Arrabawn
Co-op

# 2013

## ANNUAL REPORT AND ACCOUNTS

ARRABAWN CO-OPERATIVE SOCIETY LIMITED

## *Board of Directors & Other Information*

| | |
|---|---|
| ***Chairman*** | Patrick Meskell |
| ***Vice Chairmen*** | Sean Monahan<br>John Ryan |
| ***Board*** | Patrick Brennan<br>Edward Carr<br>Martin Callanan<br>Matt Cleary<br>Padraig Coughlan<br>Michael Darcy<br>Patrick Donnellan<br>Michael Egan<br>Sean Fahy<br>Seamus Finn<br>Michael Flaherty<br>Gerry Hoade<br>Michael Kennedy<br>Michael Leamy<br>Patrick McLoughlin<br>Sean Ryan<br>Sean C. Ryan<br>Michael Walsh<br>John Woods |
| ***Chief Executive*** | Conor Ryan |
| ***Secretary*** | Jerry Ryan |

***Registered Office***
Nenagh,
Co. Tipperary.

***Auditors***
Quinlan Holohan & Co.,
Chartered Accountants,
& Registered Auditors,
Nenagh,
Co. Tipperary.

***Solicitors***
Patrick F. Treacy & Co.,
Nenagh,
Co. Tipperary.

***Bankers***
Allied Irish Banks plc.
Bank of Ireland.
ACC Bank.

# CONTENTS

# Chairman's Report

The best way of describing the period under review is to borrow a phrase from sporting parlance because from the perspective of our shareholders in particular and of dairy farmers in general the year 2013 was a game of two halves.

The very poor weather experienced in the first half of the year, especially during the spring, made life extremely difficult for most farmers. Although the milk price was relatively high during that period, the poor grass growth, coupled with very low or zero feed stocks on many holdings, put intense pressure on farm incomes and on farmer morale.

However, it is gratifying to report that the Society responded rapidly and positively to the difficult situation by first of all sourcing and then importing substantial tonnage of hay from the UK. This action was unprecedented, as we had never experienced circumstances like these before, and the imported supplies were of great benefit to those affected on many farms. Hopefully this situation will never arise again.

In stark contrast to the first six months, we were fortunate that the second half of the year brought good weather and a better milk price. The result was that overall 2013 turned out to be a good year for milk producers.

**Financial Results**
The key indicators from our 2013 financial results for the year are as follows:

- Turnover increased to a record €220.5m which represented a 19% increase on 2012.
- Sales in the Dairy Division grew to €149.9m, an increase of 25% on 2012 while Trading Division sales increased by 9% to €70.6m.
- Operating Profit before Exceptional Items amounted to €2.767m, an increase of 142% or €1.626m on 2012.
- Net Debt at year end reduced by 28% to €10.1m.
- Shareholder funds increased by 6% to €37.6m.

**Milk Processing Division**
During 2013 we received confirmation that the national gas grid will be extended to Nenagh and it is expected that our processing plant will be connected to the grid in early 2015. This is a very welcome and significant development for us as it will provide us with a cheaper, more efficient and cleaner fuel source. In tandem with this we are continuing to modernise the plant with the aim of improving efficiency and increasing capacity. This work will continue over the next few years and will help to maintain our competitiveness in what has become a very tough environment.

In the liquid milk sector the market remains extremely difficult. The share of the market that is held by the supermarket own-brands continues to grow to the potential detriment of our Arrabawn brands. In order to help maintain our share of the market we rebranded our range of fresh products with new packaging which was designed during the year. As part of this marketing drive we also stepped up our promotional activity across the retail sector. We are determined to defend our share and I am happy to report that this activity has drawn a favourable response from our customers.

**Trading Division**
During the year we consolidated our stores and animal feed business into one unit. We also consolidated our animal feed operations into one site – Dan O'Connor Feeds in Limerick – by closing the old Greenvale site in Thurles. Unfortunately this resulted in some job losses in Thurles but the decision was taken in the best interests of the Society in order to improve efficiency and provide a better service to our customers.

The Trading Division performed strongly during the year and is now well positioned for further development. Significant capital expenditure was made in DOC to enable it to handle the increased tonnage arising from the consolidation of the two plants and also to provide it with a platform for growth in the years ahead.

**Super Levy**
As we announce these results, the exact end-of-year position for super levy is not known. However, we believe that a levy is inevitable. Fortunately, there is only one year left of the milk quota system but it must be anticipated that it will result in some levy being applied again.

Farmers getting ready to increase production post quota in April 2015 are likely to have extra animals producing milk in February and March of that year. How one handles milk quota is an individual choice for each supplier, but farmers should be aware that within the Arrabawn catchment area itself and within the country in general it is strongly believed that the milk quota will be exceeded for the levy year ending March 2015.

**Centenary Celebrations**
2013 was special year for the Society. It marked the centenary of the founding of Nenagh Co-Op and the fiftieth anniversary of the founding of Mid West Creameries.  To mark these historic occasions we commissioned Martin Ryan, a well-known journalist, to compile a history of the Society. We are very proud of this publication – THE ARRABAWN STORY, SO FAR -  and I am happy to report that we have received many compliments about it from all over the country.

**Shareholding and Milk Supplied**
During 2013 we commenced the realignment of the shareholding in the Society of each supplier with the volume of milk supplied. This link was traditionally in place in co-ops in Ireland and is also in operation in many co-operatives around the world. We believe it to be the best and the fairest system to operate and we plan to maintain it going forward in order to bring about equality between all suppliers.

The money raised through the issuing of shares is being invested in the infrastructure required for the future growth and development of the co-op. While it is not intended that this money will cover the full cost involved it will definitely make a meaningful contribution to that outlay.

As we move forward into the post-quota era we anticipate that there will some new entrants into milk production. We will welcome these people with open arms and I wish to assure them that we will help them develop their business as much as possible.

**Rule Change**
During 2013 we devoted considerable time to drafting a revised structure for representation on both the Representative Committee and the Board. This proposal will be presented to shareholders at the E.G.M. that is being held immediately after our AGM. The rule change provides for member representation in proportion to the level of activity in the various representative areas. The details of the proposed amendment to the rules will be circulated for consideration separately. On my own behalf and on behalf of the Board I urge your support for the change.

**Many Thanks**
I wish to thank the members of the Representative Committee and the Board for their work and commitment on behalf of the Society. This particular year seemed to be extra busy but it is likely, considering the developments that are in the offing, that we will feel the same way next year and possibly in subsequent years also.

I wish to thank the staff and everyone involved with the Society during 2013. I also wish to express my appreciation and thanks to the many organisations and groups with which we were involved for their support and assistance during the year.

Finally, may I remind you that this is your co-operative. It is here for your benefit and, consequently, your opinion is important to us. Please feel free to make your views known, either at meetings or through your elected representatives. Because it is through open discussion and by working together that we will optimise the operations of the Society and maximise the benefits to our members.

***Patrick Meskell***
***Chairman.***

## Independent Auditors' Report to the Members of Arrabawn Co-Operative Society Limited

We have audited the financial statements of Arrabawn Co-Operative Society Limited Group for the year ended 31 December 2013 which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes as set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is Irish Law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

This report, including the opinion, has been prepared for and only for the Society members as a body and for no other purpose. Our audit work has been undertaken so that we might state to the Society members those matters we are required to state to them in an independent 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 Society and the Society's members, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Board of Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland. The Directors are also responsible for the preparation of the financial statements giving a true and fair view.

In preparing those financial statements, the Board are required to:

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

The Board is responsible for ensuring that the Group keeps proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Irish Industrial & Provident Societies Acts 1893 to 1978. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish Law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial & Provident Societies Acts 1893 to 1978. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the Group's profit and loss account and balance sheet are in agreement with the books of account. We also report to you our opinion as to:

- whether the Group has kept proper books of account;
- whether the Chairman's Report is consistent with the financial statements;

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Report.

## Independent Auditors' Report (continued)

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficent to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the Group's affairs as at the 31st December 2013 and of the Group's profit for the year then ended; and

- have been properly prepared in accordance with the requirements of the Irish Industrial and Provident Societies Act 1893 to 1978.

### Matters on which we are required to report by the Irish Industrial and Provident Societies Act 1893 to 1978

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit
- In our opinion proper books of account have been kept by the Group.
- The Group's balance sheet is in agreement with the books of account
- In our opinion the information given in the Chairmans' Report is consistent with the financial statements.

Quinlan Holohan & Co

**Quinlan Holohan & Co.**
**Chartered Accountants & Registered Auditors**
**15 Summerhill**
**Nenagh**
**Co. Tipperary**

**Date: 13 March 2014**

# Consolidated Trading Profit and Loss Account
**for the year ended 31 December 2013**

| | Notes | 2013<br>€ | 2012<br>€ |
|---|---|---|---|
| **Turnover** | | | |
| Dairy Division | | 149,854,704 | 120,197,619 |
| Trading Division | | 70,611,822 | 65,022,286 |
| | | 220,466,526 | 185,219,905 |
| Raw Materials & Goods for Resale | | (174,441,896) | (142,377,463) |
| **Gross profit** | | 46,024,630 | 42,842,442 |
| Operating & Administration Expenses | **2.1.** | (43,256,898) | (41,700,582) |
| **Operating Profit before Exceptional Items** | | 2,767,732 | 1,141,860 |
| Operating Exceptional Items | **2.2.** | (266,769) | - |
| **Profit before Interest** | | 2,500,963 | 1,141,860 |
| Other Income | | 21,713 | 21,751 |
| Interest payable and similar charges | **4** | (765,661) | (739,300) |
| **Profit on ordinary activities before Tax** | | 1,757,015 | 424,311 |
| Tax on profit on ordinary activities | **5** | (249,998) | (144,027) |
| **Profit on ordinary activities after Tax** | | 1,507,017 | 280,284 |
| Share & Loan Stock Interest | **6** | (103,501) | (113,090) |
| **Retained Profit for the year** | **18** | **1,403,516** | **167,194** |

***Turnover and Operating Profit arose solely from continuing operations***
***There are no recognised gains or losses other than the profit or loss for the above two financial years.***

On behalf of the board

***Patrick Meskell*** — ***Chairman***

***Sean Monahan*** — ***Vice Chairman***

***John Ryan*** — ***Vice Chairman***

# Consolidated Balance Sheet
## as at 31 December 2013

| | Notes | 2013 € | 2012 € |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | **7** | 4,032,377 | 4,419,245 |
| Tangible assets | **8** | 30,010,335 | 28,650,294 |
| Financial assets | **9** | 3,151,134 | 3,409,936 |
| | | 37,193,846 | 36,479,475 |
| **Current assets** | | | |
| Stocks | **10** | 16,787,715 | 17,160,863 |
| Debtors | **11** | 23,878,745 | 24,048,633 |
| Bank and Cash | | 3,487,818 | 1,911,906 |
| | | 44,154,278 | 43,121,402 |
| Creditors - amounts falling due within one year | **12** | (38,092,031) | (37,766,003) |
| **Net current assets** | | 6,062,247 | 5,355,399 |
| **Total assets less current liabilities** | | 43,256,093 | 41,834,874 |
| Creditors: amounts falling due after more than one year | **13** | (2,479,933) | (2,678,789) |
| Deferred income | **14** | (3,217,458) | (3,825,318) |
| **Net assets** | | **37,558,702** | **35,330,767** |
| **Capital and reserves** | | | |
| Share capital | **16** | 6,137,433 | 5,886,440 |
| Loan Stock | **17** | 847,027 | 14,501 |
| Reserves | **18** | 30,574,242 | 29,429,826 |
| | | **37,558,702** | **35,330,767** |

On behalf of the board

***Patrick Meskell***
***Chairman***

***Sean Monahan***
***Vice-Chairman***

***John Ryan***
***Vice-Chairman***

# Consolidated Cash Flow Statement
**for the year ended 31 December 2013**

## Cash Flow Statement

| | Notes | 2013 € | 2012 € |
|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | ( i ) | 9,486,151 | 378,450 |
| **Returns on investments and servicing of finance** | 22 | (876,599) | (836,158) |
| **Taxation** | 22 | 36,806 | (1,249,785) |
| **Capital expenditure and financial investment** | 22 | (5,627,274) | (4,380,757) |
| **Financing** | 22 | (707,699) | (1,374,355) |
| **Increase / (Decrease) in cash in the year** | | 2,311,385 | (7,462,605) |

**Reconciliation of net cash flow to movement in net funds (Note 23)**

| | Notes | 2013 € | 2012 € |
|---|---|---|---|
| **Increase / (Decrease) in cash in the year** | | 2,311,385 | (7,462,605) |
| Cash used to reduce lease/hire purchase liability | | 93,759 | 112,807 |
| Repayment of long term loan | | 1,438,359 | 1,146,507 |
| Cash Flow from increase in loan/ hire purchase finance | | - | (86,500) |
| Change in net funds resulting from cash flows | 23 | 3,843,503 | (6,289,791) |
| **Net debt at 31 December 2012** | 23 | (13,974,379) | (7,684,588) |
| **Net debt at 31 December 2013** | 23 | (10,130,876) | (13,974,379) |

**Note ( i )**
**Reconciliation of operating profit to net cash inflow/(outflow) from operating activities**

| | 2013 € | 2012 € |
|---|---|---|
| Operating profit before exceptional items | 2,767,732 | 1,141,860 |
| Depreciation /Amortisation | 3,917,026 | 3,540,253 |
| Decrease / (Increase) in stocks | 373,148 | (3,757,138) |
| Decrease / (Increase) in debtors | 105,393 | (2,272,062) |
| Increase in creditors | 2,600,464 | 1,831,395 |
| Sundry Income | 12,662 | 11,471 |
| Restructuring/Redundancy payments | (275,680) | (61,588) |
| (Profit) on disposal of assets | (14,594) | (55,741) |
| **Net cash inflow/(outflow) from operating activities** | 9,486,151 | 378,450 |

On behalf of the board

*Patrick Meskell*
*Chairman*

*Sean Monahan*
*Vice-Chairman*

*John Ryan*
*Vice-Chairman*

# Notes on and forming part of the Financial Statements
## for the year ended 31 December 2013

**1. Statement of accounting policies**

The significant accounting policies adopted by the Society are:

**1.1. Basis of preparation**

The financial statements are prepared in accordance with accounting standards generally accepted in Ireland and Irish law comprising the Industrial and Provident Societies Acts, 1893 to 1978. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

**1.2. Accounting Convention**

The financial statements are prepared under the historical cost convention.

**1.3. Basis of Consolidation**

The Consolidated Accounts include the financial statements of the Parent Society and each of its Subsidiaries.

**1.4. Turnover**

Turnover represents the invoiced value of goods and services to third parties exclusive of Value Added Tax.

**1.5. Tangible Fixed Assets and Depreciation**

Fixed Assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the the cost or valuation, less residual value, of each asset systematically over its expected useful life, as follows:

| | | |
|---|---|---|
| Land | - | Not Depreciated |
| Buildings | - | Straight line over sixteen to twenty five years |
| Plant and machinery | - | Straight Line over six to ten years |
| Motor vehicles | - | Straight Line over four to five years |

**1.6. Leasing and hire purchase commitments**

Fixed assets acquired under hire purchase contracts and finance leases which transfer substantially all the risks and rewards of ownership to the Society are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful economic lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account on a straight line basis over the period of the lease.

**1.7. Tangible Financial Assets**

Fixed asset investments are stated at cost less provision for permanent diminution in value.

**1.8. Intangible Fixed Assets and Amortisation**

Goodwill is the difference between the fair value of the consideration given on the acquisition of a business and the aggregate fair value of the separate net assets acquired.

Purchased goodwill and trade brands are reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible Fixed Assets are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of each asset over its expected useful life by equal annual installments as follows;

| | | |
|---|---|---|
| Trade Brands | - | Straight line over ten to fifteen years |
| Goodwill | - | Straight line over fifteen years |

**1.9. Capital Grants**

All capital grants are treated as deferred credits and are included in the balance sheet.

Capital grants received are credited to the Profit and Loss Account on the same basis as the related fixed assets are depreciated.

**1.10. Taxation**

Corporation tax is calculated on the profits for the year after taking account of capital allowances and group relief.

**1.11. Deferred Taxation**

Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

**1.12. Stocks and work in progress**

Stocks are stated at the lower of cost and net realisable value.

Cost in the case of raw materials, bought-in-goods and expense stocks comprises purchase price including transport. Cost in the case of finished goods comprises direct material and labour costs and an attributable proportion of direct production overheads.

Net realisable value represents the estimated sale price less costs to completion.

**1.13. Debtors**

Known bad debts are written off and specific provision is made for any amounts the collection of which is considered doubtful. A further general provision is also maintained.

**1.14. Pensions**

The Society contributes to pension schemes covering the majority of its employees.

The contributions payable to the schemes are charged to the Profit and Loss account for the period to which they relate.

**1.15. Foreign Currencies**

Monetary assets and liabilities arising in foreign currencies have been translated into Euro at rates ruling at the balance sheet date. Foreign currency transactions during the year have been translated at the rates ruling at the time of the transactions. Exchange differences have been included in the trading results for the year.

## 2. Operating Profit

### 2.1. Operating & Administration Expenses

Operating & Administration Expenses are comprised of:

| | 2013 € | 2012 € |
|---|---|---|
| Wages & Salaries **(Note 3)** | 13,391,538 | 12,984,285 |
| Fuel & Power | 8,899,738 | 9,037,701 |
| General Operating, Selling & Distribution Costs | 14,674,793 | 13,945,010 |
| Administrative Expenses | 2,373,803 | 2,193,333 |
| Depreciation/Amortisation of Tangibles,Intangibles & Capital Grants | 3,917,026 | 3,540,253 |
| | 43,256,898 | 41,700,582 |

### 2.2. Operating Exceptional Items

| | 2013 € | 2012 € |
|---|---|---|
| Restructuring including redundancy costs | 266,769 | - |
| | 266,769 | - |

## 3. Employees and Remuneration

**Number of employees**

| The numbers of employees at the end of the year were: | 2013 Number | 2012 Number |
|---|---|---|
| Production & Administration | 304 | 290 |

| **Employment costs** | 2013 € | 2012 € |
|---|---|---|
| Wages and salaries | 11,566,217 | 11,076,375 |
| Social welfare costs | 1,213,929 | 1,181,391 |
| Pension costs **(Note 15)** | 611,392 | 726,519 |
| | 13,391,538 | 12,984,285 |

## 4. Interest Payable and similar charges

| | 2013 € | 2012 € |
|---|---|---|
| Bank Loans and Overdrafts | 751,937 | 723,349 |
| Lease finance charges and Hire Purchase interest | 13,724 | 15,951 |
| | 765,661 | 739,300 |

## 5. Tax on profit on ordinary activities

| Analysis of charge in period | 2013 | 2012 |
|---|---|---|
| | € | € |
| Corporation tax | 182,143 | 64,673 |
| Deferred Tax - timing differences | 67,855 | 79,354 |
| Tax on profit on ordinary activities | 249,998 | 144,027 |

The rate of corporation tax mainly attributable to the Society is 12.5%. (2012 - 12.5%). The liability to corporation tax is reduced due to the utilisation of capital allowances and losses forward .

The current tax charge for the year is higher than the current tax charge that would result from applying the standard rate of Irish corporation tax to net profit. The differences are explained below:

| | 2013 | 2012 |
|---|---|---|
| | € | € |
| Profit on ordinary activities before taxation | 1,757,015 | 424,311 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in Ireland of 12.5% (2012 : 12.5%) | 219,627 | 53,039 |
| **Effects of:** | | |
| Disallowable Expenses - permanent | 1,008 | 888 |
| Disallowable Expenses - timing | (31,366) | (134,506) |
| Tax Exempt Income | (279) | (237) |
| Capital allowances for period in excess of depreciation | 120,732 | 144,723 |
| Value of tax losses utilised in year | (93,851) | - |
| Tax on passive income at higher rate | 852 | 766 |
| Adjustments to tax charge in respect of previous periods | (34,580) | - |
| Current tax charge for period | 182,143 | 64,673 |

## 6. Share & Loan Stock Interest

| | 2013 | 2012 |
|---|---|---|
| | € | € |
| Share Interest | 103,187 | 111,926 |
| Loan Stock Interest | 314 | 1,164 |
| | 103,501 | 113,090 |

The directors recommend a payment of share interest for 2013 of 2% (2012- 2%).

## 7. Intangible Fixed Assets

| | Trade Brands € | Goodwill € | Total € |
|---|---|---|---|
| **Cost** | | | |
| At 31 December 2012 | 3,102,500 | 2,694,519 | 5,797,019 |
| At 31 December 2013 | 3,102,500 | 2,694,519 | 5,797,019 |
| **Amortisation** | | | |
| At 31 December 2012 | 725,355 | 652,419 | 1,377,774 |
| Charge for year | 223,500 | 163,368 | 386,868 |
| At 31 December 2013 | 948,855 | 815,787 | 1,764,642 |
| **Net book values** | | | |
| At 31 December 2013 | 2,153,645 | 1,878,732 | 4,032,377 |
| At 31 December 2012 | 2,377,145 | 2,042,100 | 4,419,245 |

## 8. Tangible Fixed Assets

| | Land and Buildings Freehold € | Long Leasehold Property € | Plant and Machinery € | Motor Vehicles € | Leased Assets € | Total € |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2013 | 26,379,208 | 70,828 | 64,430,938 | 4,026,635 | 1,379,447 | 96,287,056 |
| Transfers | (19,845) | - | 19,845 | - | - | - |
| Additions | 93,572 | 5,640 | 5,113,104 | 284,933 | - | 5,497,249 |
| Disposals | - | - | (22,805) | (205,459) | - | (228,264) |
| At 31 December 2013 | 26,452,935 | 76,468 | 69,541,082 | 4,106,109 | 1,379,447 | 101,556,041 |
| **Depreciation** | | | | | | |
| At 1 January 2013 | 15,090,113 | 5,596 | 47,691,486 | 3,487,979 | 1,361,588 | 67,636,762 |
| Transfers | (794) | - | 794 | - | - | - |
| On disposals | - | - | (23,615) | (205,459) | - | (229,074) |
| Charge for the year | 446,053 | 3,059 | 3,433,181 | 237,866 | 17,859 | 4,138,018 |
| At 31 December 2013 | 15,535,372 | 8,655 | 51,101,846 | 3,520,386 | 1,379,447 | 71,545,706 |
| **Net book values** | | | | | | |
| At 31 December 2013 | 10,917,563 | 67,813 | 18,439,236 | 585,723 | - | 30,010,335 |
| At 31 December 2012 | 11,289,095 | 65,232 | 16,739,452 | 538,656 | 17,859 | 28,650,294 |

Freehold land is not depreciated and is included under land and buildings
Included above are assets held under finance leases or hire purchase contracts as follows:

| | 2013 € | 2012 € |
|---|---|---|
| **Plant & Machinery** | | |
| Net Book Value | 3,323 | 72,860 |
| Depreciation | 69,536 | 75,489 |
| **Motor vehicles** | | |
| Net Book Value | 113,362 | 128,413 |
| Depreciation | 14,781 | 30,206 |

## 9. Financial Fixed Assets

| Trade Investments | 2013 € | 2012 € |
|---|---|---|
| **Cost** | | |
| At 31 December 2012 | 3,409,936 | 3,648,862 |
| Additions | 347,000 | 322,900 |
| Disposals | (605,802) | (561,826) |
| At 31 December 2013 | 3,151,134 | 3,409,936 |
| Cost of quoted investments included above | 2,436 | 2,436 |
| Market valuation of quoted investments at year end | 754,242 | 517,094 |

In the opinion of the Board, the value of investments is not less than as shown above. No value has been attributed to deferred shares in the Irish Dairy Board. Shares held in One51 plc are quoted on the IEX and are not included in the above market valuation as trading is restricted on this stock exchange.

## 9.1. Subsidiaries

The Society held 100% of the share capital of the following entities at the 31 December 2013.

| Subsidiaries | Country of registration | Nature of business | Shares held class | Proportion of shares held |
|---|---|---|---|---|
| Arra Co-Operative Society Ltd | Ireland | Agri Co-Op | Ordinary | 100% |
| Cortare Ltd | Ireland | Manufacture animal feeds | Ordinary | 100% |

## 10. Stocks

| | 2013 € | 2012 € |
|---|---|---|
| Finished Goods | 7,433,174 | 7,562,029 |
| Resale Goods | 5,612,713 | 5,141,076 |
| Expense Stocks | 1,820,290 | 2,125,409 |
| Raw Materials | 1,921,538 | 2,332,349 |
| | 16,787,715 | 17,160,863 |

## 11. Debtors

| | 2013 € | 2012 € |
|---|---|---|
| ***Amounts falling due within one year*** | | |
| Trade debtors & prepayments | 23,744,467 | 23,846,500 |
| Other debtors (deferred tax) | 134,278 | 202,133 |
| | 23,878,745 | 24,048,633 |

## 11.1. Deferred Taxation

| | 2013 € | 2012 € |
|---|---|---|
| Balance at beginning of the year | 202,133 | 281,487 |
| Movement in year | (67,855) | (79,354) |
| Balance at end of the year | 134,278 | 202,133 |

## 12. Creditors: amounts falling due within one year

| | 2013 € | 2012 € |
|---|---|---|
| Bank overdrafts | 11,400,393 | 12,135,866 |
| Bank loans | 125,000 | 1,444,274 |
| Net obligations under finance leases and hire purchase contracts | 87,698 | 101,686 |
| Trade creditors & accruals | 26,292,318 | 24,116,503 |
| Corporation tax | 186,622 | (32,326) |
| | 38,092,031 | 37,766,003 |

## 13. Creditors: amounts falling due after more than one year

| | 2013 € | 2012 € |
|---|---|---|
| Distribution of surplus | 474,330 | 474,330 |
| Bank loans | 1,952,899 | 2,071,984 |
| Net obligations under finance leases and hire purchase contracts | 52,704 | 132,475 |
| | 2,479,933 | 2,678,789 |

**Bank Loan Analysis**

| | 2013 € | 2012 € |
|---|---|---|
| Repayable within one year or less, or on demand **(Note 12)** | 125,000 | 1,444,274 |
| Repayable between two and five years **(Note 13)** | 1,952,899 | 2,071,984 |
| Total Bank Loans | 2,077,899 | 3,516,258 |

## 14. Deferred income

| | 2013 € | 2012 € |
|---|---|---|
| **Government Grants** | | |
| At beginning of year | 3,825,318 | 2,848,127 |
| Received in year | - | 1,657,506 |
| | 3,825,318 | 4,505,633 |
| Released in year | (607,860) | (680,315) |
| At end of year | 3,217,458 | 3,825,318 |

## 15. Retirement Benefits

The total pension charge for the year was €611,392 (2012 - €726,519). Contributions of €157,782 were due to the scheme by the Society at 31 December 2013. These have been paid to the scheme by the Society since the year end.

**Defined Contribution scheme**

The society operates a defined contribution pension scheme. The assets of the scheme are held seperately from those of the society in an independently administered fund. The pension cost charge represents contributions made by the society to this scheme for the year.

**The Irish Co-operative Societies Pension Scheme**

The Society participates in an industry-wide Irish Co-operative Societies Pension Scheme. This is a multi-employer defined benefit pension scheme. However, as the underlying assets and liabilities attributable to the individual employers cannot be identified on a consistent and reasonable basis the Society is accounting for the pension scheme as if it were a defined contribution pension scheme. This is in accordance with the rules of Financial Reporting Standard 17.

The most recent full actuarial valuation of the Irish Co-Operative Societies' Pension Scheme was carried out on 1st July 2011. The report is available for inspection by Scheme members but is not available to the public.

At the date of the most recent full actuarial valuation of 1st July 2011, the Scheme did not meet the Minimum Funding Standard. At its annual review date of 1st July 2013 the Scheme did not meet the Minimum Funding Standard and an actuary's statement to this effect is included in the trustee annual report.

In general the assumptions which have the most significant effect on the results of the actuarial valuation are those relating to the return on investment and the rate of increase in salaries. The rate of return on investment was assumed to exceed the rate of increase in salaries by 2.5% per annum.

The trustees are in the process of preparing an application to the Pensions Board for a Section 50 Order under the Pensions Act. If the Pensions Board grants the Section 50 Order the trustees anticipate that the Scheme will meet the Minimum Funding Standard.

## 16. Share capital

| | 2013 € | 2012 € |
|---|---|---|
| Opening Balance | 5,886,440 | 5,801,709 |
| Issued during the year | 73,507 | 4,756 |
| Redeemed during the year | (81,614) | (99,012) |
| Bonus Issues from Bonus Reserves | 259,100 | 178,987 |
| Closing Balance | 6,137,433 | 5,886,440 |

## 17. Loan Stock

| | 2013 € | 2012 € |
|---|---|---|
| Redeemable Loan Stock | 7,853 | 14,501 |
| Convertible Loan Stock | 839,174 | - |
| | 847,027 | 14,501 |

### 17.1. Redeemable Loan Stock

| | 2013 € | 2012 € |
|---|---|---|
| Opening Balance | 14,501 | 35,286 |
| Loan Stock Issued | 971 | - |
| Loan Stock Redeemed | (7,619) | (20,785) |
| Closing Balance | 7,853 | 14,501 |

### 17.2. Convertible Loan Stock

| | 2013 € | 2012 € |
|---|---|---|
| Opening Balance | - | - |
| Convertible Loan Stock issued during the year | 839,174 | - |
| Loan Stock Converted to Shares | - | - |
| | 839,174 | - |

The Board of the Society has resolved that by the end of 2016 each milk supplier must hold a "minimum shareholding level" in the Society. The level required is determined by the volume of milk supplied. In order to acheive this level, where necessary a deduction is being made from the milk price paid to suppliers from the 1st June 2013. This deduction will be applied towards the issue of convertible loan stock in the Society. The loan stock will be converted to ordinary shares. A supplier with surplus loan stock may apply to the Board for encashment of the surplus. Any such encashment is at the sole discretion of the Board. A supplier retiring from milk production may apply to the Board to redeem his/her ordinary shares and cancel membership. The acceptance of any such application for redemption and the redemption scheme (including the period of years over which the redemption is effected) is at the sole discretion of the Board.

## 18. Reserves

| | Profit and Loss Account € | Special Share Reserve € | Capital Reserve € | General Reserve € | Bonus Share Reserve € | Total € |
|---|---|---|---|---|---|---|
| **At 31 December 2012** | 28,381,469 | 419,780 | 268,206 | 159,293 | 201,078 | 29,429,826 |
| Transfer Bonus Reserve | (400,000) | - | - | - | 400,000 | - |
| Issue of Bonus Shares | - | - | - | - | (259,100) | (259,100) |
| Retained profit for the year | 1,403,516 | - | - | - | - | 1,403,516 |
| **At 31 December 2013** | 29,384,985 | 419,780 | 268,206 | 159,293 | 341,978 | 30,574,242 |

## 19. Capital Commitments

Future Capital Expenditure approved but not provided for in the Financial Statements is as follows:

| | 2013 € | 2012 € |
|---|---|---|
| Contracted For | - | 1,436,032 |
| Not Contracted For | 7,420,000 | 1,216,500 |

## 20. Contingent Liabilities

Contingent liabilities arise from an irrevocable guarantee given for the year by the Society in respect of liabilities incurred by its subsidiary company, Cortare Limited, who have availed of the exemption under Section 17 of the Companies (Amendment) Act 1986.

The Society is party to various legal matters including a High Court action. The Board is of the opinion that none of these cases will impact in a materially adverse manner on the financial status of the group.

Grants received of €6,170,213 under agreements between the Society and Enterprise Ireland may become repayable should certain circumstances set out in the agreements occur.

## 21. Related party transactions

In the ordinary course of their business, Committee members trade with the Society on standard commercial terms. All transactions are carried out on the same terms as those applied to dealings with unrelated parties.

| | 2013 € | 2012 € |
|---|---|---|
| During the year the Society invoiced Board Members in respect of goods supplied to them | 1,376,844 | 1,363,769 |
| The net value of milk supplied by the Board Members amounted to | 3,486,855 | 2,676,597 |
| Amounts due from Board Members at 31st December | 216,540 | 281,305 |
| Amounts due to Board Members at 31st December | 110,655 | 102,892 |

## 22. Gross cash flows

| | 2013<br>€ | 2012<br>€ |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest paid | (775,469) | (726,822) |
| Interest element of finance lease rental payments | (3,320) | (3,664) |
| Dividends received | 5,691 | 7,418 |
| Share and Loan Stock interest paid | (103,501) | (113,090) |
| | (876,599) | (836,158) |
| **Taxation** | | |
| Corporation tax paid | (30,099) | (1,249,785) |
| Corporation tax repaid | 66,905 | - |
| | 36,806 | (1,249,785) |
| **Capital expenditure and financial investment** | | |
| Payments to acquire intangible assets | (650,000) | (1,150,001) |
| Payments to acquire tangible assets | (5,249,860) | (5,190,559) |
| Receipts from sales of tangible assets | 13,784 | 63,371 |
| Acquisition of Convertible Loan Stock | (347,000) | (322,900) |
| Redemption of Convertible Loan Stock | 605,802 | 561,826 |
| Receipt of capital grant | - | 1,657,506 |
| | (5,627,274) | (4,380,757) |
| **Financing** | | |
| Issue of ordinary share capital | 73,507 | 4,756 |
| Issue of convertible loan stock | 839,174 | - |
| Redemption of ordinary share capital | (81,614) | (99,012) |
| Loan Stock subscribed | 971 | - |
| Loan Stock redeemed | (7,619) | (20,785) |
| New finance lease / hire purchase loan | - | 86,500 |
| Repayment of long term bank loan | (1,438,359) | (1,146,507) |
| Capital element of finance leases and hire purchase agreements repaid | (93,759) | (199,307) |
| | (707,699) | (1,374,355) |

## 23. Analysis of changes in net debt

| | Opening balance € | Cash flows € | Closing balance € |
|---|---|---|---|
| Cash at bank and in hand | 1,911,906 | 1,575,912 | 3,487,818 |
| Bank overdrafts | (12,135,866) | 735,473 | (11,400,393) |
| | (10,223,960) | 2,311,385 | (7,912,575) |
| Debt due within one year | (1,444,274) | 1,319,274 | (125,000) |
| Finance lease due within one year | (101,686) | 13,988 | (87,698) |
| Finance leases due after one year | (132,475) | 79,771 | (52,704) |
| Long term loan due after one year | (2,071,984) | 119,085 | (1,952,899) |
| | (3,750,419) | 1,532,118 | (2,218,301) |
| **Net debt** | **(13,974,379)** | **3,843,503** | **(10,130,876)** |

## 24. Going concern

The Group has generated an operating profit in a challenging economic environment. After making enquiries and considering future market and economic uncertainties, the directors are confident that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and financial statements.

## 25. Securities

Banking facilities provided to the group by ACC bank and Allied Irish Bank are secured by fixed and floating debentures over the assets of the group. The debentures incorporate specific charges over land and buildings.

## 26. Accounting Periods

The current and comparative financial statements are for a full year.

## 27. Approval of financial statements

The financial statements were approved by the Board on 13th March 2014 and signed on its behalf by

***Patrick Meskell***
***Chairman***

***Sean Monahan***
***Vice Chairman***

***John Ryan***
***Vice Chairman***

## *Milk Statistics*

| | 2013 | 2012 |
|---|---|---|
| Own Suppliers | 262.33m/lts. | 248.51m/lts. |
| Average Butterfat | 3.96% | 3.96% |
| Average Protein | 3.38% | 3.35% |
| Average Price | 38.87c/lt. | 31.39c/lt. |

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