National Milk Agency

Annual Report and Accounts 2006

NATIONAL MILK AGENCY

NATIONAL **MILK** AGENCY

IPC House, 35-39 Shelbourne Road
Ballsbridge, Dublin 4
Tel: 01 660 3396
Fax: 01 660 3389
Email: natmilk@eircom.net
Web: www.nationalmilkagency.ie

Bhunaigh an tOireachtas an Gníomhaireacht Náisiúnta Bainne chun rialáil a dhéanamh ar fud an Stáit ar sholáthar bainne lena ól ina leacht de réir fhorálacha Acht an Bhainne (Soláthar a Rialáil), 1994.

The National Milk Agency was established by the Oireachtas to regulate the supply of milk for liquid consumption throughout the State in accordance with the provisions of the Milk (Regulation of Supply) Act, 1994.

CHAIRMAN'S STATEMENT

To: Ms. Mary Coughlan TD, Minister for Agriculture, Fisheries & Food.

I am pleased to present the Annual Report of the National Milk Agency for 2006 in accordance with Section 18 of the Milk (Regulation of Supply) Act, 1994.

Last year saw the implementation of the third phase of the Mid Term Review of the Common Agricultural Policy with reductions in July of 7% and 5% respectively in EU support prices for butter and skim milk powder.

The first half of 2006 was characterised by weak international markets for dairy products, resulting in reductions in Irish manufacturing milk prices of up to 1.32 c/litre (6 c/g) in the spring and early summer. The threat of further price reductions continued to overhang the sector until the last quarter of the year, when positive international market developments, arising from a reduction in global milk supplies and a growing demand for dairy products, led to the postponement of signaled milk price cuts and a renewal of dairy farmers' confidence.

For registered milk producers the start of the 2005/06 milk year was marked by reductions in winter bonuses, reduced winter bonus periods and an increasing change from payment systems based on flat milk prices to payment systems based on manufacturing milk prices plus winter bonuses.

Domestic milk supplies in 2006 increased by 3% to 5,083 million litres (1,118 million gallons). Milk imports into the State by creameries and pasteurisers were the highest on record, amounting to 566 million litres (125 million gallons), an increase of almost 3% on the previous year. These milk imports, 90% of which were utilised in the manufacture of dairy products, were mainly from Northern Ireland and represented 11% of annual domestic milk supplies and 30% of Northern Ireland's annual milk supplies.

The consolidation of the Irish milk production sector continued with the number of active milk producers falling by almost 2% to 22,042.

Consumption of fresh liquid milk increased by 2% to 568 million litres (125 million gallons). The market share of domestic milk supplies in the fresh milk market fell to 82% as imported milk supplies, both bulk and packaged, increased their share to 18%.

The retail price/value paradox of discounted fresh milk being sold at prices lower than bottled water continued.

In 2007, export market trends for dairy products continue to be very positive and have been reflected in manufacturing milk price increases of up to 2 c/litre (10 c/g) in each of the peak supply months of April, May and June. These increases automatically improved prices paid under contracts based on manufacturing milk prices plus winter bonuses. The summer prices in contracts paid on a flat price basis have also been increased by some processors.

Registers

Fifteen of the seventeen processors of milk for liquid consumption in the State were registered with the Agency.

The number of registered producers was 2,492 a net reduction of 83 producers.

Under the 2,282 milk supply contracts registered with the Agency in 2005/06, milk supplies of 439 million litres for processing for liquid consumption were purchased, an increase of 13 million litres or 3% on the previous year.

Contracts

All Year Round milk supply contracts numbered 2,104 for purchases of 427 million litres representing 92% of all contracts and 97% of milk supplies purchased under all contracts. The number of All Year Round contracts reduced by 95 or 4%.

Winter Contracts comprised 178 contracts and represented 8% of contracts and 3% of milk supplies, an increase of 41 contracts.

Under the All Year Round contracts the Flat Price System continued as the main pricing system for registered milk supplies and was applied in 76% of the contracts and to 70% of the milk supplies. The Manufacturing Milk Price plus Bonus System was applied in 24% of the contracts and to 30% of milk supplies

Milk Prices

In 2005/06 the average milk price paid, excluding value added tax, under all registered contracts was 30.63 c/litre (139 c/g), a reduction of 0.7 c/litre (3 c/g) or 2% on the previous year's price.

Under the 2,104 All Year Round contracts, the average price paid was 30.56 c/litre (139 c/g) a reduction of 0.74 c/litre (3 c/g) on the previous year. During the seven winter months the price paid was 33.61 c/litre (153 c/g) and during the five summer months the price paid was 26.11 c/litre (119 c/g).

In the All Year Round contracts the differential between the average price paid under the Flat Price System and the Manufacturing Milk Price plus Bonus System widened to 2 c/litre (9 c/g) from 1.63 c/litre (7 c/g) in the previous year.

The differential between the average annual producer price for milk for liquid consumption and the estimated annual average producer price for manufacturing milk supplies in 2006 was approximately 5.15 c/litre (23 c/g) an increase of 0.44 c/litre (2 c/g) on the previous year.

Consumption and Retailing

Consumption of fresh milk on the domestic market in 2006 increased by 2% to 568 million litres as Irish consumers continued to have the highest per capita consumption of fresh milk in the EU.

Sales of low fat and skimmed milks continued to displace whole milk sales with their market share growing to 27% last year.

The Irish grocery market continued to consolidate with three major multiples controlling almost 70% of the market.

Retailers' own label milk sales at discount prices continued to displace processors' brands and achieved a retail market share of over 50%. Own label milk in 2006 retailed at discounts ranging from 26% to 38% compared with processors' brands.

In Northern Ireland, where retailers own label milk sales have almost totally displaced processors' brands retail prices of own label milk, which was charged by retailers, who operated outlets both in Northern Ireland and in the State, were 28% higher than in the State.

Doorstep sales continued to decline and represented less than 7% of fresh milk sales compared with over 30%, a decade ago.

Fresh milk continued to be a real value for money product for consumers in 2006 with discounted own label milk in two litre packs selling at an equivalent price per litre, which was 23% less in nominal terms and 46% less in real terms than the retail price of fresh milk in 1995.

Milk Imports

Last year raw milk imports by creameries and pasteurisers for processing in the State were the highest on record and amounted to 566 million litres (125 million gallons), an increase of 16 million litres (3 million gallons) or 3% on the previous year.

Imports for processing into manufactured dairy products represented 90% of these imports while imports for processing and packing for liquid consumption represented 10%.

Milk imports for liquid consumption (including packaged liquid milk imports) amounted to 104 million litres (23 million gallons) of which 56% were milk imports for processing and 44% were packaged liquid milk imports, representing an increase of 9 million litres or 9% on the import volumes in the previous year.

The market share of milk imports for liquid consumption, both bulk and packaged, increased to 18% of the domestic market for fresh milk compared with 17% in the previous year.

Dairy Sector

Increased milk supplies and higher EU dairy premia payments in 2006 offset the adverse impact of lower milk prices and higher variable input costs for feed, fertiliser and energy.

Producer prices for manufacturing milk supplies, which had commenced to fall by up to 1.32 c/litre (6 c/g) from March onwards, subsequently remained stable and are estimated to have fallen (after year end price adjustments) by 0.93 c/litre (4 c/g) for the year.

The 2006 single payment, which was paid in two instalments of 50% in October and December, included the third phase of the EU dairy premium to compensate for the reduction in intervention support prices. The dairy premium element in respect of 2006, was calculated at 3.6 c/litre (16.4 c/g) and was based on each producer's milk quota as at 31st March 2005.

Financial

The Agency's total income last year amounted to €614,148, an increase of €29,958 or 5% on the previous year. Income from milk levies representing 95% of total income, increased by €21,625 or 4% while other income increased by €8,333 or 37%.

Operating costs of €608,765 decreased by €6,242 or 1%. Personnel and related costs, representing 71% of total costs, increased by €12,201 or 3%, while other cash costs decreased by €19,171 or 10%.

The excess of income of €614,148 over costs of €608,765 resulted in an operating surplus of €5,383, which increased the Accumulated Fund to €713,878 at year end.

The Accumulated Fund at year end was comprised of cash and deposits (net of creditors and superannuation liabilities) of €610,129, debtors of €97,159 and fixed assets of €6,590.

Agency Membership/ Meetings

The triennial election of producer members and the Ministerial appointment of the other ordinary members to the Fifth Board of the Agency took place during last year and this year.

In October as the number of producer candidates for election equaled the number of producer seats available a ballot of producers was not necessary. Eamonn Bray, Donal Kelleher and Padraig Mulligan were re-elected and Cormac Guinan and Donal Murphy were elected as new members.

Following nominations received from processor, consumer, distributor and retailer interests six of the previously serving ordinary members were reappointed – George Kearns and John O'Callaghan to represent processors; Richard Donohue and Michael Kilcoyne to represent consumers; Walter Maloney to represent distributors and John Foster to represent retailers. Tony O' Driscoll and Frank Tobin were appointed as new processor members.

During the year the Agency held seven meetings. The attendance ratio was 93%.

The Audit Committee held four meetings during the year.

Compliance

The Agency has complied fully with the requirements of the Code of Practice for the Governance of State Bodies.

The Agency has complied with the requirements of the Prompt Payment of Accounts Act, 1997 to pay all invoices within 30 days of receipt of invoice.

Conclusion

The Agency expresses its appreciation and thanks for the cooperation and assistance received from liquid milk processors and the representative bodies of producers, processors, consumers, retailers and distributors during the year.

The Agency also appreciates the active support and advice received from the Minister of Agriculture, Fisheries & Food, her officials and from State Agencies.

I wish to acknowledge the excellent contributions and commitment of the three members, who retired last year: Daniel Corkery and Diarmuid Lally representing producers and James Murphy representing processors: during their terms of office.

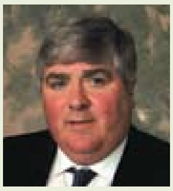
I wish to thank the members of the Agency, for their wise counsel and contributions to the working of the Agency during the year, and also thank Muiris and the Agency's staff for their work and commitment.

Denis Murphy
Chairman

Chairman

Denis Murphy

Producers' Representatives



Eamonn Bray

Cormac Guinan

Donal Kelleher

Padraig Mulligan

Donal Murphy

Processors' Representatives

George Kearns

John O'Callaghan

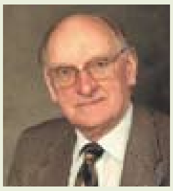
Tony O'Driscoll

Frank Tobin

Distributors' Representative

Walter Maloney

Retailers' Representative



John Foster

Consumers' Representatives

Richard Donohue

Michael Kilcoyne

Chairman:	Denis Murphy *
Producers' Representatives:	Eamonn Bray * Cormac Guinan Donal Kelleher Padraig Mulligan Donal Murphy
Processors' Representatives:	George Kearns * John O'Callaghan Tony O'Driscoll Frank Tobin
Distributors' Representative:	Walter Maloney
Retailers' Representative:	John Foster
Consumers' Representatives:	Richard Donohue * Michael Kilcoyne
	** Members of the Audit Committee*

Chief Executive:	Muiris Ó Céidigh
Secretary:	Joan Shannon
Office:	**IPC House**, 35/39 Shelbourne Road, Ballsbridge, Dublin 4.
Email:	natmilk@eircom.net
Solicitor:	Frank Mulvey **Frank Mulvey Solicitors**, 18/19 Harcourt Street, Dublin 2.
Bankers:	**Allied Irish Banks plc** Bankcentre Branch, Ballsbridge, Dublin 4. **Bank of Scotland (Ireland) Ltd** Pinebrook House, 72-74 Harcourt Street, Dublin 2.
Auditor:	**Deloitte & Touche** Deloitte & Touche House, Earlsfort Terrace, Dublin 2.

CONTENTS

INDEX OF DATA

Muiris Ó Céidigh
Chief Executive

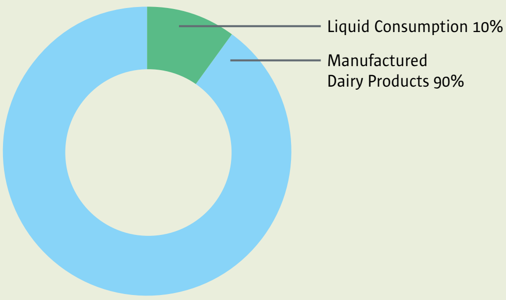
1. MILK SUPPLIES

1.1 Domestic Milk Supplies

Domestic milk supplies to creameries and pasteurisers of 5,083 million litres (1,118 million gallons) in 2006 increased by 168 million litres or 3% on the previous year. The number of active milk producers fell by 2% to 22,042.

90% of domestic supplies were utilised in the manufacture of dairy products, which were mainly for export, while 10% of supplies were processed for liquid consumption on the domestic market.

FIG. 1.0 UTILISATION OF DOMESTIC MILK SUPPLIES 2006



Domestic milk supplies continued to be characterised by a highly seasonal production pattern, based on grassland milk production and seasonal calving, with 79% of milk supplies being supplied in the seven months of March to September and 21% in the five months of October to February inclusive.

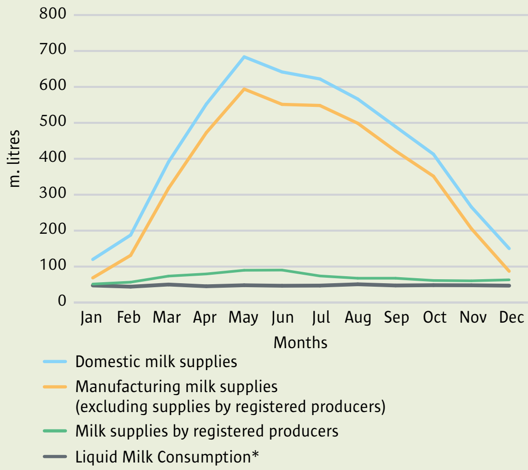
The domestic milk supply profile has a peak to trough month ratio of 5.7/1, and is comprised of a peak to trough ratio of 8.7/1 for milk supplies from manufacturing milk producers and of 1.8/1 for milk supplies from liquid milk producers.

TABLE 1.1 SEASONALITY OF DOMESTIC MILK SUPPLIES (BY SECTOR)

Year	2006	2005	2004	2003	2002
	Peak to trough months' ratios				
Manufacturing	8.7	8.2	8.0	8.2	8.9
Liquid	1.8	1.8	1.8	1.9	2.0
Total	**5.7**	**5.5**	**5.5**	**5.6**	**6.1**

Source: DAF/CSO

FIG. 1.2 DOMESTIC SUPPLIES, MANUFACTURING MILK SUPPLIES, SUPPLIES BY REGISTERED PRODUCERS AND LIQUID MILK CONSUMPTION (MONTHLY) 2006



** Milk sold for liquid consumption within the State including packaged milk imports.*

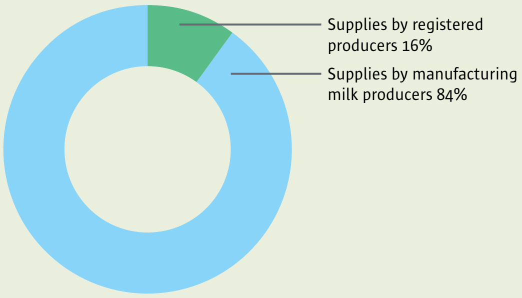
Source: CSO/NMA

1.2 Milk Supplies by Registered Producers

Total milk supplies by the State's 2,360 active registered producers (including producers without registered contracts in 2005/06) amounted to 816 million litres (180 million gallons) (Appendix 4 – Table A), a decrease of 17 million litres or 2% on supplies in 2004/05. Supplies for processing for liquid consumption amounted to 471 million litres (58% of total supplies by liquid milk producers) while supplies for processing into manufactured dairy products amounted to 345 million litres (42% of total supplies).

Registered milk producers are a significant grouping in the domestic milk supply sector representing 11% of all producers and supplying 16% of domestic milk supplies. They supply not only the all year round milk requirements for liquid milk consumption but also 7% of domestic manufacturing milk supplies.

FIG. 1.3 DOMESTIC MILK SUPPLIES 2006



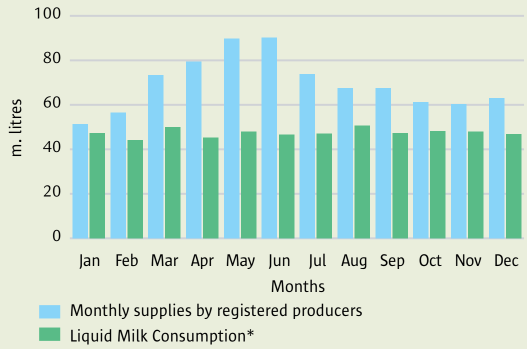
The average registered producer in 2005/06 had annual supplies of 346,000 litres (76,000 gallons) compared with average supplies for all milk producers of 231,000 litres (51,000 gallons).

1.3 Winter Milk Supplies

In the five prescribed winter months of October 2005 to February 2006 total milk supplies by active, registered producers amounted to 274 million litres, which, compared with liquid milk consumption (including imports) of 231 million litres, provided a supply cover of 119%.

In the months of December 2005 and January 2006, total supplies by active registered producers amounted to 110 million litres and were 17 million litres in excess of liquid milk consumption (including imports) of 93 million litres in those months, a supply cover of 118%.

FIG. 1.4 MONTHLY MILK SUPPLIES BY REGISTERED PRODUCERS V LIQUID MILK CONSUMPTION 2006



*Milk sold for liquid consumption within the State, including packaged milk imports.

Source: CSO/NMA

1.4 Imports

Last year bulk milk imports into the State for processing by creameries and pasteurisers amounted to 566 million litres (125 million gallons), the highest milk import volumes on record and an increase of 16 million litres or 3% on 2005.

TABLE 1.5 BULK MILK IMPORTS % DOMESTIC MILK SUPPLIES 1996-2006

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	millions of litres										
Supplies	5,083	4,915	5,116	5,157	5,032	5,179	5,012	4,973	4,944	5,105	5,144
Imports (bulk)	566	550	377	349	278	209	304	361	282	-	-
Imports %	11	11	7	7	5	4	6	7	6	0	0

TABLE 1.6 BULK AND PACKAGED MILK IMPORTS FOR LIQUID CONSUMPTION 1996-2006

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	millions of litres										
Bulk	58	55	55	48	42	50	43	44	45	16	0
Packaged	46	40	38	41	26	24	23	20	-	-	0
Total Imports	**104**	**95**	**93**	**89**	**68**	**74**	**66**	**64**	**45**	**16**	**0**

Bulk milk imports, which did not include packaged liquid milk imports of 46 million litres, were mainly cross border movements of milk into the State from Northern Ireland and in 2006 were equivalent to 11% of domestic supplies and to 30% of Northern Ireland's annual milk supplies, the same as in 2005. Imports for processing into manufactured dairy products represented 90% of these imports while bulk milk imports for processing for liquid consumption represented 10%.

Total milk imports for liquid consumption amounted to 104 million litres (23 million gallons), an increase of 9 million litres or 9%, on the import volumes in the previous year.

Bulk milk imports for processing for liquid consumption of 58 million litres (13 million gallons) represented 56% of these imports, an increase of 5% on the previous year.

Imports of packaged liquid milk from Northern Ireland, mainly for discount retailers, represented 44% of imports for liquid consumption and were estimated at 46 million litres, an increase of 6 million litres or 15% on the previous year.

Since 1996, the market share of domestic supplies for the liquid milk market has fallen from 100% to 82% while the market share of imports has grown to 18%. Imports supplied all the increase in domestic fresh milk consumption in 2006 and the market share of domestic supplies fell to 82% from 83% in 2005.

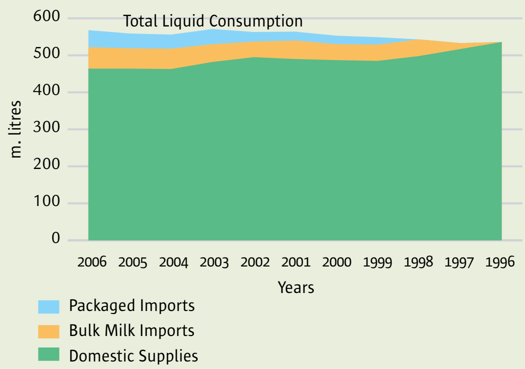
TABLE 1.7 LIQUID MILK CONSUMPTION FROM DOMESTIC SUPPLIES AND IMPORTS

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	millions of litres										
Consumption	568	559	556	571	563	564	553	549	543	533	536
Domestic supplies	464	464	463	482	495	490	487	485	498	517	536
Imports	104	95	93	89	68	74	66	64	45*	16*	0*
Domestic Supplies % Consumption	82	83	83	84	88	87	88	88	91	97	100
Imports % Consumption	18	17	17	16	12	13	12	12	9	3	0

Source: CSO/NMA

**Packaged imports not included and not available*

FIG 1.8 MARKET PENETRATION OF DOMESTIC LIQUID MILK MARKET BY IMPORTS 1996-2006



Total milk imports from Northern Ireland by processors and pasteurisers and as packaged liquid milk, amounted to 612 million litres in 2006, an increase of 22 million litres or 4%. Total milk imports exceeded liquid milk consumption of 568 million litres by 8%.

Exports of skim milk, whole milk and cream from processors in the State to Northern Ireland amounted to 42 million litres in 2006, a reduction of 8 million litres or 16% on the previous year.

1.5 Northern Ireland – Milk Supplies/ Milk Prices

Domestic milk supplies in Northern Ireland in 2006 amounted to 1,902 million litres (418 million gallons) an increase of 2% on the previous year and were supplied by 3,761 dairy farmers. Milk supplies in NI in 2006 were equal to 37% of domestic milk supplies in the State.

TABLE 1.9 MILK SUPPLIES IN THE STATE & NORTHERN IRELAND 2006

	Republic of Ireland	Northern Ireland
Total Supplies – million litres	5,083	1,902
Average Butterfat %	3.75	3.97
Average Protein %	3.30	3.20
Peak month/trough month ratio	5.7	1.5
Suppliers – number	22,042	3,761
Average supplies per supplier – litres	231,000	506,000

Average annual milk supplies per supplier in NI in 2006 were 506,000 litres, which were more than double the average milk supplies per supplier of 231,000 litres in the State. Average milk supplies by registered milk producers in the State were 346,000 litres in 2005/06.

The annual milk supply pattern in NI differs significantly from the State. Milk supplies are available on an all year round basis with a peak to trough month ratio of 1.5/1 compared with 5.7/1 in the State.

TABLE 1.10 NI MILK SUPPLIES 1993 – 2006

	MILK SUPPLIES	
	m. litres	Index
1993	1,309	100
2002	1,764	135
2003	1,772	135
2004	1,776	136
2005	1,865	142
2006	1,902	145

Source: DARDNI

Since 1993, annual milk supplies in NI have increased by 593 million litres or 45% due to the purchase of additional milk quotas from other parts of the UK. Almost all the increase in milk supplies since 1993 is now being exported for processing in the State.

In 2006, 595 million litres or 31% of the annual milk supply was exported as raw milk compared with 32% in 2005. Over 95% of these raw milk exports were to the State.

Last year 14% of annual milk supplies in NI were utilised for processing for liquid consumption compared with 10% in the State.

28% of milk supplies are traded by auction and an estimated additional 30% of milk supplies are traded at prices based on auction prices. In 2006 the average annual auction price was 17.95 p/l (120 c/g), a reduction of 1.16 p/l (8 c/g) on the previous year.

The average annual net price to producers in NI for all year round milk supplies in 2006 was 16.8 p/l (112 c/g), a reduction of 1.13 p/l (7 c/g) on the previous year.

The Northern Ireland milk price in 2006 was 0.8 c/litre (4 c/g) less than the average annual producer price (net of collection charges) for manufacturing milk supplies in the State.

2. THE LIQUID MILK MARKET

National consumption of fresh liquid milk in 2006 was 568 million litres (125 million gallons), an increase of 9 million litres or 1.6% on consumption in 2005. Per capita consumption in the State of 0.5 litres per day was the highest in the EU.

The fresh milk market is the largest consumer market for milk and milk products in the State.

Fresh milk continues to be a real value for money product for consumers. Since 1995 while the consumer price index increased by 42% and the food price index increased by 34% the average annual retail price of liquid milk in 1 litre packs increased by only 10%. In real terms the retail price of 1 litre of milk has fallen by 22% since 1995.

Discounted own label milk in 2 litre packs in 2006 was selling at an equivalent price per litre, which was 23% less in nominal terms and 42% less in real terms, than the retail price of fresh milk in 1995.

While the price of milk has fallen in real terms and in comparison with other food products, the spread between retail and farm gate milk prices has continued to widen with the producers share of the annual retail price falling to 36% in 2006 compared with 42% in 1995.

Last year sales of whole milk, which accounted for 73% of fresh milk sales declined by 1% while sales of lowfat and skimmed milk increased by 1% to 27% of sales. In the UK the fresh milk product profile is different as in excess of 75% of sales are sold as semi skimmed and skimmed milk.

TABLE 2.0 CONSUMER PRICE INDEX/FOOD PRICE INDEX/RETAIL PRICE INDEX

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Consumer Price Index	142	137	132	129	124	119	113	107	106	103	102	100
Food Price Index	134	132	133	133	129	123	116	112	108	104	102	100
Retail Milk Price Index	**110**	**110**	**110**	**112**	**110**	**108**	**105**	**104**	**104**	**104**	**104**	**100**

Source CSO/NMA

TABLE 2.1 RETAIL MILK PRICES – 1 LITRE PACK/PRODUCERS SHARE OF RETAIL MILK PRICE

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre	c/litre
Annual * Retail Price	85	85	85	86	85	83	81	80	80	80	80	77
Producer Price % Retail	**36%**	**37%**	**38%**	**38%**	**38%**	**40%**	**40%**	**40%**	**40%**	**41%**	**41%**	**42%**

Source CSO/NMA
** Excludes doorstep deliveries.*

FIG. 2.2 FRESH MILK SALES PRODUCT PROFILE 2001 – 2006

Source: CSO

Retail Market

The process of retail consolidation continued with the three largest multiple groups having a 69% share of the Irish grocery market.

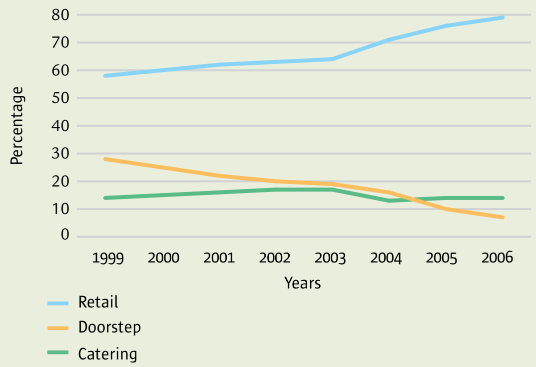
TABLE 2.3 GROCERY MARKET SHARES

	2006	2005	2004	2003	2002
	%	%	%	%	%
Tesco	25.9	25.9	25.4	23.5	23.7
Dunnes	22.1	22.5	22.2	21.0	22.0
SuperValu	20.5	19.6	19.1	19.0	18.8
Superquinn	7.8	8.2	8.9	8.2	8.9
Lidl/Aldi	5.9	5.5	5.2	5.7	1.6
Centra	2.4	2.4	3.2	2.9	2.9
Spar	2.2	1.9	2.5	2.6	2.5
All others	13.2	14.0	13.5	17.1	19.6
Total	**100**	**100**	**100**	**100**	**100**

Source: RGDATA

Retailers and particularly the larger multiples continued to grow in importance as distribution channels for liquid milk with retailers now distributing 78% of liquid milk, while doorstep deliveries has fallen to 7% and catering has increased to 15%.

FIG. 2.4 MARKET SHARES 1999 – 2006



Source: Industry Estimate

In the Irish fresh milk market an estimated 50% of milk sales in retail multiples is now sold as own label. In the UK in contrast, only 5% of liquid milk sales are sold under processors' brands with 95% being sold as own label.

The retail price of own label milk in 2 litre packs in the Dublin area in 2006 was €1.19 per pack representing a discount of 26% on processors' branded milk. Outside the Dublin area the discount on branded milk in 2 litre packs was 38%.

Retail multiples, operating both in the State and in Northern Ireland, were retailing own label milk in their outlets in Northern Ireland in 2006, at prices which were 28% higher than the prices of own label milk sold by these retailers in the State.

3. REGISTERED CONTRACTS/PRICES

3.0 CONTRACT TYPES

TABLE 3.0 CONTRACT TYPES

Milk Year	Total	All Year Round	Winter
1995/96	3,344	3,206	138
1996/97	3,284	3,151	133
1997/98	2,908	2,783	125
1998/99	2,833	2,709	124
1999/00	2,762	2,642	120
2000/01	2,837	2,725	112
2001/02	2,720	2,620	100
2002/03	2,736	2,583	153
2003/04	2,656	2,510	146
2004/05	2,336	2,199	137
2005/06	2,282	2,104	178

Register of Contracts at 31 December in each year. The Register of Contracts is maintained as an open register. Processors and Producers can register contracts in respect of individual milk years. Contracts continue to be registered throughout the year. For Register of Producers see Appendix 2.

- The number of registered milk supply contracts decreased to 2,282, a reduction of 54 contracts or 2% on the previous year.
- 220 contracts were not renewed and 166 new contracts were entered into with 6 processors.
- The number of All Year Round (AYR) contracts decreased by 95 to 2,104 or 4% while the number of Winter contracts increased by 41 to 178 contracts.

3.1 All Year Round Contracts

- AYR contracts continued to be the main contract type representing 92% of all contracts and 97% of milk supplies.
- Two systems of milk pricing are used by processors when purchasing milk from producers for processing for liquid consumption namely the FLAT Price System (FLAT System) and the Manufacturing Milk Price plus Bonus System (MMP System).
- Under the FLAT System, milk is paid for at a flat price per litre with no price differentiation for milk constituents.
- Under the MMP System, a milk price linked to monthly manufacturing milk prices, usually with price differentials for constituents, is paid with the addition of variable or fixed winter bonus payments.
- Under the AYR contracts the 1,283 Primary Contracts, which operated a FLAT System with seven winter premium months, was the main contract type and represented 61% of AYR contracts and 58% of milk purchased under AYR contracts.
- Non Primary AYR contracts, which operated a FLAT System with varying premium months, numbered 306 and represented 15% of AYR contracts and 12% of milk purchased.
- AYR contracts based on the MMP System comprised 515 contracts and represented 24% of AYR contracts and 30% of milk purchased under AYR contracts.

TABLE 3.1 CLASSIFICATION OF REGISTERED CONTRACTS BY TYPE

	Contracts				Supplies			
	2005/06		2004/05		2005/06		2004/05	
	number	%	number	%	m. litres	%	m. litres	%
All Year Round	2,104	92	2,199	94	427.4	97	416.3	98
Winter	178	8	137	6	11.3	3	9.4	2
Total	2,282	100	2,336	100	438.7	100	425.7	100

TABLE 3.2 ALL YEAR ROUND CONTRACTS BY TYPE AND PRICING SYSTEMS

Pricing Systems	Contracts				Milk Supplies			
	2005/06		2004/05		2005/06		2004/05	
FLAT SYSTEM	number	%	number	%	m. litres	%	m. litres	%
Primary	1,283	61	1,312	60	250.3	58	244.4	59
Non Primary	306	15	374	17	50.7	12	55.6	13
TOTAL FLAT	**1,589**	**76**	**1,686**	**67**	**301.0**	**70**	**300.0**	**72**
MMP SYSTEM	515	24	513	23	126.4	30	116.3	28
TOTAL	**2,104**	**100**	**2,199**	**100**	**427.4**	**100**	**416.3**	**100**

FIG. 3.3 PRICING SYSTEMS/CONTRACTS

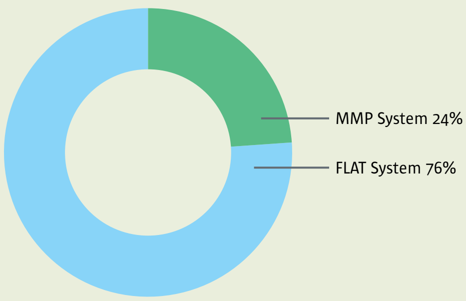
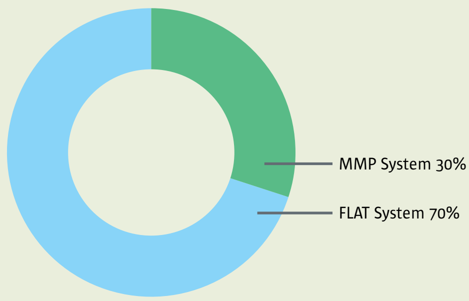
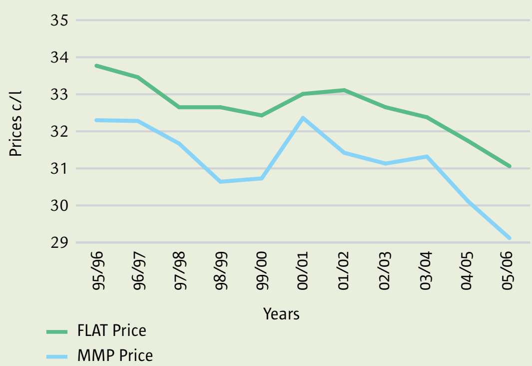


FIG. 3.4 MILK SUPPLIES/PRICING SYSTEMS



- Nine processors purchased supplies under AYR FLAT System contracts.
- The average price paid under the AYR FLAT System contracts in 2005/06 was 31.12 c/litre (142 c/g) a reduction of 0.62 c/litre (3 c/g) on the previous year (Table 3.8).
- The average price paid under the All Year Round MMP System contracts in 2005/06 was 29.12 c/litre (132 c/g) and was 2 c/litre (9 c/g) less than the average price paid under the FLAT System contracts. In 2004/05 the differential between the two pricing systems were 1.63 c/litre (7 c/g) (Table 3.8).
- Since 1995 the average annual price paid to producers under the AYR MMP System contracts has been lower than the average price paid under the AYR FLAT System.

FIG. 3.5 AYR CONTRACTS – AVERAGE ANNUAL FLAT AND MMP PRICES



See Appendix 3.

- A schedule of the average annual milk prices paid under the ten highest volume AYR contracts representing 92% of the AYR contracts and 92% of AYR milk supplies is set out hereunder.

TABLE 3.6 ALL YEAR ROUND CONTRACTS – SCHEDULE OF PRICES PAID – 10 HIGHEST VOLUME CONTRACTS

FLAT SYSTEM CONTRACTS	Annual Average Prices		Winter Prices		Summer Prices		Change in Annual Average Prices
PRIMARY TYPE	**2005/06**	**2004/05**	**2005/06**	**2004/05**	**2005/06**	**2004/05**	
	c/litre	**c/litre**	**c/litre**	**c/litre**	**c/litre**	**c/litre**	**c/litre**
B	30.80	31.76	32.9	34.55	28.02	28.02	(0.96)
D	30.88	31.31	34.53	34.76	25.78	26.49	(0.43)
F	31.34	31.92	34.83	35.84	26.29	26.30	(0.58)
NON PRIMARY TYPE							
D	32.01	31.87	34.83	34.31	26.24	27.17	0.14
J	31.38	31.56	33.43	33.70	28.16	28.16	(0.18)

MMP SYSTEM CONTRACTS	Annual Average Plus Bonus		Annual Average – Monthly Bonus		Base Prices		Price Changes
	2005/06	**2004/05**	**2005/06**	**2004/05**	**2005/06**	**2004/05**	
	c/litre	**c/litre**	**c/litre**	**c/litre**	**c/litre**	**c/litre**	**c/litre**
A1	28.93	28.57	3.74	2.99	25.19	25.58	0.36
B1	29.35	31.47	4.25	5.27	25.10	26.20	(2.12)
B2	30.41	31.28	3.24	3.26	27.17	28.02	(0.87)
C2	30.32	31.26	4.93	5.15	25.39	26.11	(0.94)
C3	28.42	29.78	2.76	3.04	25.66	26.74	(1.36)

Contract references relate to Tables 5.6, 5.7 and 5.8 in 2005 Annual Report.

FIG. 3.7 ALL YEAR ROUND CONTRACTS, MILK SUPPLIES BY PRICING SYSTEMS 1999/2000 – 2005/2006

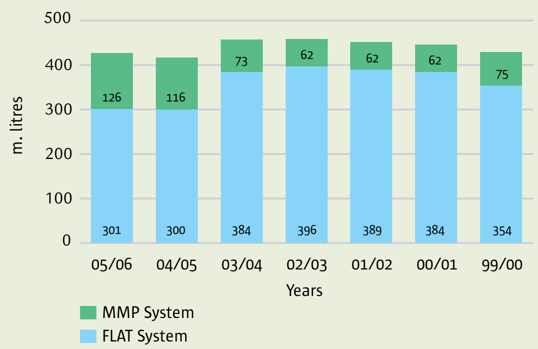


TABLE 3.8 ALL YEAR ROUND CONTRACTS – AVERAGE PRICES PAID

Year	2005/06	2004/05
FLAT SYSTEM	**1,589 contracts 301 million litres**	**1,686 contracts 300 million litres**
	c/litre	**c/litre**
Winter months, September – March (7)	34.38	35.27
Summer months, April – August (5)	26.46	26.65
Annual Average	**31.12**	**31.74**
MMP SYSTEM	**515 contracts 126.4 million litres**	**513 contracts 116.3 million litres**
Winter months, September- March (7)	31.78	32.96
Summer months, April – August (5)	25.26	26.21
Annual Average	**29.12**	**30.11**
COMBINED	**2,104 contracts 427.4 million litres**	**2,199 contracts 416.3 million litres**
Winter months, September – March (7)	33.61	34.63
Summer months, April – August (5)	26.11	26.52
Annual Average	**30.56**	**31.30**

Prices are in respect of AYR contracts which apply the FLAT System and the MMP System and are ex farm attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deductions of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. In the case of contracts applying the MMP System, prices are based on fixed and variable manufacturing prices with winter bonuses added. Payment periods have been standardised to a seven winter months premium period and a five summer months period.

- The average annual price paid in all AYR contracts was 30.56 c/litre (139 c/g), a decrease of 0.74 c/litre (3 c/g) on the previous year.
- The price paid during the seven winter months was 33.61 c/litre (153 c/g), a decrease of 1.02 c/litre (5 c/g) on the previous year. The price paid during the five summer months was 26.11 c/litre (119 c/g), a reduction of 0.41 c/litre (2 c/g) on the previous year.

3.2 Winter Contracts

TABLE 3.9 WINTER CONTRACTS/PRICES

	Contracts		Milk Supplies		2005/06	2004/05
Pricing System	**numbers**	**%**	**numbers**	**%**	**Average Price – Winter Months**	**Average Price – Winter Months**
					c/litre	**c/litre**
MMP System	121	68	7.9	71	34.83	33.67*
FLAT System	57	32	3.3	29	33.87	34.57
Average	**178**	**100**	**11.2**	**100**	**34.54**	**33.85**

** Revised*

Under the Winter contracts, a producer undertakes to supply milk for processing for liquid consumption during some or all of the prescribed winter months (October to February). The 178 winter contracts represented 8% of all contracts and 3% of milk supplies.

3.3 All Registered Contracts – Prices Paid

TABLE 3.10 PRICES PAID UNDER ALL CONTRACTS AND PRICING SYSTEMS

Period	2005/06	2004/05
	2,282 Contracts 438.7 m. litres	**2,336 Contracts 425.7 m. litres**
	c/litre	**c/litre**
Winter Months September – March (7)	33.65	34.60
Summer Months April – August (5)	26.11	26.52
Average	**30.63**	**31.33**
c/g	139	142

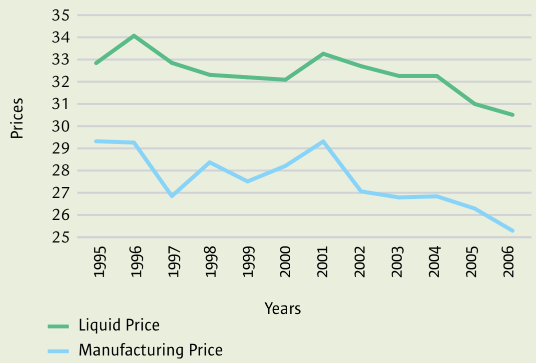
Prices are in respect of both AYR and Winter contracts utilising the FLAT System and the MMP System and are ex farm attainable prices exclusive of VAT and inclusive of all quality and other bonuses and before deductions of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. Payment periods on all contracts are standardised to a seven winter months premium period and a five summer months period.

The average price paid under all contracts, both All Year Round and Winter Months Only was 30.63 c/litre (139 c/g), a reduction of 0.7 c/litre (3 c/g) on the previous year.

3.4 Annual Liquid Milk Prices and Manufacturing Milk Prices

- In the calendar year 2006 the annual average price paid under all contracts was 30.51 c/litre (139 c/g), a reduction of 0.49 c/litre (2 c/g) on the price of 31 c/litre (141 c/g) in 2005.
- The differential between the annual producer price for milk supplies for liquid consumption and the average producer price for manufacturing milk supplies, after collection charges, increased to 5.15 c/litre (23 c/g) in 2006.
- A schedule showing the changes in the differential between average annual milk prices for supplies for liquid consumption and for supplies for manufacturing is set out in the Appendix 3.

FIG. 3.11 PRODUCER MILK PRICES – LIQUID/ MANUFACTURING 1995- 2006



4. PROCESSORS

TABLE 4.0 STRUCTURE OF ACTIVE REGISTERED PRODUCERS BY PROCESSORS' SUPPLY BANDS 2005/06

MILK SUPPLY BANDS	NUMBER OF PROCESSORS	ACTIVE REGISTERED PRODUCERS		TOTAL SUPPLIES	
million litres		**number**	**%**	**m. litres**	**%**
0 – 20	10	384	16	60	13
20 – 60	3	364	16	76	16
Over 60	2	1,612	68	335	71
TOTAL	**15**	**2,360**	**100**	**471**	**100**

As at 31st December 2006
** Included supplies from all registered producers supplying milk for heat treatment for liquid consumption.*

- The number of registered processors remains at 15, the same as in 2005.
- Two processors operating plants in the State for the processing of milk for liquid consumption (including UHT milk) are not registered with the Agency. These processors import all their supplies of milk for processing for liquid consumption.
- The industry structure is highly concentrated. Two processors with annual milk supplies in excess of 60 million litres account for 68% of all contracts and 71% of supplies.
- The number of heat treatment establishments licensed to process milk for liquid consumption in the State was 21, of which 19 plants were operated by the 15 processors registered with the Agency while two plants were operated by processors, who were not registered with the Agency.
- Average annual milk supplies processed per plant were 26 million litres.

APPENDIX 1
MEETINGS OF THE AGENCY

Members	Meetings Attended 2006
Denis Murphy – Chairman*	7
Eamonn Bray [2] *	6
Daniel Joseph Corkery [3]	5/5
Donal Kelleher [2]	6
Diarmuid Lally [3] (*)	4/5
Padraig Mulligan [2]	7
George Kearns [4] *	6
James C Murphy [6]	5/5
John O'Callaghan [4]	7
Walter Maloney [4]	7
John Foster [4]	7
Richard Donohue [4] *	7
Michael Kilcoyne [4] (*)	5
Cormac Guinan [1]	2/2
Donal Murphy [1]	2/2
Tony O'Driscoll [5]	2/2

1 Elected
2 Re-elected
3 Did not seek re-election
4 Re-appointed
5 Appointed
6 Did not seek re appointment
** Members of the current Audit Committee*
(*) Past Member of the Audit Committee

The Agency held seven meetings during the year.

In October 2006 the triennial election of producer members of the Agency, was held in accordance with the Milk (Regulation of Supply) Act, 1994. Three of the previously serving members were re-elected – Eamonn Bray, Donal Kelleher and Padraig Mulligan. Cormac Guinan and Donal Murphy were elected to fill the seats vacated by Daniel Corkery and Diarmuid Lally, who did not seek re-election.

Six of the other ordinary members were re-appointed by the Minister for Agriculture & Food, following nominations received from processor, consumer, distributor and retailer interests – George Kearns and John O'Callaghan to represent processors; Richard Donohue and Michael Kilcoyne to represent consumers; Walter Maloney to represent distributors and John Foster to represent retailers. Tony O' Driscoll and Frank Tobin were appointed as new processor members.

The Chairman and Chief Executive held four meetings with Department of Agriculture and Food officials, and provided updates on developments in the liquid milk sector and on the regulation of the supply of milk for processing for liquid consumption.

The Agency, through its executive, has regular contact with representatives of Teagasc, the National Dairy Council, the National Dairies Association, the Irish Farmers Association, the Fresh Milk Producers Association, Kerry Liquid Milk Producers and other groups and organisations.

The Agency sought the advices of expert economists on different aspects of the liquid milk sector during the year.

The Agency nominates one producer member (currently Mr. Eamonn Bray) to be a member of the National Dairy Council.

The Audit Committee consisting of four members (Diarmuid Lally (Chairman), George Kearns, Michael Kilcoyne and Denis Murphy) held four meetings during the year. Eamonn Bray was appointed as Chairman of the Audit Committee in December and Richard Donohue was appointed as a new member.

APPENDIX 2

REGISTER OF PRODUCERS/MILK SUPPLIES

TABLE A REGISTER OF PRODUCERS

Year	Registered Producers	De-registered Producers	New Producers
1995/96	3,360	2	2,472
1996/97	3,344	57	41
1997/98	3,300	142	98
1998/99	3,181	129	10
1999/00	3,209	66	94
2000/01	3,359	25	175
2001/02	3,093	282	16
2002/03	3,133	58	98
2003/04	2,716	486	69
2004/05	2,575	194	53
2005/06	2,492	141	58

Register of Producers as at 31 December in each year. Producers remain on the Register until the Agency is notified that producers have permanently ceased to supply milk for the processing for liquid consumption. Some producers who have no registered contract remain on the Register until such notifications are received.

TABLE B REGISTERED MILK SUPPLIES BY CONTRACT TYPES

Milk Year	Total	All Year Round	Winter Months Only
	m. litres	**m. litres**	**m. litres**
1995/96	497.3	488.4	8.9
1996/97	474.6	467.3	7.3
1997/98	434.6	427.3	7.3
1998/99	433.2	426.4	6.8
1999/00	436.9	428.7	8.2
2000/01	452.6	446.1	6.5
2001/02	458.7	451.6	7.1
2002/03	468.1	458.0	10.1
2003/04	465.5	457.4	8.1
2004/05	425.7	416.3	9.4
2005/06	438.7	427.4	11.3

APPENDIX 3

PRICE DIFFERENTIALS

TABLE A ALL YEAR ROUND CONTRACTS – 1995/96 TO 2005/06 – PRICE DIFFERENTIALS BETWEEN FLAT SYSTEM AND MMP SYSTEM

	AYR Contracts				Price Differential	
Milk Year	**Average FLAT Prices**		**Average MMP Prices**		**FLAT Price v MMP Price**	
	c/litre	c/g	c/litre	c/g	c/litre	c/g
1995/96	33.77	153.5	32.30	146.8	1.47	6.7
1996/97	33.46	152.1	32.28	146.8	1.18	5.4
1997/98	32.65	148.4	31.67	143.9	0.98	4.5
1998/99	32.65	148.4	30.64	139.3	2.01	9.1
1999/00	32.43	147.4	30.73	139.7	1.70	7.7
2000/01	33.01	150.0	32.36	147.1	0.65	2.9
2001/02	33.11	150.5	31.42	142.8	1.69	7.7
2002/03	32.56	148.0	31.13	141.5	1.43	6.5
2003/04	32.38	147.2	31.32	142.4	1.06	4.8
2004/05	31.74	144.3	30.11	136.9	1.63	7.4
2005/06	31.12	141.5	29.12	132.4	2.0	9.1

TABLE B AVERAGE ANNUAL PRODUCER MILK PRICES – 1995-2006 – LIQUID/MANUFACTURING PRICE DIFFERENTIALS

Calendar Year	Prices – Liquid		Prices – Manufacturing*		Price Differential	
	c/litre	c/g	c/litre	c/g	c/litre	c/g
1995	32.84	149.3	29.32	133.3	3.52	16.0
1996	34.07	154.9	29.26	133.0	4.81	21.9
1997	32.85	149.3	26.85	122.1	6.00	27.3
1998	32.31	146.9	28.37	129.0	3.94	17.9
1999	32.20	146.4	27.51	125.1	4.69	21.3
2000	32.09	145.9	28.21	128.2	3.88	17.6
2001	33.26	151.2	29.31	133.2	3.95	18.0
2002	32.70	148.7	27.06	123.0	5.64	25.6
2003	32.26	146.7	26.79	121.8	5.47	24.9
2004	32.26	146.7	26.84	122.0	5.42	24.6
2005	31.00	140.9	26.29	119.5	4.71	21.4
2006	30.51	138.7	25.36	115.3	5.15	23.4

**net of collection charges*

APPENDIX 4

STRUCTURE OF MILK SUPPLIES OF REGISTERED PRODUCERS

TABLE A
STRUCTURE OF MILK SUPPLIES OF REGISTERED PRODUCERS 2005/06 AND 2004/05

Annual Supply Bands	Active Registered Producers*		Total Supplies		Supplies for Liquid Consumption		Supplies for Manufacturing		Average Supplies for Liquid		*% of Active Registered Producers*		*% of Total Supplies*		*% of Liquid Supplies*		*Liquid Supplies % Total Supplies*	
litres	number		m. litres		m. litres		m. litres		'000s litres									
	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	*05/06*	*04/05*	*05/06*	*04/05*	*05/06*	*04/05*	*05/06*	*04/05*
<49,999	166	146	3.5	3.3	2.4	2.5	1.0	0.7	15	17	*7*	*6*	-	-	*1*	-	*70*	*77*
50,000-99,999	166	163	12.3	12.5	8.7	8.3	3.6	4.2	52	51	*7*	*7*	*2*	*2*	*2*	*2*	*71*	*66*
100,000-149,999	161	199	20.1	25.2	11.9	14.4	8.2	10.9	74	72	*7*	*8*	*3*	*3*	*3*	*3*	*59*	*57*
150,000-199,999	206	232	36.3	41.1	18.7	23.5	17.5	17.6	91	101	*9*	*9*	*4*	*5*	*4*	*5*	*52*	*57*
200,000-249,999	262	283	59.1	63.9	33.4	35.0	25.7	28.9	127	124	*11*	*11*	*7*	*8*	*7*	*7*	*56*	*55*
250,000-299,999	265	300	73.6	82.6	39.8	44.9	33.9	37.7	150	150	*11*	*12*	*9*	*10*	*8*	*9*	*54*	*54*
300,000-349,999	219	266	71.2	86.0	36.9	42.7	34.4	43.3	168	160	*9*	*11*	*9*	*10*	*8*	*9*	*52*	*50*
350,000-399,999	193	223	72.0	83.6	36.8	42.5	35.2	41.0	191	191	*8*	*9*	*9*	*10*	*8*	*9*	*51*	*51*
400,000-449,999	172	171	73.0	72.4	40.0	42.0	32.9	30.3	233	246	*7*	*7*	*9*	*9*	*9*	*9*	*55*	*58*
450,000-499,999	113	106	53.4	50.2	31.7	28.9	21.7	21.3	281	272	*5*	*4*	*7*	*6*	*7*	*6*	*59*	*58*
500,000-599,999	161	149	88.2	81.0	52.1	50.3	36.0	30.7	324	338	*7*	*6*	*11*	*10*	*11*	*10*	*59*	*62*
600,000-699,999	74	82	47.8	53.2	31.2	31.4	16.7	21.8	421	383	*3*	*3*	*6*	*6*	*7*	*7*	*65*	*59*
Over 700,000	202	179	205.8	178.5	127.1	116.6	78.7	61.8	629	652	*9*	*7*	*25*	*21*	*27*	*24*	*62*	*65*
Total	**2,360**	**2,499**	**816.0**	**833.3**	**471.0**	**483.0**	**345.0**	**350.3**	**200**	**193**	**100**	**100**	**100**	**100**	**100**	**100**	**58**	**58**

Source: NMA
Figures adjusted for rounding.
**All active registered producers supplying milk for heat treatment for liquid consumption including producers without registered contracts for 2005/06.*

TABLE B
STRUCTURE OF DOMESTIC MILK SUPPLIES & LIQUID MILK SUPPLIES CLASSIFIED BY ANNUAL SUPPLY BANDS 2005/06 & 2004/05

	Producers										Supplies									
Annual Supply Bands	Active All Producers		Active Registered Producers*		All Producers		Active Registered Producers*		Registered Producers * % All Producers		Domestic Supplies		Supplies of Registered Producers*		% of Domestic Supplies All Producers		% of Registered Producers'* Supplies		% of Domestic Supplies of Registered Producers*	
	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05
Litres	No.	No.	No.	No.	%	%	%	%	%	%	ml	ml	ml	ml	%	%	%	%	%	%
<50,000	1091	1179	166	146	5	5	7	6	15	12	32	37	3.5	3.3	1	1	0.4	0	11	9
50,000-100,000	2529	2672	166	163	11	12	7	7	65	6	195	206	12.3	12.5	4	4	1.5	2	6	6
100,001-200,000	6712	6934	367	431	30	31	16	17	54	6	1,021	1053	56.4	66.3	20	21	6.9	8	6	6
200,001-250,000	3727	3751	262	283	17	17	11	11	7	8	835	840	59.1	63.9	16	16	7.2	8	7	8
250,001-300,000	2815	2771	265	300	13	12	11	12	9	11	769	755	73.6	82.6	15	15	9.0	10	10	11
300,001-350,000	1762	1779	219	266	8	8	9	11	12	15	569	574	71.2	86.0	11	11	8.7	10	13	15
350,001-400,000	1241	1206	193	223	6	5	8	9	15	18	460	448	72.0	83.6	9	9	8.8	10	16	19
400,001-450,000	657	645	172	171	3	3	7	7	26	27	277	271	73.0	72.4	5	5	8.9	9	26	27
Over 450,000	1508	1449	550	516	7	6	23	21	36	36	949	911	395.2	362.9	19	18	48.4	44	42	40
Total	**22,042**	**22,386**	**2,360**	**2,499**	**100**	**100**	**100**	**100**	**11**	**11**	**5,106**	**5,095**	**816**	**833.3**	**100**	**100**	**100**	**100**	**16**	**16**

Sources: Department of Agriculture and Food – EU milk years 2004/05 and 2005/06 ended 31 March 2005 and 2006 respectively.
NMA – Milk years 2004/05 and 2005/06 ended 30 September 2005 and 2006 respectively.
** All registered active producers supplying milk for heat treatment for liquid consumption including producers without registered contracts for 2005/06.*

APPENDIX 5
REPORTS AND FINANCIAL STATEMENTS

for the Year Ended 31 December 2006

STATEMENT OF MEMBERS' RESPONSIBILITIES

The Milk (Regulation of Supply) Act, 1994 requires the members to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the National Milk Agency and of the surplus or deficit of the Agency for that period. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in business.

In accordance with the Act, the members are responsible for keeping proper books of account and other books and records as are necessary to give a true and fair view of the Agency's business and affairs. The members are also responsible for safeguarding the assets of the Agency and hence for taking reasonable steps to provide adequate protection in this regard.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE NATIONAL MILK AGENCY

We have audited the financial statements of the National Milk Agency for the year ended 31 December 2006 which comprise the Income and Expenditure Account, the Cash Flow Statement, the Balance Sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Agency's members, as a body, in accordance with Section 18(1) of the Milk (Regulation of Supply) Act, 1994. Our audit work has been undertaken so that we might state to the Agency's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Agency and the Agency's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The members are responsible for preparing the Annual Report, including as set out in the Statement of Members' Responsibilities, the preparation of the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Agency as at 31 December 2006 and of the surplus for the year then ended.

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors
Dublin
13 March 2007

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 €	2005 €
Income			
Milk levy – continuing operations	*2*	**583,364**	561,739
Other income	*3*	**30,784**	22,451
		614,148	584,190
Expenditure			
Salaries and superannuation		**371,039**	354,053
Administration costs	*4*	**234,322**	258,198
Depreciation		**3,404**	2,756
		608,765	615,007
Surplus/(deficit) for the year	*10*	**5,383**	(30,817)

Approved by the Members on: 13 March 2007

Denis Murphy
Chairman

Eamonn Bray
Member

BALANCE SHEET

AT 31 DECEMBER 2006

	Notes	2006 €	2005 €
Assets Employed			
Tangible assets	6	**6,590**	6,839
Current Assets			
Debtors	7	**97,159**	108,515
Cash at bank and in hand	8	**1,197,417**	1,077,408
		1,294,576	1,185,923
CREDITORS (Amounts falling due within one year)	9	**(587,288)**	(484,267)
Net Current Assets		**707,288**	701,656
Total Assets Less Current Liabilities		**713,878**	708,495
Financed By:			
Accumulated fund – surplus	10	**713,878**	708,495

Approved by the Members on: 13 March 2007

Denis Murphy
Chairman

Eamonn Bray
Member

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005
	€	€
Operating Activities		
Net cash inflow from operating activities (Note (a))	**92,380**	41,207
Returns on investments and servicing of finance		
Interest received	**30,784**	22,353
Capital expenditure		
Payments to acquire tangible fixed assets	**(3,155)**	(3,245)
Management of liquid resources (Note (b))		
Disposal of investments	-	55,270
Net cash inflow from management of liquid resources	-	55,270
Increase in cash at bank and in hand (Note (c))	**120,009**	115,585

RECONCILIATION OF CASH FLOW STATEMENT TO MOVEMENT IN NET FUNDS

	2006	2005
	€	€
Increase in cash at bank and in hand	**120,009**	115,585
Decrease in liquid resources	-	(55,270)
Movement in net funds for the year	**120,009**	60,315
Net funds at beginning of year	**1,077,408**	1,017,093
Net funds at end of year (see Note (c))	**1,197,417**	1,077,408

RECONCILIATION OF CASH FLOW STATEMENT TO MOVEMENT IN NET FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2006

Note (a)

Reconciliation of operating (deficit)/surplus to Net cash inflow/(outflow) from operating activities

	2006	2005
	€	€
Surplus/(deficit) for year	**5,383**	(30,817)
Depreciation	**3,404**	2,756
Decrease in debtors	**11,356**	41,079
Increase in creditors	**103,021**	50,542
Interest received	**(30,784)**	(22,353)
	92,380	41,207

Note (b)

Liquid resources

Liquid resources comprise investments in government securities.

Note (c)

	At 1 January 2006	Cash flows	**At 31 December 2006**
	€	€	**€**
Analysis of changes in net funds			
Cash at bank and in hand	12,250	45,487	**57,737**
Cash deposits	1,065,158	74,522	**1,139,680**
	1,077,408	120,009	**1,197,417**
Net funds	1,077,408	120,009	**1,197,417**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets over their expected useful lives as follows:

Furniture	10 years
Office equipment	5 years
Computer equipment	3 years

(c) Superannuation scheme

The final draft of the superannuation scheme for the staff of the Agency referred to in paragraph 14 of the Schedule of the Milk (Regulation of Supply) Act, 1994, has been submitted for approval to the Department of Agriculture and Food and the Department of Finance by the Agency's pension advisor.

The Department of Finance has confirmed to the Agency that the Exchequer will bear the cost of paying all superannuation benefits to and in respect of the pensionable employees of the Agency, subject to the payment by the Agency to the Department of Agriculture and Food of all employer and employee contributions collected to date and for the future (see note 11).

The Agency's annual contributions for staff superannuation benefits are based on actuarial advice and are charged to the Income and Expenditure Account in the year to which they relate.

Superannuation contributions paid by the Agency and its staff are held in a separate bank account (see note 8).

2. MILK LEVY

A levy of 0.127 cent per litre of milk purchased for processing for liquid consumption is payable by milk processors under Section 8 of the Milk (Regulation of Supply) Act, 1994.

The milk levy receivable included in the financial statements is based on returns received from processors or their estimated milk supplies where returns have not been received.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

3. OTHER INCOME

	2006	2005
	€	€
Deposit interest	**30,784**	21,611
Interest on government securities	**-**	840
	30,784	22,451

4. ADMINISTRATION COSTS

	2006	2005
	€	€
Staff expenses	**53,800**	58,505
Training and education	**7,000**	7,000
Members' expenses	**24,283**	25,271
Chairman's remuneration	**7,618**	7,618
Stationery	**6,082**	3,381
Annual report	**29,075**	28,747
Telephone	**7,794**	13,923
Postage	**5,500**	3,888
Publications	**1,516**	2,890
Legal fees	**5,681**	30,876
Computer consultancy	**8,313**	7,380
Audit fees and advices	**4,421**	3,604
Rent	**44,858**	39,528
Insurance	**3,721**	5,019
Accounting fees	**3,300**	3,000
Electricity and cleaning	**30**	80
Repairs and renewals	**3,971**	4,330
Miscellaneous	**17,359**	13,158
	234,322	258,198

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

5. TAXATION

The Agency has been included as an exempt body under the Taxes Consolidation Act, 1997 (Amendment of Schedule 4) Order, 2002, effective from 30 December 1994.

6. TANGIBLE FIXED ASSETS

	Furniture	Office equipment	Computer equipment	Total
	€	€	€	€
Cost:				
At 1 January 2006	12,658	19,836	59,776	92,270
Additions	-	290	2,865	3,155
At 31 December 2006	12,658	20,126	62,641	95,425
Depreciation:				
At 1 January 2006	10,044	17,321	58,066	85,431
Charged in year	367	1,227	1,810	3,404
At 31 December 2006	10,411	18,548	59,876	88,835
Net book amounts:				
At 31 December 2006	2,247	1,578	2,765	6,590
At 31 December 2005	2,614	2,515	1,710	6,839

7. DEBTORS (Amounts falling due within one year)

	2006	2005
	€	€
Milk levy receivable	**82,416**	95,481
Prepayments	**10,726**	10,911
Other debtors	**4,017**	2,123
	97,159	108,515

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

8. CASH AT BANK AND IN HAND

As at 31 December 2006 an amount of €515,216 (2005: €456,265) was being held in a separate bank account to meet the obligations in relation to the superannuation scheme for the staff of the Agency which is awaiting the approval of the Department of Agriculture and Food and the Department of Finance (see notes l (c) and 11).

9. CREDITORS (Amounts falling due within one year)

	2006	2005
	€	€
Pension contributions	**515,216**	456,265
Accruals and other creditors	**72,072**	28,002
	587,288	484,267

10. RECONCILIATION OF MOVEMENT IN ACCUMULATED FUND

	2006	2005
	€	€
Accumulated surplus brought forward	**708,495**	739,312
Surplus/(deficit) for the year	**5,383**	(30,817)
Accumulated fund carried forward	**713,878**	708,495

11. SUPERANNUATION COMMITMENTS

The National Milk Agency, in accordance with the provisions of the Milk (Regulation of Supply) Act, 1994, is required to establish a superannuation scheme for the staff of the Agency to be operated as a defined benefit scheme. The final draft of the superannuation scheme has been submitted to the Department of Agriculture and Food and the Department of Finance by the Agency's pension advisor and is awaiting approval.

The Agency's annual contributions have been assessed by a professionally qualified actuary and are charged to the Income and Expenditure Account in the year to which they relate. The charge for the current year amounted to €44,826 (2005: €41,246). The Agency's superannuation contributions and the superannuation contributions collected from employees are held in a separate bank account and will be paid over to the Department of Agriculture and Food on the final approval of the superannuation scheme. At 31 December 2006 the amount held in the separate bank account was €515,216 (2005: €456,265) (see note 8).

Full implementation of Financial Reporting Standard 17 ("FRS 17") is required for accounting periods beginning on or after 1 January 2005. In certain circumstances FRS 17 permits defined benefit schemes to be accounted for as if they were defined contribution schemes with no requirement to account for the fair value of the assets and liabilities of the scheme or to disclose the scheme liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

11. SUPERANNUATION COMMITMENTS (continued)

The Department of Finance has confirmed to the National Milk Agency that, subject to the payment by the Agency to the Department of Agriculture and Food of all employer and employee contributions collected to date and for the future, the Exchequer will bear the cost of paying all superannuation benefits to and in respect of the pensionable employees of the Agency. The annual rate of employer's contribution will not exceed 16.67% of salaries.

The Department of Agriculture and Food has also confirmed to the National Milk Agency that, subject to the National Milk Agency making the payments as detailed in the paragraph above, it will accept responsibility for meeting the superannuation entitlements of the members of the proposed scheme in respect of their membership of that scheme and of the former Dublin District Milk Board pension scheme.

Accordingly, the National Milk Agency considers that since this arrangement will have the same financial effect as a defined contribution scheme, no FRS 17 disclosures are required.

APPENDIX 6

STATUTES AND STATUTORY INSTRUMENTS RELATING TO THE AGENCY

Statutes

Milk (Regulation of Supply) Act, 1994

Milk (Regulation of Supply) (Amendment) Act, 1995

Milk (Regulation of Supply) (Amendment) Act, 1996

Freedom of Information Act, 1997 (Prescribed Bodies) (No. 2) Regulations 2002

Statutory Instruments

S.I. No. 409 of 1994 – Milk (Regulation of Supply) (Establishment of National Milk Agency) Order, 1994

S.I. No. 460 of 1994 – National Milk Agency (Election Day) Order, 1994

S.I. No. 234 of 1995 – National Milk Agency (Members) Regulation, 1995

S.I. No. 252 of 1995 – Milk (Regulation of Supply) Act 1994 (Section 5) (Commencement) Order 1995

S.I. No. 253 of 1995 – Milk (Regulation of Supply) (Levy) Order, 1995

S.I. No. 254 of 1995 – National Milk Agency (Winter Months) Regulations, 1995

S.I. No. 309 of 1995 – National Milk Agency (Revocation of Election Day) Regulations 1995

S.I. No. 347 of 1995 – Milk (Regulation of Supply) (Levy Returns) Regulations, 1995

S.I. No. 348 of 1995 – Milk (Regulation of Supply) (Application for Registration) Regulations, 1995

S.I. No. 265 of 1996 – National Milk Agency (Fees) Regulations, 1996

S.I. No. 184 of 1997 – National Milk Agency (Election Day) Regulations, 1997

S.I. No. 185 of 1997 – National Milk Agency (Conduct of Elections) Regulations, 1997

S.I. No. 271 of 2000 – National Milk Agency (Conduct of Elections) (Amendment) Regulations, 2000

S.I. No. 272 of 2000 – National Milk Agency (Election Day) Regulations, 2000

S.I. No. 368 of 2003 – National Milk Agency (Election Day) Regulations, 2003

S.I. No. 369 of 2003 – National Milk Agency (Conduct of Elections) (Amendment) Regulations, 2003

S.I. No. 471 of 2006 – National Milk Agency (Conduct of Elections) (Amendment) Regulations, 2006

S.I. No. 472 of 2006 – National Milk Agency (Election Day) Regulations, 2006