

## Chief Executive's Review

I am pleased to report a year of further growth against a background of intense competition, cuts in EU support, and rising input costs. Good progress continues to be made in transforming the Group into a more market led, added value dairy business which is better placed to compete going forward.



### Results

The year saw another sound set of results. Group turnover grew by 6.7% to £301 million with much of the growth coming from Dale Farm whose sales turnover increased by 10%. The growth in turnover together with progress made on reducing costs helped support a recovery in Group operating profit after exceptional costs and profit before tax which were 20% and 12.5% above last year at £3.25 million and £2.02 million respectively. The United Feeds joint venture achieved modest growth but lower profits due to increased price competition and higher raw material costs. Net Group debt was reduced during the year by £537,000 to £19.96 million, however net interest costs were 35% (£319,000) above the previous year reflecting higher interest rates through the year. Profit after tax at £2.2 million reflected the benefit of a tax credit of £191,000 due to the utilisation of a number of allowances, and after dividend and bonus share distributions to the value of £1.04 million, the retained profit was £1.17 million, up from £0.7 million the previous year.

### Restructuring and Investment

During the year there was considerable activity to improve competitiveness and reduce costs supported by £9.3 million of capital investment in ongoing operations. This spend was funded in part by £4.02 million in realisations from the sale

of surplus properties and £1.37 million in receipts of government and EU grants, giving a net spend of £3.9 million. Group net cashflow before financing was much improved over the previous year with an inflow of £0.89 million versus an outflow £5.06 million in the previous year. The Group is now well through its capital spend programme in support of the strategy to move into more added value markets and it is expected that forward capital spend will reduce to close to depreciation level resulting in further improvements in cashflow.

The creation of a centre of excellence for the manufacture of butter and spreads products at Dromona was completed in the Autumn of 2004 allowing the planned closure of the Tassagh spreads facility in September 2004. The year also saw the completion of a state of the art chilled storage and handling facility for fresh milk products at Pennybridge, improving the chill chain integrity and allowing the consolidation of depot and distribution activities with considerable cost savings. The Kendal yogurt and desserts business, acquired in February 2004 from Parmalat UK, was successfully integrated and turned around during 2004/5. This business performed ahead of expectation, achieving a breakeven position in the last quarter and over the year as a whole the operating losses incurred were more than offset by exceptional gains resulting from its restructuring and integration.

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## Sales and CAP Reform

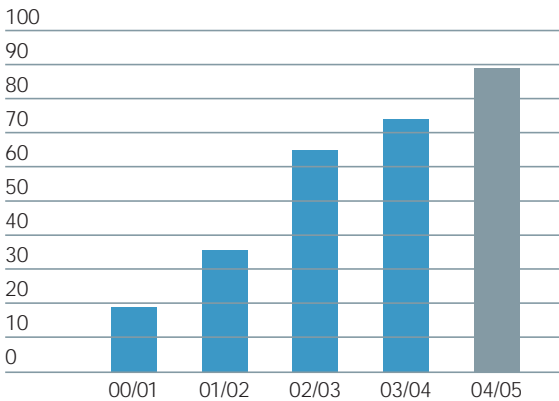
Dale Farm achieved double digit growth in the year benefiting from continuing organic growth and from the full year benefit of the Kendal yogurts and desserts business. The dairy industry is now into the CAP Reform programme with intervention price support and export refunds both reducing during the year. In line with the Group's strategy to migrate away from subsidised commodities, growth was targeted in consumer products and ingredients where turnover increased by 21% and 22% respectively. This growth, together with an 8% turnover decline in subsidised commodities (mainly due to lower returns resulting from cuts in export refunds), took the proportion of added value sales to 68%, up from 62% in the previous year.

Sales growth was driven by high levels of new product development and increased penetration of the GB market through the Rowan Glen and Kendal businesses. These businesses not only provided valuable sales/distribution channels for Dale Farm products but also outlets for powder and cream from other parts of the Group for use as ingredients in the manufacture of their own product ranges.

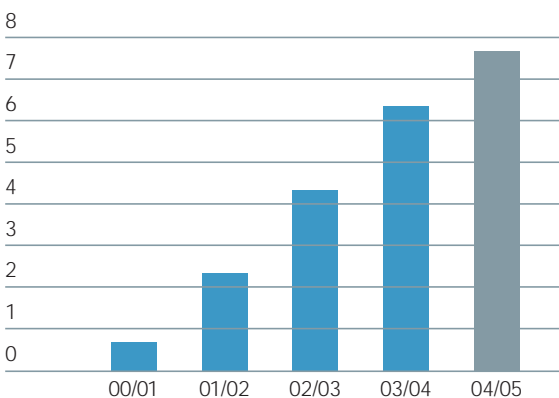
## Outlook

Trading conditions are expected to become even more difficult going forward with rising input costs, increasing regulatory requirements and market returns being eroded by intense competition and reducing EU support. Some relief is expected in the form of lower interest rates, reducing capital spend requirements and from the full year benefit of cost savings achieved during 2004/5.

## Dale Farm - Consumer Product Sales £ millions



## Dale Farm - Ingredients Sales £ millions



CAP reform is eroding the viability of many existing customer outlets, requiring the Group to continue to vigorously pursue its strategy of developing more added value markets for its produce and reducing unit operating costs to provide the best return for members. Industry over capacity, locally, nationally and internationally, means that all market opportunities are being heavily contested and sales margins are under intense pressure both for existing as well as new business.

The significant investment already made in product development and creating best in class facilities is providing a competitive base on which to develop Group business activities and the integrated GB operations are providing valuable access to new markets and customers. This last year has seen further progress; despite the formidable challenges ahead your Group continues to strive for success.

**David Dobbin**  
Group Chief Executive