Chief Executive's Review

The Group grew strongly in a year marked by record international dairy market returns, rising energy costs and significant volatility. Dale Farm delivered value and volume growth across all of its business sectors, however profitability was adversely affected by the lag in recovering higher milk and energy costs from consumer product markets and by the correction in commodity markets towards the end of 2007.

The Group delivered strong growth in 2007/8, achieving a record turnover of £366 million which was 25% up on the previous year. Growth was driven by the improvement in commodity returns which fed through into milk prices and consumer markets as the year progressed. Dale Farm's sales grew by 26.6% to £176.8 million with the company achieving volume and value growth across all sectors. However the time lag in recovering higher milk and energy related costs from consumer product markets and the correction in commodity markets towards the end of 2007 adversely impacted on the company's financial performance.

Consumer product prices lagged behind rapid increasing commodity returns and farmgate milk prices for most of year, especially in liquid milk, although price increases did come through in the second half of the year. In powder the benefit of a strong performance in the first half of the financial year was offset by the sharp correction in powder returns which left Dale Farm with losses related to forward milk contracts, which although mitigated in part by option milk rejection, took the final quarter to unwind.

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As a result of higher interest rates and increased working capital, interest charges in 2007/8 increased by £310,000 to £1.15 million. This was offset in part by lower exceptional charges which reduced by £166,000 mainly due to fewer redundancies. The Group's profit after tax however was in line with the previous year at £2.32 million as the result of a release of deferred tax credits. The Group's net debt at the year end increased by £3.79 million to £21.71 million, due to a significant increase in working capital in Dale Farm related to the increase in milk and dairy produce prices and the expansion in Dale Farm's milk processing activities. In view of this and the need for additional working capital to service the planned expansion of Dale Farm's cheese processing activities, the Board decided not to pay a dividend for the 2007/8 financial year. The Board did however approve a bonus share issue totalling £524,000. During the year the Group also repaid £0.47 million to shareholders retiring/leaving the society.

Markets and sales

2007/8 was an exceptional year which started with strong global demand for dairy products, low world stocks and tight supply mainly due to adverse weather, resulting in market shortages. International returns rose quickly in the first half of

the year to reach record levels which were above prevailing internal EU prices. As EU processors switched available milk into export commodities, internal EU prices also started to rise. Consumer product prices, however, lagged behind commodities for most of 2007, due to stock in the supply chain and the time required to effect price increases, but eventually started to catch up in the final months of the year.

With record global returns stimulating milk production, international markets corrected sharply towards the end of 2007 when New Zealand production and additional US supplies fed into the market. By early 2008 consumer products had regained their premium over commodity powder and butter, especially in GB where lower milk output had resulted in a significant reduction in cheese production in 2007.

Dale Farm continued to grow its market share in consumer products and food ingredients in 2007/8. Performance in branded consumer products was especially encouraging, where Dale Farm achieved double digit growth with strong performances from the Losely, Rowan Glen and Dromona brands, supported by new product launches and rejuvenations and increased marketing and advertising spend. Despite the exceptionally wet summer Dale Farm Ice Cream had another record year with strong sales of Rapture products backed by a heavyweight outdoor advertising campaign. Ingredients sales turnover more than doubled in the year with good volume and value growth in butter, cheese and specialised powder sales. Commodity sales reversed the declining trend of previous years as Dale Farm took full advantage of record markets by increasing its powder and butter throughput.

Investment and Restructuring

Capital investment in the year totalled £3.45 million. This was down on the previous year's higher rate of spend which included the purchase of Dale Farm House. The spend in 2007/8 was offset by £841,000 of capital grants. The key investment in the year was the development of Dale Farm's cheese and whey processing activities at Dunmanbridge which were officially opened by NI Agriculture and Rural Development Minister, Michelle Gildernew MP MLA, in March 2008. Across the Group there were also significant investments in energy saving measures to drive down operating costs and in environmental compliance to meet new IPPC regulations (Integrated Pollution Prevention and Control). There were also a number of investments to support product and process innovation and to reduce cost and improve productivity.

In August 2007, Dale Farm acquired the trade and assets of Superchill Limited's ice cream distribution business in Galway from Breeo Foods. This acquisition has been integrated into the Dale Farm Ice Cream business giving them an enhanced market presence and distribution capability for ice cream in the West of Ireland.

Even with the growth in Dale Farm's throughput and the acquisition of Superchill's ice cream business, the average numbers employed across the Group continues to fall, reducing from 803 down to 780 as the result of productivity improvements. Redundancy costs in the year were £119,000 below the previous year. The main areas of improvement were in transport with increased alternate day collection, joint collection and improved tanker utilisation, and in administration with Dale Farm customer support being centralised at Dale Farm House. In some business areas, notably milk processing, employment stayed constant but activity greatly increased indicating the good progress being made in improving productivity and unit cost.

Outlook

In the first quarter of the 2008/9 financial year, world stocks of dairy commodities have largely recovered from the shortages of the previous year due to higher global milk production and softening demand. As a result, international commodity prices, especially for powder and butter, have continued to weaken.

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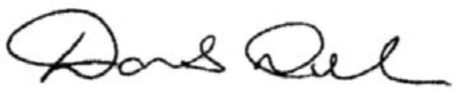
The impact of this on the UK dairy industry has however been offset in part by a fall in the value of sterling against the Euro and by higher consumer product prices, especially in cheese and liquid milk. Consumer products have retained their increased value from last year supported by milk shortages in GB and higher farm and processing costs and as a result have regained their premium over commodities.

A key challenge for Dale Farm is to manage the risks associated with the increased volatility in international dairy markets and exchange rates. As powder returns weaken Dale Farm will be increasingly focused on producing cheddar cheese which offers better returns and greater opportunities for added value and branding. Plans are well underway to further expand cheese production and to develop whey processing at Dunmanbridge. This will require further significant investment in facilities and working capital.

While the weakness in sterling has boosted Dale Farm's international competitiveness and is providing an excellent opportunity to develop business in the EU, it has pushed up the cost of imported packaging and raw material costs. In addition, the economic slowdown is influencing consumer behaviour and there is a marked swing in demand from premium towards economy products with price becoming a more important buying factor.

The immediate prospects for the dairy sector are looking increasingly bleak as a result of the economic slowdown, cost pressures, rising global milk production and weakening commodity markets. There are growing signs that energy and feed raw materials may have peaked and are softening, which will offer welcome relief to all in the dairy industry, albeit the weakening sterling exchange rate is offsetting some of the benefits from this.

The Group's strategy of "growing in value" and moving away from commodity products towards consumer products and food ingredients is more relevant than ever. Our strategy also involves more active management of our margins and we are seeking price rises wherever possible to offset rising costs and are vigorously pursuing cost saving opportunities throughout our operations. The Group is well placed to face the current market challenges and trading in the first quarter of 2007/8 is in line with our targets and ahead of the previous year.



David Dobbin
Group Chief Executive