

Chairman's Report

2006-07 saw the Group further advance its strategy of "growing in value" resulting in improved performance despite continuing cuts in EU support and markets remaining depressed for most of the year.

Overall Group turnover at £292 million was 1% lower than in the previous year with the impact of lower milk prices offsetting the growth in Dale Farm. Turnover in Dale Farm grew by 4% and Group profit before tax and shareholder distributions increased by 15% to £3.08 million, driven by improved performance in Dale Farm's added value businesses. In line with these improved results the Board has approved distributions to members in the form of a dividend and bonus shares totalling £1.12 million, up 9% on the previous year. Retained profit after taxation, dividend and the issue of additional shares was £1.27 million, up from £0.51 million in 2005-06.

United members continued to increase their milk supplies which grew by 1.4% to 1.053 billion litres, a record for the Society. A reduction of 6% in the number of members supplying milk was more than offset by a further rise in the average output per member, which increased by 8% to over 460,000 litres. The reduction in the number of supplying members, to 2210 at the year end, was largely due to retirements from dairy farming and reflected the increased pace of consolidation in the industry.

The base prices paid to United members reflected the depressed market situation that applied through most of the year. Ranging from 15.50 pence per litre (ppl) for May supplies to 18.75 ppl in December, the average base price was 17.1 ppl. This was 1.1 ppl lower than in the previous year, but was significantly less than the reductions in the EU export refund for wholemilk powder (the main dairy product manufactured in Northern Ireland), which over the course of 2006-07 aggregated to over 4 ppl. Toward the year-end, international powder markets started to firm resulting in auction prices moving ahead of previous year levels and providing a platform for improved base milk prices from April 2007.



During the year the Group invested over £7 million, largely in support of our strategy of improving our competitiveness and growing in added value products and markets. The Group took ownership of its head office and administration centre by exercising an option to purchase Dale Farm House at a favourable price to its market value. A key element of our strategy is to strengthen our market presence in cheese products and in pursuit of this a new Centre of Excellence for cheese processing and packaging at Dunmanbridge was officially opened in December 2006. At the same time Dale Farm announced further investment to expand and upgrade its cheese and whey processing operations, which will result in a 60% expansion in cheese output capacity for 2007-08. A new raw materials warehouse at Kendal was completed, improving efficiency and eliminating the need for external storage.



Dividend

I am delighted to inform members that for 2006-07 activities, the Board has approved an increased dividend rate of 4.5 pence per share, up from 4.0 pence in the previous year. The Board has also approved an allocation of bonus shares of 1 share per 2000 litres of milk supplied to United in 2006-07, the same rate as in the previous year.

Thanks

The sustained development of the Group's activities has been possible only because of the vision and leadership of our Board and executive team and the commitment and considerable effort of our staff throughout the British Isles. On behalf of the Board I wish to thank our Group Chief Executive, management and staff for their enthusiasm and contribution during 2006-07.

Prospects

After a particularly difficult first half in 2006-07 the world market for milk powders began to improve in the latter months of the financial year. This recovery was driven by strong international demand outstripping the availability of milk and dairy products as a result of droughts in Australia and Southern Europe. As a result world stocks of powder and butter are at a very low level.

In spite of the total removal of EU export refunds, and a weaker US dollar, the returns from international powder commodity markets have strengthened significantly in the first quarter of 2007-08, with indications that butter and cheese markets are now starting to follow the upward trend already established for powder. These increases in commodity returns are being reflected in improved price realisations in United's milk auctions. However commodity returns and auction milk prices have moved above the returns available in consumer markets and as a result the year ahead will be challenging for Dale Farm and other dairy processors serving consumer markets.

United's underlying objective is to create value for our farmer members. Looking forward we anticipate a significant improvement in the milk prices they will receive in 2007-08 and after several years of depressed returns, this is both necessary and welcome.

Harold Hamilton
Chairman