

Chairman's Report

In a difficult year, marked by falling and volatile international dairy markets, the United Group continued to make steady progress against its strategy of growing in added value products.



Group turnover at £333 million was 9% below the previous year's record level reflecting falling milk and dairy commodity prices. Despite this reduction in turnover, Group profit before tax increased by £2.6 million to £4.4 million largely due to record consumer products sales in Dale Farm and the benefit coming from lower interest rates.

During the year, weak demand and increased world dairy production led to a collapse in the returns from global commodity markets. In response, United started a vigorous campaign, supported by farmer and political representatives from Northern Ireland, for the EU Commission to re-introduce export refunds which had been phased out during the boom market of 2007. In late January 2009, the Commission eventually re-introduced export refunds at a level of about 3 pence per litre (ppl), which together with the opening of intervention in March, helped stabilise market returns and provide a basic level of support for milk prices.

Our milk auction, which responds rapidly to market changes, was boosted briefly in the summer of 2008 by demand for raw milk from GB, where supplies had been affected by poor weather. Auction prices peaked at 26.5ppl in July, but fell sharply in October as commodity markets collapsed and milk trading to GB fell away. With no EU market support, prices dropped to 16.6 ppl at the December auction before

recovering a little in the final months of the financial year following the re-introduction of export refunds. Recognising the increasingly volatile and short term nature of dairy markets, the United auction was changed in November 2008 to only sell milk on one month contracts. The base milk prices paid to members during 2008/09 varied from a peak of 25.0 ppl for September milk supplies to 16.0 ppl in January; and averaged 20.9 ppl, a decrease of 3.3 ppl on the previous year.

The year saw a continued decline in the number of supplying members, which fell by 5.9% to 1,986, largely due to retirements from milk production. This decline in membership combined with adverse weather and depressed winter milk prices, resulted in a fall in United's milk supply, which at 1.008 billion litres, was 4.3% below the previous year's record level. This trend was mirrored elsewhere in the UK, with overall wholesale production 2.3% lower and over 9% behind the national quota.

A key element of our Group's strategy is to further develop our position in cheese and reduce our dependence on commodity powder processing. From a standing start in 2001, Dale Farm is now Northern Ireland's largest producer of cheddar cheese. To enhance our credentials in the GB marketplace the Group has established a growing pool of ex-farm milk certified to the Assured Farm Standard. This has enabled Dale Farm

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to produce cheese carrying the Red Tractor logo and we appreciate our members support in this initiative – a first for any Northern Ireland dairy business.

Dividend

I am pleased that the Board has approved an allocation of bonus shares totalling almost £1.0 million to members. This will be at the rate of 1 share per 1,000 litres of milk supplied to United in 2008/09, double the rate of the previous year.

Unlike some other UK dairy co-ops, it has been United's policy not to seek capital contributions from members for the development of the Group's processing activities. In view of the need to fund our capital expenditure programme and the Group's increased working capital requirements, particularly for cheese storage, the Board has decided not to pay a share dividend for 2008/09.

Directors

Ian Doherty and James Walker retired from the board in early 2009. I want to record our appreciation to both for their excellent service. Ian was initially appointed as a Director of Dromona Quality Foods in 1995 and latterly has served on the United Board and as Chairman of the Group Audit Committee. James was elected a member

“More than ever United remains committed to adding value to our members' milk”

of the Milk Marketing Board in 1984, became a founding director of United in 1995 and its Vice Chairman in 1998; we are grateful for his whole-hearted commitment to the organisation over that 25 year period. Ian has been succeeded on the board by Eric Bell and James by Fred Allen. John Dunlop has been elected by the board as Vice Chairman. I wish Eric, Fred and John every success in their new roles.

On behalf of the Board I also want to thank Dr David Dobbin, our Group Chief Executive, the executive team and all of the staff throughout the Group for their contribution and enthusiastic support during 2008/09.

Prospects

International dairy markets have weakened further going into 2009/10 with a major build-up of powder and butter stocks in the EU and elsewhere, leading to a worldwide fall in farmgate milk prices. While intervention has helped underpin the EU market, it has done so at a level which is well

below farmers' production costs. Global milk production has started to slow down in response to lower milk prices and as supplies ease and lower prices encourage greater demand, we should see a better balance in global markets. However much will depend on the policies adopted by the EU Commission, and in particular how the large intervention stock pile is handled, as well as the continued availability of intervention and export support.

More than ever United remains committed to adding value to our members' milk. The past year has underlined the increasingly volatile nature of commodity markets and given a renewed impetus to our strategy of developing Dale Farm's cheese business. The year ahead will see further investment in cheese and whey processing capability which we are confident is in the best long term interests of United members. In a difficult and challenging market we are grateful to our members for their continued support.

Harold Hamilton

Harold Hamilton
Chairman

