

Chairman's Report



The results for 2004/05 show the Group continuing to grow in a very challenging marketplace with further investment in new products and production facilities, which will improve our competitiveness going forward.

Group turnover, including our share of United Feeds, exceeded £300 million for the first time and grew by 7% to £301 million. Group profit after tax was £2.21 million, an increase of 27% on the previous year. Retained profit after taxation, dividend and the issue of additional shares was £1.17million, compared to £700,000 in the previous year.

With milk production in GB falling behind quota, United members took advantage of improved weather conditions and the prospect of another levy free year by increasing milk supplies by over 3% to 1,034 million litres, just marginally behind the record level achieved 4 years previously.

The prices in United's milk auctions were generally better than might have been expected against a background of the first phase of the CAP reform price reductions, which included a 1.3 pence per litre (ppl) cut in the intervention milk price equivalent on 1st July 2004 and a fall in the average export refund support level of around 3ppl compared to the previous year. From June to December the average auction

price was in excess of 20 ppl with the strong demand for autumn milk again reflected in the peak auction returns. As a result the base prices paid to United members increased from 16.00 ppl in May to 20.50 ppl in September, October and November. Overall the average base price paid to United members was 18.73 ppl which was 0.42 ppl down on the previous year despite EU support cuts being considerably in excess of this.

The continued consolidation in the industry was reflected in a further decline in membership, primarily due to members retiring from milk production. Membership dropped by 3.9 %, to 2500, a rate of decline which was well below the reduction of almost 7% recorded in dairy farmer numbers elsewhere in the UK.

In 2004/5 the Group invested over £9 million in existing operations in support of our strategy to move into more added value markets and improve our manufacturing competitiveness.

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At the Dromona plant a major investment in new production and storage facilities was completed during the year, creating a Centre of Excellence for the production of butter and dairy spread products. The pursuit of best in class capability was also reflected in the new chilled storage and distribution facility for the fresh milk business at Pennybridge and in new cheese packing facilities at Dunmanbridge.

Dividend

In line with the society's objective of returning value to our shareholder members, the Board has maintained the level of share dividend and bonus share issues at the same rate as the previous year. The dividend relating to 2004/5 activities will therefore be paid at a rate of 4 pence per share and the bonus share issue at the rate of 1 bonus share per 2,000 litres of milk supplied in 2004/5.

Board changes

At the end of March 2005, Frank Ledwidge retired after 10 years of sterling service to the Group. Frank joined the Group as a Non Executive Director of Dromona Quality Foods and latterly became a Non Executive Director on the United Board and Chairman of the Group audit committee. Frank has made a substantial contribution to the development of the Group and we wish him every success in his future endeavours. Frank has been succeeded as a United Director and as chairman of the audit committee by Ian Doherty who was previously a Non Executive Director of Dale Farm.

On behalf of the Board, I also want to thank our Group Chief Executive, David Dobbin, the senior management team and employees across our Group for their considerable effort and commitment to the successful and sustained development of group business activities.

Prospects

Although dairy markets have proved more resilient than many commentators had forecast, continued reductions in EU support levels and severe competition will put further downwards pressure on product returns and farmer milk prices going forward. This situation is being made worse by sharp increases in energy and other costs. Progress being made against the Group's strategy of moving away from commodity into more added value consumer and food ingredient markets and aggressively reducing costs will help offset some of the expected erosion in returns and raw milk price and better position our society to meet the challenges ahead.



Harold Hamilton
Chairman

