

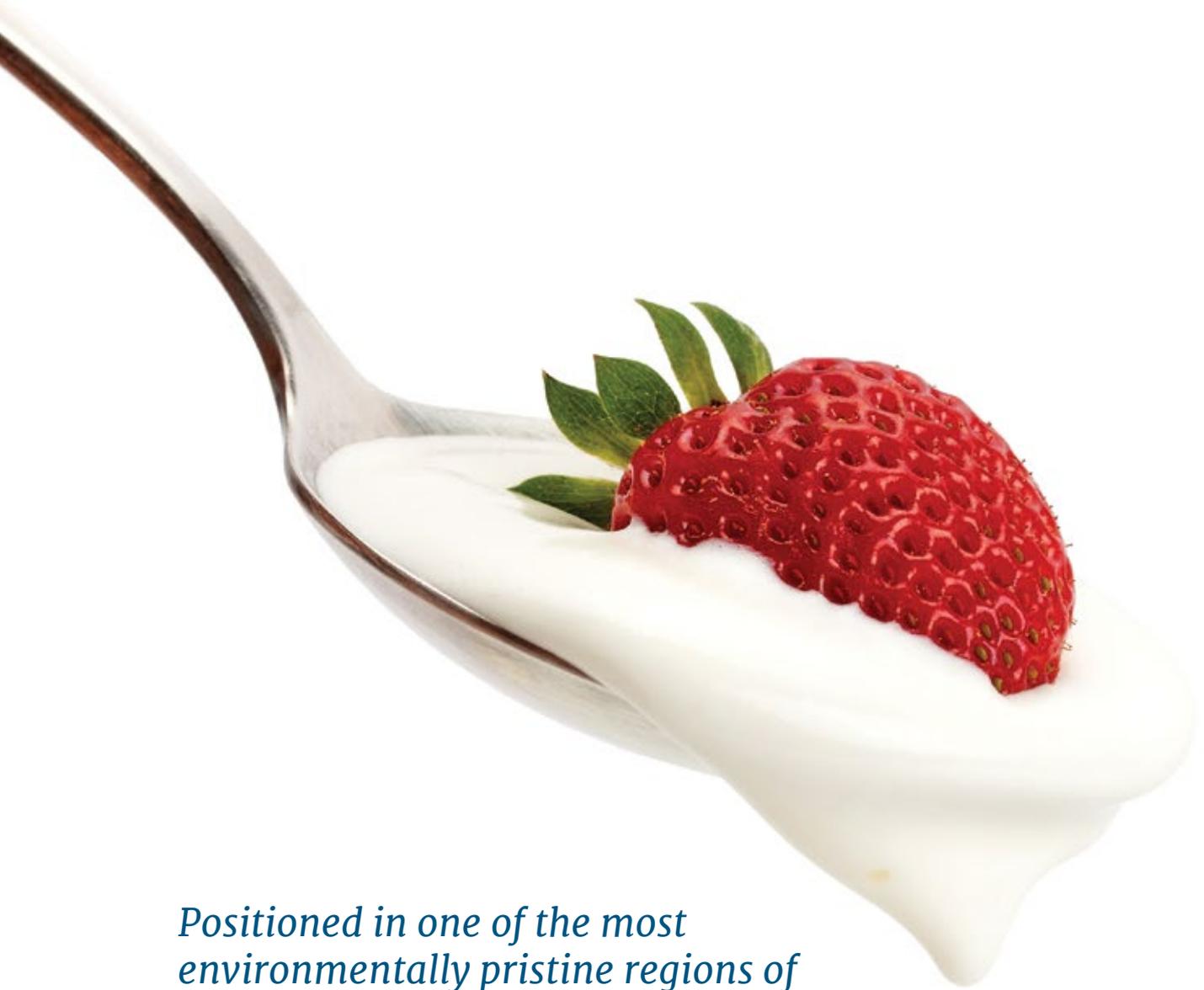


North Cork
Creameries



North Cork Co-Operative Creameries Ltd
Annual Report 2015





Positioned in one of the most environmentally pristine regions of Ireland, North Cork Creameries is creating positive impacts on our local, regional and national economy as a leading Irish dairy industry player.

Chairman's Statement

North Cork Creameries made strong progress during the year. This is reflected in positive results in spite of difficult global market conditions where we also supported the milk price for our members to the maximum possible throughout the year.

The achievements of 2015 mark the second year of an ongoing five-year strategic transformation programme which has created a lean, efficient and competitive organisation, operating in the best long term interests of our co-operative dairy farmers.

The transformation programme has seen major capital investments made in technologically advanced facilities, organisational and operational changes and focussed business development activity, underpinned by research, development and innovation. This will continue.

Through a multi-million Euro investment programme completed in recent years, we have an advanced operational capability and we offer total efficiency across the supply chain in meeting the needs of global food industry customers.

Our continuing priority is to add value to every litre of milk sent to us for processing. This is being achieved through an unstinting commitment to quality and a proven logistical capability to deliver dairy products to our customers worldwide in the exact specifications and formats that they require.

Financials

In our annual report, we compare figures for the current year to the corresponding figures for the previous year. For our 2015 report, we have adopted the necessary new accounting standard FRS 102 that is being applied on a statutory basis to all organisations. This has also necessitated a restatement of various figures reported for 2014.

Annual Revenues of €60.7m reflect volatile market conditions and overall lower prices. This is entirely consistent with circumstances across the wider dairy industry. We took advantage of the increase in our milk supplies to manufacture and export higher quantities of product and this helped to offset the global reduction in prices.



We achieved an underlying trading profit of €0.3m for 2015 before the FRS 102 adjustments are taken into account. This is outlined in the explanatory table on page 7.

The main adjustment arising from FRS 102 is a reduction in the valuation of shareholdings in publicly quoted companies by a total of €1.4m and due to FRS 102 this movement is now recorded and reported in our Financial Statements.

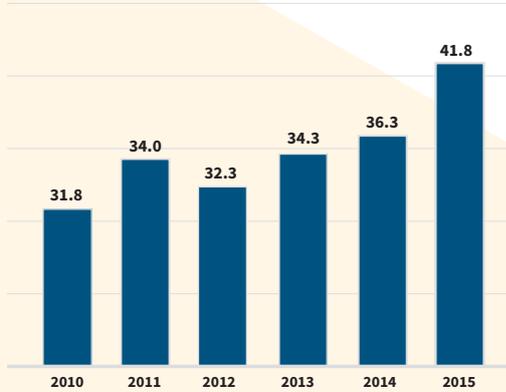
North Cork Creameries concluded the year with a strong balance sheet including Shareholders' Funds of €16.7m and no bank debt.

The Society is in robust financial health and the results are a satisfactory outcome for the year, particularly in view of our commitment to milk price support and the need to ensure a continuing level of investment in our operations.

Dairy Operations

North Cork Creameries processed 108m litres of milk in 2015, 42m of which was supplied by our own producers and the remainder from our industry partners.

Wholemilk Volume Growth (North Cork Suppliers) (Millions of Litres)



We had a zero superlevy fine at year-end due to excellent milk supply management by producers, and therefore there is no ongoing superlevy burden.

Following the abolition of quotas, milk supplies from our producers increased by 15% and are likely to increase by a further 8% in the current year. This demonstrates the potential for our dairy farmers to benefit from enhanced returns when a market uplift takes place in the future.

The future success of our business – and its potential to deliver value for our producers – depends on our ability to meet market demand with a streamlined dairy processing capacity.

We made further significant progress with our Strategic Capital Investment Programme where we are seeing benefits in the high levels of efficiency and economies that are being achieved. This has facilitated the processing of record levels of whole milk, cream and skim concentrate, unlocking cost reductions and supporting market returns.

Our manufacturing site in Kanturk has become a Dairy Processing Centre of Excellence with several high performance operations located on a single site and in-built flexibility to divert milk into the highest value product areas at any time.

We are managing milk throughput in our plants very effectively and we have the capacity to expand output in line with the future needs of our milk producers and industry partners and, most importantly, in the interests of our customers at home and abroad.

We operate one of the most modern and efficient milk drying facilities in Ireland. The dryer at this site produces very high quality milk powders with fine, free flowing consistency and excellent functionality for food manufacturing. It enables us to offer a wide range of milk powder variants. Automated robotic bagging ensures the maximum possible efficiency in the production process.

A continuous programme of research and development is ensuring that North Cork Creameries keeps pace with technological change, enabling us to adapt quickly to changing market needs. We have further upgraded other plants during the year including casein operations where our production capacity has increased significantly.

↓ *Martin O’Keeffe (Chairman) and Pat Sheahan (CEO) North Cork Creameries.*





High Standards

Adherence to the highest international quality standards allows North Cork Creameries to guarantee the quality, traceability and reliability of all our products in the markets we serve. All of our dairy manufacturing facilities are accredited to the BRC Quality Accreditation (Grade A). Our factories are operating at peak efficiency and they meet all internationally recognised environmental protection, energy conservation, waste management and emissions control standards.

Our milk producers are also continuing to join the Bord Bia Sustainable Dairy Assurance Scheme in large numbers and we anticipate that 100% of our milk supply base will be covered by this programme by year end. SDAS accreditation supports the marketing of our products where we can point to certified quality and traceability throughout our supply chain. It is another marker of our overall commitment to excellence in dairying and dairy processing.

Agribusiness Operations

The role of our Agribusiness operations is to optimise growth and profitability for milk producers by providing them with first class technical advice and support combined with high quality, competitively priced farm inputs and excellent customer service.

Our Stores performed strongly throughout the year. We offered the most competitive prices possible to ensure value and cost effectiveness for farmers, particularly in these challenging times. Our Cullen branch was renovated to high standards providing a modern and upgraded retail presence which will serve farmers long into the future.

Our expert Agribusiness team offers a best in class nutritional advisory service to all customers where milk producers are the bedrock of our business. We are continuing to support dairy farming progress through our advisory services including the Teagasc Joint Programme. This includes herd fertility, soil analysis and milk recording to ensure that milk producers know the specific characteristics of their individual farming enterprises. Farm walks are also being used to support this process where knowledge sharing and the achievement of mutual progress forms a key part of our co-operative focus. These programmes are helping milk producers to prioritise initiatives to increase the proportion of key constituents in their milk including protein and butterfat.

We are currently manufacturing a range of new value added products in this facility and in our milk powder plant. This is in line with our strategy to provide higher value, niche dairy products for food manufacturing applications.

Additionally, we are progressing a number of innovative new products for retail markets. We are a provider of high quality consumer dairy products and this is directly correlated to the excellent quality of milk provided to us by our dairy farmers.

Strong grass growth stimulated high levels of grazing during the year and this contributed to higher levels of solids for processing. Following preparatory work undertaken in 2015, we have introduced the A+B-C payment system in the current year to reward production of milk with high protein and butterfat content. These constituents enable us to provide more functional dairy products to our customers and to achieve higher returns from the markets. This forms part of our overall commitment to pay the most competitive milk price possible to our milk producers.

Additionally, over 50% of our milk suppliers are participating in Fixed Milk Price contracts which helped to counter market volatility and this will continue to be the case in the current year where market prices remain challenged.

A SGM was held in 2015 which approved a Board recommendation to issue bonus shares to members of the co-operative, holding shares at 31st December 2014, in the amount of 2 additional shares for every 1 share held. This initiative marks the co-operative's commitment to our milk producers as an integral driver of our future success.

New Web Presence

During the year we developed a new web presence which is optimised for viewing on all devices including tablets and smartphones. This includes a portal for our milk producers to interact with the co-operative and to receive individual supplier information including milk analysis. (www.northcorkcreameries.com)

Leadership

We have a highly skilled and experienced workforce. Our management and staff are participating in continuous professional development programmes. These are designed to improve overall organisational effectiveness and to ensure the best deployment of our resources. The entire business is focussed on lean operation, maximising efficiency and reducing costs.

During the year, members of the Board attended courses delivered by the Plunkett Institute for Corporate Governance. The Institute is an expert body supporting the governance of co-operative organisations and continuous professional development. Participation by our directors in these programmes will ensure that our co-operative will continue to be served by capable and experienced decision makers. It is also an indication of the commendable dedication and commitment of each Board member to the future success of North Cork Creameries.

I am very grateful to my Board colleagues and all members and milk producers for your excellent support and participation in the progress of your co-operative. The Board is 100% committed to ensuring that we will support our dairy farmers in every way possible. That is a constant and unwavering commitment and it is our maximum priority during the current protracted period of market volatility.

I express our appreciation to our CEO Pat Sheahan and his management team who are totally dedicated to our co-operative and the growth of our business. We are also most grateful to all our staff across all operations for their diligence and hard work on our behalf. In particular, I thank our customers and partners across each division of our business. We look forward to making further continuous progress in the future.

The Board, management and staff are very mindful of market circumstances. It is likely that the current year will continue to be difficult for milk producers. If you need help, advice or support, do not hesitate to contact the co-operative at any time.

Positioned in one of the most environmentally pristine regions of Ireland, North Cork Creameries is creating positive impacts on our local, regional and national economy as a leading Irish dairy industry player. We make a major contribution to rural development throughout our specific catchment area and across all of the communities in which we operate.

Your co-operative is independent, strong and well positioned to support you on a long term and sustainable basis. Strategic planning combined with sound investments, an economically advantageous product mix, modern plants and the skills of our people will continue to contribute to our overall success.

Our milk producers are at the very centre of our progress and success. Based on our mutual endeavours and achievements, and as dairy farmers invested together in our own co-operative, we can look forward with confidence to the future.

Martin O’Keeffe
Chairman



We have an advanced operational capability and offer total efficiency across the supply chain in meeting the needs of our food industry customers.

FRS 102

For our 2015 report, we have adopted the necessary new financial accounting standard FRS 102 that is being applied to all organisations. This is a statutory requirement.

It has also necessitated a restatement of various figures reported for 2014. The note below explains in some detail the effect of this new accounting standard with the table clearly explaining the statutory, non-trading adjustments that are now reflected in our Financial Statements.

The transition to the new framework is effective retrospectively from 1 January 2014 to allow a like-for-like comparison between 2014 and 2015 under the new standard.

The key change to how transactions are accounted for in the Society's accounts is in respect of investments held by the Society in publicly quoted shares. In the past these were shown at cost in the Balance Sheet (i.e., the amount the Society paid for these shares).

From now on, these will be shown at their market value (fair value) at the year-end (31 December each year). Any change in value each year will go through the Income & Expenditure Account and will be reflected as part of the Profit/Loss for the financial year.

These provisions will impact the results for the year, even though no trading or cash transaction may have taken place in respect of these shares.

This first year of reporting under FRS 102 necessitated a substantial adjustment which is broadly in line with the nature of investment markets over the past number of years.

The table below shows the underlying trading profit for the Society for 2015 before any adjustment in respect of the fair value of publicly quoted shares and before the impact of other FRS 102 adjustments in relation to pensions, changes to depreciation rates and holiday accruals.

The main adjustment arising from FRS 102 is a reduction in the valuation of shareholdings in publicly quoted companies by a total of €1.4m and this is recorded in the Profit & Loss Account.

However, the financial performance of the business is positive. We achieved an underlying profit of €0.3m for 2015 before the FRS 102 adjustments are taken into account.

	2015 €'000	2014 €'000
(Loss)/Profit for the Financial year 2015	(1,309)	1,385
FRS 102 Adjustments:		
Fair Value adjustments in respect of quoted investments	1,432	(1,085)
Adjustment in respect of impairments to quoted investments	0	101
Pensions Charge	279	0
Holiday Accrual Charge	3	3
Depreciation (useful life review)	(139)	0
Underlying Profit before FRS 102 adjustments	266	404



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