

Chairman's Report

The United Group achieved further growth in 2007/8, a year which saw a strong recovery in dairy markets but unprecedented market volatility. Despite the removal of EU support measures and substantial energy related cost increases, United delivered a 7 pence per litre improvement in the average milk price paid to farmer members in the year - amounting to an increase of over £70 million for their total annual supplies.



Group turnover increased by 25% to £366 million, a record for the Group, reflecting further growth in Dale Farm and the improvement in dairy market returns. Driven by strong demand and tight supply, returns from international commodity markets rose rapidly and unexpectedly during the spring and summer of 2007, peaking in early autumn, but then falling sharply at the end of 2007.

Operating profit before exceptional items and profit before tax were both £1.2 million down on the previous year at £2.35 million and £1.87 million respectively, however profit after tax was in line with last year largely due to a release of deferred tax credits. The reduction in operating profit was mainly due to the time lag in recovering higher milk and energy costs from consumer markets and also the sharp

correction in powder and butter commodity returns at the end of 2007 which left Dale Farm with considerable losses on forward milk contracts.

EU export refunds, previously worth up to 8 pence per litre (ppl), were phased out during the year. In spite of this, the average base milk price paid to members increased by 7.1 ppl (41%) on the previous year to 24.2 ppl. The total milk payments to United members rose by £71 million to £250 million.

Auction prices during 2007/8 reflected the volatility in international markets, with prices rising strongly through the summer of 2007 to exceed 30 ppl, before falling back to between 22 and 23 ppl in the final quarter following the sharp correction in international commodity markets. Base prices paid to members rose from 16.5 ppl for milk supplies in April to a peak of 30.5 ppl in October, before dropping back to 23 ppl in March 2008.

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Although the UK had a record deficit of over 5% on its 2007/8 wholesale milk quota, this decline was not reflected in United's milk supplies, which despite an exceptionally wet summer matched the previous year's record of 1.053 billion litres. Ongoing consolidation at farm level saw a further decline in the number of supplying members to United which fell by 4.5% to 2,110, largely due to retirements from milk production, although we were pleased to welcome an increased number of new entrants to dairy farming into membership. The impact of the fall in membership was more than offset by a 7% increase in the average annual milk output per member which grew to almost 500,000 litres as a result of continued investment and improvements at farm level.

A key element of our strategy is to grow our position in cheese production and reduce our dependence on commodity powder processing. During the year a major expansion of the cheese and whey processing facilities at Dunmanbridge was completed. This increased our cheddar cheese processing capacity to 20,000 tonnes per annum, confirming Dale Farm as Northern Ireland's largest processor of cheddar cheese and more importantly improving our supply capability into the UK and Irish markets.



ABOVE: Harold Hamilton (left) with Michelle Gildernew MP, MLA, the Northern Ireland Minister of Agriculture and Rural Development, and Brendan Smith, the Republic of Ireland Minister of Agriculture, Fisheries and Food.

Dividend

It has been United's policy not to seek capital contributions from members for the development of the Group's milk processing activities, as done by some other dairy co-ops, but to fund these from business activities. In view of the need to fund the Group's increased working capital requirements the Board has decided not to pay a dividend relating to the 2007/8 financial year. Working capital increased by over £6 million in the year due to higher milk and dairy produce values and because of the expansion in cheese processing. However I am pleased that the Board has approved an allocation of bonus shares totalling £0.52 million to members. As in recent years this allocation will be at the rate of 1 share per 2,000 litres of milk supplied to United in 2007/8.

Directors

Will Taylor and John B McGuckian retired as directors of the Group at the end of March 2008. They were succeeded by David Rea who was elected as a Conference Director and Dr Ian McMorris who was appointed as an independent Director. I welcome David and Ian and wish to thank Will and John for their valuable contribution to the Board's deliberations and to the development of the United Group in recent years.

On behalf of the Board I also want to thank our Group Chief Executive, Dr David Dobbin, his executive team and the management and staff of the Group for their whole-hearted support and contribution during 2007/8.

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Prospects

Dairy returns in the first quarter of 2008/9 have been ahead of the previous year but well down on the peak levels achieved in 2007. United's milk auctions have reflected this trend. The loss of EU export refunds was masked by record dairy markets in 2007, however as market returns fall back the full impact of their loss is now being felt by powder exporters who still buy a major portion of United's milk. With farm and processing costs substantially up, the year ahead is likely to be extremely challenging for the dairy industry.

Against this background the Group's strategy of growing in value is even more relevant than before. Developing Dale Farm's cheese business continues to be a major strategic objective and 2008/9 will see a considerable expansion in cheese output. United remains committed to adding value to our members' milk and is well set to face the challenging economic and trading conditions in the dairy sector.

A handwritten signature in black ink that reads 'Harold Hamilton'.

Harold Hamilton

Chairman