National Milk Agency

Annual Report & Accounts 2004

NATIONAL MILK AGENCY

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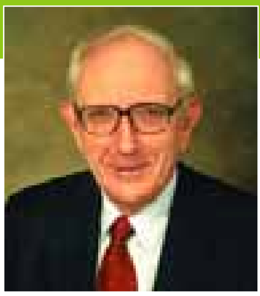
IPC HOUSE, 35-39 SHELBOURNE ROAD
BALLSBRIDGE, DUBLIN 4

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.

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



Denis Murphy
Chairman

Dear Minister
A Aire, a chara

I am pleased to present the Annual Report of the National Milk Agency for 2004 in accordance with Section 18 of the Milk (Regulation of Supply) Act, 1994.

Last year was a significant year in the evolution of the EU with the accession of ten new member states on May 1 and the implementation on July 1 of the first phase of the reduction of intervention support payments under the Mid Term Review of the Common Agricultural Policy.

The expected fall in EU market prices for dairy products did not materialise following the reduction in EU product price supports due to a combination of higher demand and higher prices on the world market and constrained milk supplies in the EU and in Australia. Producer prices in Ireland for manufacturing milk supplies held steady despite expectations of milk price cuts.

In the liquid milk sector retailer consolidation and the aggressive discounting of own label milk by retail multiples combined, with increased imports of milk for processing for liquid consumption, to create a very competitive market environment for registered milk producers, processors, distributors and small retailers. Producer prices for liquid milk supplies, however, held steady for the 2003/04 milk year.

The continued growth in imports from Northern Ireland of bulk and packaged milk for liquid consumption in the State together with the availability of all year round milk supplies in Northern Ireland at net producer prices, which in 2004 were approximately the same as producer prices for seasonal supplies of manufacturing milk in the State, pose serious concerns for the stability and viability of the liquid milk sector in the State.

The consolidation of the Irish milk production sector continued with the number of active milk producers falling by almost 6% to 23,767 and the number of producers with registered liquid milk contracts falling by 3% to 2,656.

A new Milk Quota Restructuring Programme was announced in December with the objective of maximising the volume of quota for allocation to active committed milk producers. Under the Programme the fixed price for the sale and purchase of quota in 2005/06 will be 17.5 c/litre (80 c/g) with a reduction to a price not exceeding 12 c/litre (55 c/g) for the 2006/07 restructuring pool.

The Report of the Agri Vision 2015 Committee, which was published in November, forecasts further structural changes in dairy farming arising from retirement patterns, succession patterns and decoupling. The Report projects that the number of active dairy farms in 2015 will be 15,500, which will include 12,500 viable dairy farms, 1,500 non-viable part-time dairy farms and 1,500 transitional dairy farms.

In the restructuring of the processing sector of the Irish liquid milk industry to address a changed economic environment and market an important milestone was reached in early 2005 with Glanbia's purchase of Dairygold's liquid milk business as part of a joint venture agreement on processing rationalisation.

Following the commencement of the 2004/05 milk year, phased price reductions by processors in producer prices for milk for liquid consumption, ranging from 4.5 c/g to 10.8 c/g and currently estimated to average 5.3 c/g for the milk year have met with very strong resistance from registered milk producers.

Producer prices for manufacturing milk supplies have also been reduced since the commencement of the calendar year with price reductions to date, ranging from 1.8 c/g to 4 c/g, following cuts in EU product subsidies under the Mid Term Review.

Registers

Milk supply contracts between producers and processors, which were registered with the Agency for the milk year 2003/04, numbered 2,656, a net decrease of 80 contracts on the number of contracts registered in the previous year.

Sixteen liquid milk processors were registered with the Agency, the same number as in the previous year.

The level of compliance by registered processors with the Agency's regulatory requirements continued to improve.

Milk Supplies

Milk supplies purchased under registered contracts, for processing for liquid consumption, amounted to 465 million litres (102 million gallons), a decrease of less than 1% on the previous year. Average milk supplies per contract increased by 2% to 175,000 litres (38,000 gallons).

Contracts

All Year Round milk supply contracts numbered 2,510 contracts, under which 457 million litres (101 million gallons) were purchased, representing 95% of all contracts and 98% of milk supplies purchased under contracts. The number of All Year Round contracts fell by 73.

Winter Contracts comprised 146 contracts representing 5% of contracts and 2% of milk supplies.

Primary Type contracts comprised 1,891 contracts and continued to be the dominant type of All Year Round contract representing 71% of all contracts and 77% of all milk supplies. This was a decrease of 104 contracts on the revised number of these contracts in the previous year when they represented 73% of all contracts and 77% of milk supplies.

Under the Primary Type contracts the Flat Price System is applied in a seven months winter premium period and in a five months summer period. Seven processors implemented the Primary Type contract.

The Flat Price System continued to be the main pricing system for registered milk supplies and was applied in 81% of all contracts, both All Year Round and Winter contracts, and to 83% of milk supplies. The Manufacturing Milk Price Plus Bonus System was applied in 19% of all contracts and to 17% of milk supplies.

Registered Milk Producers

The 2,656 registered milk producers with contracts are the leaders in all year round milk production in the State. In 2004 they represented 11% of all milk suppliers and supplied 858 million litres, which represented 17% of domestic milk supplies, similar to the previous year. Average total milk supplies for registered milk producers in 2004 were 323,000 litres (71,000 gallons), an increase of 11,000 litres or 4% on the previous year.

Registered producers' milk supplies for processing for liquid consumption amounted to 465 million litres, 54% of total supplies, while supplies for processing into manufactured dairy products amounted to 392 million litres, 46% of total supplies. Registered producers supplied 26% of domestic milk supplies in the designated winter months (October to February) and 42% of domestic milk supplies in the months of December and January.

Milk Prices

In 2003/04 the average milk price paid, excluding value added tax, under all registered contracts was 32.25 c/litre (147 c/g), a reduction of less than 1% on the previous years price.

The price differential between the annual producer price for liquid milk supplies and the estimated annual average producer price for manufacturing milk supplies was approximately 5.4 c/litre (25 c/g).

Under the 2,510 All Year Round contracts (95% of contracts), the weighted average price paid, during the seven winter months period, was 35.22 c/litre (160 c/g) and during the five summer months was 27.82 c/litre (126 c/g).

In the All Year Round contracts the differential between the price paid under the Flat Price System and the Manufacturing Milk Price plus Bonus System narrowed to 1.06 c/litre (5 c/g).

Consumption, Retailing and Distribution

The domestic liquid milk market of 556 million litres (122 million gallons) is the largest consumer market for milk and milk products in the State. Total consumption decreased by 5 million litres (1 million gallons) or 1% in 2004 compared with revised consumption volumes in 2003.

Fresh milk continued as an excellent value for money product for consumers with the retail price of milk in 1 litre packs of milk falling by 16% in real terms since 1995.

Ireland's daily per capita consumption of milk of 0.4 litres continued to be the highest in the EU after Finland and almost double the EU average.

Last year the share of the domestic milk market sourced from indigenous milk supplies fell to 83% due to market penetration by growing volumes of imported milk supplies.

The Irish retail grocery market continued to consolidate with the four major multiples controlling 76% of the grocery market in 2004 compared with 72% in the previous year.

In the Irish market an estimated 63% of sales of liquid milk in retail multiples are sold under processors' brands and 37% under retailers' own label. Irish processors are bringing innovation and excitement to the fresh milk market with the introduction of branded flavoured milk products and branded milk enriched with omega 3 fish oils. In the UK market 95% of liquid milk sales in multiples are now sold as own label products and processors are endeavouring to restore and revitalise their brands.

Discounted sales of own label milk continued to displace processor's milk brands to the benefit of consumers but with reduced margins for retailers and consequent pressure on processors' prices and ultimately on producers' milk prices.

Own label milk in 2 litre packs retailed at €1.19 per pack, equivalent to a discount of 32 c/litre or 21% compared with processors' brands in 2 litre packs retailing at €1.51 in the Dublin area.

In Northern Ireland the average retail price of own label milk in 2 litre packs, which was charged by some multiples operating both in the State and in Northern Ireland, was 26% higher than the own label product of those retailers in the State and similar to the retail price of processors' brands in the State.

Milk Imports

Last year total milk imports into the State by creameries and pasteurisers for processing amounted to 377 million litres (83 million gallons), an increase of 28 million litres (6 million gallons) or 8% on the previous year. Imports for processing into manufactured dairy products represented 86% of these imports while imports for processing and packing for liquid consumption represented 14%.

These imports did not include packaged liquid milk imports, which were estimated at 38 million litres (8.4 million gallons).

Milk imports, which were the highest on record, were mainly from Northern Ireland and represented over 7% of the State's annual domestic milk supplies and 21% of Northern Ireland's annual milk supplies. If packaged liquid milk imports are included, total imports of milk into the state were equivalent to almost 90% of the increase of 467 million litres (103 million gallons) in milk supplies in Northern Ireland since 1993.

Exports of skim milk, whole milk and cream from processors in the State to Northern Ireland were estimated at 64 million litres (14.1 million gallons) in 2004, a reduction of 16 million litres (3.5 million gallons) on the previous year.

The annual milk supply profile in Northern Ireland is relatively flat with a 1.5 times peak to valley month ratio compared with the highly seasonal milk supply profile in the State, which has a 5.6 times peak to valley month ratio.

Last year imports from Northern Ireland of milk, for processing and packing for liquid consumption in the State, mainly by processors located in border counties, amounted to 55 million litres (12.1 million gallons), an increase of 14% on 2003.

Imports of liquid milk in final packaged form from Northern Ireland were estimated at 38 million litres (8.4 million gallons) and were virtually unchanged from the revised packaged imports in the previous year.

Total milk imports for liquid consumption, amounted to 93 million litres (20.5 million gallons) of which 59% were milk imports for processing and 41% were packaged liquid milk imports. This represented an increase of 7 million litres (1.5 million gallons) or 8% on the revised import volumes in the previous year.

Milk imports secured a 17% share of the 556 million litres (122 million gallons) domestic market for liquid milk compared with 15% in the previous year.

In 2004 the average net producer price in Northern Ireland for all year round milk supplies was 26.90 c/litre (122 c/g) similar to the estimated average price for manufacturing milk supplies in the State.

Dairy Sector

The outturn for dairying in 2004 was better than expected with estimated gross and net margins earned per cow and per hectare being higher on average by 6% and 10% respectively on 2003.

Manufacturing milk prices paid to producers held steady despite expectations of weaker milk prices arising from the first 6% reduction in the EU intervention prices from July 1 under the Mid Term CAP Review.

The first phase of the coupled dairy premium compensation payment of 1.18c/l (5.4 c/g) to compensate for the reduction of intervention support prices, which came into effect on July 1, was paid to all eligible producers between October and December 2004.

World dairy product prices rose substantially due to higher demand and constrained milk supplies both in the EU and in Australia. EU market prices for commodity products also traded above EU support prices despite the ongoing cuts in export refunds and the relative strength of the Euro against the US dollar.

Total input costs per gallon are estimated to have been approximately the same as in 2003 with higher concentrate and fertiliser prices offsetting lower usage. Forage conservation costs increased due to higher labour and fuel costs.

The outlook for milk prices in 2005 will be strongly influenced by the market response to the second 6% reduction in EU product support payments commencing on July 1, to the emerging slow down in international demand and to the weak US dollar.

The decoupled dairy premium of 2.37 c/l (10.8c/g) will be paid in December and will be based on producers' milk quotas at March 31 2005.

Financial

The Agency's total income in 2004 amounted to €599,554, a slight reduction on the previous year's income of €599,590. Income from milk levies, representing 96% of total income, increased by €1,660 on the previous year while other income fell by €1,696.

Operating costs for the year amounted to €587,282 an increase of €13,902 or over 2% on the previous year. Personnel and related costs, which represented 69% of total costs, increased by 6% while other costs reduced by approximately 1%.

The excess of income of €599,554 over costs of €587,282 resulted in a surplus of €12,272 for the year, representing 2% of total income.

The Accumulated Fund increased to €739,312 at year end and was comprised of cash, deposits and government securities (net of creditors and pension contributions) of €583,368, debtors of €149,592 and fixed assets of €6,352.

Agency Meetings

During the year the Agency held eight meetings. The attendance ratio was 83%.

Compliance

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.

No requests for information under the Freedom of Information Act 1997 were received by the Agency.

Conclusion

The Agency members and staff were shocked and saddened by the recent untimely death of Mr. Pat Brophy, who was a member of the Agency since December 2001. Pat was a positive contributor to the workings and development of the Agency and will be sadly missed by all of us.

The Agency wishes to thank the liquid milk processors and the representative bodies of producers, processors, consumers, retailers and distributors for their cooperation and assistance during the year.

The Agency also appreciated the active support and advice received from the officials of the Department of Agriculture and Food and other State Agencies.

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

Denis Murphy
Chairman

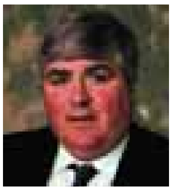
NATIONAL MILK AGENCY

IPC HOUSE, 35-39 SHELBOURNE ROAD
BALLSBRIDGE, DUBLIN 4

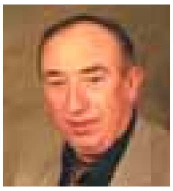
Chairman

Denis Murphy

Producers' Representatives



Eamonn Bray



Daniel Joseph Corkery

Donal Kelleher

Diarmuid Lally

Padraig Mulligan

Processors' Representatives

Patrick Brophy
Deceased 17th June 2005

George Kearns

James C. Murphy

John O'Callaghan

Distributors' Representative

Walter Maloney

Retailers' Representative

John Foster

Consumers' Representatives

Richard Donohue

Michael Kilcoyne

NATIONAL MILK AGENCY

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Contents

Index of Data

Developments in the Liquid Milk Sector

Muiris Ó Céidigh
Chief Executive

Among the main developments in the liquid milk sector in 2004 were:

- Liquid milk consumption declined by 1% to 556 million litres.
- Processors continued to develop new products for the consumer.
- Indigenous milk supplies share of fresh milk market fell to 83% as imported milk supplies gained a 17% share of the market.
- Irish retail market continued to consolidate with four major multiples controlling 76% of the grocery market.
- Retailers own label milk attained an estimated 37% of retail milk sales.
- Aggressive discounting at retail level continued with own label milk in 2 litre packs selling at €1.19 per pack.
- Doorstep delivery as a distribution channel for liquid milk fell to 16% of the market.
- Registered contracts reduced by 3% to 2,656 contracts and registered supplies declined by 2 million litres to 465 million litres.
- Producer prices for milk for liquid consumption were almost unchanged for the milk year at 32.25 c/l (147 c/g).
- The Primary Type contract (with seven premium months) continued as the dominant contract compensation system representing 71% of contracts and 77% of total supplies.
- The average estimated differential between liquid milk prices and manufacturing milk prices was 5.4 c/l (25 c/g).

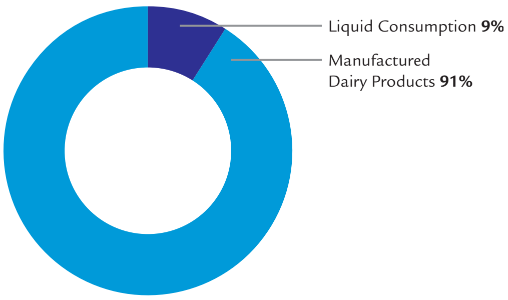
1. Milk Supplies

1.1 Domestic Milk Supplies

Domestic milk supplies to creameries and pasteurisers of 5,116 million litres (1,125m gallons) in 2004 from the State's 23,767 milk producers represented a decrease of 41 million litres (9m gallons) or 0.8% on the previous year.

91% of domestic supplies were utilised in the manufacture of dairy products mainly for export while 9% of domestic supplies were processed for liquid consumption.

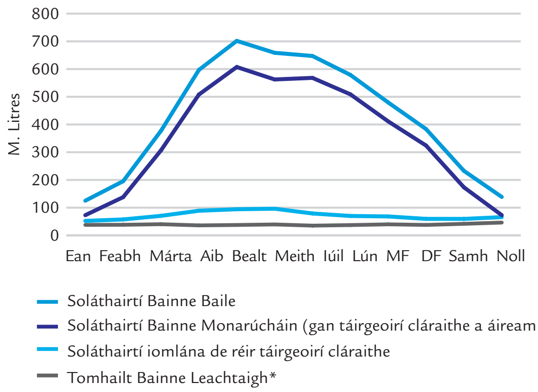
Fig. 1.0 Utilisation of Domestic Milk Supplies 2004



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 produced in the seven months of March to September and 21% in the five months of October to February inclusive.

The national milk supply profile has a peak to trough ratio of 5.6 times to 1, which is comprised of a peak to trough ratio of 8.2 times to 1 for manufacturing milk supplies and of 1.8 times to 1 for liquid milk supplies.

Fig. 1.2 Domestic Supplies, Manufacturing Milk Supplies by registered producers and Liquid Milk Consumption – by month 2004



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

Source: CSO/NMA.

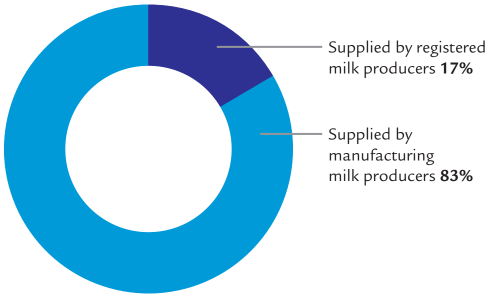
Total milk supplies by the State's 2,656 registered producers in 2003/04 amounted to 858 million litres (189m gallons), or 17% of domestic milk supplies and represented an increase of 4 million litres on 2002/03. Supplies for processing for liquid consumption amounted to 465 million litres (54% of total supplies by registered producers) while supplies for processing into manufactured dairy products amounted to 393 million litres (46% of total supplies).

Table 1.1 Seasonality of Domestic Milk Supplies

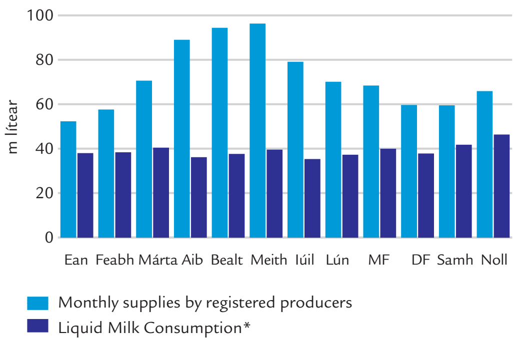
	2004 m litres	2003 m litres	2002 m litres	2001 m litres	2000 m litres	1999 m litres	1998 m litres	1997 m litres	1991 m litres
Peak month milk supplies	702	705	709	710	696	689	679	726	718
Trough month milk supplies	125	125	117	118	118	116	120	131	133
Peak to trough ratio	5.6	5.6	6.1	6.0	5.9	6.0	5.6	5.7	5.4

Source: Department of Agriculture and Food/CSO.

Fig. 1.3 Domestic Milk Supplies 2004



Fíor 1.4 Soláthairtí míosúla ag táirgeoirí cláraithe v Tomhailt Bainne Leachtaigh 2004



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

Source: CSO/NMA.

In the five designated winter months of October 2003 to February 2004 total milk supplies by registered producers amounted to 291 million litres (64m gallons) which, in comparison with liquid milk consumption (including packaged milk imports) of 234 million litres (51m gallons), provided a supply cover of 124%.

In the months of December 2003 and January 2004, total supplies by registered producers amounted to 116 million litres (25m gallons) and were 22 million litres (5m gallons) in excess of liquid milk consumption (including packaged milk imports) in those months, a supply cover of 123%.

1.2 Milk Imports/Exports

Last year total milk imports into the State for processing by creameries and pasteurisers amounted to 377 million litres (83m gallons), the highest milk import volumes on record, and an increase of 28 million litres (6m gallons) on 2003. These milk imports, which do not include packaged liquid milk imports, were mainly cross border movements of milk into the State from Northern Ireland and represented 7% of domestic supplies and 21% of Northern Ireland's annual milk supplies. Imports for processing into manufactured dairy products represented 86% of these imports while imports for processing for liquid consumption represented 14%.

Imports of bulk milk from Northern Ireland, mainly by processors located in border counties, for processing for liquid consumption within the State, amounted to 55 million litres (12.1m gallons), an increase of 7 million litres or 14% on bulk milk import volumes in 2003.

One of the importing processors with milk suppliers both in the State and in Northern Ireland paid the equivalent of liquid milk prices for all year round milk supplies of 6 million litres from unregistered suppliers in the State, who were previously on its liquid milk supply panel.

Total milk imports for liquid consumption amounted to 93 million litres (20.5m gallons) of which 59% were bulk imports for processing and 41% were packaged liquid milk imports. This was an increase of 7 million litres (1.5m gallons) or 8% on the revised import volumes in the previous year.

Exports of skim milk, whole milk and cream from processors in the State to Northern Ireland were estimated at 64 million litres (14.1m gallons) in 2004, a reduction of 16 million litres (3.5m gallons) or 20% on the previous year.

Imports of packaged liquid milk from Northern Ireland mainly for discount retailers, were estimated at 38 million litres (8.4m gallons), and were virtually unchanged from the revised estimates of packaged milk imports in the previous year.

1.3 Northern Ireland

Milk supplies in Northern Ireland in 2004 were 1,776 million litres (391m gallons) from 4,201 milk suppliers and were equivalent to 35% of domestic milk supplies in the State.

Table 1.5 Comparison of Milk Supplies in the State v Northern Ireland 2004

	Northern Ireland	State
Total Supplies – m litres	1,776	5,116
Suppliers – number	4,201	23,767
Average supplies per supplier – litres	435,000	214,000
Average Butterfat %	3.88%	3.75%
Average Protein %	3.20%	3.30%
Peak month/trough month ratio	1.5	5.6

Average milk supplies per supplier in Northern Ireland in 2004 were 435,000 litres (96,000 gallons) or more than double the average milk supplies per producer of 214,000 litres (47,000 gallons) in the State. Average milk suppliers by registered producers were 323,000 litres (71,000 gallons) in 2003/04.

The annual milk supply pattern in Northern Ireland differs significantly from the State. Milk supplies are available on an all year round basis rather on a seasonal basis as in the State with Northern Ireland having a peak to trough month ratio of 1.5 times to 1 compared with 5.6 times to 1 in the State.

Table 1.6 Northern Ireland Milk Supplies 1993-2004

	Milk Supplies m litres	Index
1993	1,309	100
2000	1,626	124
2001	1,787	137
2002	1,764	135
2003	1,772	135
2004	1,776	136

Since 1993, annual milk supplies in Northern Ireland have increased by 467 million litres (103m gallons) or 36%. Since that time the U.K has been regarded as one region and producers in Northern Ireland have bought in substantial additional milk quotas from Britain.

In 2004, 439 million litres (97m gallons) or 25% of Northern Ireland's annual milk supply was exported as raw milk compared with 22% in 2003. Over 85% of these raw milk exports were to the State.

Last year in Northern Ireland, 14% of annual milk supplies were utilised for processing for liquid consumption compared with 9% in the State.

Almost 60% of milk processed in Northern Ireland is traded by auction. In 2004 the average annual auction price was 19.50 p/l (130.6 c/g), a reduction of 0.41 c/l or 2% on the previous year.

The dairy sector in Northern Ireland in 2004 returned an average net price to producers for all year round milk supplies which was approximately the same as the average producer price for seasonal supplies of manufacturing milk in the State. The average net producer milk price in Northern Ireland in 2004 was 18.26 p/l (122 c/g), an increase of 0.26 p/l, (1.7 c/g) on 2003.

2. Liquid Milk Market

The liquid milk market is the largest consumer market in Ireland for milk and milk products. Per capita milk consumption in Ireland of 0.4 litres per day is the highest in the EU after Finland and almost double the EU average of 0.2 litres per day.

National consumption of liquid milk in 2004 was 556 million litres (122m gallons), a reduction of 5 million litres or 1% on the revised consumption volume for 2003 of 561 million litres.

Fresh milk continues to be a real value for money product for consumers. Since 1995 while the consumer price index increased by 32% and the food price index increased by 33% 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 16% since 1995.

Discounted own label milk in 2 litre packs is selling at an equivalent retail price for one litre that is 23% less in nominal terms and 42% less in real terms than the retail price 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 38% in 2004 compared with 42% in 1995.

Table 2.0 Retail Milk Prices – 1 litre pack/Producers Share of Retail Milk Price

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

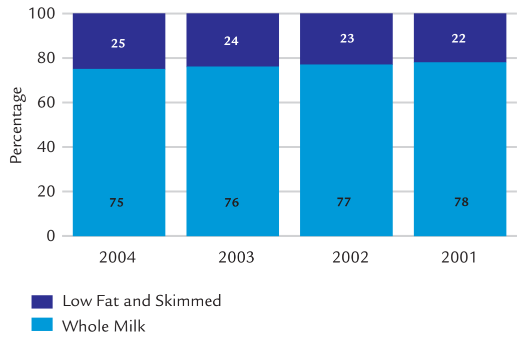
Source CSO/NMA.
** Excludes doorstep deliveries.*

Table 2.1 Consumer Price Index/Food Price Index/Retail Price Index

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

Source CSO/NMA.

Fig. 2.2 Composition of Fresh Milk Consumption 2001-2004



Source: CSO.

Sales of whole milk in 2004 declined by 2% and accounted for 75% of the market, while sales of lowfat and skimmed milk increased by 3% to 25% of the market. This represents a very different fresh milk product profile to Britain where almost 80% of sales are of semi skimmed and skimmed milk.

Retail Market

The process of retail consolidation continued with four multiple groups now commanding 76% of the Irish grocery market. Competitive rivalry between multiple retailers to aggressively defend and grow market shares has intensified with the market entry and rapid expansion of two international discount retailers. While the market share of these discounters remained static in 2004, growth in their market share is likely in the future as the number of their sales outlets increases.

Table 2.3 Grocery Market Shares

	2004	2003	2002
Tesco	25.4	23.5	23.7
Dunnes	22.2	21.0	22.0
SuperValu	19.1	19.0	18.8
Superquinn	8.9	8.2	8.9
Lidl/Aldi	5.2	5.7	1.6
Centra	3.2	2.9	2.9
Spar	2.5	2.6	2.5
All others	13.5	17.1	19.6
Total	**100**	**100**	**100**

Source: RGDATA.

The continued growth in retailers' own label grocery products has changed the balance of power in the food supply chain in favour of multiples enabling them to exert increasing downward pressure on the margins of processors and producers. Last year the big four retail multiples in the UK demonstrated their market power by switching between supply sources for fresh milk and reducing their individual supply sources to a maximum of two of the big three dairy processors per retailer.

In the liquid milk sector, retailers and particularly the larger multiples continue to grow in importance as distribution channels for liquid milk as doorstep deliveries continue the decline. Industry sources estimate that retailers now control 71% of the distribution channels for liquid milk while doorstep deliveries have a 16% share and catering has a 13% share.

In the Irish liquid milk market an estimated 63% of sales of liquid milk in retail multiples is sold under processors' brands and 37% is sold as retailers' own label, which contrasts with the UK market where only 5% of liquid milk sales are sold under processors' brands while 95% is sold as retailers' own label.

Own label milk in 2 litre packs in Dublin is currently retailing at €1.19 per pack, a discount of 21% on branded milk in 2 litre packs.

Retail multiples operating both in the State and in Northern Ireland are retailing own label milk in their outlets in Northern Ireland at prices similar to the prices of branded milk in the State and 26% higher than the price of own label milk sold by these retailers in the State.

3. National Registers of the Agency

Register of Processors

The number of registered processors (each group of registered processor companies within the State being taken as one) was sixteen following the merger of two processors during the year.

Since 1995 the number of heat treatment establishments licensed to process milk for liquid consumption has reduced from thirty two to twenty-two, of which twenty-one were establishments operated by processors registered with the Agency.

The unregistered processor, which purchases a small proportion of its annual milk supplies within the State, is currently engaged in discussions with the Agency regarding its registration.

Register of Producers

For the milk year 2003/04, the number of producers recorded in the Register of Producers at 31 December 2004 was 2,716, a net decrease of 417 in the number of producers registered in the previous year.

In 2003/04, 69 new producers were registered in respect of contracted supplies of 8.4 m litres to seven processors. A total of 486 producers were deregistered.

The large number of deregistrations was due to a general review of the Producer Register by the Agency in consultation with processors. Producers remain registered until the Agency is notified that producers have permanently ceased to supply milk for processing for liquid consumption. Some producers, who have no registered contracts in place, remain on the Register of Producers until such notifications are received.

Of the 486 deregistered producers, 323 producers did not have contracts registered for 2002/03 or 2003/04 while 163 producers had registered contracts in 2002/03 but not in 2003/04.

Table 3.0 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

Register of Producers as at 31 December in each year.

Register of Contracts

Table 3.1 Register of Contracts

Milk Year	Number of contracts
1995/96	3,344
1996/97	3,284
1997/98	2,908
1998/99	2,833
1999/00	2,762
2000/01	2,837
2001/02	2,720
2002/03	2,736
2003/04	2,656

Register of Contracts at 31 December in each year.

For the milk year 2003/04, 2,656 milk supply contracts between processors and producers were registered at 31 December 2004, a net decrease of 80 contracts on the previous year.

2,558 supplemental agreements renewing contracts were registered for the year while 98 new contracts were registered for the year and 178 contracts were deregistered.

The 98 new contracts with 11 processors represented total contracted supplies of 14.2 million litres (3.1m gallons) and average supplies of 145,360 litres (32,000 gallons) per contract.

178 contracts were deregistered following notifications to the Agency that 163 registered producers had permanently ceased business and that 15 contracts had not been renewed.

The Register of Contracts is maintained as an open register, which allows producers and processors to register contracts in respect of individual milk years. Contracts continue to be registered throughout the year.

Contract Types

All Year Round (AYR) contracts continued to be the main contract type representing 95% of all contracts. Winter Months Only contracts represented 5% of all contracts.

Under the 2,656 milk supply contracts in 2003/04, 465.5 million litres of milk for heat treatment for liquid consumption were purchased compared with 468.1 million litres in the previous year under 2,736 contracts. This represented a decrease of 80 in the number of registered contracts and a decrease of 2.6 million litres in milk supplies purchased.

Average supplies per contract increased by 2.3% to 175,264 litres from 171,089 litres in the previous year.

Table 3.2 Contract Types

Milk Year	Total	All Year Round	Winter Months Only
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

Register of Contracts at 31 December each year.

Table 3.3 Classification of Contracts

Contract Type	Contracts 2003/04		Contracts 2002/03		Supplies 2003/04		Supplies 2002/03		Average Supplies Per Contract 2003/04
	number	%	number	%	m litres	%	m litres	%	litres
Primary	1891	71	1995	73	358.0	77	362.6	77	189,318
Secondary*	–	–	–	–	–	–	–	–	–
Other	619	23	588	21	99.4	21	95.4	21	160,582
All Year Round	**2,510**	**95**	**2,583**	**94**	**457.4**	**98**	**458.0**	**98**	**182,231**
Winter Months Only	146	5	153	6	8.1	2	10.1	2	55,479
Total	**2,656**	**100**	**2,736**	**100**	**465.5**	**100**	**468.1**	**100**	**175,264**

Contracts registered on 31 December 2004 and 2003 respectively.
** In 2003/04, 367 contracts classified as Secondary Type contracts in 2002/03 were reclassified as 308 Primary and 59 Other Type contracts.*

In 2002/03, 367 contracts were classified as a Secondary Type contract representing 95.5 million litres (21m gallons) or 20% of supplies. This type of contract paid a flat price and a winter premium in six months of the milk year and was operated by 2 processors.

One processor with 308 Secondary Type contracts representing 18% of supplies paid an extra premium month (not provided for in its contract) to its registered producers resulting in the contract becoming in effect a Primary Type contract in 2002/03 and 2003/04. The remaining 59 Secondary Type contracts representing 2% of supplies were reclassified as 'Other Type' AYR contracts.

AYR contracts numbered 2,510. Under these contracts 457.4 million litres of milk were purchased, representing 95% of all contracts and 98% of milk supplies. Winter Months Only contracts numbered 146 under which 8.1 million litres of milk were purchased representing 5% of all contracts and 2% of milk supplies.

The Primary Type of contract is the AYR contract with a Flat Price system and a seven months winter price premium period (September to March). Under the 1,891 Primary Type contracts, 358 million litres were purchased representing 71% of all contracts and 77% of milk supplies.

The number of Primary Type contracts decreased by 104 and the milk supplies covered by these contracts decreased by 4.6 million litres.

Under the 619 Other Types of AYR contracts which varied in their pricing systems, 99.4 million litres were purchased. They represented 23% of all contracts and 21% of milk supplies.

Fig. 3.4 All Contract Types/Contracts

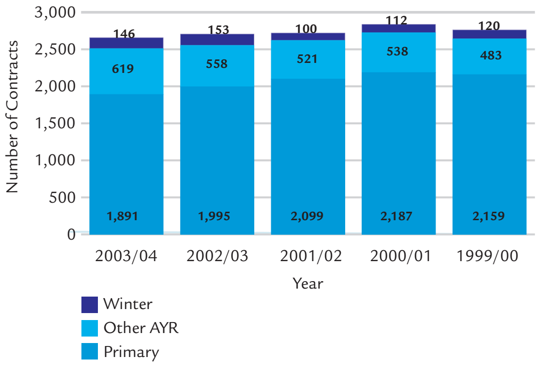
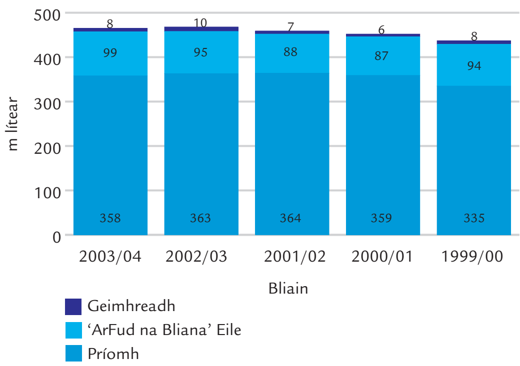


Fig. 3.5 All Contract Types/Milk Supplies



4. Milk Pricing Systems

Table 4.0 Classification of Registered Contracts by Pricing Systems

	Contracts				Milk Supplies			
	2003/04		2002/03		2003/04		2002/03	
Pricing Systems	number	%	number	%	m. litres	%	m litres	%
Flat System								
All Year Round Contracts	2,075	78	2,239	82	384.3	82	396.4	85
Winter Contracts	66	3	75	3	4.1	1	5.3	1
Total	**2,141**	**81**	**2,314**	**85**	**388.4**	**83**	**401.7**	**86**
MMP System								
All Year Round Contracts	435	16	344	12	73.1	16	61.6	13
Winter Contracts	80	3	78	3	4.0	1	4.8	1
Total	**515**	**19**	**422**	**15**	**77.1**	**17**	**66.4**	**14**
Total All Pricing Systems	**2,656**	**100**	**2,736**	**100**	**465.5**	**100**	**468.1**	**100**

Contracts registered at 31 December 2004 and 31 December 2003 respectively. Figures adjusted for rounding.

Two systems of milk pricing are used by processors when purchasing milk from producers for processing for liquid consumption namely – the Flat Rate Price System (Flat System) and the Manufacturing Milk Price plus Bonus System (MMP System).

The Flat System is the main pricing system and is used both in the All Year Round contracts and in the Winter contracts. Under the Flat System, milk is paid for at a flat price per litre, with no price differentiation for milk constituents.

The Flat System was applied in 2,141 contracts (81% of contracts) and to 388.4 million litres of milk purchased under those contracts (83% of milk supplies purchased). This represented a decrease of 173 in the number of contracts and of 13.3 million litres in the milk volumes purchased under the Flat System, compared with the previous year.

Fig. 4.1 All Contracts – 2003/04 Pricing Systems

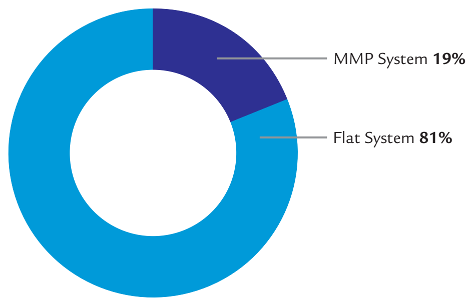
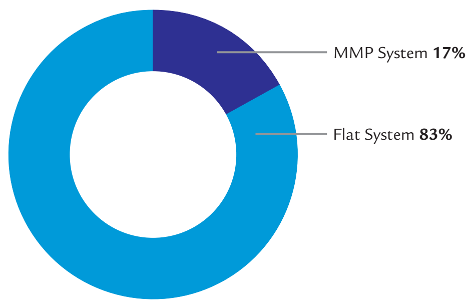


Fig. 4.2 All Contracts – 2003/04 Milk Supplies



Under the MMP System, a milk price linked to manufacturing milk prices is paid with the addition of variable or fixed bonus payments. Bonus payments are generally dependent on the achievement of minimum percentages of annual EU quotas being supplied in specified winter months. The manufacturing prices used are normally flat monthly prices for manufacturing milk containing 3.6% butterfat and 3.3% protein. Five processors operated this System.

The MMP System was applied in 515 contracts (19% of contracts) and to 77.1 million litres purchased under those contracts (17% of milk purchased under registered contracts), an increase of 93 in the number of such contracts and an increase of 10.7 million litres in milk volumes purchased compared with the previous year.

Table 4.3 Classification of Pricing Systems by Type of Contract

	Contracts				Milk Supplies			
	2003/04		2002/03		2003/04		2002/03	
Contract Type	number	%	number	%	m litres	%	m litres	%
AYR Contracts								
Primary*	1,891	71	1,995	73	358.0	77	362.6	77
Other*	184	7	244	9	26.3	5	33.8	8
Flat System	2,075	78	2,239	82	384.3	82	396.4	85
MMP System	435	16	344	12	73.1	16	61.6	13
Total AYR Contracts	**2,510**	**94**	**2,583**	**94**	**457.4**	**98**	**458.0**	**98**
Winter Contracts								
Flat System	66	3	75	3	4.1	1	5.3	1
MMP System	80	3	78	3	4.0	1	4.8	1
Total Winter Contracts	146	6	153	6	8.1	2	10.1	2
Total all Contracts	**2,656**	**100**	**2,736**	**100**	**465.5**	**100**	**468.1**	**100**

Contracts registered at 31 December 2004 and 31 December 2003.
† Adjusted for Rounding.
** In 2003/04, 367 contracts, which were classified as Secondary Type contracts in 2002/03, were reclassified as 308 Primary Type and 59 Other Type contracts.*

In the 2,510 AYR contracts, the Flat System was applied in 2,075 AYR contracts and to 384.3 million litres purchased under those contracts, representing 78% of all registered contracts and 82% of milk supplies. The MMP System was applied in 435 AYR contracts covering 73.1 million litres representing 16% of all registered contracts and 16% of all milk supplies.

In the 146 Winter contracts, the Flat System was applied in 66 Winter contracts, and to 4.1 million litres purchased under those contracts representing 3% of all contracts and 1% of milk supplies. The MMP System was applied in 80 Winter contracts covering 4 million litres of milk purchased.

Since 1995, prices paid under the Flat System in the AYR contracts have on average been higher than those paid under the MMP System. In 2003/04 the price differential between Flat System prices and MMP System prices narrowed to 1.06 c/litre (4.8 c/g) compared with 1.43 c/litre (6.5 c/g) in the previous milk year

Fig. 4.4 All Contract Types – Pricing Systems

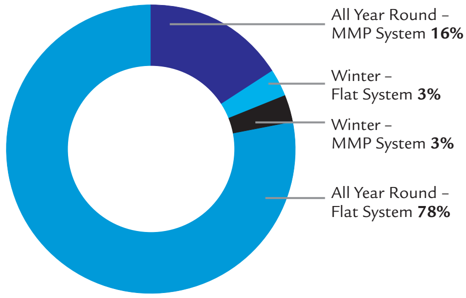
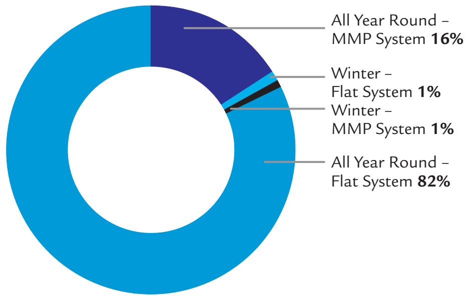


Fig. 4.5 All Contract Types – Milk Supplies



5. All Year Round Contracts – Prices Paid

Table 5.0 All Year Round Contracts – Pricing Systems/Milk Supplies

	Contracts				Milk Supplies			
	2003/04		2002/03		2003/04		2002/03	
Pricing Systems	number of contracts	% of AYR contracts	number of contracts	% of AYR contracts	m litres	% of All Year Round milk supplies	m litres	% of All Year Round milk supplies
Flat System	2,075	83	2,239	87	384.3	84	396.4	87
MMP System	435	17	344	13	73.1	16	61.6	13
Total	**2,510**	**100**	**2,583**	**100**	**457.4**	**100**	**458.0**	**100**

Contracts registered at 31 December 2004 and 31 December 2003 respectively. Figures adjusted for rounding.

Under the 2,510 AYR contracts, 457.4 million litres of milk were purchased representing 94% of all contracts and 98% of all milk supplies, a decrease of 73 in the number of contracts and of 0.6 million litres in milk volumes purchased.

All year round Contracts – Flat System

The number of AYR contracts utilising the Flat System fell by 164 to 2,075 while the volumes of milk purchased under these contracts decreased by 12.1 million litres (2.7m gallons) to 384.3 million litres (84.5m gallons). AYR contracts applying the Flat System represented 83% of AYR contracts and 84% of milk supplies purchased under these contracts.

Fíor. 5.1 Conarthaí 'ar fud na bliana' – Córais Phraghsála

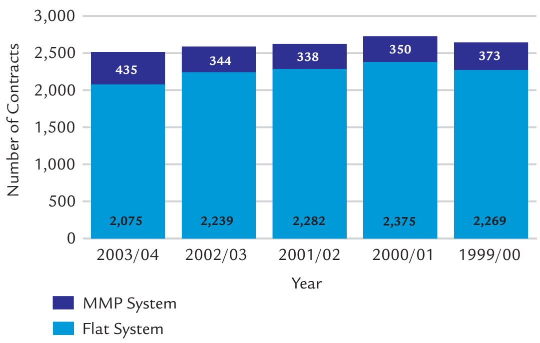


Fig. 5.2 All Year Round Contracts
Milk Supplies by Pricing Systems 1999/2000 - 2003/2004

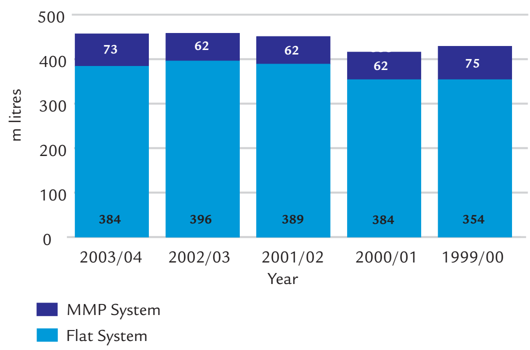


Table 5.3 All Year Round Contracts – Flat System – Prices Paid

	Contracts		Milk Supplies		Prices				
Months	number	% of All Year Round contracts	m litres	% of All Year Round supplies	Number of Process-ors	2003/04 Flat Prices Annual* Average c/l	2002/03 Flat Prices Annual Average c/l	2003/04 Flat Prices Annual Average c/g	2002/03 Flat Prices Annual Average c/g
Primary Type*									
Winter									
Sep/Mar (7)	1891	75†	207.6	78	7	35.72	35.97	162.4	163.5
Summer									
Apr/Aug (5)			150.4			27.85	27.97	126.6	127.2
Sub Total	**1891**	**75**	**358.0**	**78**	**7**	**32.41**	**32.60**	**147.3†**	**148.2†**
Other Types Flat*									
Oct/Sep (12)	184	7	26.3	6	6	32.01	32.59	145.5	148.1
Total	**2,075**	**83†**	**384.3**	**84**	**13**	**32.38**	**32.56**	**147.2†**	**148.0†**

Prices are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased.

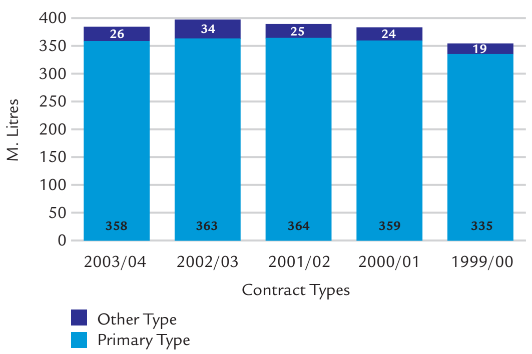
** 367 contracts which were classified in 2002/03 as Secondary Type contracts, were reclassified as 308 Primary Type and 59 Other Type contracts in 2003/04. Average prices for 2002/03 have been revised.*

† Figures adjusted for rounding.

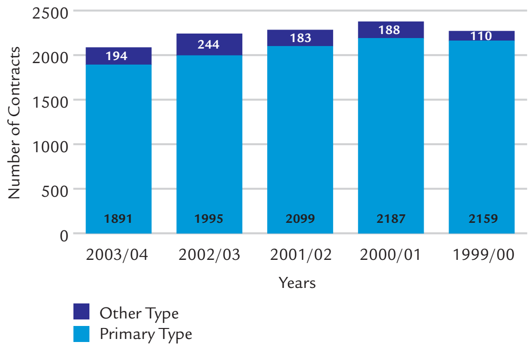
The Primary Type contracts represent 75% of AYR contracts and 78% of supplies under AYR contracts.

The Other Type contracts numbered 184 under which 26.3 million litres (5.8m gallons) were purchased, representing 7% of AYR contracts and 6% of milk purchased under these contracts. Six processors operated Other Type contracts.

Fig. 5.4 Structure of All Year Round Contracts – Milk Supplies - Flat Pricing Systems 1999/00 - 2003/04



Fíor. 5.5 Structure of All Year Round Contracts – Number of Contracts - Flat System 1999/00 - 2003/04



The annual average prices paid by the seven processors using Primary Type contracts in 2003/04 and in the previous year are set out in Table 5.6 below. Annual average prices paid under these 1,891contracts ranged from 31.11 c/litre (141.4 c/g) to 33.05 c/litre (150.2 c/g) in 2003/04 a difference of 1.94 c/litre (8.8 c/g). The average annual Flat price paid under all Primary Type contracts was 32.41 c/litre (147.3 c/g), a reduction of 0.19 c/l (0.9 c/g) on the revised price for 2002/03.

Table 5.6 All Year Round Primary Type Contracts – Flat System – Prices Paid 2003/04

Contracts	Annual average prices		Winter Prices 7 months		Summer Prices 5 months		Change in annual average prices
	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	
	c/l	c/l	c/l	c/l	c/l	c/l	c/l
A	33.05	33.14	35.00	35.00	30.00	30.00	(0.09)
B	32.96	32.94	34.78	34.84	29.89	29.89	0.02
C	–	–	–	–	–	–	–
D	32.79	33.07	34.77	34.62	29.89	29.89	(0.28)
E	31.55	32.35	32.00	33.78	28.49	28.49	(0.80)
F	32.83	32.75	36.31	36.31	27.82	27.82	0.08
G	32.16	33.08	33.39	34.00	30.16	31.22	(0.92)
H	31.11	31.87	35.13	35.94	26.52	26.99	(0.76)
Total	**32.41**	**32.60**	**35.72**	**35.97**	**27.85**	**27.97**	**(0.19)**
c/g	147.3	148.2	162.4	163.5	126.6	127.2	(0.9)

Prices are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. Contract C ceased following a processor restructuring). 308 contracts which were classified in 2002/03 as Secondary Type contracts, were reclassified as 308 Primary Type contracts in 2003/04 following an uncontracted winter premium payment for an additional month by a processor in 2002/03. Average prices for 2002/03 have been adjusted.

Table 5.7 Other Type All Year Round Contracts – Flat System – Prices Paid 2003/04

Contracts	Annual average prices		Winter Prices 7 months		Summer Prices 5 months		Change in annual average prices
	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	
	c/l	c/l	c/l	c/l	c/l	c/l	c/l
A	32.99	33.59	35.63	26.29	29.61	29.89	(0.60)
B	29.52	30.86	30.43	33.28	28.98	28.72	(1.34)
C	30.28	30.35	32.89	32.90	27.09	27.18	(0.07)
D	33.03	33.97	35.37	36.78	28.15	28.45	(0.94)
E	27.38	26.68	29.3	27.58	26.40	26.22	0.7
F	32.86	32.12	32.86	32.12	32.86	–	0.74
G	37.25	39.93	38.41	40.01	36.18	39.85	(2.68)
H	31.39	30.88	36.31	34.51	27.43	26.41	0.51
Total	**32.01**	**32.16**	**34.47**	**35.13**	**28.66**	**28.01**	**(0.15)**
c/g	145.5	146.2	156.7	159.7	130.3	127.3	(0.7)

Prices are ex farm, attainable prices, exclusive of VAT and inclusive of all quality and other bonuses and before deduction of penalties, statutory levies and collection charges. Prices are weighted by monthly volumes purchased. 59 contracts which were classified in 2002/03 as Secondary Type contracts, were reclassified as Other Type contracts in 2003/04. Average prices for 2002/03 have been adjusted.

The average annual price paid under the Other Type AYR contracts applying the Flat Price System was 32.01 c/l and ranged from 27.38 c/l to 37.25 c/l with the highest price being paid by a processor purchasing organic milk.

All Year Round Contracts – MMP System

The MMP System was applied in 435 AYR contracts and to 73.1 million litres of milk purchased under those contracts, representing 17% of all AYR contracts and 16% of milk purchased under those contracts. This System was operated by five processors. One processor operated two types of contracts.

Under the AYR contracts using the MMP System the average annualised price (base price and monthly bonus) was 31.32 c/litre (142 c/g), an increase of 0.19 c/litre (0.9 c/g) on the previous year. The average base manufacturing prices decreased by 0.07 c/litre while the average annualised monthly bonus added to manufacturing milk prices in 2003/04 was 4.69 c/litre (21.3 c/g) representing an increase of 0.26 c/litre (1.2 c/g) on the previous year.

Table 5.8 All Year Round Contracts – MMP System – Prices Paid 2003/04 and 2002/03

	Contracts Number	Contracts % of All Year Round Contracts	Supplies m litres	Supplies % of Supplies All Year Round Contracts	Number of Processors	Annual Weighted Average Base Price		Bonus Range		Annual Weighted Average Monthly Bonus		Annual Average (Base Price Plus Bonus)	
						2003/04 c/l	2002/03 c/l	2003/04 c/l	2002/03 c/l	2003/04 c/l	2002/03 c/l	2003/04 c/l	2002/03 c/l
(A) Variable Monthly Winter Bonus													
Type 1	151	6	24.6	5	1	26.10	26.46	6.98-8.38	3.03-8.38	4.40	3.84	30.50	30.30
Type 2	38	2	6.6	2		26.10	26.73	5.87-22.0	1.10-19.58	6.51	5.63	32.61	32.36
Sub Total	**189**	**8**	**31.2**	**7**	**1**	**26.10**	**26.50**	**5.87-22.0**	**1.10-19.58**	**4.85**	**4.18**	**30.95**	**30.68**
(B) Variable Monthly Bonus													
Type 1	90	3	16.2	3	1	26.56	26.41	1.0-12.92	1.18-12.50	5.82	6.22	32.38	32.63
Type 2	102	4	12.6	3	1	28.22	28.23	0.56-5.58	0.56-5.58	3.13	3.15	31.35	31.38
Sub Total	**192**	**7**	**28.8**	**6**	**2**	**27.29**	**27.24**	**0.56-12.92**	**0.56-12.50**	**4.64**	**4.81**	**31.93**	**32.05**
(C) Fixed Monthly Winter Bonus													
Type 1	29	1	4.2	1	1	26.40	26.46	12.50	13.68	5.03	4.94	31.43	31.40
Type 2	25	1	8.9	2	1	26.43	26.76	7.00	8.38	4.14	4.63	30.57	31.39
Sub Total	**54**	**2**	**13.1**	**3**	**2**	**26.42**	**26.66**	**7.0-12.5**	**8.38-13.68**	**4.43**	**4.74**	**30.85**	**31.40**
Total	**435**	**17**	**73.1**	**16**	**5**	**26.63**	**26.70**	**0.56-22.0**	**0.56-19.58**	**4.69**	**4.43**	**31.32**	**31.13**

Manufacturing prices and bonuses paid ex farm, exclusive of VAT and inclusive of all quality bonuses and before statutory levies and collection charges.

Adjusted for rounding.

The MMP System applied a bonus to a base manufacturing price. There were three methods of bonus payments:

A. Variable Monthly Winter Bonus

A variable bonus was paid in specified winter months. This pricing method was applied in 189 of the AYR contracts and to 31.2 million litres of milk purchased under those contracts representing 8% of AYR contracts and 7% of milk supplies under those contracts. One processor operated two types of variable bonuses.

In the first type, which applied to 151 contracts, bonuses ranging from 6.98 c/litre (31.7 c/g) to 8.38 c/litre (38.1 c/g) were paid during six winter months (October to March) on a weighted average base price of 26.10 c/litre (118.8 c/g), a decrease of 0.36 c/litre (1.6 c/g) on the weighted average base price in 2002/03. The annualised average monthly bonus was 4.40 c/litre (20.0 c/g), an increase of 0.56 c/litre (2.5 c/g) on the previous year.

In the second type, which applied to 38 contracts, bonuses ranging from 5.87 c/litre (26.7 c/g) to 22.0 c/litre (100.0 c/g) were paid during 5 winter months (October to February) on a weighted average base price of 26.10 c/litre (118.7 c/g) a decrease of 0.63 c/litre (2.9 c/g) in the weighted average base price in the previous year. The annualised average monthly bonus was 6.51 c/litre (29.6 c/g) an increase of 0.88 c/litre (4 c/g) on the previous year.

The annual average price (base price and bonus) was 30.95 c/litre (140.7 c/g), an increase of 0.27 c/litre (1.2 c/g) on the previous year.

B. Variable Monthly Bonus

A variable bonus was added to manufacturing prices in each calendar month.

The number of contracts in which this System was applied increased by 100 as one processor changed 51 contracts to the MMP system from the Flat System and another processor registered 49 additional contracts of this type.

This method was applied in 192 of the AYR contracts under which 28.8 million litres of milk were purchased, representing 7% of AYR contracts and 6% of milk supplies.

This method was operated by two processors, who applied two types of bonus systems.

In the first type, bonuses ranging from 1.0 c/litre (4.5 c/g) to 12.92 c/litre (58.7 c/g) were paid in each calendar month, on a weighted average base price of 26.56 c/litre (120.7 c/g), an increase of 0.15 c/litre (0.7 c/g) on the previous years price. The annualised average monthly bonus was 5.82 c/litre (26.5 c/g) compared with 6.22 c/litre (28.3 c/g) in 2002/03.

In the second type, the bonuses ranged from 0.56 c/litre (2.5 c/g) to 5.58 c/litre (25.4 c/g) in 2003/04, the same as in 2002/03. The annualised average monthly bonus was 3.13 c/litre (14.2 c/g), slightly less than in the previous year.

The annual average price (base price and bonus) was 31.93 c/litre (145.2 c/g), a decrease of 0.12 c/litre (0.6 c/g) on the previous year's price.

C. Fixed Monthly Winter Bonus

A fixed monthly bonus was paid in specified winter months.

This method was applied in 54 of the AYR contracts under which 13.1 m litres of milk were purchased representing 2% of the AYR contracts and 3% of milk purchased under these contracts. This method was operated by two processors with two different types of pricing systems.

In the first type, a bonus of 12.5 c/litre (56.8 c/g) was paid, a decrease of 1.18 c/litre (5.4 c/g) on the previous year on a weighted average base price of 26.40 c/litre (120 c/g) in four winter months (November to February). The annualised average price and bonus was 31.43 c/litre (142.9 c/g), an increase of 0.03 c/litre (0.14 c/g) on the previous year.

In the second type, a bonus of 7 c/litre (31.8 c/g) was paid in six winter months (October to March) on a weighted average base price of 26.43 c/litre (120.1 c/g). The annualised average bonus was 4.14 c/litre (18.8 c/g), a reduction of 0.49 c/litre (22.3 c/g) on the previous year.

The annualised average price (base price and bonus) was 30.85 c/litre (140.2 c/g), a decrease of 0.55 c/litre (2.5 c/g) on the previous year's price.

Table 5.9 All Year Round Contracts – Average Prices Paid

All Year Round Contracts – Average Flat Prices Paid

	2003/04		2002/03	
	2,075 contracts	384.3m litres	2,239 contracts	396.4m litres
Period	c/l	c/g	c/l	c/g
Winter Months				
September-March (7)	35.63	162.0	35.91	163.3
Summer months				
April-August (5)	27.90	126.8	27.97	127.2
Annual Average	**32.38**	**147.2**	**32.56**	**148.0**

All Year Round Contracts – Average MMP plus bonuses paid

	2003/04		2002/03	
	435 contracts	73.1m litres	344 Contracts	61.6m litres
Period	c/l	c/g	c/l	c/g
Winter months				
September-March (7)	33.27	151.2	32.83	149.2
Summer months				
April-August (5)	27.26	123.9	27.06	123.0
Annual Average	**31.32**	**142.4**	**31.13**	**141.5**

All Year Round Contracts – Average Combined Flat Prices and MMP plus bonuses paid

	2003/04		2002/03	
	2,510 contracts	457.4m litres	2,583 contracts	458.0m litres
Period	c/l	c/g	c/l	c/g
Winter months				
September-March (7)	35.22	160.1	35.44	161.1
Summer months				
April-August (5)	27.82	126.5	27.88	126.7
Annual Average	**32.25**	**146.6**	**32.42**	**147.4**

Prices are in respect of AYR contracts which applied the Flat System or 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 a standard milk composition of 3.60% butterfat, and 3.30% protein and/or minimum winter month volume requirements. Payment periods have been standardised to a seven winter months premium period and a five summer months period.

The average annual Flat Price paid to registered producers under the AYR contracts in 2003/04 was 32.38 c/litre (147.2 c/g), a decrease of 0.18 c/l (0.8 c/g) on the revised price in the previous year. During the seven winter months, the weighted average price was 35.63 c/litre (162 c/g) a decrease of 0.28 c/l (1.3 c/g). The average summer price was 27.90 c/litre (126.8 c/g), a decrease of 0.07 c/l (0.4 c/g) compared with the previous year.

Table 5.10 All Year Round Contracts 1995/96 to 2003/04 – Price Differentials between Flat System and MMP System

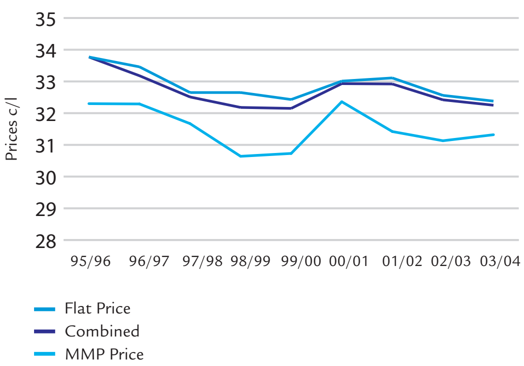
	AYR Contracts				Differential Flat Prices v MMP Prices	
	Average Flat Prices		Average MMP Prices			
Year	c/l	c/g	c/l	c/g	c/l	c/g
1995/96	33.77	153.5	32.30	146.8	1.47	6.7
1996/97	33.46	152.1	32.28	146.8	1.18	5.4
1997/98	32.65	148.4	31.67	143.9	0.98	4.5
1998/99	32.65	148.4	30.64	139.3	2.01	9.1
1999/00	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

The average annual price paid under the MMP System to registered producers in 2003/04 under the AYR contracts was 31.32 c/litre (142.4 c/g), an increase of 0.19 c/litre (0.9 c/g) on the previous year. The average winter months' price increased by 0.44 c/litre (2 c/g) while the average summer months price increased by 0.20 c/litre (0.9 c/g).

Since 1995 average annual prices paid to producers under the MMP System have been lower than prices paid under the Flat System.

The annual milk price paid in the AYR contracts under both the Flat System and the MMP System was 32.25 c/litre (146.6 c/g), a decrease of 0.17 c/l (0.8 c/g) on the previous year. The price paid during the seven winter months was 35.22 c/litre (160.1 c/g), a decrease of 0.22 c/litre (1.0c/g) on the previous year. During the five summer months the price paid was 27.82 c/litre (126.5 c/g), a decrease of 0.06 c/litre (0.2 c/g) on the previous year.

Fig. 5.11 All Year Round Contracts – Average Flat and MMP Prices



6. Winter Contracts – Prices Paid

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). These contracts represent a small proportion of registered milk contracts and supplies (5% of all contracts and 2% of milk supplies).

In 2003/04, the number of Winter contracts was 146, a decrease of 7 contracts in the number of Winter contracts registered in the previous year. Under these contracts, 8.1 million litres of milk were purchased representing a decrease of 2 million litres in the volumes of milk purchased in the previous year. The number of Winter contracts using the Flat System decreased by 9 on the previous year and supplies under these contracts decreased by 1.2 million litres to 4.1 million litres.

Table 6.0 Winter Contracts – Pricing Systems

Payment System	Contracts				Milk Supplies			
	2003/04 number	2002/03 number	2003/04 % of Winter Contracts	2002/03 % of Winter Contracts	2003/04 m litres	2002/03 m litres	2003/04 % of Winter Contracts	2002/03 % of Winter Contracts
Flat System	66	75	45	49	4.1	5.3	51	52
MMP System	80	78	55	51	4.0	4.8	49	48
Total	**146**	**153**	**100**	**100**	**8.1**	**10.1**	**100**	**100**

Fig. 6.1 Winter Contracts – 2003/04 Pricing Systems

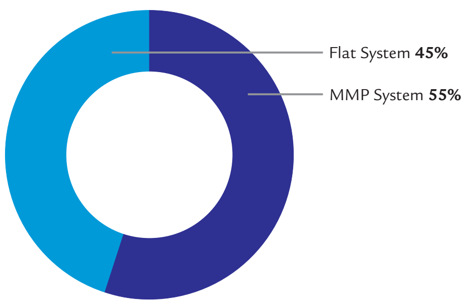


Fig. 6.2 Winter Contracts – 2003/04 – Supplies – Pricing Systems

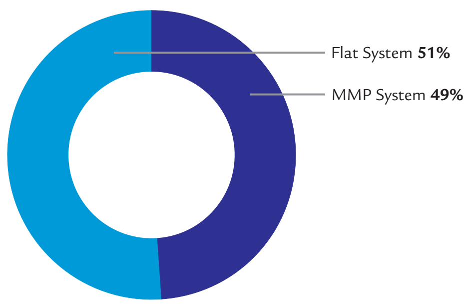


Table 6.3 Winter Contracts – Prices

	Price		Contracts				Milk Supplies				Processors	
	2003/04	2002/03	2003/04		2002/03		2003/04		2002/03		2003/04	2002/03
Pricing System	Average Price – Winter Months c/l	Average Price – Winter Months c/l	Number	% of Winter Months Contracts	Number	% of Winter Months Contracts	m litres	% of Winter Months Contracts	m litres	% of Winter Months Contracts	Number of Processors	Number of Processors
Flat System	36.4	36.5	66	45	75	49	4.1	51	5.3	52	3	4
MMP System	32.1	32.4	80	55	78	51	4.0	49	4.8	48	2	1
Total	**34.4**	**34.5**	**146**	**100**	**153**	**100**	**8.1**	**100**	**10.1**	**100**	**5**	**5**

Figures adjusted for rounding

Four processors had Winter months only contracts in place. Three processors applied the Flat System.

In 66 of the Winter contracts the Flat System was applied to 4.1 million litres at prices averaging 36.4 c/litre (165.5 c/g) for winter month periods ranging from 4 to 7 months, a decrease of 0.1 c/l (0.4 c/g) on the previous year. These contracts represented 45% of the Winter contracts and 51% of the milk purchased under those contracts.

In 80 of the Winter contracts the MMP System was applied to 4.0 million litres of milk at prices averaging 32.1 c/litre (145.9 c/g) for five winter months (November to February), a reduction of 0.3 c/litre (1.4 c/g) on the previous year. They represented 55% of the Winter contracts and 49% of the milk purchased under those contracts.

7. All Contracts – Prices Paid

Table 7.0 Prices Paid Under All Contracts and Pricing Systems

	2003/04 2,656 Contracts 465.5m litres		2002/03 2,736 Contracts 468.1m litres	
Period	c/l	c/g	c/l	c/g
Winter Months September-March (7)	35.19	160	35.38	160.8
Summer Months April-August (5)	27.82	126.5	27.88	126.7
Annualised	**32.25**	**146.6**	**32.42**	**147.4**

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. Prices for 2002/03 have been revised following the adjustments referred to previously in Tables 5.6 and 5.7. For 2002/03 the previous annualised price was 32.28 c/l and the previous winter price was 35.15 c/l.

The annual average price for all contracts and milk supplies in the milk year 2003/04 was 32.25 c/litre (146.6 c/g), a reduction of 0.17 c/l (0.8 c/g) on the revised price for 2002/03.

The average price paid in the winter months was 35.19 c/litre (160.0 c/g), a reduction of 0.19 c/l (0.9 c/g) on the previous year. In the summer months the average price paid was 27.82 c/l (126.5 c/g), a reduction of 0.06 c/l (0.2 c/g) on the previous year.

In the calendar year 2004 the annual average price paid was 32.26 c/l (146.7 c/g), the same as the revised price for 2003.

The differential between the annual producer price of liquid milk supplies and the estimated average producer price for manufacturing supplies was 5.4 c/l (25 c/g).

8. Processors

Processors

The total number of processors in 2004 was 16, the same as in the previous year.

The industry structure is highly concentrated. Two processors with annual milk supplies in excess of 60 million litres (13.2m gallons) account for 70% of all registered contracts and 71% of registered milk supplies.

Five processors with annual supplies between 20 million and 60 million litres (4.4m and 13.2m gallons) accounted for 21% of registered contracts and 22% of registered milk supplies.

Nine processors with annual milk supplies for processing for liquid consumption of less than 20 million litres (4.4m gallons) accounted for 9% of all registered contracts and 7% of registered milk supplies.

Processing Plants

The number of heat treatment establishments licensed to process milk for liquid consumption in the State was twenty three.

Twenty two of these processing plants were operated by processors registered with the Agency. Average annual milk supplies (including imported supplies) processed per plant were 20 million litres (4.4m gallons).

Five processor groups registered with the Agency operated more than one heat treatment establishment. The two largest processors with purchases of 329.5 million litres (72.4m gallons) operated 7 heat treatment establishments while the 14 other processors registered with the Agency operated 15 plants.

Table 8.0 Structure of Registered Contracts by Processor Supply Bands 2003/04

Milk Supply Bands	Number of Processors	Contracts		Total Supplies	
m litres		number	%	m litres	%
0-20	9	239	9	34.0	7
20-60	5	553	21	102.0	22
Over 60	2	1,864	70	329.5	71
TOTAL	**16**	**2,656**	**100**	**465.5**	**100**

9. Registered Producers – Structure of Liquid Milk Supplies

Table 9.0 Structure of Liquid Milk Supplies 2003/04 and 2002/03

Annual Supply Bands	Registered Producers		Total Supplies		Supplies for Liquid		Supplies for Manufacturing		Average Supplies for Liquid		% of Producers		% of Total Supplies		% of Liquid Supplies		Liquid Supplies % Total Supplies	
litres	number		m litres		m litres		m litres		’000s litres									
	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03
<49,999	161	139	2.8	2.3	1.9	1.4	1.0	0.9	12	17	6	5	–	–	–	–	66	62
50,000-99,999	188	200	14.1	15.7	8.4	10.0	5.7	5.7	44	50	7	7	2	2	2	2	59	64
100,000-149,999	194	230	24.6	28.6	12.4	14.4	12.2	14.1	64	63	7	8	3	3	3	3	50	51
150,000-199,999	264	318	46.6	55.9	21.3	27.8	25.2	28.1	81	88	10	12	5	7	4	6	46	50
200,000-249,999	334	382	75.3	85.9	39.2	43.7	36.1	42.3	117	114	12	14	9	10	8	9	52	51
250,000-299,999	339	381	92.9	104.7	45.7	51.1	47.1	53.6	135	134	13	14	11	12	10	11	49	49
300,000-349,999	316	274	102.1	88.2	49.3	45.5	52.8	42.7	156	166	12	10	12	10	11	10	48	52
350,000-399,999	200	179	74.5	66.9	37.7	35.7	36.8	31.2	188	199	8	7	9	8	8	8	51	53
400,000-449,999	137	131	57.9	55.6	31.6	30.0	26.3	25.6	231	229	5	5	7	7	7	6	55	54
450,000-499,999	110	96	51.7	45.4	29.2	25.9	22.6	19.5	265	270	4	4	6	5	6	6	56	57
500,000-599,999	134	144	72.9	78.7	41.3	44.5	31.6	34.2	308	309	5	5	9	9	9	10	57	56
600,000-699,999	87	89	55.7	57.8	31.7	33.8	24.0	24.0	365	380	4	3	7	7	7	7	57	59
Over 700,000	192	173	187.1	168.5	115.8	104.3	71.2	64.2	603	603	7	6	22	20	25	22	62	62
Total	**2,656**	**2,736**	**858.2**	**854.2**	**465.5**	**468.1**	**392.7**	**386.1**	**175**	**171**	**100**	**100**	**100**	**100**	**100**	**100**	**54**	**55**

Figures adjusted for rounding.
Source: NMA.

Total milk supplies of the 2,656 registered producers with contracts in the milk year 2003/04 amounted to 858.2 million litres (189m gallons) – (Table 9.0), of which 465.5 million litres (102m gallons) (54%) were supplied for processing for liquid consumption and 392.7 million litres (87m gallons) (46%) were supplied for processing into manufactured dairy products.

The 2,656 registered producers had annual average milk supplies of 323,000 litres (71,000 gallons) of which of 175,000 litres (38,000 gallons) were supplied for liquid consumption and 148,000 litres (33,000 gallons) were supplied for manufacturing. The percentage of annual milk supplies sold for processing for liquid consumption fell to 54% from 55% in the previous milk year.

The number of registered producers with annual milk supplies of less than 150,000 litres (33,000 gallons) fell from 569 to 543, a reduction of 26. This 20% of all registered producers supplied 5% of total liquid milk supplies and 55% of their annual milk supplies for liquid consumption.

1,453 registered producers (55% of all registered producers) with annual milk supplies between 150,000 litres (33,000 gallons) and 400,000 litres (88,000 gallons) supplied 42% of total liquid milk supplies and supplied 49% of their annual milk supplies for liquid consumption. This represented a fall of 2% both in the percentage of their supplies used for liquid and of their percentage of total liquid milk supplies. The total number of registered producers in this cohort fell by 81 (5%) when compared with the 2002/03 milk year.

660 registered producers (25% of all registered producers) with annual milk supplies greater than 400,000 litres (88,000 gallons) supplied 54% (53.6%) of total liquid milk supplies and supplied 59% of their annual milk supplies for liquid consumption. The total number of registered producers in this cohort increased by 27 (4%) when compared with the 2002/03 milk year.

Registered milk producers are a significant grouping in the domestic milk supply sector representing 11% of all producers and supplying 17% of domestic milk supplies (Table 9.1). Registered producers supply not only the all year round milk requirements for liquid milk consumption but also over 8% of manufacturing milk supplies.

The average registered producer has annual supplies of 323,000 litres (71,000 gallons) compared with average supplies for all milk producers of 214,000 litres (47,000 gallons).

16,650 milk producers (70% of all producers) have annual milk supplies of less than 250,000 litres and supply 47% of domestic milk supplies.

1,141 registered producers (43% of registered producers) comprise 5% of all producers and supply 7% of domestic milk supplies and 19% of total supplies of registered producers.

7,117 milk producers (30% of all milk producers) have annual milk supplies of more than 250,000 litres and supply 53% of domestic milk supplies.

1,515 registered producers (57% of all registered producers) comprise 6% of all producers and supply 14% of domestic milk supplies and 81% of total supplies of registered producers.

Table 9.1 Structure of Domestic Milk Supplies/Liquid Milk Supplies classified by Annual Supply Bands 2003/04 and 2002/03

Annual Supply Bands	Producers										Supplies									
	All Producers		Registered Producers		All Producers		Registered Producers		% Registered Producers		Domestic Supplies		Supplies of Registered Producers		% of Domestic Supplies All Producers		% of Registered Producers' Supplies		% of Domestic Supplies of Registered Producers	
	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03
Litres	No.	No.	No.	No.	%	%	%	%	%	%	ml	ml	ml	ml	%	%	%	%	%	%
<50,000	1,353	1,633	161	139	6	7	6	5	12	9	46	56	2.8	2.3	1	1	0	0	6	4
50,000-100,000	3,206	3,818	188	200	13	15	7	7	6	5	245	290	14.1	15.7	5	6	1	2	6	5
100,001-200,000	8,061	9,123	458	548	34	36	17	20	6	6	1223	1375	71.2	84.5	24	27	8	10	6	6
200,001-250,000	4,030	4,091	334	382	17	16	13	14	8	9	899	905	75.3	85.9	18	18	9	10	8	9
250,001-300,000	2,710	2,563	339	381	11	10	13	14	13	15	738	699	92.9	104.7	14	14	11	12	13	15
300,001-350,000	1,668	1,543	316	274	7	6	12	10	19	18	537	490	102.1	88.2	11	10	12	10	19	18
350,001-400,000	944	759	200	179	4	3	8	7	21	24	351	283	74.5	66.9	7	5	9	8	21	24
400,001-450,000	526	487	137	131	2	2	5	5	26	27	222	205	57.9	55.6	4	4	7	7	26	27
Over 450,000	1,269	204	523	502	5	5	20	18	41	42	824	779	367.4	350.4	16	15	43	41	45	45
Total	**23,767**	**25,212**	**2,656**	**2,736**	**100**	**100**	**100**	**100**	**11**	**11**	**5,085**	**5,082**	**858.4**	**854.2**	**100**	**100**	**100**	**100**	**17**	**17**

Sources: Department of Agriculture and Food EU milk years 2002/03 and 2003/04 ended 31 March 2003 and 2004 respectively.
NMA: Milk years 2002/03 and 2003/04 ended 30 September 2003 and 2004 respectively.

10. The National Inspectorate

Inspectors of the Agency conduct regular inspections of processors and producers and monitor the implementation of contract terms and supplies of milk to processors for liquid milk processing. Last year the inspectors carried out 235 inspections of processors and visited 26 producers.

In the inspections at processor level, purchases of milk from registered producers are reconciled with sales of liquid milk. The inspectors monitor the implementation of the different compensation systems operated by processors. Data is further analysed with a view to assessing the adequacy of winter milk supplies in relation to winter milk sales.

Inspectors also visit individual producers and inspect monthly milk statements for volumes supplied and prices paid. These producer statements are then cross checked at the individual processor plants.

Monthly returns are submitted to the Agency by processors stating milk supplies purchased from producers and other processors for processing for liquid consumption, imports of milk for processing for liquid consumption, sales of milk for liquid consumption and for processing for liquid consumption.

Data compiled by the inspectors in relation to prices, supplies, and market developments is published in the Agency's Annual Report to aid transparency and competition.

11. Meetings of the Agency

Members	Meetings Attended 2004
Denis Murphy – Chairman	8
Eamonn Bray	7
Daniel Joseph Corkery	8
Donal Kelleher	6
Diarmuid Lally	5
Padraig Mulligan	8
Patrick Brophy	5
George Kearns	7
James C Murphy	6
John O'Callaghan	5
Walter Maloney	8
John Foster	7
Richard Donohue	7
Michael Kilcoyne	7

The Agency held eight meetings during the year.

The Chairman and Chief Executive had three meetings with Department of Agriculture and Food officials, updating them on developments in the liquid milk sector and in the regulation of the supply of milk for processing for liquid consumption.

Meetings are also held with representatives of Teagasc, the National Dairy Council and the Fresh Milk Producers Association.

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

Financial Statements

for the year ended 31 December 2004

NATIONAL MILK AGENCY

Statement of Members Responsibilities

for the year ended 31 December 2004

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 2004 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. Our responsibilities, as independent auditors, are established in Ireland by statute, auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

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 the auditing standards issued by the Auditing Practices Board and generally accepted in Ireland. 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.

Independent Auditors Report

to the members of the National Milk Agency (continued)

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 2004 and of the surplus for the year then ended.

DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors

Dublin
9 March 2005

Income and Expenditure Account

for the year ended 31 December 2004

	Note	**2004** **€**	2003 €
Income			
Milk levy – continuing operations	*2*	**577,792**	576,132
Other income	*3*	**21,762**	23,458
		599,554	599,590
Expenditure			
Staff costs		**338,974**	321,312
Administration costs	*4*	**244,063**	246,777
Depreciation		**4,245**	5,291
		587,282	573,380
Surplus for the year		**12,272**	26,210
Accumulated fund at beginning of year – surplus		**727,040**	700,830
Accumulated fund at end of year – surplus		**739,312**	727,040

Approved by the Members on 9 March 2005

Denis Murphy – *Chairman*
Diarmuid Lally – *Member*

Balance Sheet

at 31 December 2004

	Note	2004 €	2003 €
Assets Employed			
Fixed Assets			
Tangible assets	*6*	**6,352**	10,134
Current Assets			
Debtors	*7*	**149,592**	102,716
Investments	*8*	**55,270**	53,734
Cash at bank and in hand	*9*	**961,823**	952,776
		1,166,685	1,109,226
Current Liabilities			
Creditors	*10*	**(433,725)**	(392,320)
Net Current Assets		**732,960**	716,906
Total Assets Less Current Liabilities		**739,312**	727,040
Financed by			
Accumulated fund – surplus		**739,312**	727,040

Approved by the Members on 9 March 2005

Denis Murphy – *Chairman*
Diarmuid Lally – *Member*

Cash Flow Statement

for the year ended 31 December 2004

	2004	2003
	€	€
Operating activities		
Net cash (outflow)/inflow from operating activities (Note (a))	(10,567)	99,254
Returns on investments and servicing of finance		
Interest received	20,077	22,329
Capital expenditure		
Payments to acquire tangible fixed assets	(463)	(8,993)
Management of liquid resources (Note (b))		
(Increase)/decrease in deposits:		
Deposit account	(11,820)	(64,249)
Pension account	(54,042)	1,920
	(65,862)	(62,329)
Net cash outflow from management of liquid resources	(65,862)	(62,329)
(Decrease)/increase in cash (Note (c))	(56,815)	50,261

Reconciliation of Net Cash Flow to Movement in Net Funds

	2004	2003
	€	€
Increase in cash on hand	**179**	48
(Decrease)/Increase in cash at bank – current account	**(56,994)**	50,213
(Decrease)/Increase in cash	**(56,815)**	50,261
Increase in liquid resources	**65,862**	62,329
Non-cash movement	**1,536**	1,893
Movement in net funds for the year	**10,583**	114,483
Net funds at beginning of year	**1,006,510**	892,027
Net funds at end of year *(see note (c))*	**1,017,093**	1,006,510

Cash Flow Statement

for the year ended 31 December 2004 (continued)

	2004	2003
	€	€

Note (a)

Reconciliation of operating surplus to Net cash inflow from operating activities

	2004 €	2003 €
Surplus for year	**12,272**	26,210
Depreciation	**4,245**	5,291
(Increase)/decrease in debtors	**(46,876)**	28,199
Increase in creditors	**41,405**	63,776
Interest received	**(20,077)**	(22,329)
Non cash increase in government securities	**(1,536)**	(1,893)
	(10,567)	99,254

Note (b)

Liquid resources

Liquid resources comprise deposits with maturities of less than a year when acquired and investments in government securities.

Note (c)

Analysis of changes in net funds

	At 1 January 2004 €	Cash flows €	Non cash €	**At 31 December 2004 €**
Cash at bank and in hand	69,016	(56,815)	–	**12,201**
Cash deposits	883,760	65,862	–	**949,622**
	952,776	9,047	–	**961,823**
Investments held as current assets	53,734	–	1,536	**55,270**
Net funds	1,006,510	9,047	1,536	**1,017,093**

Notes to the Financial Statements

for the year ended 31 December 2004

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 benefits

The final draft of the staff scheme referred to in paragraph 4 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 9).

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 2004 (continued)

3. Other Income

	2004 €	2003 €
Deposit interest	**20,226**	21,565
Interest on government securities	**1,536**	1,893
	21,762	23,458

4. Administration Costs

	2004 €	2003 €
Staff expenses	**63,937**	59,032
Members' expenses	**23,168**	22,564
Chairman's remuneration	**7,618**	7,618
Stationery	**4,641**	8,790
Annual report	**17,000**	20,280
Telephone	**14,736**	14,952
Postage	**6,352**	5,391
Publications	**2,608**	4,695
Reports	**13,680**	9,450
Legal fees	**7,618**	10,397
Computer consultancy	**8,619**	10,918
Audit fees and advices	**5,383**	9,143
Rent	**37,260**	28,341
Insurance	**5,047**	4,693`
Accounting fees	**2,900**	2,800
Electricity and cleaning	**900**	3,560
Repairs and renewals	**7,108**	3,996
Miscellaneous	**15,488**	13,031
Relocation cost	-	2,429
Producer election cost	-	4,697
	244,063	246,777

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.

Notes to the Financial Statements

for the year ended 31 December 2004 (continued)

6. Tangible Fixed Assets

	Furniture €	Office equipment €	Computer equipment €	Total €
Cost:				
At 1 January 2004	12,195	19,158	57,211	88,564
Additions	463	-	-	463
At 31 December 2004	**12,658**	**19,158**	**57,211**	**89,027**
Depreciation:				
At 1 January 2004	9,310	15,599	53,521	78,430
Charged in year	367	553	3,325	4,245
At 31 December 2004	**9,677**	**16,152**	**56,846**	**82,675**
Net book amounts:				
At 31 December 2004	2,981	3,006	365	6,352
At 31 December 2003	**2,885**	**3,559**	**3,690**	**10,134**

7. Debtors

	2004 **€**	2003 €
Amounts falling due within one year		
Milk levy receivable	**134,805**	88,098
Prepayments	**11,925**	11,905
Other debtors	**2,862**	2,713
	149,592	102,716

8. Investments

	2004 **€**	2003 €
Government securities	**55,270**	53,734

Investments held at 31 December 2004 comprise investments in government securities which are stated at cost plus accrued interest which equates to their market value.

Notes to the Financial Statements

for the year ended 31 December 2004 (continued)

9. Cash at Bank and in Hand

As at 31 December 2004 an amount of €399,886 (2003: €345,844) was being held in a separate bank account to meet the obligations in relation to the superannuation scheme for the Agency to be approved by the Department of Agriculture and Food and the Department of Finance (see notes I (c) and 11).

10. Creditors (amounts falling due within one year)

	2004	2003
	€	€
Pension contributions	**399,886**	345,844
Accruals and other creditors	**33,839**	46,476
	433,725	392,320

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 operated on a defined benefit basis for its employees. The final draft of the staff 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 €39,171 (2003: €34,965). The Agency's superannuation contributions and 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 final approval of the staff superannuation scheme. At 31 December 2004 the amount held in the separate bank account was €399,886 (2003: €345,844) (see note 9).

Notes to the Financial Statements

for the year ended 31 December 2004 (continued)

11. Superannuation Commitments (Continued)

Financial Reporting Standard 17 ("FRS 17") was issued in November 2000 and requires additional transitional disclosures on a phased basis in respect of defined benefit schemes. 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, in the transitional period, to disclose the scheme liabilities.

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 16.33% 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.

Appendices

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

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