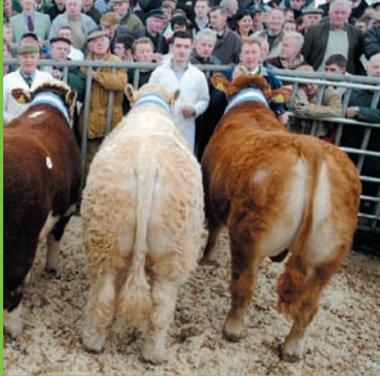




Irish Cattle Breeding Federation

Annual Report 2005



ICBF Annual Report

For calendar year 2005

5th May 2006

Irish Cattle Breeding Federation Society Limited

Table of Contents

1	SUMMARY	2
2	INTRODUCTION	2
3	GENETIC EVALUATIONS.....	3
3.1	COMMON TO BEEF AND DAIRY	3
3.2	DAIRY SPECIFIC	3
3.3	BEEF SPECIFIC	4
4	UPTAKE & COST OF SERVICES	5
4.1	MILK RECORDING.....	5
4.2	MARKETING.....	5
4.3	ELECTRONIC DATA FROM FARMS	6
4.4	ELECTRONIC DATA FROM TECHNICIANS.....	6
4.5	BREEDING RECORDS SERVICE	6
4.6	HEALTH AND DISEASE SERVICE.....	6
5	BREEDING SCHEMES.....	7
5.1	RESEARCH OPTIMAL DESIGN	7
5.2	DISEASE FREE STATUS FOR SEED STOCK HERDS	7
5.3	HF BREEDING SCHEME.....	7
5.4	OTHER BREED SCHEMES.....	7
5.5	MATING ADVISORY SERVICE.....	7
5.6	CAPITAL FUNDING OF BEEF PROGENY TESTING	8
5.7	TULLY.....	8
6	RESOURCES.....	8
6.1	FINANCIAL.....	8
6.2	PEOPLE	8
6.3	OFFICES	9
6.4	TULLY.....	9
7	COMMUNICATIONS	9
7.1	IRISH CATTLE BREEDING STATISTICS	9
7.2	INDUSTRY PRESENTATIONS	9
7.3	WEB SITE.....	9
7.4	TRAINING.....	10
8	SUPPORT.....	10
9	FUTURE PROSPECTS.....	10
10	FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005.....	11
10.1	SOCIETY INFORMATION.....	11
10.2	INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IRISH CATTLE BREEDING FEDERATION SOCIETY LIMITED.....	12
10.3	INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005	13
10.4	BALANCE SHEET AT 31 DECEMBER 2005.....	14
10.5	NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005.....	15
10.6	APPENDIX I.....	19
10.7	APPENDIX II.....	20

1 SUMMARY

The Irish Cattle Breeding Federation (ICBF) exists to achieve the greatest possible genetic improvement in the national cattle herd, for the benefit of Irish Farmers, the Dairy and Beef industries, and Members. In 2005 the major contributions to this mission were the introduction of electronic DIY milk recording, the launch of GEN€IR€LAND[®], a substantial increase in the number of beef herds participating in Animal Events, and substantial developments in dairy and beef genetic evaluations.

The ICBF database is now fully operational for dairy, beef, milk recording, beef performance recording, genetic evaluations and herd books with some 25,000 herds participating in one or more aspects by the end of 2005. Substantial further progress was made with the development of across breed genetic evaluations for calving and beef traits. This included the implementation of new sub-indexes for beef breeding, and implementation of an extension of the dairy EBI to incorporate calving, beef and health traits.

In 2005, the Beef Breeding Quality Initiative provided electronic access to factory slaughter data, a beef linear scoring and weight recording service for all breeds and crosses, and substantial increases in the quality and quantity of bulls graduating from Tully.

The national database has dramatically improved the accuracy and scope of both beef and dairy genetic evaluations. In 2005 these improved evaluations were used to locate Irish bred Holstein Friesian bulls for subsequent progeny testing. A substantial increase in the EBI of the selected bulls was achieved. As beef and dairy breeding decisions are increasingly based on these more accurate genetic evaluations the profitability of beef and dairy farming is being advanced.

The outcome of the 2004 strategic review is now guiding ICBF and is used as the basis for this Annual Report. The focus of the plan is to increase farmers uptake of the recording and breeding services that give greatest economic returns. ICBF's development effort will increasingly be focused on streamlining the flow of data from farms, while improving the quality of the information returned to farms. Initiatives with TEAGASC and with the animal health industry are being undertaken to use the ICBF database to provide better quality information for farm and industry decision-making.

In summary, 2005, was year of dramatic and long lasting progress towards the goals of ICBF. In large part this has been due to the incredible commitment and teamwork of our staff, contractors and the many organisations we work closely with. In addition, a commitment to the principles of Total Quality Management – continuous improvement, teamwork, and consultation - underpins all the work of the organisation.

2 INTRODUCTION

The Irish Cattle Breeding Federation Society Limited (ICBF) has been established with the objective of **achieving the greatest possible genetic improvement in the national cattle herd for the benefit of Irish Farmers, the Dairy and Beef industries and Members.** Genetic improvement comes about when the parents of the next generation are genetically superior to their contemporaries. Bringing about improvement requires:

- **Identification, ancestry and quantitative and qualitative data** on those traits of importance for large numbers of animals in each generation.
- A **genetic evaluation** system to identify the genetically superior animals in each generation. An essential part of the genetic evaluation system is a scientific knowledge of the objectives and principles of cattle breeding.
- A **breeding scheme design** that ensures that the required data is available, and that farmers make full use of the genetically superior animals in each generation.

During 2004 ICBF conducted a strategic review which provided the focus for its activities in 2005. The review identified three main areas – genetic evaluation, uptake & cost of services, and breeding schemes – as the primary focus for future activities. For each of these areas a number of strategies were agreed and they form the basis of this year's Annual Report.

This Annual Report has been prepared for the purpose of providing to ICBF's shareholders and other stakeholders a summary of activities and achievements in relation to the objectives of the Society for the 2005 calendar year.

3 Genetic Evaluations

Our overall goal is to ensure accurate genetic evaluations for all traits, breeds and animals (national & international) of significance to Irish cattle farmers. During 2005 a great deal of progress was made towards this goal.

During 2005 a series of open consultation meetings provided a forum where the breeding industry and the development teams could meet and discuss developments in genetic evaluations. Only when a consensus was reached were recommendations for significant changes taken to the ICBF Board for a final decision to proceed. From 2005 onwards all major changes to genetic evaluations will be introduced in November to allow sufficient time for the industry to accommodate the changes in their promotion and educational material.

Our strategy is spread over traits common to beef and dairy, as well as those specific to dairy or beef.

3.1 Common to beef and dairy

Our strategy for traits common to beef and dairy is to research, develop, implement and continuously improve across breed evaluations that make optimal use of all national and international data relevant to calving, fertility, survival, beef production, and suckler-cow maternal traits.

In a world first starting in 2005, across breed genetic evaluations for a wide range of calving and beef traits are now being routinely provided to the Irish cattle breeding industry. These evaluations enable animals of all breeds (beef and dairy) to be compared with each other for many traits including direct and maternal calving ease, gestation length, calf mortality, carcass weight, carcass grade, carcass fat score and mature cow live weight. This development has been made possible by the widespread coverage of calving details reported by farmers through Animal Events and access to slaughter records provided via DAF.

While considerable progress was made in 2005 for feed-intake and the use of beef linear traits, further work is required before evaluations for these traits will be finalised.

During 2005 a lack of suitable data was identified as a factor limiting the development of evaluations for suckler-cow maternal traits. To overcome this limitation a major effort to recruit herds of non-pedigree suckler cows for which sires were identified was initiated. By the end of 2005 some 171,000 such cows had been added to the database. It is expected that this will enable suckler-cow maternal evaluations to become a practical reality in 2006.

3.2 Dairy Specific

Our goal for the dairy herd is to continuously enhance the accuracy and relevance of the EBI as a guide for breeding dairy replacements. We are also seeking to continuously improve genetic evaluations for milk production traits, udder health traits and dairy specific conformation traits.

In 2005 the main step taken was the introduction of the calving and beef traits into the EBI in February followed by the introduction of the health traits (somatic cell score and locomotion) into the EBI in November (see figure 1 for developments since 2000). Further work is required before the EBI will be officially provided on an across breed basis.

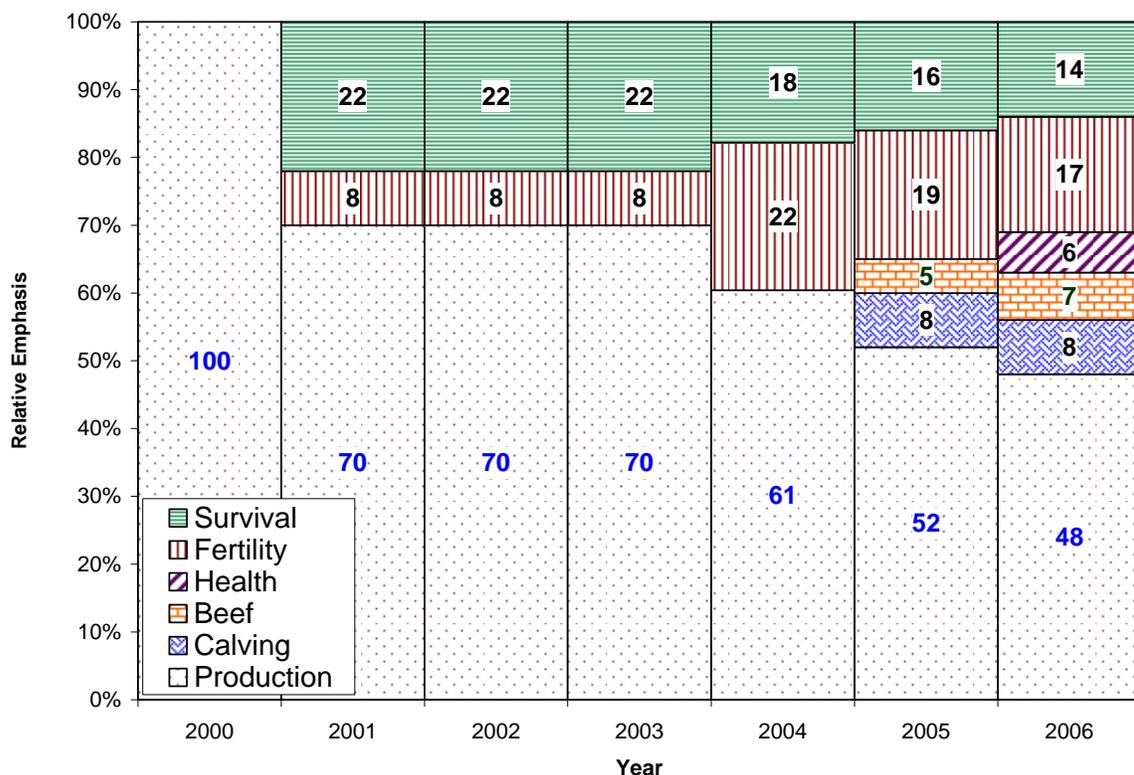


Figure 1. Development of the dairy EBI since 2000.

Genetic evaluations for somatic cell score were developed and implemented officially for Holstein-Friesians, and unofficially for all the other dairy breeds on an across breed basis. Also, the genetic evaluation system for milk production traits (milk volume, fat, protein) were modified to operate on an across breed basis with the results for Holstein-Friesians now official and for all other breeds they are unofficial. This development sets the scene for the provision of all dairy trait evaluations on an across breed basis in 2006.

3.3 Beef Specific

Our strategy is to research, develop, implement and continuously improve economic indexes to guide beef breeding decisions.

The concept of a beef EBI was introduced in 2005 with the implementation of four out of the five planned economic sub-indexes. The concept of expression of sub-indexes in economic terms that reflect contribution to farm profit has proven popular with farmers seeking breeding information.

The relative emphasis placed on each trait in the beef EBI sub-indexes has been established in a research effort involving a combination of national and international expertise. This research is focused on ensuring the greatest profitability from using beef bulls under Irish conditions.

4 Uptake & cost of services

In 2004 and previous years ICBF was focused on establishing the cattle breeding database. As reported last year this work is now complete and the database is fully operational and is exceeding the original expectations.

The focus in 2005 thus moved, in accordance with ICBF's strategic plan, to increasing farmer participation in cattle breeding services. Our strategy, over a number of years, is to double

participation and to substantially reduce the unit costs of cattle breeding services to farmers. Excellent progress in participation rate was made with 937,000 calf birth registrations recorded in 2005 (refer to figure 2) an increase of 29% on 2004.

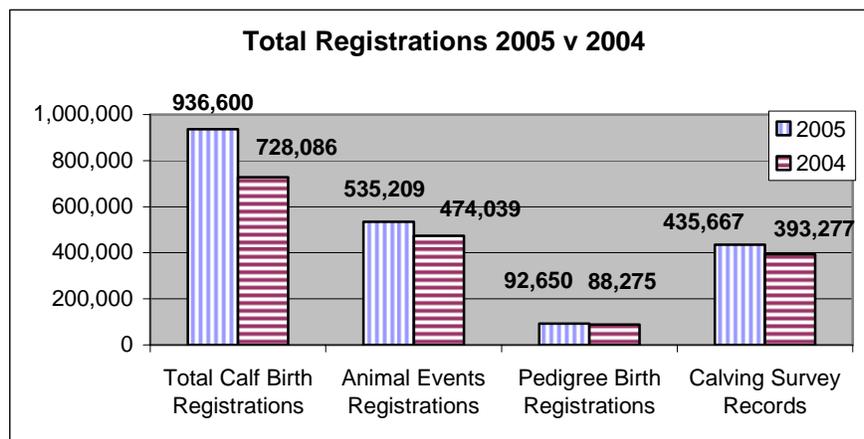


Figure 2. Participation in ICBF database in 2005 compared with 2004.

4.1 Milk Recording

ICBF's strategy is to work closely with its milk recording members, to rationalise and consolidate milk-recording operations. Also to make full use of new technology to reduce labour, reduce inconvenience for farmers and to reduce the cost of recording. Our goal is to increase usage of milk recording to some 60% of dairy cows.

In 2005 the major achievement was to establish the practicality of the EDIY milk recording service. With four cells operational by the end of 2005 the results were so encouraging that a further eight cells were purchased with the help of a generous grant from DAF for introducing an expanded service in 2006. The EDIY service is proving attractive to farmers because it reduces labour costs, both on-farm and off-farm, through automation and the use of electronic data collection. The cost of the meters, while high on a unit basis, is minimised through achieving high utilisation over many farms. This new service is attracting new herds to milk recording as well as taking the place of the conventional recording service. Our goal of 60% of dairy cows on milk recording could be met through a service comprising some 50 EDIY cells. For the first time in many years a significant growth in milk recording appears achievable.

4.2 Marketing

Our strategy for marketing is to work closely with our service providing members to ensure effective use of relevant marketing disciplines in the designing of cattle breeding services provided to farmers in Ireland.

In 2005 this strategy played an important role in the design of the EDIY milk recording service, the design of enhancements to a range of herd reports and design of the AI Technician handheld computers. In all cases the focus has been on ensuring the end customers receive a service that meets their needs.

Late in 2005 ICBF and the AI industry entered into discussions with DAF to undertake a campaign to reverse the decline in artificial insemination. This campaign was initiated in 2006 under ICBF leadership.

4.3 Electronic data from farms

Our strategy is to work closely with service providing members to expand electronic data recording by farmers through the introduction of new recording systems and increased usage of farm PC packages. The aim over a number of years is to have 50% of all data collected from farms in electronic form.

In 2005 the use of farm PC packages for recording Animal Events was 17%. A series of initiatives involving text messaging and web based recording were undertaken, in addition to EDIY milk recording and the introduction of AI Handhelds to reduce the amount of paper based recording. It is envisaged that the ICBF website will also play an important role in the future. Our work on the Breeding Information Service has as one of its goals the establishment of a service fee structure which rewards farmers for providing data electronically.

4.4 Electronic data from technicians

In close collaboration with AI members and other AI field service licence holders we plan to introduce handheld computers linked with the ICBF database for recording AI technician inseminations and providing immediate breeding advice. Our goal is to capture 95% of all technician data electronically.

During 2005 the AI Handheld recording system was designed, built and initial field tests conducted. A comparison of the functionality of the current systems with the AI Handheld (Table 1) shows that this development has the potential to provide a significantly better service for farmers while eliminating manual processing and reducing error levels.

Feature	Manual Docket Systems	AI Handheld
Compliance with DAF	No	Yes
Docket processing	Yes	Yes
Inbreeding check	No	Yes
Lethal gene check	No	Yes
Short returns check	Yes	Yes
Information to technician on cow	No	Yes
Real time management information	No	Yes
Tighter semen stock management	No	Yes
Sire advice programme	No	Yes
More accurate billing	No	Yes
Single database with CMMS updates	No	Yes
More accurate genetic evaluations	No	Yes
Effectively supports progeny test programme	No	Yes

Table 1. Features of AI Handheld compared with manual docket systems.

4.5 Breeding records service

To facilitate participation by more farmers in cattle breeding services, a breeding records service that enables farmers to participate in a lower level of breeding recording is planned. The main elements of the service being Animal Events and an animal register at a low or nil cost to the farmer. The concept is that all other information outputs would be provided as part of an information service.

During 2005 a great deal of progress was made with developing information products which can be produced from the ICBF database. It became clear to the Board that the provision of these new services required considerable discussion with ICBF's AI, Milk Recording and Herd Book members. A discussion paper under the heading of Breeding Information Service was prepared late in 2005. This paper outlined the need for a service that would enable the power of the ICBF database to be fully exploited for the benefit of all Irish cattle farmers. Discussions were disappointingly slow to begin with but are on-going.

4.6 Health and disease service

Our strategy is to extend database reports and events recording to meet animal health needs for whole herd health management and DAF/EU requirements for animal remedy recording and reporting. We have been working closely with CVERA (Centre for Veterinary Epidemiology and Risk Analysis at University College Dublin), DAF, Veterinary Ireland and other interested parties to understand what is required. A

number of reports have been developed and pilot schemes initiated. In the future it is expected that the ICBF database will play a major role in meeting the information needs of farmers and their animal health advisers.

5 Breeding Schemes

ICBF's strategy is to ensure that the cattle breeding industry achieves optimal economic returns for Irish cattle farmers. This requires a clear understanding of both the optimal breeding scheme design and the currently operating design for each breed of cattle in Ireland. Further, it implies that ICBF will then seek to ensure the industry moves towards the optimal design. This approach is most advanced for the Holstein Friesian breed.

5.1 Research optimal design

To establish optimal designs ICBF is undertaking the research required to identify optimal breeding scheme design(s) for all breeds of cattle in Ireland, or of potential value for use in Ireland and export. This research has been contracted to Prof. Theo Meuwissen, a world expert in the field. His initial work, completed some years ago established that a progeny test of 100 bulls with 100 daughters was near optimal for the Holstein Friesian breed. He is currently working under contract to continue this work for the main beef breeds and has provided a first report early in 2006.

5.2 Disease free status for seed stock herds

In order to operate an efficient breeding scheme in Ireland our strategy has been to ensure that all herds providing seed stock material are free of TB, Brucellosis, IBR, Johnes, BVD and EBL.

This strategy is being pursued in close co-operation with the animal health industry (refer to 4.6 Health and disease service on page 6). In 2005 the percentage of bulls for which health tests prevented entry to Tully was some 25% which was still higher than acceptable with contiguous herds for TB and Brucellosis explaining close to half of all rejections while IBR, BVD and Johnes accounting for smaller percentages of the failures.

5.3 HF breeding scheme

Our strategy is to work closely with the NCBC (National Cattle Breeding Centre) and Dovea to provide information support for bull selection and progeny testing in tightly targeted herds in order to achieve the optimal design for the HF breed.

In 2005 the G-EN-IR-ELAND[®] progeny test scheme was launched in a collaboration with NCBC and Dovea. This scheme focuses on identifying the best candidates for progeny testing and then ensures they are used in a well designed progeny test to achieve 100 milk recorded first lactation daughters. In 2005 semen from 30 bulls was provided to 300 herds participating in the G-EN-IR-ELAND[®] progeny test.

5.4 Other breed schemes

ICBF's strategy for all other breeds is to work closely with NCBC, Dovea and the wider cattle breeding industry to provide information support for bull selection and progeny testing to achieve the optimal design for all other breeds. This work is in its infancy until such time as the optimal designs have been clearly established.

5.5 Mating advisory service

In order to ensure farmers have ready access to breeding advice ICBF's strategy is to ensure the mating advisory information service is available to all cattle farmers to guide the selection of the most suitable sires for use in their herds. Criteria include; avoidance of inbreeding, minimisation of risks from lethal genes and

maximisation of future profits from the resulting progeny. It is planned that consideration should be given to all candidates available through AI and that the information should be provided to the farmer, the farmer's breeding adviser(s) and to AI technicians.

During 2005 ICBF took delivery of the latest version of the Breeding Advice module available from NRS as part of the IRIS system. The module has been installed and the required database interfaces developed and implemented. The service has been integrated with the AI Handhelds such that once a breeding plan has been finalised it is automatically communicated to the AI Technician's Handheld unit. Service will commence on a limited scale in 2006.

5.6 Capital funding of beef progeny testing

One of the key factors limiting beef and dairy progeny testing is the amount of capital funds required for bull purchase, bull layoff and incentives to herd owners for progeny testing. To help overcome this limitation ICBF is to facilitate the introduction of a scheme for private ownership of progeny test beef bulls in association with ICBF's AI members. Limited progress was made on this strategy in 2005.

5.7 Tully

Our strategy for Tully is to improve the current operation as much as possible pending the availability of the results of the breeding scheme design research.

In 2005 Tully operated at close to capacity with some 310 bulls spread over the three most recent intakes. While excellent progress has been made with the operation of the centre further work is required to ensure bull selection and marketing takes full advantage of the new beef evaluations.

6 Resources

ICBF is using a number of resources in pursuit of its mission. These include:

6.1 Financial

In 2005 ICBF income included contributions from the following sources:

- (a) Irish Taxpayers (€1.18 million) comprising the DAF Grant and NDP contributions towards capital developments. A large part of the NDP grant (€92,000) went towards the cost of ICBF's AI and Milk Recording member's purchase of AI Handhelds and EDIY Milk Recording equipment. This is an illustration of one of the ways ICBF's members benefit from the activities of ICBF.
- (b) Cattle farmers through the Tag Contribution (€0.86 million), and
- (c) The cattle breeding industry through service fees (€0.65 million).

These funds cover the cost of on-going operations and the cattle breeding infrastructure projects undertaken during the year by ICBF.

During 2005 ICBF made a commitment to support the establishment of the GENIRELAND[®] progeny testing scheme in partnership with its AI members. Part of ICBF's commitment is to make a contribution towards the cost of incentives for farmer participation amounting to some €25,000 payable in 2008. The justification for this support is that GENIRELAND[®] will facilitate an increase in rate of genetic gain in the dairy population from the current €5/cow/year towards a theoretical optimum of some €23/cow/year. Over a period of ten years this difference amounts to some €180 million extra profit per year for the Irish dairy cattle population.

6.2 People

New ICBF staff were appointed in keeping with plans and budgets.

During the year full time permanent staff numbers increased by four, to a total of sixteen at year end. This increase was the result of contractors (Olori, Galvin, Lynch) and a secondment from DAF (Grogan) being replaced by staff appointments.

At year end 2005 a total of twenty three contractors were working for ICBF. Nine of these are Beef Linear Scorers. Ten contractors, on contracts of six months to three-years, were assigned to the projects being undertaken by ICBF. Three people are on contract to operate EDIY cells. An Accountant works on contract to provide accountancy and payroll services to ICBF.

Four temporary staff are providing administration backup and support with Tully and GENÉIRÉLAND®.

During 2005 staff and contractors once again put in a magnificent effort in achieving the goals established under ICBF's strategic plan.

6.3 Offices

ICBF's main office and database computers are based at Highfield House which is located on SWS property near Bandon, Co. Cork. The accommodation is rented from SWS.

6.4 Tully

The Bull Performance Test Centre at Tully, Co. Kildare is leased from DAF. These facilities are in good condition but have required some modification and routine maintenance to meet ICBF's requirements. Enhancements made in 2005 included installation of new water troughs, further development of the sale facility, conversion of an existing building to provide living accommodation for temporary staff and substantial office repairs following a burst water pipe causing considerable damage.

7 Communciations

ICBF is increasingly involved in communicating on a wide range of subjects to a large national and international audience involved in all aspects of cattle breeding. Irish achievements in cattle breeding are being noticed internationally as the national infrastructure moves closer to the leading edge.

Our communications include:

7.1 Irish Cattle Breeding Statistics

Irish Cattle Breeding Statistics was published on the ICBF website for the sixth time in June of 2005. This publication brings together statistical information on all aspects of cattle breeding and has been well received by the cattle breeding industry nationally and internationally.

7.2 Industry Presentations

ICBF staff have continued to be heavily involved in presenting information to the Irish cattle breeding industry through a wide range of meetings and conferences. ICBF staff are typically involve in three to five communication meetings with farmers and industry staff per week. They also participated in a number of international conferences presenting papers and playing an active role in leading the development of cattle breeding internationally.

7.3 Web Site

The ICBF web site (www.icbf.com) provides a wide range of information to Irish farmers and the cattle breeding industry. A major step forward has been the routine availability of all herd reports for accessing by herd owners (using a sign-on and password) and designated advisors. By the end of 2005 there had been a total of 39,102 individual user sessions, with 1,619 farmers having logged on to access 16,243 reports and 110 TEAGASC Advisors have logged on, accessing 9,905 reports. 5,000 herd owners had made their reports available to TEAGASC Advisors as part of this development.

7.4 Training

ICBF is increasingly involved in providing training and support for the provision of field services.

In 2005 this included a substantial increase in training for EDIY milk recording for farmers, farmer trainers and van drivers.

The training of beef linear scorers continues from previous years.

8 Support

ICBF wishes to acknowledge and express its appreciation for the support and cooperation received from a large number of individuals and organisations. The collaborative nature of ICBF's activities depends to a large extent on the goodwill of its membership, the wider agricultural community and cattle farmers. This goodwill has been expressed in a number of specific ways including:

- Provision of sponsorship for the Tully Bull Sale by FBD.
- Cooperation in the development and operation of the Animal Events system is provided by DAF, the owners of the many herds that participated in this fourth year of operation, and staff of SWS who ensured a smooth operation.
- Support during the design, introduction and enhancement of the EBI has been provided by ICBF's AI members, private AI companies, TEAGASC and many farmers.

These many acts of support are gratefully acknowledged.

9 Future Prospects

In summary, 2005, was the year in which ICBF's focus moved toward bringing the benefits of the leading edge tools we have developed to farmers though increasing the usage of all available cattle breeding services. While an increase of 209,000 calf registrations is dramatic it also highlights that there is a lot of potential to increase service levels further in the future.

One of the big challenges for the future is to reverse the decline in the use of AI to breed replacement stock. With some 35% of dairy replacement being from AI sires, Irish dairy farmers are missing out on a substantial amount of profit. Recent evidence indicates a profit reduction in the dairy industry of some €60 million per year as a consequence. ICBF and the cattle breeding industry must work closely to ensure that this extra profit is delivered to Irish dairy farmers. By making full use of the ICBF database and genetic evaluations, and taking a very proactive and scientific approach to improving services and communicating with farmers we are convinced that this extra profit for farmers can be unlocked.

Information technology is altering the way most businesses now operate. This new technology provides the cattle breeding industry with wonderful opportunities to collect data more accurately and at much lower cost. Equally it has the potential to deliver a greatly expanded range of information products relevant to cattle breeding, farm management and animal health. The Breeding Information Service discussion paper highlights these opportunities and opens the way for the industry to take a close look at the way it operates. We strongly urge all in the industry to work constructively with us to develop a cost effective and efficient structure for developing and delivering these new information products for the benefit of all farmers.

Brian Wickham
Chief Executive

John O'Sullivan
Chairman

10 FINANCIAL STATEMENTS for the year ended 31 December 2005

10.1 Society Information

Directors	Mr. J. O'Sullivan (Chairman)	Mr. L. Foley
	Mr. D. Deane (Vice-Chairman)	Mr. J. Galvin (<i>Retired Sept 05</i>)
	Mr. D. Beehan	Mr. K. Kinsella
	Mr. D. Cahill	Mr. M. Magan (<i>Retired Dec 05</i>)
	Mr. J. Carroll (<i>Appointed Sept 05</i>)	Mr. T. Maher
	Mr. K. Connolly	Mr. K. Meade
	Dr. D. Corridan	Mr. R. O'Malley
	Dr. B. Eivers	Mr. P. Walsh
	Mr. S. Fitzgerald	Mr. R. Whelan (<i>Appointed Dec 05</i>)

SECRETARY
 Ms. E. McGeough
 Department of Agriculture and Food
 c/o Livestock Breeding Division
 Government Buildings
 Farnham Street
 Cavan

CHIEF EXECUTIVE Dr. B. Wickham

SOCIETY'S ADDRESS AND REGISTERED OFFICE Highfield House, Shinagh
 Bandon
 Co. Cork

SOLICITORS	P. J. O'Driscoll & Sons	Philip Lee Solicitors
	Solicitors	Fitzwilton House
	South Main Street	Wilton Place
	Bandon	Dublin 2
	Co. Cork	

AUDITOR Ernst & Young
 Registered Auditors
 Stapleton House
 89 South Mall
 Cork

10.2 Independent Auditors' Report To The Members Of Irish Cattle Breeding Federation Society Limited

We have audited the financial statements for the year ended 31 December 2005, which comprise the Income and Expenditure Account, Balance Sheet and the related notes 1 to 12. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the society's members, as a body, in accordance with the Industrial and Provident Societies Acts, 1893 to 1978. Our audit work has been undertaken so that we might state to the society'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 society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors are responsible for preparing the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Industrial and Provident Societies Acts, 1893 to 1978 require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society and of the income and expenditure of the society for that period. In preparing the financial statements, the directors 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 society will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the society and which enables them to ensure that the financial statements are prepared in accordance with accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) and comply with the Industrial and Provident Societies Acts, 1893 to 1978. They are also responsible for safeguarding the assets of the society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you whether we found the society's books, deeds, documents, accounts and vouchers relating thereto to be correct, duly vouched and in accordance with the Industrial and Provident Societies Acts, 1893 to 1978

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion, we also 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, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the society's financial affairs as at 31 December 2005 and of its deficit for the year ended on that date.

We found the society's books, deeds, documents, accounts and vouchers relating thereto to be correct, duly vouched and in accordance with the Industrial and Provident Societies Acts, 1893 to 1978.

Ernst & Young
Registered Auditors
Cork

6 April 2006

10.3 Income and Expenditure Account for the year ended 31 December 2005

	Note	2005 €	2004 €
INCOME		3,348,052	3,225,982
OPERATING EXPENSES		(3,886,001)	(3,200,166)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		(537,949)	25,816
Tax on (deficit)/surplus on ordinary activities	3	-	(560)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION		(537,949)	25,256
RETAINED SURPLUS AT BEGINNING OF FINANCIAL PERIOD		635,537	610,281
RETAINED SURPLUS AT END OF FINANCIAL PERIOD		97,588	635,537

There are no recognised gains or losses in either period other than the (deficit)/surplus attributable to the shareholders of the Society.

On behalf of the Committee of Management

Mr. J. O'Sullivan : Chairman

Mr. D. Deane : Vice Chairman

30 March 2006

10.4 Balance Sheet at 31 December 2005

	Note	2005 €	2004 €
FIXED ASSETS	4	3,731,583	3,550,610
CURRENT ASSETS			
Stock	5	24,621	-
Debtors	6	1,236,410	545,153
Cash at bank		191,848	989,047
		1,452,879	1,534,200
CREDITORS: amounts falling due within one year		(614,075)	(449,736)
NET CURRENT ASSETS		838,804	1,084,464
TOTAL ASSETS LESS CURRENT LIABILITIES		4,570,387	4,635,074
PROVISIONS FOR LIABILITIES AND CHARGES	7	(125,000)	-
GOVERNMENT GRANTS FOR CAPITAL PROJECTS	8	(2,324,513)	(1,983,553)
TOTAL ASSETS LESS LIABILITIES		2,120,874	2,651,521
FINANCED BY			
SHAREHOLDERS' FUNDS			
Share capital	9	2,023,286	2,015,984
Income and expenditure account	10	97,588	635,537
Shareholders' funds (all equity interests)	10	2,120,874	2,651,521

On behalf of the Committee of Management

Mr. J. O'Sullivan : Chairman
Mr. D. Deane : Vice Chairman



30 March 2006

10.5 Notes To The Financial Statements For The Year Ended 31 December 2005

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention.

The financial statements are expressed in Euro (€).

Fixed assets and depreciation

Fixed assets are stated at cost. Depreciation is calculated on a straight line basis by reference to the expected useful lives as follows:

Office equipment	5 years
Tully machinery	5 years

Project development expenditure

Project development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised. When the development of these projects reaches completion the Society provides services to its members in return for fee income. This expenditure is depreciated over four to five years and depreciation begins in the year the Society starts to benefit from the expenditure.

Government grants

Grants for operating and related capital expenditure:

Grants received from the Department of Agriculture and Food to fund the operations of the Society are credited to the income and expenditure account so as to match them with the expenditure to which they relate. The portion of the grant that applies to capital expenditure is deferred and is amortised over the life of the asset to which it relates.

Grants for project expenditure:

National Development Plan grants received towards the cost of project development expenditure are deferred and amortised over the same period in which the related project development expenditure is depreciated.

Income recognition

Income received from tag contributions are recognised on a cash receipts basis. All other income is recognised on delivery of the service.

2.	STAFF COSTS	2005	2004
		€	€
	The staff costs are comprised of:		
	Wages and salaries	694,998	600,466
	Social welfare costs	64,599	60,222
		<u>759,597</u>	<u>660,688</u>

The average number of persons employed by the Society in the financial year was 12 (31 December 2004: 11) and is analysed into the following categories:

	2005	2004
	No.	No.
Management	1	1
Administration	1	1
Technical	10	9
	<u>12</u>	<u>11</u>

3. **TAXATION** 2005 2004
€ €

The charge for taxation is made up as follows:

Corporation tax for the year	-	560

Deposit interest income is taxable at 25%. All other income is exempt from tax.

4. **FIXED ASSETS**

	<i>Project development expenditure</i>		<i>Office equipment</i>	<i>Tully machinery</i>	<i>Total</i>
	<i>Completed</i>	<i>In progress</i>			
	€	€	€	€	€
Cost:					
At 1 January 2005	6,901,194	257,254	95,535	18,760	7,272,743
Additions	-	1,895,910	10,752	16,529	1,923,191
Disposals	(27,796)	-	-	-	(27,796)
Transfer	147,688	(128,928)	-	(18,760)	-
At 31 December 2005	7,021,086	2,024,236	106,287	16,529	9,168,138
Depreciation:					
At 1 January 2005	3,642,876	-	75,505	3,752	3,722,133
Charge for the year	1,689,405	19,308	6,155	4,244	1,719,112
Transfer	-	-	-	(4,690)	(4,690)
At 31 December 2005	5,332,281	19,308	81,660	3,306	5,436,555
Net book value:					
At 31 December 2005	1,688,805	2,004,928	24,627	13,223	3,731,583
At 31 December 2004	3,258,318	257,254	20,030	15,008	3,550,610

Project development expenditure consists of computer hardware, software consultancy, database and other project costs.

Included in project development expenditure in progress are two milk recording machines which are currently rented to Society members.

5. **STOCK** 2005 2004
€ €

Stocks	24,621	-

The replacement cost of stocks is not considered to be materially different from the balance sheet value.

6.	DEBTORS	2005	2004
		€	€
	Trade debtors and prepayments	1,008,813	501,963
	VAT	227,597	43,190
		<u>1,236,410</u>	<u>545,153</u>

7. **PROVISION FOR LIABILITIES AND CHARGES**

	<i>At 1 Jan 2005</i>	<i>Provided during the year</i>	<i>Utilised during the year</i>	<i>At 31 Dec 2005</i>
	€	€	€	€
Provision for Progeny test scheme	-	125,000	-	125,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Progeny test scheme

This provision relates to an agreement in place with the National Breeding Centre to establish the GENE IRELAND targeted-herd progeny test scheme for both beef and dairy bulls. Herd owner's are rewarded with a monetary payment for each recorded progeny. The provision is the estimated cost of the monetary payments that will be made to herd owner's in 2008 in respect of 2005 matings.

8. **GOVERNMENT GRANTS FOR CAPITAL PROJECTS**

- (i) Project grants from National Development Plan administered by Department of Agriculture and Food (DAF).
- (ii) Grant from Department of Agriculture and Food (DAF)

	<i>Projects Completed</i>	<i>Projects In progress</i>	<i>Grant</i>	<i>Total</i>
	€	€	€	€
	(i)	(i)	(ii)	
Received:				
At 1 January 2005	3,969,940	50,004	74,033	4,093,977
Received during year	-	1,292,296	-	1,292,296
At 31 December 2005	<u>3,969,940</u>	<u>1,342,300</u>	<u>74,033</u>	<u>5,386,273</u>
Amortisation:				
At 1 January 2005	2,036,391	-	74,033	2,110,424
Credited to the income and expenditure account in year	951,336	-	-	951,336
At 31 December 2005	<u>2,987,727</u>	<u>-</u>	<u>74,033</u>	<u>3,061,760</u>
Net amount:				
At 31 December 2005	<u>982,213</u>	<u>1,342,300</u>	<u>-</u>	<u>2,324,513</u>
At 31 December 2004	<u>1,933,549</u>	<u>50,004</u>	<u>-</u>	<u>1,983,553</u>

9. SHARE CAPITAL	2005	2004
	€	€
Authorised:		
28,768 "A" ordinary shares of €12.697381 each	365,278	365,278
28,768 "B" ordinary shares of €12.697381 each	365,278	365,278
28,768 "C" ordinary shares of €12.697381 each	365,278	365,278
73,696 "D" ordinary shares of €12.697381 each	935,746	935,746
	<hr/>	<hr/>
	2,031,580	2,031,580
	<hr/>	<hr/>
Issued and fully paid:		
28,768 "A" ordinary shares of €12.697381 each	365,278	365,278
28,768 "B" ordinary shares of €12.697381 each	365,278	365,278
27,539 "C" ordinary shares of €12.697381 each	-	349,682
28,114 "C" ordinary shares of €12.697381 each	356,984	-
73,696 "D" ordinary shares of €12.697381 each	935,746	935,746
	<hr/>	<hr/>
	2,023,286	2,015,984
	<hr/>	<hr/>

All shares rank pari passu in all respects.

575 "C" ordinary share of €12.697381 was issued during 2005.

10. **RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

	<i>Share capital</i> €	<i>Income and expenditure account</i> €	<i>Total</i> €
At 1 January 2004	2,015,971	610,281	2,626,252
Share issue	13	-	13
Surplus for year	-	25,256	25,256
	<hr/>	<hr/>	<hr/>
At 1 January 2005	2,015,984	635,537	2,651,521
Share issue	7,302	-	7,302
Deficit for year	-	(537,949)	(537,949)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	2,023,286	97,588	2,120,874
	<hr/>	<hr/>	<hr/>

11. **PENSION**

The Society does not operate a pension scheme. Each employee has the option of joining a Revenue approved scheme and the society facilitates the payment of contributions through its payroll system.

12. **SUBSEQUENT EVENTS**

There have been no significant events affecting the Society since the year end.

The following information does not form part of the audited financial statements

10.6 Appendix 1.

	<i>Appendix</i>	2005 €	2004 €
Income	II	2,396,716	2,365,715
Operating expenses	II	(2,171,578)	(1,795,678)
		<hr/>	<hr/>
SURPLUS OF INCOME OVER EXPENDITURE		225,138	570,037
		<hr/>	<hr/>
Capital Grants amortised		951,336	860,267
Depreciation		(1,714,423)	(1,404,488)
		<hr/>	<hr/>
(DEFICIT)/SURPLUS BEFORE TAXATION		(537,949)	25,816
		<hr/>	<hr/>

10.7 APPENDIX II

	2005 €	2004 €
INCOME		
Tag contribution	857,303	863,078
Operating grants received from DAF	888,000	888,000
Milk recording service fees	125,631	148,834
Herdbooks service fee	134,303	151,555
AI approval and animal evaluation fees	70,431	58,560
Bull performance test fee	148,707	145,300
Bull sale commission	35,663	15,885
Linear scoring	28,998	50,019
Interest received	4,651	10,234
General services	47,500	1,750
Database services	29,443	32,500
Milk recording rentals	26,086	-
	<hr/>	<hr/>
	2,396,716	2,365,715
	<hr/>	<hr/>
OPERATING EXPENSES		
Animal events expenses	408,566	253,644
Animal evaluation unit expenses	57,527	150,377
Bull performance test expenses	296,880	198,685
Database operations	184,214	184,302
Repairs and computer maintenance	8,066	5,233
Wages and salaries	759,597	660,688
Office overheads and expenses	53,175	52,490
Professional fees	50,622	114,863
Telephone and fax	30,614	22,604
Travel and subsistence	75,881	69,500
Linear scoring	28,998	50,019
Membership fees	9,266	4,359
Advertising and marketing	8,642	12,903
Bank interest and charges	1,461	1,671
Conference expenses	21,447	14,340
Board expenses	37,921	-
GENE Ireland costs	125,000	-
Bad debt provision	13,701	-
	<hr/>	<hr/>
	2,171,578	1,795,678
	<hr/>	<hr/>



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