting".

The interim financial information has been prepared on the historical cost basis, except for the revaluation of financial instruments in accordance with IAS 39. The principal accounting policies adopted are set out below.

Application of IFRS1

The Group's financial statements for the year ending 1 April 2006 will be the first financial statements to be prepared in accordance with IFRS. This interim financial information has been prepared as described in notes 1 and 2 including the principles set out in IFRS 1.

Under the first time adoption procedures set out in IFRS 1, the Group is required to establish its IFRS accounting policies as at 3 April 2005 and to apply these retrospectively in the determination of prior period comparatives from 4 April 2004, the date of transition. There are a number of optional exemptions to this general principle, the most significant of which are set out below.

IFRS 3, Business Combinations

The Group has elected not to restate business combinations prior to the date of transition.

IAS 16, Property, Plant and Equipment

The Group has elected to continue to use book values at the date of transition as the 'deemed' cost of plant, property and equipment. Consequently any historic asset revaluations will not be updated.

IAS 19, Employee Benefits

The Group has elected to recognise all cumulative gains and losses in relation to employee benefit schemes at the date of transition. In subsequent periods all actuarial gains and losses will be recognised in full in the period in which they occur in the statement of recognised income and expense.

IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement

The Group has elected to adopt IAS 32 and IAS 39 from 3 April 2004 and has therefore restated prior period comparatives.

IFRS 2, Share Based Payments

The Group has elected to apply IFRS 2 to all share based awards and options granted post 7 November 2002 but not vested at 3 April 2005.

Notes to Interim Financial Information continued

Basis of consolidation

The interim financial information incorporates the results, cash flows and financial position of the Company and its subsidiaries for the six months to 1 October 2005. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses between Group enterprises are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than pound sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslations are included in net profit or loss for the period.

2 Accounting Policies continued

Borrowing costs
All borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Operating profit
Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Government grants
Government and other grants receivable in respect of property, plant and equipment are treated as deferred income and are released to the income statement over the expected useful lives of the assets to which they relate.

Retirement benefit costs
There is a Group Personal Pension Scheme and a small defined contribution pension scheme. Contributions to these schemes are charged as an expense in the period during which they fall due.

In addition the Group is also responsible for the Aberdeen Milk Services Limited Pension Scheme. This is a hybrid scheme. Both the defined benefit and defined contribution sections of this scheme are closed to new entrants. For the defined benefit section, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is dealt with in the statement of recognised income and expense.

Property, plant and equipment
Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in

the balance sheet at their historical cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2%
Plant and Machinery	10% - 33%
Motor vehicles	10% - 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. These assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the First In First Out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

2 Accounting Policies continued

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group uses interest rate swaps to hedge these exposures. Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates. The Group has not designated its hedges for the application of of hedge accounting. Changes in the fair value of hedges and derivative financial instruments are recognised in the income statement as they arise.

The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Share-based payments

The Group has applied the requirements of IFRS 2 "Share Based Payments". In accordance with the transitional provisions IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 3 April 2005.

The Group issues equity settled and cash settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value for share options is measured by using the Black Scholes model. The expected life used has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash settled, share based payments.

3 RECONCILIATION OF THE GROUP BALANCE SHEET UNDER UK GAAP TO THE GROUP OPENING IFRS BALANCE SHEET AS AT 4 APRIL 2004 (DATE OF TRANSITION TO IFRS).

	Notes	UK GAAP £000	IFRS Adjustments £000	IFRS £000
Non current assets				
Property, plant and equipment	6iii	144,071	(1,500)	142,571
Goodwill		2,506	–	2,506
		146,577	(1,500)	145,077
Current assets				
Inventories		6,304	–	6,304
Trade and other receivables		36,621	–	36,621
Cash and cash equivalents		16,431	–	16,431
		59,356	–	59,356
Non current assets classified as held for sale	6iii	–	1,500	1,500
Total assets		205,933	–	205,933
Current liabilities				
Trade and other payables	6viii	(64,034)	532	(63,502)
Borrowings and interest rate swaps		(5,275)	–	(5,275)
Dividend to shareholders	6v	(4,161)	4,161	–
Current tax liabilities		(9,870)	–	(9,870)
Total current liabilities		(83,340)	4,693	(78,647)
Non current liabilities				
Borrowings and interest rate swaps	6vi	(6,840)	(115)	(6,955)
Retirement benefit obligation	6vii	–	(1,052)	(1,052)
Deferred tax liabilities	6ii	(11,853)	3,058	(8,795)
Provisions		(7)	–	(7)
Total non current liabilities		(18,700)	1,891	(16,809)
Total liabilities		(102,040)	6,584	(95,456)
Net assets		103,893	6,584	110,477
Equity				
Called up share capital		7,923	–	7,923
Share premium account		18,255	–	18,255
Special reserve		4,062	–	4,062
Merger reserve arising on consolidation		(3,872)	–	(3,872)
Other reserve		770	–	770
ESOP reserve		(687)	–	(687)
Retained earnings	6ix	77,442	6,584	84,026
Total equity		103,893	6,584	110,477

4 RECONCILIATION OF THE GROUP FINANCIAL STATEMENTS UNDER UK GAAP TO THE GROUP FINANCIAL STATEMENTS UNDER IFRS FOR THE YEAR ENDED 2 APRIL 2005.

a) Income Statement

	Notes	UK GAAP £000	IFRS Adjustments £000	IFRS £000
Continuing operations				
Revenue		489,168	–	489,168
Cost of sales		(373,400)	–	(373,400)
Gross profit		115,768	–	115,768
Other operating expenses (net)	6i	(91,176)	485	(90,691)
Operating profit		24,592	485	25,077
Investment income	6vi	370	52	422
Finance charges		(278)	–	(278)
Profit before tax		24,684	537	25,221
Tax	6ii	(3,748)	78	(3,670)
Profit for the period		20,936	615	21,551
Dividends	6v	(5,800)	189	(5,611)
Retained profit for the period		15,136	804	15,940

b) Balance sheet as at 2 April 2005

	Notes	UK GAAP £000	IFRS Adjustments £000	IFRS £000
Non current assets				
Property, plant and equipment	6iii	146,828	(600)	146,228
Goodwill	6iv	2,122	675	2,797
		148,950	75	149,025
Current assets				
Inventories		6,826	–	6,826
Trade and other receivables		34,708	–	34,708
Cash and cash equivalents		8,317	–	8,317
		49,851	–	49,851
Non current assets classified as held for sale	6iii	–	600	600
Total assets		198,801	675	199,476
Current liabilities				
Trade and other payables		(58,309)	–	(58,309)
Borrowings and interest rate swaps		(2,374)	–	(2,374)
Dividend to shareholders	6v	(4,350)	4,350	–
Current tax liabilities		(7,206)	–	(7,206)
Total current liabilities		(72,239)	4,350	(67,889)
Non current liabilities				
Borrowings and interest rate swaps	6vi	(6,615)	(63)	(6,678)
Retirement benefit obligation	6vii	–	(1,048)	(1,048)
Deferred tax liabilities	6ii	(12,421)	2,629	(9,792)
Total non current liabilities		(19,036)	1,518	(17,518)
Total liabilities		(91,275)	5,868	(85,407)
Net assets		107,526	6,543	114,069
Equity				
Called up share capital		7,492	–	7,492
Share premium account		22,503	–	22,503
Special reserve		4,062	–	4,062
Merger reserve arising on consolidation		(3,872)	–	(3,872)
Other reserve		1,382	–	1,382
ESOP Reserve	6viii	(147)	(413)	(560)
Retained earnings	6ix	76,106	6,956	83,062
Total equity		107,526	6,543	114,069

5 RECONCILIATION OF THE GROUP FINANCIAL STATEMENTS UNDER UK GAAP TO THE GROUP FINANCIAL STATEMENTS UNDER IFRS FOR THE PERIOD ENDED 2 OCTOBER 2004.

a) Income Statement

	Notes	UK GAAP £000	IFRS Adjustments £000	IFRS £000
Continuing operations				
Revenue		245,283	–	245,283
Cost of sales		(186,641)	–	(186,641)
Gross profit		58,642	–	58,642
Other operating expenses (net)	6i	(43,667)	144	(43,523)
Operating profit		14,975	144	15,119
Investment income		241	37	278
Finance charges	6vi	70	–	70
Profit before tax		15,286	181	15,467
Tax	6ii	(789)	101	(688)
Profit for the period		14,497	282	14,779
Dividends	6v	(1,450)	(2,711)	(4,161)
Retained profit for the period		13,047	(2,429)	10,618

b) Balance sheet as at 2 October 2004

		UK GAAP £000	IFRS Adjustments £000	IFRS £000
Non current assets				
Property, plant and equipment		142,461	–	142,461
Goodwill	6iv	2,339	337	2,676
		144,800	337	145,137
Current assets				
Inventories		6,219	–	6,219
Trade and other receivables		44,974	–	44,974
Cash and cash equivalents		9,125	–	9,125
Total current assets		60,318	–	60,318
Total assets		205,118	337	205,455
Current liabilities				
Trade and other payables	6viii	(65,535)	(28)	(65,563)
Borrowings and interest rate swaps		(6,740)	–	(6,740)
Dividend to shareholders	6v	(1,450)	1,450	–
Current tax liabilities		(7,264)	–	(7,264)
Total current liabilities		(80,989)	1,422	(79,567)
Non current liabilities				
Borrowings and interest rate swaps	6vi	(2,895)	(78)	(2,973)
Retirement benefit obligation	6vii	–	(1,081)	(1,081)
Deferred tax liabilities	6ii	(12,186)	2,387	(9,799)
Provisions		(5)	–	(5)
Total non current liabilities		(15,086)	1,228	(13,858)
Total liabilities		(96,075)	2,650	(93,425)
Net assets		109,043	2,987	112,030
Equity				
Called up share capital		7,554	–	7,554
Share premium account		18,912	–	18,912
Special reserve		4,062	–	4,062
Merger reserve arising on consolidation		(3,872)	–	(3,872)
Capital redemption reserve		1,169	–	1,169
ESOP reserve	6viii	(417)	(516)	(933)
Retained earnings	6ix	81,635	3,503	85,138
Total equity		109,043	2,987	112,030

6 NOTES TO IFRS ADJUSTMENTS

The IFRS adjustments arose due to the implementation of the following standards:

i Adjustment in respect of IAS 19 “Employee Benefits”, IFRS2 “Share Based Payments” and IFRS3 “Business Combinations”
ii Adjustment in respect of IAS 12 “Income Taxes”
iii Reclassification in respect of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”
iv Adjustment in respect of IFRS 3 “Business Combinations”
v Adjustment in respect of IAS 10 “Events After the Balance Sheet Date”
vi Adjustment in respect of IAS 39 “Financial Instruments: Recognition and Measurement”
vii Adjustment in respect of IAS 19 “Employee Benefits”
viii Adjustment in respect of IFRS 2 “Share Based Payments”
ix Adjustment is a combination of the above on retained earnings

Adjustments Explained

IAS 10 “Events After the Balance Sheet Date”

Under UK GAAP the Group accrued dividends which were proposed after the end of the reporting period but before the financial statements were authorised for issue. Under IAS 10, dividends to shareholders declared after the balance sheet date are not recognised as liabilities as at the year-end.

IAS 12 “Income Taxes”

Under UK GAAP, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax under IAS 12 is recognised in respect of all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying value for financial reporting purposes.

The primary difference when calculating deferred tax under IAS 12 is in respect of deductions for expenses of exercising share options.

IAS 19 “Employee Benefits”

For UK GAAP reporting, we applied the measurement and recognition policies of Statement of Standard Accounting Practice 24 for pensions and other post-employment benefits, whilst providing detailed disclosures for the alternative measurement principles of Financial Reporting Standard 17 “Retirement Benefits” (“FRS 17”). IAS 19 takes a similar approach to accounting for defined benefit schemes as FRS 17, and on transition, the pension scheme liability has been recognised in the balance sheet.

Going forward, we have chosen to apply the amendment to IAS 19 which allows actuarial gains and losses to be recognised immediately in the Statement of Recognised Income and Expense i.e. the actuarial gains and losses will be taken directly to reserves.

IAS 39 “Financial Instruments: Recognition and Measurement”

Under IAS 39 all derivatives should be accounted for on the balance sheet at fair value irrespective of whether they are designated as part of a hedging relationship. Changes in fair value are recognised in the income statement unless the contract is part of a hedging relationship. The adjustments relate to interest rate swaps entered into by the Group, which were not designated as hedges.

IFRS 2 “Share Based Payments”

In accordance with IFRS 2, the Group has recognised a charge for share awards granted to employees under its LTIP and share option plans since 7 November 2002 and not vested by 3 April 2005. This charge is based on the fair value of these awards. In accordance with IFRS, only awards after 7 November 2002 should be charged through the Income Statement. LTIP charges, calculated using the intrinsic method for UK GAAP purposes, relating to awards made prior to this date have been reversed. Share options awarded prior to this date were not previously charged to the Income Statement.

IFRS 3 "Business Combinations"

Under UK GAAP the Group amortised goodwill on an annual basis. Under IFRS 3 goodwill is not amortised, but is subject to an annual impairment review.

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

Under IFRS 5, a non-current asset is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The reclassifications relate to land disposed of shortly after 3 April 2004 and a building available for sale at 2 April 2005.

7 SEGMENT INFORMATION

The Group's revenue and profits arose wholly from the processing and distribution of liquid milk and associated products in the UK.

8 OTHER OPERATING EXPENSES (NET)

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Selling and distribution costs	**46,133**	35,834	74,389
Administrative expenses	**8,426**	7,918	16,842
Other operating income	**(369)**	(229)	(540)
Total other operating expenses (net)	**54,190**	43,523	90,691

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Current tax:			
UK Corporation tax	**3,652**	4,405	7,129
Adjustment in respect of prior year tax computations	**–**	(3,949)	(3,949)
Total Current tax:	**3,652**	456	3,180
Deferred tax:			
Current year	**108**	232	490
Total tax	**3,760**	688	3,670
Effective tax rate	**31.0%**	4.4%	14.6%
Total tax less adjustment in respect of prior year tax computation	**3,760**	4,637	7,619
Effective tax rate	**31.0%**	30.0%	30.2%

The effective tax rate of 31.0% (six months to 2 October 2004: 30.2%) represents the best estimate of the weighted average annual corporation tax rate expected for the full financial year. The tax credit of £3,949,000 arose further to reaching agreement with tax authorities on matters relating to prior year tax returns. There was also a related interest accrual release of £367,000 (after tax).

10 DIVIDENDS

	Six months to 1 October 2005	Six months to 2 October 2004	Year to 2 April 2005
Amounts recognised as distributions in the period			
Dividends paid (£000)	**4,240**	3,941	5,610
Dividend per share (pence)	**5.80p**	5.25p	7.45p
Dividend proposed but not paid or included in the accounting records (£000)	**1,730**	1,450	4,350
Dividend proposed per share (pence)	**2.40p**	2.20p	5.80p

The final proposed dividend for the year to 2 April 2005 of 5.80 pence per ordinary share was paid on 22 September 2005 to ordinary shareholders on the register at the close of business on 26 August 2005 (2004: 5.25 pence). The proposed dividend of 2.40 pence per ordinary share was approved by the Board on 8 November 2005 and has not been included as a liability at 1 October 2005.

11 EARNINGS PER ORDINARY SHARE

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Profit from continuing operations – basic EPS earnings	**8,351**	14,779	21,551
Effect of tax credit as described in note 9	**–**	(4,316)	(4,316)
Adjusted EPS earnings	**8,351**	10,463	17,235
Number of shares			
Number of shares – basic earnings per share	**73,558,307**	77,021,376	75,924,823
Potential dilutive ordinary shares re share options	**1,898,071**	2,403,569	2,960,505
Number of shares – diluted earnings per share	**75,456,378**	79,424,945	78,885,328

The number of shares above represents the weighted average number of ordinary shares in issue in the period.

Earnings per ordinary share			
Adjusted earnings per share	**11.35p**	13.59p	22.70p
Effect of tax credit as described in note 9	**–**	5.60p	5.68p
Basic earnings per share	**11.35p**	19.19p	28.38p
Diluted earnings per share	**11.07p**	18.61p	27.32p

12 SHARE CAPITAL

During the period the Company issued 698,795 ordinary shares with a nominal value of 10p each in respect of employees exercising options under the share option, sharesave and LTIP schemes. The Group made a contribution of £839,000 (2004: £38,000) to the Employee Share Ownership Trust to enable the trust to satisfy the valid exercise of options granted under employee share option and sharesave schemes. In the period ended 2 October 2004 the Company issued 270,900 ordinary shares in respect of free shares awarded under the Share Incentive Plan and the Group made a contribution of £619,006 to allow the trustees of the Share Incentive Plan to acquire the shares at market value. No free shares were awarded under the Share Incentive Plan in the period ended 1 October 2005.

Further to shareholders' resolutions of 14 January 2005 and 7 July 2005, the Company bought 3,485,000 ordinary shares with a nominal value of £348,500 representing 4.7% of the Company's share capital, for a total consideration of £9,098,000. These shares have been cancelled.

13 RESERVES

The movements on reserves are as follows:

	Retained earnings £000	Share premium account £000	Special reserve £000	Merger reserve £000	ESOP reserve £000	Capital redemption reserve £000
Start of period	83,062	22,503	4,062	(3,872)	(560)	1,382
ESOP share amortisation	(250)	–	–	–	250	–
Share based payment credit	475	–	–	–	–	–
Arising on new share issues (net of expenses)	–	1,753	–	–	–	–
Arising on purchase of ordinary shares	(9,098)	–	–	–	–	349
Goodwill sold, previously written off to reserves	6	–	–	–	–	–
Contribution for purchase of shares by ESOP	(839)	–	–	–	–	–
Total recognised income and expense	8,092	–	–	–	–	–
Dividends	(4,240)	–	–	–	–	–
End of period	77,208	24,256	4,062	(3,872)	(310)	1,731

The £9,098,000 represents the cost of shares bought back and cancelled as described in Note 12.

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Total recognised income and expense	**8,092**	14,008	21,020
Dividends	**(4,240)**	(4,161)	(5,611)
New share capital subscribed (net of expenses)	**1,823**	687	4,429
Purchase of ordinary shares	**(9,098)**	(8,657)	(14,391)
Contribution for purchase of shares by ESOP	**(839)**	(658)	(2,507)
Share based payment	**475**	310	628
Goodwill sold, previously written off to reserves	**6**	24	24
Net movement on shareholders' equity	**(3,781)**	1,553	3,592
Opening shareholders' equity	**114,069**	110,477	110,477
Closing shareholders' equity	**110,288**	112,030	114,069

15 NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to cash generated from operations

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Operating profit	**12,465**	15,119	25,077
Depreciation of property, plant and equipment	**9,268**	8,316	16,993
Share based payments	**475**	252	542
Defined benefit pension scheme	**–**	29	(29)
Gain on sale of tangible fixed assets	**(123)**	(69)	(98)
Amortisation of deferred income	**(5)**	(5)	(9)
Decrease/(increase) in stock	**570**	85	(522)
(Increase)/decrease in debtors	**(19,585)**	(8,353)	1,913
Increase/(decrease) in creditors	**16,285**	3,026	(5,391)
Cash generated from operations	**19,350**	18,400	38,476

b) Analysis of net debt

	Six months to 1 October 2005 £000	Six months to 2 October 2004 £000	Year to 2 April 2005 £000
Decrease in cash and cash equivalents	**(2,477)**	(7,306)	(8,114)
Increase in bank overdraft	**(13,636)**	–	–
Cash outflow from decrease in net debt and lease financing	**5,858**	2,480	3,126
Movement in net debt in the period	**(10,255)**	(4,826)	(4,988)
Net (debt)/funds at beginning of period	**(672)**	4,316	4,316
Net debt at end of period	**(10,927)**	(510)	(672)

16 CONTINGENT LIABILITY – OFFICE OF FAIR TRADING ("OFT")

The OFT closed its investigation of Robert Wiseman & Sons and/or Robert Wiseman Dairies PLC under Chapter II of the Competition Act in August 2002 as it took the view that further investigation was unlikely to lead to a finding of abuse. Chapter II prohibits the abuse of a dominant market position within the UK. On 2 September 2005 the Competition Appeal Tribunal ("CAT") concluded the appeal by Arla Foods Plc in respect of this investigation. While the CAT decided to set aside the OFT's decision they declined to grant Arla's request for an order that the OFT re-open the investigation. It is for the OFT to decide whether to re-open the investigation. To date, we have not been advised about what the OFT intends to do.

In August 2003, notification was received from the OFT that it had reopened its investigation into the supply of fresh processed milk to middle ground retailers in Scotland under Chapter I of the Competition Act 1998. The OFT has advised that the Group is one of the undertakings subject to the investigation. The initial Chapter I investigation commenced in June 2000 and concluded in October 2002 with no action being taken. Chapter I prohibits agreements between undertakings which have as their object or effect the prevention, restriction or distortion of competition within the UK. The appeal lodged by Arla with the CAT against the decision in October 2002 has been stayed until the outcome of the current Chapter I investigation is determined.

Notification has been received from the OFT that it has opened an investigation into whether the Group agreed and/or concerted with other undertakings on prices in the supply of fresh liquid milk and other products at the wholesale and/or retail level under Chapter I of the Competition Act 1998. The matters under review have been referred to in the press previously as "retail price initiatives", being initiatives from retailers to increase the revenue of farmers. The OFT have not advised the Group what, if any, other parties are subject to investigation.

Following changes to the penalty regime applicable under the Competition Act, in 2004, businesses that infringe Chapter I or Chapter II may now be liable to a maximum penalty of 10 per cent of their world-wide group turnover in the last financial year, for each infringement. However, as the Group's involvement in the alleged infringements may be considered to have occurred prior to the commencement of the new penalty regime, the Group may be liable to the maximum financial penalty that was applicable under the earlier penalty regime period of the potential infringements. The financial penalty applicable during the period of the potential infringements is up to 10 per cent of UK group turnover for each year (up to a maximum of three years) of the infringement for each breach. In addition, the OFT can order infringing businesses to change their commercial conduct (e.g. pricing policy), amend/terminate arrangements or impose structural remedies. Infringing businesses can also be sued for damages by those who have suffered loss as a result of the breach of the Competition Act.

No provision has been made in the financial statements for any potential liabilities that may arise in respect of the above matters.

17 BASIS OF PREPARATION

For the year ending 1 April 2006 the Company will be required to prepare consolidated financial statements under 'International Accounting Standards' as adopted by the European Commission. These will be those International Accounting Standards, International Financial Reporting Standards and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission. This process is ongoing and the Commission has yet to endorse certain standards issued by the IASB. In particular the Commission:

– have not given a final approval to an amendment to IAS 19 "Employee benefits" which would allow companies choosing to charge the whole of their actuarial gain or loss through a Statement of Total Recognised Income and Expense rather than the Income Statement;

17 Basis of preparation continued

- endorsed a version of IAS 39 "Financial Instruments" - recognition and measurement that differed from that issued by the IASB in two respects (the so-called 'carve-out'):
  - The endorsed version of IAS 39 removes the option in the IASB version to fair value certain financial liabilities; and
  - The endorsed version of IAS 39 widens the range of circumstances in which hedge accounting may be applied.
  The company has not taken advantage of these provisions and therefore will comply with both versions of IAS 39.
- have not given a final approval to IAS 39 amendments relating to the Fair Value Option; however, the Accounting Regulatory Committee (ARC) has recommended endorsement.

The preliminary opening balance sheet/IFRS comparatives for 2004/GAAP reconciliation between UK and IFRS has been prepared by management using the expected standards and interpretations of the International Accounting Standards Board, facts and circumstances, and accounting policies that will be applied when the Group prepares its first complete set of IFRS financial statements as at April 1, 2006. Therefore, until such time, the possibility cannot be excluded that the accompanying preliminary opening balance sheet may require adjustment before constituting the final opening balance sheet. Moreover, under IFRS only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the company's financial position, results of operations and cash flow.

The report was approved by the Board of Directors on 9 November 2005.

Shareholder Information

FINANCIAL CALENDAR

Payment of 2005/06 interim dividend	9 February 2006
Financial year end	1 April 2006
2005/06 preliminary results announcement	May 2006
Annual General Meeting	July 2006
Payment of 2005/06 final dividend	September 2006
2006/07 interim results announcement	November 2006

REGISTRARS AND DIVIDEND PAYMENTS

Enquiries regarding shareholdings, lost certificates, change of address, and dividend payments should be addressed to the Company's registrars:

Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
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