



Mr. Michael Krueger (Mike)
Senior Vice President
General Manager
Dairy Division
Shamrock Foods Company

From the Chairman

Looking back on 2007, the positive impact of the MilkPEP program is clear. While sustained, historically high prices presented significant challenges to processors, year end total milk sales told a different story. Finishing the year off at only 0.1% below 2006 volume is a real testament to the program's ability to drive awareness, consumption and sales.

five years ago when orange juice was milk's primary "good for you" beverage competitor, milk is increasingly experiencing much tougher competition from a multitude of products that offer consumers similar health benefits.

While the majority of the MilkPEP budget is spent against advertising, the integration of promotions, public relations, processor and industry communications and increased web presence continue to help us maximize the impact of our static budget. As we saw with our 2007 Think About Your Drink messaging platform, our ability to make our activities support one another is a significant asset in maintaining our competitiveness.

In 2007, MilkPEP worked to maximize milk's position in schools. In response to mounting pressure to reduce calorie levels for school flavored milk, MilkPEP initiated flavor formulation workshops to provide the blueprint to processors for reducing calories in flavored school milk.

We continue to be effective in maintaining strong levels of awareness and positive attitudes among our primary audiences of moms, teens and Hispanics despite milk's weakening competitive position in advertising spending. And, unlike

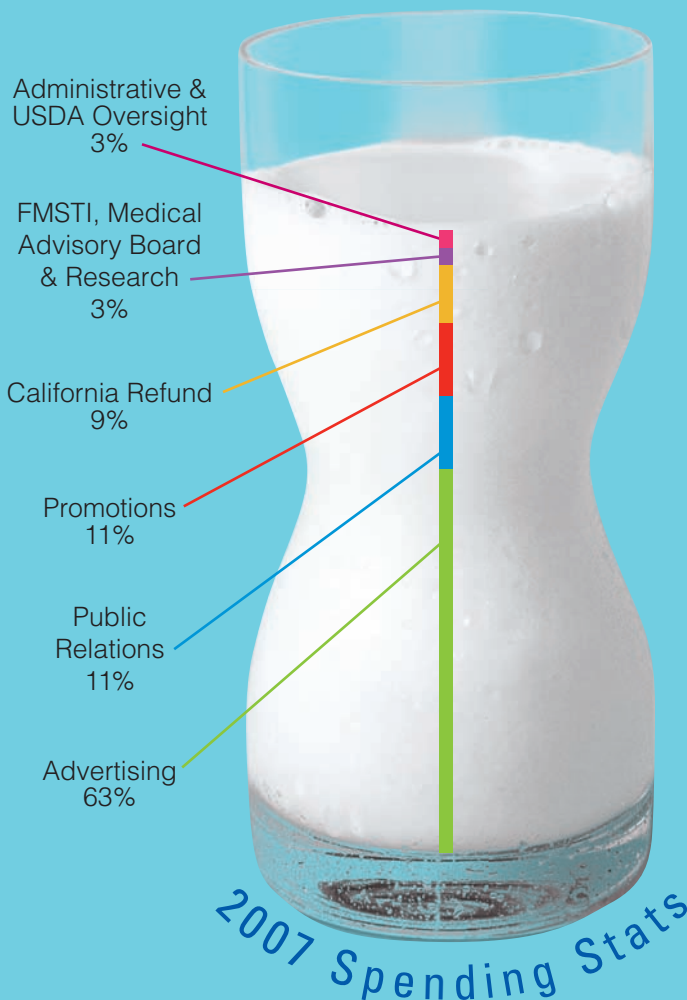
This is important since as much as 70% of the milk consumed in school is flavored milk. Processors do recognize that school aged children represent tomorrow's consumers and attendance at MilkPEP workshops, as well as actions taken to reduce calories in school milk, have been very encouraging.

It is important to note that processor utilization of MilkPEP materials and programs is an effective way to amplify the power of MilkPEP's national marketing efforts beyond the bounds of what the program's static budget can provide. In 2007, MilkPEP made a noticeable and positive impact on increasing processor engagement due to continuing improvements to the quality and quantity of processor communications and field efforts.

We know that consumers continue to maintain strong and positive perceptions of milk. Your investment in the MilkPEP program has strengthened awareness of milk's benefits among moms, teens and the growing Hispanic population. Moving forward, we must continue to deliver milk's message in a compelling way to solidify milk's position as the number one health and wellness beverage in an increasingly competitive environment.

Michael Krueger
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 July 2008

Financial Report



The board's finance and accounting firm, Rubin, Kasnett and Associates, reports that \$107,735,711 was collected from processors through the 20 cent-per-hundredweight assessments during the fiscal year January 1, 2007, through December 31, 2007. Collections were about \$114,000 less than in the previous year, due primarily to market fluctuations.



Ms. Terri Webb
Chief Financial Officer
Farmland Dairies LLC

Less than 3% of MilkPEP's allocated funding went towards administrative costs and USDA oversight and audits. Expense allocations for the various program areas changed slightly from the prior year with a 2% shift from FMSTI, Medical Advisory Board & research to advertising and promotions in order to support new opportunities.

The board's financial statements have been audited by the independent accounting firm Snyder, Cohn, Collyer, Hamilton and Associates, and have been reviewed and accepted by the MilkPEP board. All audits and reports on the program are favorable. The MilkPEP board is confident that we continue to direct the program in the most effective and efficient manner possible.