



Chairman's Report

The United Group delivered strong growth in 2010/11 making good progress against our strategy of growing in value. Payments to our members for their milk supplies increased by £60 million over the previous year, with milk prices up by over 4 pence per litre.

The improvement in international dairy markets, which began in the latter half of the previous year continued through much of 2010/11. The United milk auction accurately reflected the changing market conditions and successfully delivered higher farmgate prices which, coupled with a much better season for grass growth and silage making, contributed to a strong recovery in United's milk supplies.

Group turnover increased by 21% on the previous year to a record £400 million due to both volume and value growth and the Group profit before tax increased by 17% to £4.2 million. Dale Farm continued to generate sales growth despite challenging domestic markets where returns were slower to increase than in buoyant international markets. The Group performance was boosted by United Feeds first full year as a wholly owned subsidiary.

The United milk auction reflected the improvement in international markets with prices rising from a low of 24.1 ppl in August to a high of almost 30 pence in February 2011. The base milk prices paid to members increased from 23.8 ppl for August supplies to 29 ppl for March supplies and averaged 25.75 ppl for the year, an increase of 4.2 pence (19%) on the previous year.

Total United milk supplies for 2010/11 rose by 8%, from 904 million litres to 979 million litres with Northern Ireland leading the increase in UK milk supplies, which rose by 4% in the year. In spite of this the UK ended the year almost 10% below its national quota and there was no levy for the seventh successive year. The average milk output per United member for the year rose by 12.5% to almost 540,000 litres helping offset a further reduction in the number of supplying members, which fell by 3.9%

to 1,795 - almost entirely as a result of retirements from milk production.

The Group's investment programme continued during the year with the construction of a new plastic bottle blowing facility at Dale Farm's fresh milk operation at Pennybridge, grant aided by Invest NI and operated by Nampak Plastics, which was officially opened in February 2011. At the start of 2011 the development of our liquid milk business was further boosted by the acquisition of the Fane Valley liquid milk business. The Pennybridge retail cream packing facility was also upgraded and a new Chilled Distribution Centre to support GB sales was built at Kendal.

In its first full year as a wholly owned subsidiary United Feeds made good progress delivering an improved financial performance and paying a dividend of £1 million from accumulated reserves to United Dairy Farmers Limited. I would again urge all members to support this business and in so doing help enhance the overall performance of your co-op.

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Dividend

I am pleased that the Board has agreed an allocation of bonus shares to members totalling almost £1.0 million: the allocation will be at the rate of 1 share per 1,000 litres of milk supplied to United in 2010/11.

It has been United's policy not to seek capital contributions from members for the development of the Group's processing activities. Taking account of the need to fund our ambitious investment programme and the associated increase in the Group's working capital requirements, particularly for cheese stocks, the Board has again decided not to pay a share dividend in respect of 2010/11.

Directors

David McNeill retired from the Board on 31 March 2011 after 12 years service as a United Director. David also served as a director and as Chairman of the Dairy Council for Northern Ireland.

I want to express our appreciation to David for his whole-hearted commitment to the industry and for the valuable contribution he made to the Board's deliberations and the development of the United Group. David has been succeeded as a Director for Area 1 by Harry Johnston and I wish him well in his new role.

On behalf of the Board I also want to thank our Group Chief Executive, David Dobbin, the executive team and the management and staff of the Group for their support and contribution during the past year.

Prospects

International dairy markets have remained relatively firm through the 2011 spring peak in EU milk



supplies, with continued strong demand. As a result, the milk prices paid to United members in the first quarter of 2010/11 have been ahead of the previous year's levels. However, the improvement in dairy market returns has encouraged more global milk production and, with demand easing, returns from the world market are moving lower, especially in powder and butter. In the months ahead much will depend on the coming season's milk supply in the Southern Hemisphere and on whether demand remains firm, particularly from China.

Looking further ahead, with the planned removal of quotas in 2015, the Republic of Ireland has a clear strategy to expand its milk supply by 50% by the year 2020. Although the Northern

Ireland industry has not suffered the same quota constraints as the Republic, it also has the potential to expand milk output (albeit at a lower rate) and this was confirmed by a survey of our members intentions carried out in the autumn of 2010. The Board has plans in place to ensure that all our members' milk supplies are processed, including any expansion, and we remain committed to our strategy of adding sustainable value to our members' milk so as to provide a competitive milk price going forward.

John Dunlop
Chairman