



# Chief Executive's Review

United Dairy Farmers achieved a record turnover in an encouraging year which saw strong value and volume growth, improved profitability and better milk prices for members delivered against a background of high input cost inflation and depressed economic circumstances.

## Results

Group turnover grew by 21% to £400 million due to higher members' milk volumes, improved returns, continued growth in Dale Farm and the full year benefit of 100% ownership of United Feeds.

Group profit before tax increased by 17% to £4.16 million, despite higher input and interest costs. Energy, road fuel and packaging costs increased sharply during the year; however the impact of these additional costs was offset by savings generated from the Group's ongoing capital investment and cost reduction activities and by the contribution and unit cost benefits from the greater activity levels throughout the Group, especially in cheese and whey protein products.

Net debt increased by £1.8 million to £20.9 million as a result of higher working capital related to the increased sales turnover and higher average stock values. Interest costs were £90,000 above the previous year at £656,000. During the year the group repaid £526,000 to shareholders leaving/retiring

from the society, compared with £940,000 in the previous year.

The gross liability of the Nilgosc pension deficit reduced significantly by £13.3 million to £1.05 million, largely because of a gain of £7.5 million from the change in assumption on pension increases from RPI to CPI. After allowing for a deferred tax credit of £274,000 the Group's net pension liability is now reduced to £780,000 compared to £10.3 million at 31 March 2010.

Shareholders' funds increased by £12.1 million to £39.15 million, due to the profits retained and the favourable impact of the reduction in the net pension deficit. As a consequence the Group Board was able to resume its policy of making a distribution to shareholders. Provision has been made for the

issue of £979,000 of bonus shares to members based on one bonus share per 1,000 litres of milk supplied in 2010/11.

## Markets & Sales

Dairy markets continued their recovery in 2010/11 boosted by strong demand for powder from China and North Africa and for butter from Russia whose internal dairy output was limited by drought. Industry stocks of dairy products remained tight, especially in butter, and global milk supply growth remained modest with output curtailed by adverse weather.

Returns from internationally traded dairy commodities were ahead of those in domestic consumer markets which were slow to move up due to the

"Group turnover increased by 21% on the previous year to a record £400 million and Group profit before tax increased by 17% to £4.2 million."

depressed economic situation, which has made consumers and customers even more price sensitive.

United's milk auction accurately tracked the market with prices increasing from a low of 24.1 ppl in August 2010 to a high of almost 30 pence in February 2011. United's base milk price averaged 25.75 pence per litre for the year, which was an increase of 4.2 pence (19%) on the previous year.

Dale Farm turnover grew by 12.2% to a record £191.6 million. Key areas of growth in the year were cheese, whey protein products and fresh milk. Consumer product sales turnover, however, only grew by 3.9% compared to 36% growth in commodities and 18.5% in food ingredients, with consumer returns in the UK and Irish markets slow to respond

to higher dairy commodity prices and inputs costs. Higher levels of promotional activity further depressed the average returns from consumer products. Price increases were achieved in consumer products and ingredients in the latter part of the year providing a platform for greater growth in 2011/12.

### Investment

The Group continued its ambitious capital investment programme with a total spend of £5.4 million in the year. In addition to this in January 2011 Dale Farm purchased the trade and assets of the Fane Valley liquid milk business in Northern Ireland after their decision to exit that market. This business was successfully integrated with Dale Farm's fresh milk business providing additional market share and greater economies of scale.

The main capital spend in the year related to the completion of Dale Farm's new chilled distribution centre at Kendal which will support Dale Farm's growth in the GB market and on developing the fresh milk operation at Pennybridge which included the completion of the blow moulding building and the upgrade of the cream filling area and lorry park. During the year the Group received £720k in capital grants from Invest Northern Ireland.

### Outlook

Dairy markets have remained firm in the first quarter of 2011/12 with continued strong demand. However global milk supply has surged in response to better returns and more favourable weather and this is resulting in some weakening in commodity markets, especially powder. Cheddar cheese returns have



remained stable and consumer product returns are still improving and starting to regain their premium over commodities.

The Group has made an encouraging start to 2011/12 delivering further sales growth with cheese and whey protein products performing particularly strongly. Input costs, especially energy, have escalated further, however the impact of this has been offset by operational cost savings. United Feeds continues to perform well boosting Group turnover and profit and Dale Farm's fresh milk business is benefiting from the full year impact of the Fane Valley acquisition.



A handwritten signature in black ink, which appears to read "David Dobbin". The signature is fluid and cursive.

**David Dobbin**  
Group Chief Executive

